

Financing Social Protection in Paraguay

The Role of General Revenues and Social Security Contributions



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THE ROLE OF GENERAL REVENUES AND SOCIAL
SECURITY CONTRIBUTIONS

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Please cite this publication as:

OECD (2026), *Financing Social Protection in Paraguay: The Role of General Revenues and Social Security Contributions*, OECD Publishing, Paris, <https://doi.org/10.1787/60f236f5-en>.

ISBN 978-92-64-32927-0 (print)
ISBN 978-92-64-54348-5 (PDF)
ISBN 978-92-64-89437-2 (HTML)

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Foreword

The OECD Centre for Tax Policy and Administration and the OECD Development Centre are collaborating on a project to explore solutions for better financing of social protection through general taxation, social contributions and the contribution of the informal sector in low- and middle-income countries. This report is part of this project, funded by the Swedish International Development Cooperation Agency (Sida).

The report was written jointly by Sabine Laudage Teles and Gioia de Melo, tax economists at the OECD Centre for Tax Policy and Administration, and Johan van der Ploeg, development economist at the OECD Development Centre, and led by Gioia de Melo under the supervision and guidance provided by Bert Brys, Head of the Country Tax Policy Unit at the Tax Policy and Statistics Division of the OECD Centre for Tax Policy and Administration. At the OECD Centre for Tax Policy and Administration, the report was prepared under the leadership of the Director, Manal Corwin, the Deputy Director, Ben Dickinson and the Head of the Tax Policy and Statistics Division, Kurt Van Dender. At the OECD Development Centre, the report was produced under the supervision of the Director, Ragnheiður Elín Árnadóttir, the Head of the Inclusive Development and Partnerships Division, Bathylle Missika, and the Head of the Social Cohesion Unit, Alexandre Kolev.

The analysis in this report is based on discussions with national stakeholders and partners in Paraguay, notably during the project team's mission to Asunción in May 2025. The report also benefitted from written and oral comments by national stakeholders and partners raised during two online presentations of the preliminary results in October 2025 as well as other bilateral meetings.

Acknowledgements

The authors would like to thank Sofía Felípez Borrea and Mariona Mas Montserrat for their contribution on the assessment of tobacco taxation. The authors are also grateful to all the government officials that contributed to this analysis, with special thanks to Adriana Samaniego, Rolando Sapriza, Liz Coronel, Miguel Vega, Belen Insaualde, Gerardo Benitez (MEF); Diego Dominguez, Raúl Taboada, Lilián Román (DNIT); José Gabriel Velázquez, Juan Carlos Frutos, Patricia Gimenez, Vanessa Cubas, Gladys Vera (IPS); Cinthia Arrua, Rossana Duarte, Lilian Meza, Reveca Chavez (MDS); Celso Ovando (INE); Patricia Gonzalez, Victoria Sosa (MSPBS); Diego Sanabria, Alejandra Garcete, Fernando Ovando, and Joryan Rossati (MTESS), for their active involvement and support throughout the project. The authors would like to thank Guillermo Montt of the International Labour Organization and Ignacio Apella of the World Bank for their valuable insights. This report also benefited from the support of Carrie Tyler, Karena Garnier, Natalie Lagorce and Ria Sandilands of the OECD Communications team.

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Abbreviations and acronyms

ANDE	<i>Administración Nacional de Electricidad</i>
AW	Average wage
BP	Best practice
BPC	Benefits and Contributions Base unit
CAJUBI	<i>Caja Paraguaya de Jubilaciones y Pensiones del Personal de la Itaipú Binacional</i>
CIAT	Inter-American Center of Tax Administrations
CIT	Corporate income tax
CO ₂	Carbon dioxide
DNIT	<i>Dirección Nacional de Ingresos Tributarios</i> (Tax Administration)
EET	Exemption-Exemption-Tax
EPHC	<i>Encuesta Permanente de Hogares Continua</i>
ETR	Effective tax rate
FONARESS	<i>Fondo Nacional de Recursos Solidarios para la Salud</i>
FONASA	National Health Fund (Uruguay)
FTZ	Free Trade Zones
GDP	Gross domestic product
IBFD	International Bureau of Fiscal Documentation
IDU	Dividend Income Tax
ILO	International Labour Organization
IMF	International Monetary Fund
INE	<i>Instituto Nacional de Estadística</i>
INR	Non-resident Income Tax
IPS	<i>Instituto de Previsión Social</i>
IRE	<i>Impuesto a la Renta Empresarial</i> (Corporate income tax)
IRP	<i>Impuesto a la Renta Personal</i> (Personal income tax)
ISC	Selective Consumption Tax
LAC	Latin America and Caribbean
LPG	Liquefied petroleum gas
MDS	Ministry of Social Development
MEF	Ministry of Economy and Finance
MIPYMES	Micro, small and medium enterprises
MSPBS	Ministry of Public Health and Social Welfare
MTESS	Ministry of Labour
PIT	Personal income tax
PTR	Presumptive Tax Regime
PYG	<i>Paraguayan Guaraní</i>
RUC	<i>Registro Único de Contribuyentes</i>
SSBs	Sugar-sweetened beverages

SSC	Social security contributions
USD	US dollars
USF	<i>Unidades de Salud Familiares</i>
UYU	Uruguayan Peso
VAT	Value Added Tax
VRR	VAT Revenue Ratio
WHO	World Health Organization

Executive summary

Paraguay has established the foundations of a comprehensive social protection system; however, social protection coverage remains limited, and benefit levels remain low. The *Instituto de Previsión Social* (IPS) provides pension coverage to private sector workers and health insurance to private sector workers and a limited number of public sector employees. Public sector workers are covered by the public pension scheme of the *Caja Fiscal*. Central government employees are either covered by private health insurance or receive a subsidy to purchase private health insurance. However, according to the household survey (EPHC), in 2024 only 14% of people aged 65 and over received a contributory pension and only 27% of the population had access to health insurance.¹ Individuals who are not covered by social insurance have access to non-contributory universal healthcare for basic health care services. Among the main social assistance programmes, coverage of the school meals programme *Hambre Cero* and the social pension *Adulto Mayor* has expanded significantly in recent years, while coverage of *Tekoporã*, a programme that includes a conditional cash transfer, remains limited, reaching only 17% of the poor. Cash transfer benefit levels remain modest, reflecting fiscal constraints. Overall spending on social assistance is limited, at around 1.5% of GDP. Nonetheless, the government has signaled its intention to implement measures to expand social protection coverage and improve benefit adequacy.

Despite decades of sustained economic growth, Paraguay continues to face a persistently high percentage of workers who are not registered in the social security system. Around three-quarters of the labour force do not contribute to social insurance, with private sector employees accounting for the largest share. Only half of private sector employees comply with mandatory contributions. Self-employed workers, who represent approximately one-third of the labour force, are not subject to mandatory social security contributions, and their participation in social insurance remains minimal.

The capacity of public health insurance to expand coverage is currently constrained by ongoing challenges related to financial sustainability. Coverage under the IPS health insurance scheme remains limited, reaching only 21% of the population, of whom approximately 40% are non-contributing dependent family members, according to the 2024 household survey. The introduction of supplementary contributions for the coverage of dependants, including spouses, children and dependent parents, applied to workers with sufficient income could help strengthen the financial sustainability of the IPS health fund. In parallel, improving spending efficiency will be essential to ensure the system's long-term financial viability.

Paraguay's main public pension schemes face significant financial challenges. Both the IPS pension scheme for private sector workers and the *Caja Fiscal* for public sector employees have recorded persistent deficits in recent years and require reform. While the IPS has recently implemented a set of reform measures, additional adjustments will be necessary to ensure long-term financial sustainability. The deficit of the *Caja Fiscal* – currently financed through general tax revenues as well as surpluses from its sub-funds – amounted to 0.66% of GDP in 2024 and is projected to increase rapidly in the coming years. This report was prepared prior to the approval of the reform to the *Caja Fiscal* in March 2026. The reform introduced minimum retirement ages for workers in sectors that previously had no statutory retirement age requirements. It also increased the minimum number of contribution years and introduced higher employee

contribution rates in specific sectors whose pension schemes were facing financial deficits. Moreover, the reform included the introduction of an employer contribution paid by the state and standardised the calculation rule across public sector professions by requiring the use of at least the average earnings over the last five years as the reference wage for pension calculations, and established incentives for later retirement. The measures included in the reform represent an important step towards restoring financial sustainability, reducing reliance on general tax revenues and strengthening incentives to remain in work and are broadly aligned with the recommendations set out in this report.

The design of the tax and social insurance system creates disincentives to formal employment, compounding broader structural barriers to formalisation such as low-income levels. Participation in social insurance is constrained by low-wage levels and a relatively high statutory minimum wage, which serves as the minimum contribution base. For self-employed workers, voluntary contributions to the IPS pension scheme, calculated at no less than the statutory minimum wage, often represent a significant financial burden while the benefits offered are often not perceived as sufficiently attractive, contributing to low participation. Among salaried formal workers, the provision of free health insurance coverage for dependent spouses reduces incentives for the latter to enter formal employment. In addition, eligibility conditions for contributory pensions, including a minimum of 15 years of contributions for private sector workers combined with relatively high contribution rates, discourage participation among low-income workers. To address these challenges, Paraguay could consider introducing partial pensions for individuals with contribution histories of less than 15 years. Under this approach, the social pension could be gradually withdrawn as contributory pension benefits increase, while ensuring that combined benefits remain above the *Adulto Mayor* social pension, thereby strengthening incentives to contribute to the pension system. The additional costs associated with such a measure could be offset by adjusting replacement rates for full pensions as part of a broader parametric reform.

Strengthening the monitoring and enforcement of social security contribution (SSC) payments is a precondition for any reduction in contribution bases or rates. Paraguay faces a trade-off between expanding social security coverage and ensuring the financial sustainability of the contributory system. Setting the minimum contribution based on the level of the statutory minimum wage helps safeguard a minimum level of SSCs per worker, but it can also constitute a barrier to formalisation. Targeted reform approaches, such as the current initiatives aimed at young workers and employees of microenterprises, who benefit from reduced SSC rates, may help promote formalisation over time. However, the effectiveness of these measures should be carefully evaluated to ensure that the formalisation gains are sustained and exceed the additional costs incurred by the IPS.

Non-contributory social protection programmes financed through general tax revenue play a key role in ensuring minimum social protection floors. Paraguay's main social assistance programmes include means-tested programmes, such as *Tekoporã* that combines cash transfers with family support, as well as quasi-universal in-kind benefits, including free school meals provided by *Hambre Cero* and the social pension *Adulto Mayor*. Full coverage of the eligible populations has not yet been achieved and remains a stated government priority for the *Hambre Cero* and *Adulto Mayor* programmes. Extending coverage of the three main programmes – *Tekoporã*, *Hambre Cero* and *Adulto Mayor* – to all eligible households and individuals, respectively, would require an estimated increase in public spending of at least 1.1% of GDP.

Further expansion of Paraguay's main social assistance programmes will require the mobilisation of additional domestic revenues. Over the past two decades, tax revenues have responded more strongly to economic growth than in Latin America and the Caribbean (LAC) on average. However, the tax-to-GDP ratio (including SSCs) remains very low, at 14.5% in 2023, well below the LAC average of 21.3%. This reflects a combination of low statutory tax rates, generous tax expenditures and high levels of informality.

Current efforts to increase tax revenues focus primarily on strengthening tax administration and improving compliance. Notable progress has been achieved in this area, including the merger of the tax and customs administrations and a growing emphasis on the digitalisation of the tax administration. The combination of enhanced administrative capacity and relatively low statutory tax rates presents an opportunity for Paraguay to further strengthen compliance and gradually broaden tax bases, notably through a reduction in tax expenditures. However, improvements in tax administration alone are unlikely to generate the additional revenues required to finance the expansion of social assistance and other policy priorities over the medium to long term. Once compliance has been strengthened and tax bases broadened, further tax policy measures – including potential increases in tax rates – may therefore need to be considered.

There remains scope to strengthen tax policy in order to mobilise additional revenues over the short and medium term. Key reform priorities include broadening the personal income tax (PIT) base by reducing tax deductions, which currently eliminate tax liability for around half of individual taxpayers, as well as broadening the personal capital income tax base. Corporate income tax incentive regimes have recently been reformed; however, their effectiveness in attracting investment should be systematically assessed and further adjusted if warranted. While VAT is a major source of revenue, its revenue-raising potential is constrained by a relatively low standard rate, reduced rates on basic consumption goods and a wide range of exemptions. Additional revenues could also be mobilised through higher excise taxes on tobacco and alcohol, supporting both revenue and public health objectives, as well as by strengthening environmentally related taxes.

Box 1. Policy recommendations

Main social assistance policy recommendations

- Improve spending efficiency in the non-contributory health system.
- Expand coverage of the *Tekoporã* programme to all eligible households, increase the number of family guides and index *Tekoporã* benefits to inflation.
- Expand coverage of the *Hambre Cero* programme to all students in public middle schools.

Main social insurance policy recommendations

- Introduce an additional health contribution rate for family dependants and consider increasing health contributions for pensioners receiving pension income above the minimum wage.
- Replace private health insurance and subsidies for public sector workers with coverage under the IPS health insurance scheme.
- Strengthen the monitoring and enforcement of SSCs before considering further reductions in the contribution base for specific low-income worker groups.
- Gradually extend mandatory health and pension coverage to self-employed workers with sufficient capacity to pay, starting with independent workers in liberal professions.
- Reduce fragmentation in the public sector pension system and introduce more uniform parametric rules across pension schemes.
- Ensure the financial sustainability of the pension system by implementing parametric adjustments across all pension schemes, including to replacement rates, reference wage periods, minimum contribution requirements and statutory retirement ages.
- Strengthen incentives to contribute to pension schemes, including through the introduction of partial pensions for individuals who do not meet the minimum contribution period for a full pension, and by linking replacement rates more closely to the number of years of contributions.
- Enhance data-sharing and co-operation between the tax administration and the IPS to improve the detection of non-compliance and bogus self-employment.

Main tax policy recommendations

- Eliminate the PYG 80 million PIT registration threshold and replace it with a generous basic tax allowance or introduce a zero-tax rate for the first income bracket with a (temporarily high) threshold. If this is not feasible, introduce a cap on the total amount of deductions under the current design.
- Eliminate or cap several PIT deductions.
- Introduce PIT withholding for labour income.
- Strengthen monitoring mechanisms to prevent a significant share of taxpayers from reducing their labour and capital income tax liability to zero.
- Assess the revenue foregone of PIT tax expenditures on an annual basis.
- Refrain from further extending corporate income tax incentives and systematically evaluate their effectiveness in promoting formal job creation in the domestic economy.
- Once *Tekoporã* has been expanded to all eligible households, consider eliminating reduced VAT rates on basic consumer goods while introducing targeted compensation for low-income households.

- Measure revenue forgone from the preferential tourism shopping regime and evaluate its cost-effectiveness.
- Eliminate the VAT exemption for the purchase of hybrid and electric vehicles.
- Increase revenues from health excise taxes, for example by introducing specific health excise taxes. Where ad valorem excise taxation is retained, levy the tax on retail prices, introduce a minimum retail price, and increase health tax rates.
- Increase the revenue from the fuel excise tax once the recent increase in energy prices has subsided.

Note

¹ In March 2026, the National Institute of Statistics revised the household survey expansion factors for 2022–2025. The analysis in this report is based on the 2024 *Encuesta Permanente de Hogares Continua* (EPHC) microdata released in 2025 and therefore does not incorporate the revised expansion factors.

1 Key challenges for social protection in Paraguay

This chapter assesses the state of social protection in Paraguay in comparison with peer countries. It reviews non-contributory social assistance and health, as well as contributory health and pension schemes. The chapter identifies key gaps in coverage and adequacy alongside related financing challenges.

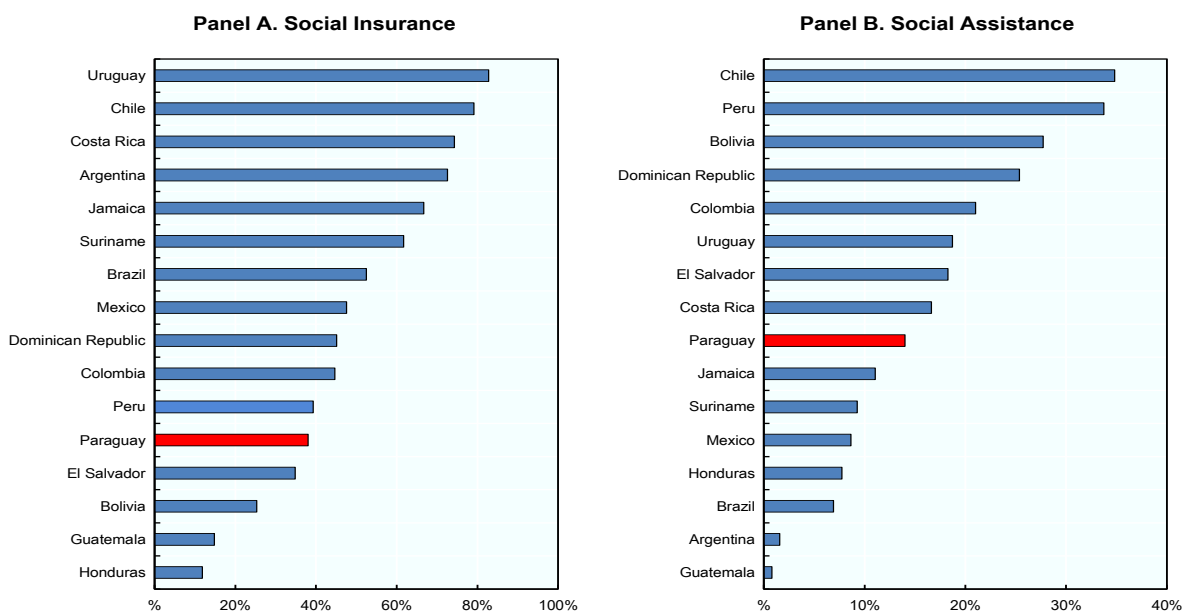
Paraguay's social protection system is well-designed but coverage gaps persist

As in most countries, Paraguay's social protection system spans the entire life cycle, with distinct programmes targeting children, working-age adults and older persons. Non-contributory social assistance programmes provide a basic social protection floor, targeting vulnerable groups such as low-income households, children and older persons (for a more detailed description see Chapter 4). For example, the *Tekoporã* programme provides cash transfers and guidance regarding vaccination and school enrolment to poor households with children, pregnant women or disabled family members; the programme includes a different benefit targeted at indigenous households. Another social assistance programme, *Adulto Mayor*, offers a minimum non-contributory pension to elderly individuals without other pension entitlements. A recently introduced programme, *Hambre Cero*, ensures free school meals for all children enrolled in public schools. The programmes are complementary and target different groups. Another initiative, *Tenonderã*, aims to promote economic inclusion among previous beneficiaries of *Tekoporã* by providing seed capital for establishing small enterprises, along with training. In addition, public health services are available free of charge to individuals not covered by private health insurance. The contributory social protection pillar consists primarily of two large social insurance funds: the *Instituto de Previsión Social* (IPS), which provides health, maternity, sickness and pension benefits to private sector employees, and the *Caja Fiscal*, which operates as a pension fund for public sector workers. A number of smaller public pension funds also exist, as well as private health insurance and private pension funds (see Chapter 3).

Social protection coverage—including healthcare—remains limited in Paraguay relative to regional peers. In 2024, only 38% of the population aged 15 or above contributes or benefits from social insurance—such as contributory pensions and health insurance—either directly or indirectly as a dependent member of the family (see Chapter 2 for more detail). The share of the population covered by social insurance is well below the average of the Latin America and Caribbean (LAC) countries (49%) presented in Figure 1.1, Panel A. According to household survey data, coverage of the main social assistance programmes, reached 14% of the population in 2024, compared to an average of 16% in LAC countries (Figure 1.1, Panel B). These figures highlight substantial gaps in social protection coverage across the Paraguayan population. However, coverage of the free school meals programme *Hambre Cero*, and the social pension *Adulto Mayor* increased significantly in 2025.

Figure 1.1. Coverage of social protection in Paraguay and benchmarking countries

Coverage of social assistance and social insurance (incl. healthcare) in Paraguay and benchmarking countries, 2024 or latest year available



Notes: The social protection coverage indicators displayed include health benefits and in-kind benefits. For health insurance benefits, only the population aged 15 years or older is considered (Panel A).

Source: OECD KILBIH database based on country household surveys.

Low levels of social assistance expenditure are associated with limited programme coverage and insufficient benefit adequacy

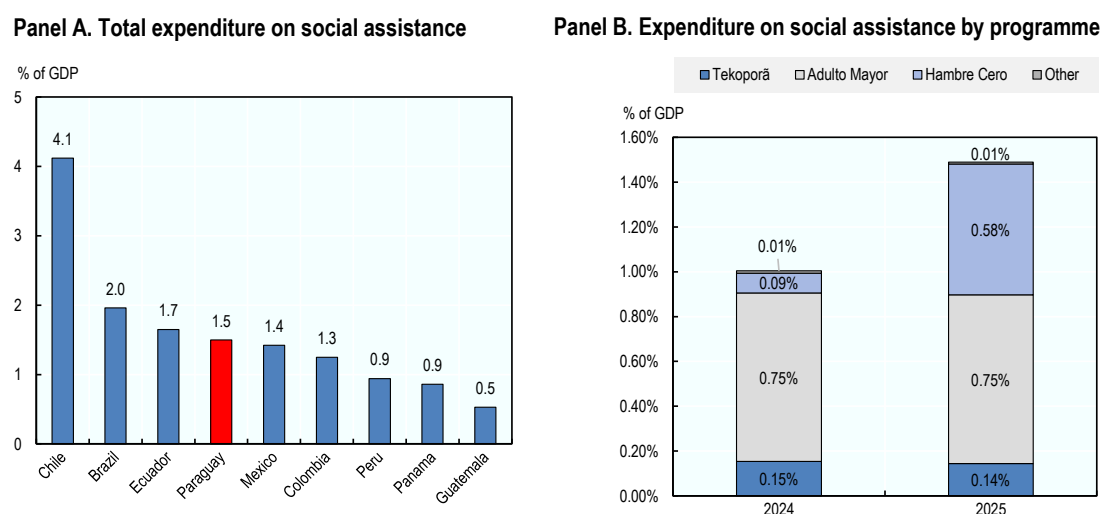
In Paraguay, around one-fifth of the population is poor, while approximately 15% experiences multidimensional poverty. Poverty is measured using two indicators: those who live below the poverty line (e.g. less than PYG 897 168 per month per person in urban areas) are considered monetarily poor and those deprived in housing conditions, education, and/or employment are considered multidimensionally poor. Poverty is particularly prevalent among children, based on both monetary and multidimensional poverty indicators. Among adults, poverty levels are more evenly distributed across age cohorts, with no strong differences between men and women. Poverty levels are also substantially higher in rural areas compared to urban areas under both measurement approaches.

Only around half of individuals living in poverty receive social assistance benefits and only 6% are covered by contributory social insurance. According to own estimates from the *Encuesta Permanente de Hogares Continua* (EPHC) survey, approximately half of those living in monetary and/or multidimensional poverty do not receive any social assistance benefit, whether cash transfers or in-kind benefits, including non-contributory pensions, *Tekoporã* transfers or other public benefits. Conversely, about 32% of non-poor households receive social assistance benefits, indicating that benefits extend beyond poor families and there are inclusions errors.

Social assistance expenditure in Paraguay has increased in recent years but remains below levels observed in most other Latin American countries. Paraguay has increased social assistance expenditure in recent years reaching 1.5% of Gross Domestic Product (GDP) by 2025. Nonetheless, these expenditure levels are below those observed in several regional peer countries (e.g. 2% of GDP in Brazil

and 4.1% of GDP in Chile) (Figure 1.2, Panel A). The largest share of expenditure is allocated to the *Adulto Mayor* programme (0.75% of GDP), which provides a non-contributory pension to older people without other pension entitlements (Figure 1.2, Panel B). Until 2024, the second largest programme was *Tekoporã*, representing 0.15% of GDP. However, the recently introduced *Hambre Cero* programme, which provides free meals in public schools, has become the second largest programme, amounting to 0.58% of GDP in 2025. Other social assistance programmes remain marginal, together presenting only around 0.01% of GDP.

Figure 1.2. Expenditure on social assistance in Paraguay and selected countries, 2025 or latest year available



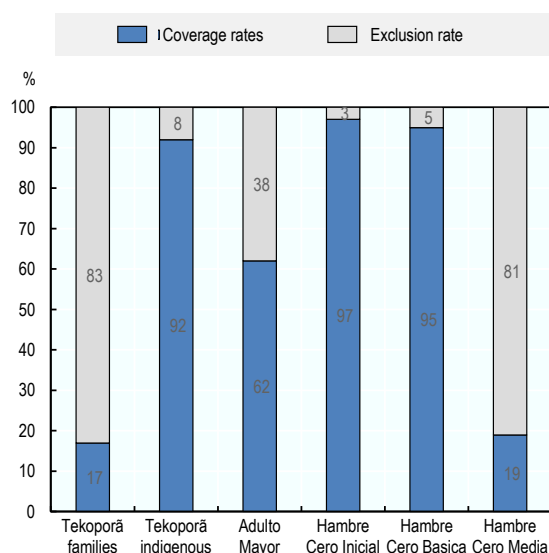
Note: The category *Others* in Panel B includes subsidies for off-season fishers and benefits of the *Tenonderã* programme.

Source: World Bank ASPIRE database, <https://www.worldbank.org/en/data/datatopics/aspire>. Data on Paraguay provided by MEF.

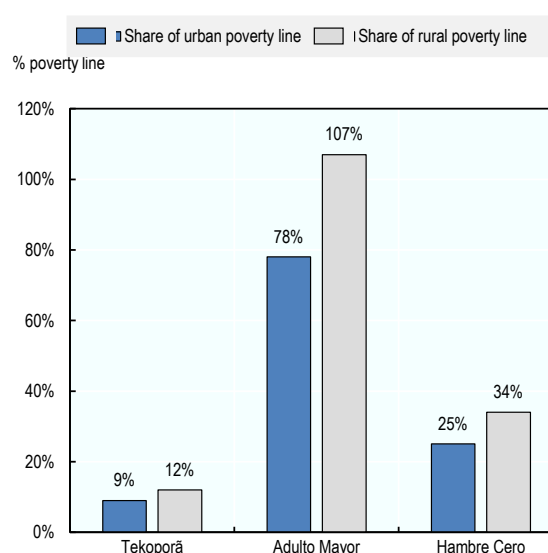
Coverage gaps in social assistance programmes remain significant. Figure 1.3, Panel A shows the share of the eligible population receiving benefits under each programme and those excluded. According to own calculations based on the EPHC, only 17% of families eligible for *Tekoporã* received the conditional cash transfer because they are monetarily and/or multidimensionally poor in 2024.¹ Coverage among eligible indigenous families reached 92%, according to administrative data.² Based on the EPHC, the *Adulto Mayor* programme covered 62% of the eligible population aged 65 or above in 2024. The programme aims for universal coverage of eligible individuals aged 65 and above but is still in its roll-out phase. In 2024, *Adulto Mayor* only included individuals aged over 73, whereas by March 2026 it already included individuals aged 69 and above. *Adulto Mayor* also provides coverage to severely disabled people over the age of 60 and indigenous persons aged over 55. However, the programme's coverage among these subgroups cannot be assessed with the EPHC survey data. The *Hambre Cero* programme has achieved rapid and broad coverage due to its categorical targeting of children enrolled in public schools. Coverage is nearly universal at the initial and basic education levels, while at the secondary level only around 19% of students in public schools were reached in 2024. All programmes aim to expand coverage further in the coming years, contingent on the availability of adequate funding, and state capacity.

Figure 1.3. Coverage and adequacy of benefits of selected social assistance programmes in Paraguay, 2024

Panel A. Coverage rates (% eligible of population)



Panel B. Adequacy of benefits (% of poverty line)



Notes: The EPHC survey excludes the departments of Boquerón and Alto Paraguay, indigenous communities, collective housing and live-in domestic workers. Panel A: To calculate coverage rates for *Tekoporã*, pre-transfer monetary poverty is considered to identify the eligible population. The coverage rate for *Adulto Mayor* refers to individuals aged 65 years or above and excludes indigenous or disabled people who are eligible for the benefit at earlier ages. Exclusion rates denote the share of the eligible population not receiving the benefit. Panel B: The graph in Panel B shows the average per capita benefit for *Tekoporã* (i.e. the benefit divided by the number of family members) expressed as a share of the urban and rural poverty lines (PYG 897 168 and PYG 654 657 per month per person). The average benefit per person is PYG 699 577 per month for *Adulto Mayor* in 2024 and PYG 224 001 per month for *Hambre Cero*.

Source: OECD based on EPHC (2024^[1])

Benefit adequacy under Paraguay's social assistance programmes remains low. Across all three schemes, benefit levels fall below the poverty line, except for the *Adulto Mayor* benefit in rural areas (Figure 1.3, Panel B). *Adulto Mayor*'s social pension is intended to cover basic food consumption and set at 25% of the minimum wage. The benefit per person equivalent to 78% of the urban poverty line and 107% of the rural poverty line may constitute the sole source of income for older people above 65 without other pension entitlements. *Hambre Cero*'s per-capita benefit corresponds to the average cost per meal and amounts to 25% of the urban poverty line. As the programme is designed to provide meals within schools, there are no concerns regarding the adequacy of the benefit. The benefit levels for *Tekoporã* appear very low compared to those of the other two programmes, equivalent to only 9-12% of the poverty line. This partly reflects the fact that *Tekoporã* benefits are calculated on a per-capita basis at the family level, whereas the other programmes provide benefits to individuals. However, it also reflects the relatively low benefit amounts provided under *Tekoporã*.

Unlike *Adulto Mayor* and *Hambre Cero*, *Tekoporã* benefits are not indexed to inflation. Both *Hambre Cero* and *Adulto Mayor* have built-in mechanisms that protect the benefit value over time: *Hambre Cero*'s school meal reference prices are adjusted through the national food price index, and *Adulto Mayor* pensions are legally tied to the minimum wage, which is updated annually. By contrast, benefit levels under *Tekoporã* have remained largely unchanged in nominal terms since the programme's launch in 2005, except for a 25% increase in 2023. The Ministry of Development estimated that if *Tekoporã* had been indexed to food price inflation since its inception, its benefit today would be around 3.5 times higher than its current level.

Paraguay provides nearly universal healthcare, but the population covered by health insurance is limited

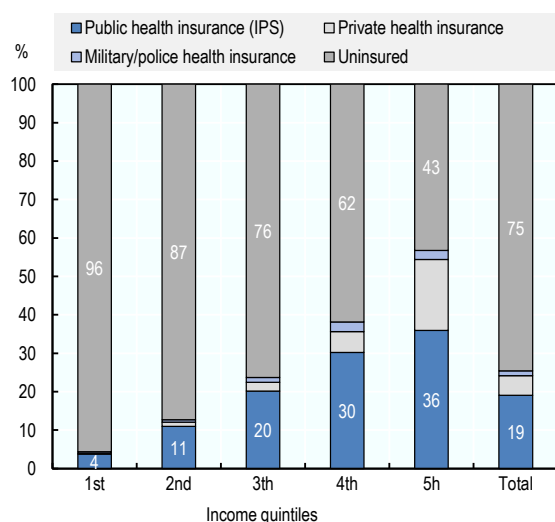
Paraguay's public health system, administered by the Ministry of Public Health and Social Welfare (MSPBS), provides universal coverage. However, effective access to healthcare services remains incomplete in cases of illness or injury. According to the household survey (EPHC, 2024^[1]), approximately 30% of individuals reported that they were sick or injured in the preceding three months and of those 73% sought professional medical care. Among those not receiving medical treatment for financial, proximity or quality of healthcare reasons, 55% live in rural areas, 51% are women, and 19% are above age 65. The gap between intended universal coverage and actual access to healthcare could be explained by long distances to the nearest health facility in rural areas, long waiting times for appointments and treatment, or high out-of-pocket expenditures for medications and other essential services not fully covered by the public system.

Access to health insurance in Paraguay remains strongly correlated with household income. Only 27% of the total population is covered by health insurance and coverage through public social security (IPS) or private insurance schemes increases progressively with income (Figure 1.4, Panel A). In 2024, over 96% of individuals in the lowest household income quintile lacked any form of health insurance, highlighting significant gaps in social insurance coverage among the poorest households. By contrast, nearly 57% of individuals in the highest household income quintile were health insured, primarily through the IPS (35.5%) and private providers (19%). Among the working population without health insurance, 70% earn less than the minimum wage.

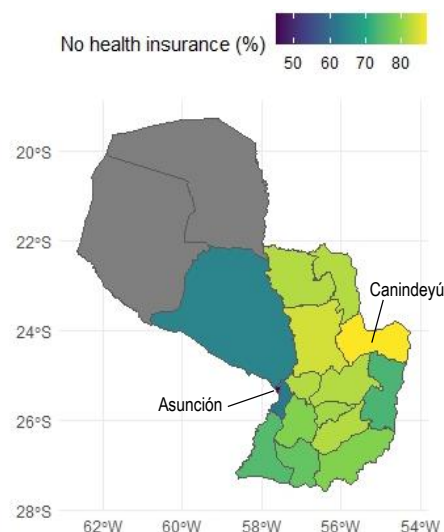
Lack of health insurance in Paraguay is concentrated among individuals under the age of 65 and varies significantly across regions, with lower coverage in more remote areas. For example, less than half of the population in Asunción have no health insurance (45%) compared to 87% in the region Canindeyú (Figure 1.4, Panel B). Overall, 56% of all individuals without health insurance live in urban areas and half are women. Among the uninsured 93% are under the age of 65, indicating that health insurance coverage among the elderly is not so low (38% aged above 65 have health insurance).

Figure 1.4. Health insurance coverage in Paraguay, 2024

Panel A. Health insurance by population income quintile



Panel B. Share of uninsured population by region



Notes: The EPHC does not include the departments of Boquerón and Alto Paraguay (displayed in grey), indigenous communities, collective housing or live-in domestic workers. The horizontal axis in Panel A depicts per capita household income quintiles.

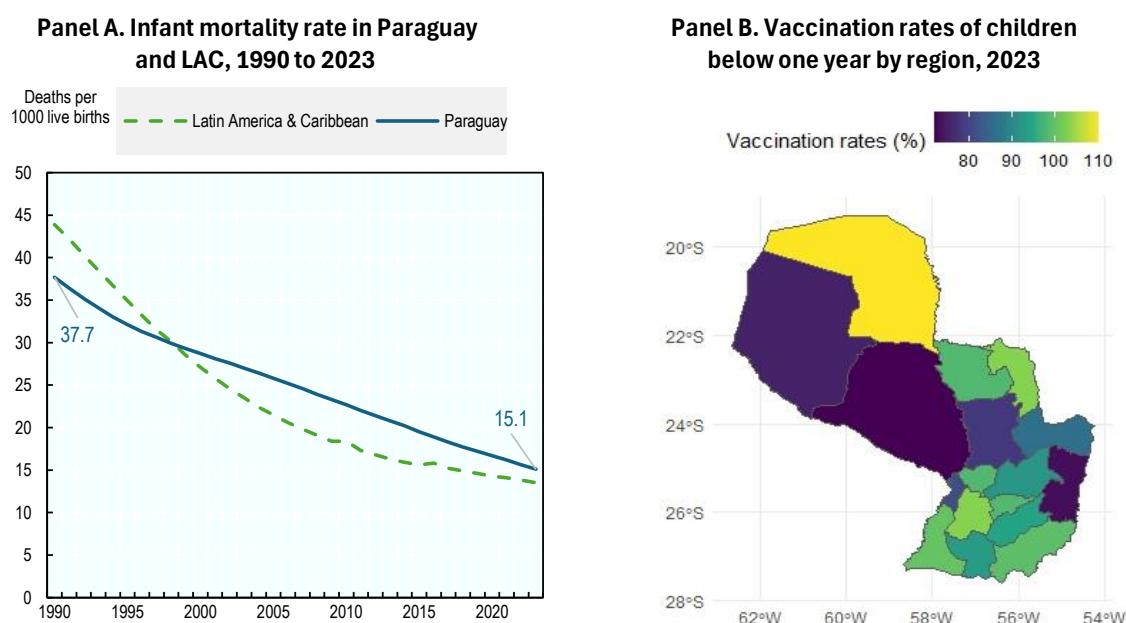
Source: OECD based on EPHC (2024^[1]).

Health outcomes have improved over time but regional disparities persist

Life expectancy at birth in Paraguay remains slightly below the LAC average but has improved steadily over recent decades. It increased from 67 years in 1990 to 78 years for women and 73 years for men in 2024. Across the LAC region, life expectancy rose from 68 years to 76 years on average over the same period. According to projections by the INE, life expectancy at birth in Paraguay is expected to reach 82 years for women and 77 years for men by 2050.

Infant health outcomes in Paraguay have improved over the past two decades, although notable regional disparities in vaccination rates remain. The infant mortality rate—measured as infant deaths per 1 000 live births—declined from 37.7 in 1990 to 15.1 in 2023 (Figure 1.5, Panel A), reflecting progress in child health outcomes. However, Paraguay's rate of improvement has lagged behind the LAC regional average. While Paraguay's infant mortality rate was below the LAC average in 1990, it now slightly exceeds it, indicating scope for improvement. In addition, vaccination coverage is another key determinant of infant health outcomes. Figure 1.5, Panel B presents the share of children under one year of age who are vaccinated, revealing significant regional disparities. Coverage is notably lower in rural departments such as Boquerón and Presidente Hayes. These lower vaccination rates are correlated with higher infant mortality in the same regions (World Bank, 2018^[2]). This finding is consistent with the lower availability of health specialists in these departments.

Figure 1.5. Infant mortality and vaccination coverage in Paraguay



Note: Vaccination rates are lowest in dark blue regions and highest in light green/yellow regions. The high vaccination rate (yellow, above 100%) in Alto Paraguay is due to frequent migration between the regions.

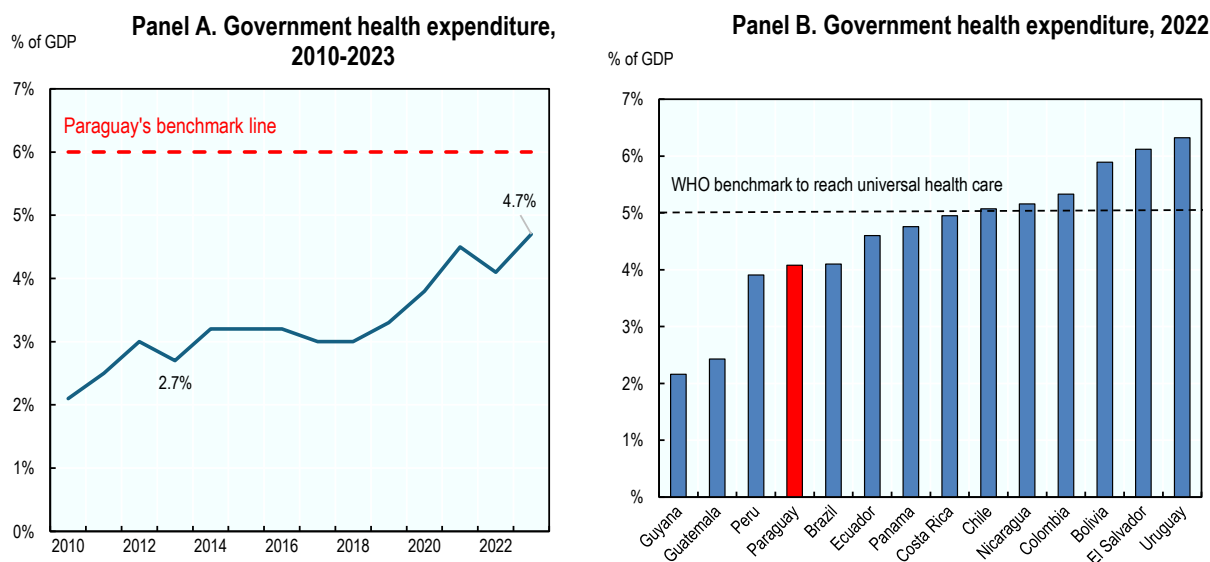
Source: Infant mortality data from World Development Indicators, World Bank; Vaccination rates by MSPBS; Population estimates by INE available in 2025.

Public expenditure on health in Paraguay has increased yet remains below its target

While public expenditure on health in Paraguay has increased substantially over the past decade, it remains low by international standards. Between 2013 and 2023, public health spending (from MSPBS, IPS and other public providers) rose from 2.7% to 4.7% of GDP, reflecting a clear commitment to

strengthening the health system (Figure 1.6, Panel A). Despite this progress, Paraguay's spending remains below the 6% of GDP benchmark target set by the MSPBS and the 5% of GDP benchmark recommended by the WHO for achieving universal health coverage. Moreover, Paraguay continues to allocate less to public health than many other countries in the LAC region (Figure 1.6, Panel B). To advance towards universal healthcare and improve the provision of essential health services and medicines, a sustained increase in public health expenditure will be necessary.

Figure 1.6. Government health expenditure in Paraguay and selected countries



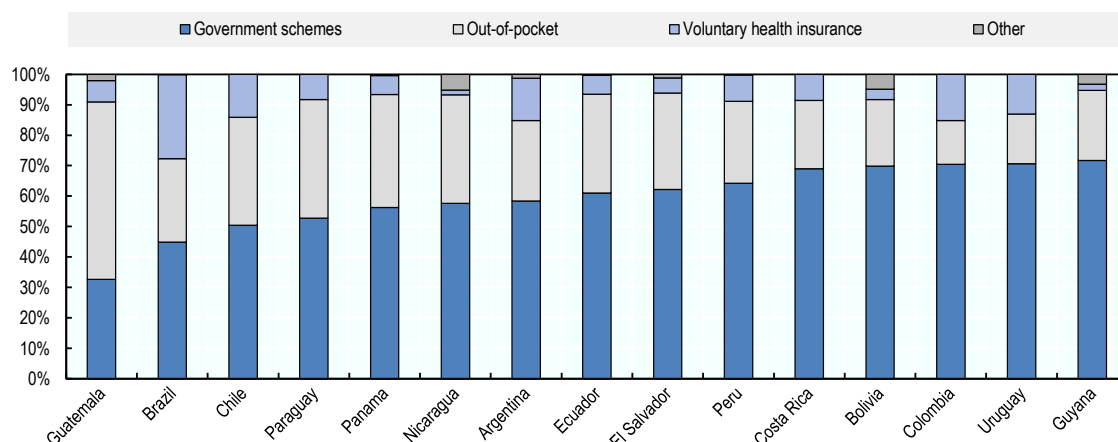
Note: The government health expenditure comprises health expenditure by the MSPBS and IPS but excludes government subsidies for private health insurance provided to public sector workers.

Source: WHO Global Health Observatory (2024^[3]).

Government health expenditure in Paraguay, through the MSPBS and IPS schemes, accounts for only half of total health spending, which is low by regional standards. In countries such as Colombia, Uruguay, and Guyana, government schemes finance nearly 70% of total health expenditure (Figure 1.7), highlighting Paraguay's comparatively limited public expenditure in the health sector. The remaining health expenditure in Paraguay is predominantly financed through out-of-pocket payments by individuals (approximately 36%) and voluntary private health insurance schemes (around 10%). This financing structure places a disproportionate burden on households and may hinder equitable access to healthcare services. The high out-of-pocket costs for medicines and health treatment can lead to impoverishment and creates barriers for people to timely access healthcare, as individuals may need to mobilise funds before seeking treatment. According to a study by the World Bank, out-of-pocket expenditure on health puts a higher burden on the poor, rural and indigenous population in Paraguay (World Bank, 2018^[2]). Further improvements of the public health system, alongside broader coverage through health insurance, could contribute to a further reduction in out-of-pocket health expenditure. The financing of healthcare and in particular of health insurance is discussed in Chapter 2.

Figure 1.7. Share of health expenditure by source in Paraguay and selected countries, 2022

Health expenditure per capita in USD as a share of total health expenditure



Note: Public health expenditure from government schemes includes expenditure from the non-contributory health scheme by the MSPBS and the contributory health scheme by the IPS, but not the health subsidies to public sector workers.

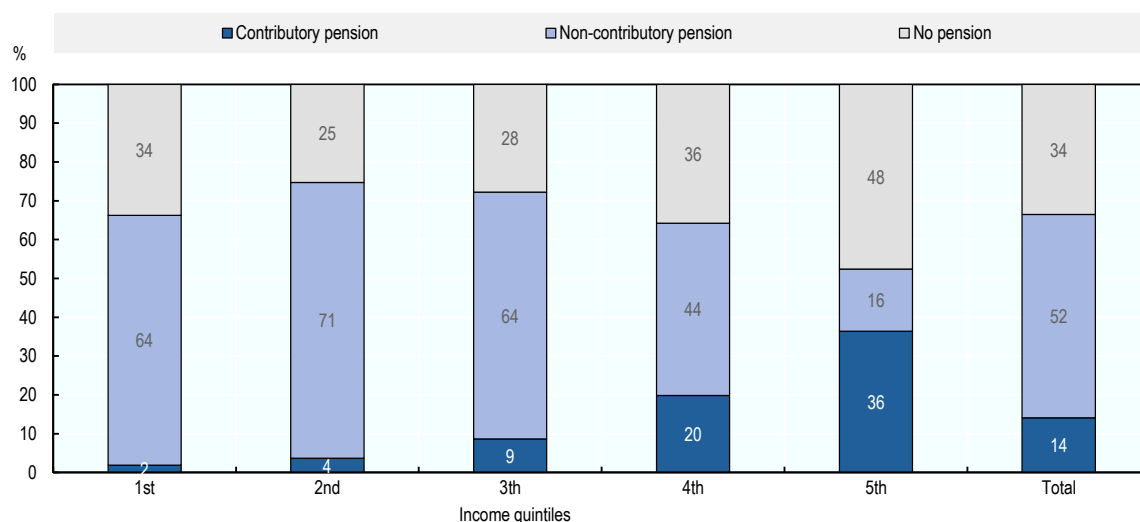
Source: WHO Global Health Observatory (2024^[3]).

Contributory pension schemes in Paraguay face challenges related to both coverage and financial sustainability

Overall pension coverage in Paraguay remains low by regional standards. Approximately 34% of individuals aged 65 and over do not receive any form of pension, highlighting significant gaps in the social protection system for the elderly (Figure 1.8). Of the population aged 65 or above, 52% benefit from the non-contributory *Adulto Mayor* social pension, while just 14% receive a contributory pension through either public pension funds such as the IPS, *Caja Fiscal*, or other sector-specific *cajas*, or private pension funds.

Figure 1.8. Coverage of contributory and non-contributory pensions in Paraguay, 2024

Share of population aged 65 or above receiving a pension by income quintile



Notes : Non-contributory pensions include *Adulto Mayor* and *Tekoporã*. Contributory pensions include public pension funds (e.g. IPS, *Caja Fiscal* and other public pensions funds) and private pension funds. The horizontal axis depicts per capita household income quintiles.

Source: OECD based on EPHC (2024^[1]).

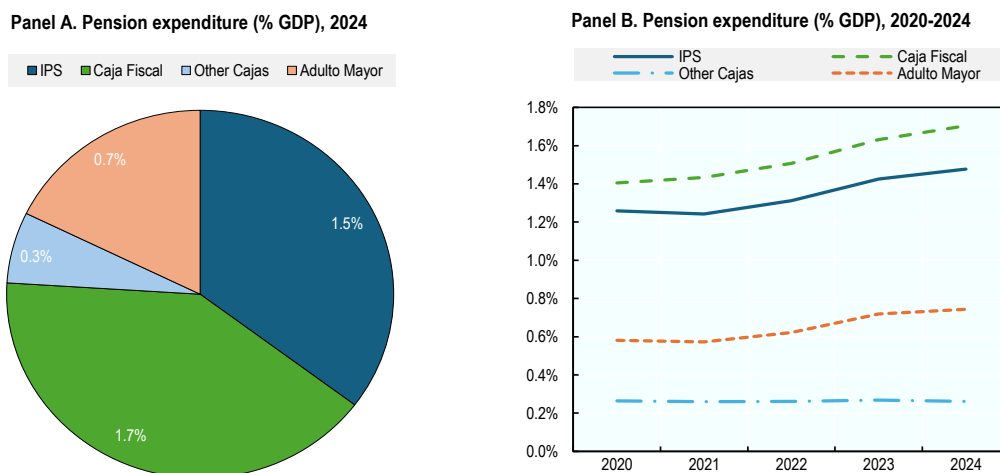
Coverage of contributory pensions is concentrated among higher-income groups and remains limited overall. In the highest income quintile, only 36% of elderly individuals receive a contributory pension (public or private), and nearly half do not receive any pension at all, suggesting a reliance on private savings or other income sources in retirement. In contrast, approximately 70% of elderly individuals in the bottom two income quintiles receive non-contributory pensions. Notably, eligibility for the *Adulto Mayor* pension is based solely on the age criteria and the absence of registered income (such as wages from formal employment or pension benefits) and does not involve proxy-means testing. As a result, some recipients may be situated in higher-income quintiles.

While contributory pension schemes in Paraguay provide generous replacement rates, their population coverage remains limited. The contributory pension system is characterised by significant institutional fragmentation, comprising eight distinct public pension funds (*cajas*) that serve various groups of formal private and public sector workers. The two principal schemes—the IPS for private sector workers and the Caja Fiscal for public sector workers—account for approximately 97% of all insured individuals. While benefit levels under these schemes are generous for individuals who meet the required contribution thresholds, those with limited contribution histories may receive no pension benefits (see Chapter 3). In addition to public pension schemes, individuals may also participate in voluntary private retirement savings schemes.

Pension expenditure has increased, but deficits in public pension funds remain

In 2024, total public expenditure on pensions in Paraguay amounted to 4.2% of GDP (Figure 1.9, Panel A). This included 1.5% of GDP allocated to the IPS, 1.7% to the *Caja Fiscal*, and 0.3% to other sector-specific pension funds (including *Caja Bancaria*, *Caja Parlamentaria*, *Caja Ferroviaria*, *Caja Municipal*, and *Caja ANDE*). Spending on the non-contributory pension *Adulto Mayor* reached 0.7% of GDP in the same year. Since 2020, pension-related public expenditure has shown a clear upward trend, particularly in the IPS, *Caja Fiscal*, and *Adulto Mayor* pensions (Figure 1.9, Panel B).

Figure 1.9. Public pension expenditure in Paraguay as a percentage of GDP, 2020-2024



Note: Other *cajas* comprise *Caja Bancaria*, *Caja Parlamentaria*, *Caja Ferroviaria*, *Caja Municipal* and *Caja ANDE*. The spending of the IPS and the *cajas* is partly financed by contributions.

Source: MEF.

The *Caja Fiscal* has recorded sustained deficits for a decade, indicating the need for parametric and systemic reforms to ensure long-term solvency. In 2024, the deficit of the *Caja Fiscal* amounted to 0.66% of GDP or a quarter of Paraguay's total fiscal deficit. In particular, the teachers' fund and military and police funds contribute to the growing deficit of the *Caja Fiscal*. The deficits are financed with surpluses from other civil pension funds (in the case of the teachers' fund) or through general tax revenues (in case of the military and police funds). This raises equity concerns, as one group of workers or the general public pays for the generous schemes of another professional group (see Chapter 3).

Paraguay lacks an unemployment insurance scheme

Paraguay does not have an unemployment insurance scheme. In South America, several countries have implemented unemployment insurance systems for formal workers (e.g. Argentina, Brazil, Uruguay), while others have not (e.g. Bolivia, Peru, Guyana) (ILO, 2025^[4]). Table 1.1 presents an overview of unemployment protection schemes implemented across South American countries. Six countries have social insurance schemes offering unemployment protection, financed either entirely through contributions or partially tax financed. Chile operates a mandatory individual savings account complemented with subsidized insurance. In contrast, five countries in the region, including Paraguay, do not provide unemployment insurance and rely solely on separation payments.

Table 1.1. Unemployment protection in South America

Unemployment protection as anchored in law by type of scheme, 2023 or latest available year

Social insurance and tax-financed benefit, or with separation payment	Social insurance only, or with separation payment	Mandatory individual savings accounts with subsidized social insurance	Separation payment only
Argentina, Brazil	Colombia, Ecuador, Uruguay, Venezuela	Chile	Bolivia, Guyana, Paraguay, Peru, Suriname

Source: Adapted from ILO (2025^[4]), World Social Protection Report 2024-26, Figure 4.25.

The absence of an unemployment insurance scheme in Paraguay constitutes a gap in social protection coverage, increasing the risk of poverty for workers who lose their formal employment. However, introducing unemployment benefits in economies with high informality poses significant challenges: financing costs can be substantial, as workers frequently transition between formal and informal employment and could claim benefits while working informally. Thus, the establishment of an unemployment insurance would require an increase in social security contributions and the development of robust monitoring and enforcement mechanisms to ensure eligibility compliance. Given current budget constraints within the social security system, the government may choose to prioritise stabilising the financing of health care and pension schemes before introducing unemployment insurance.

There is a need to mobilize general revenues and reform contributory schemes to ensure adequate and sustainable financing of social protection

Paraguay's ability to finance expanded and more inclusive social protection is severely constrained by its low tax-to-GDP ratio. The tax-to-GDP ratio, including social security contributions, stood at 14.5% in 2023, which is among the lowest in the region (see Chapter 5). The current tax revenue is not sufficient to cover the wages of public sector workers, pensions and debt services (MEF, 2024^[5]). As mentioned before, the deficit of the *Caja Fiscal* represents a particularly pressing challenge. In this

context, there is currently very limited fiscal space for additional spending to extend social assistance programmes, improve benefit adequacy, or support long-term sustainability of the contributory system.

The mandatory contributory health insurance scheme administered by the IPS faces increasing financial pressures, as expenditure growth continues to outpace revenues. In its current financial position, where health insurance costs per worker exceed the contributions received, the IPS faces limited incentives to expand coverage in the short term (see Chapter 2). This represents a key constraint on efforts to broaden social insurance coverage to additional workers and professional groups.

The share of workers contributing to social insurance is very low. In 2024, only 24% of the population contributed to a pension fund and approximately 12.6% of the population contributed to the IPS health insurance. Most public sector workers contribute to private health insurance except for certain professions that are covered under the IPS health insurance (see Chapter 2). Social security contribution rates under the IPS are broadly aligned with those observed in the LAC region, with employers contributing 16.5% and employees 9% of gross earnings. However, lack of social insurance remains particularly high in Paraguay, with 76% of the workforce being not covered. Independent workers are only covered on a voluntary basis, and most opt not to contribute (see Chapter 6). This narrows the contribution base and restricts revenue generation for social protection.

Over time, Paraguay will need to progressively increase tax revenues to finance essential public spending, including social protection and other key areas such as education and infrastructure. These reforms should be accompanied by measures to formalise the economy, and to ensure that future economic growth will be conducive to tax revenue growth. The remainder of the report explores the financing challenges associated with Paraguay's social protection system and outlines potential avenues for mobilising additional financial resources from taxes and social security contributions as well as policies to expand social insurance coverage.

- Chapter 2 analyses the fiscal risks within the health sector, with particular attention to enhancing revenues of the IPS Health Fund.
- Chapter 3 examines the financing challenges of contributory pension schemes, focusing on the IPS Pension Fund and the Caja Fiscal.
- Chapter 4 describes *Tekoporã*, *Hambre Cero*, and *Adulto Mayor* in detail and presents costing scenarios for the expansion of these key social assistance programmes.
- Chapter 5 reviews the structure of Paraguay's tax system and assesses options for increasing domestic revenue mobilisation.
- Chapter 6 discusses the prevalence of individuals that do not have access to social insurance and evaluates policy measures to extend coverage.

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Notes

¹ Estimating the total number of *Tekoporã* beneficiary households using the EPHC faces several limitations. However, as the EPHC is the primary data source for measuring poverty. This study assumes that the estimated share of poor households receiving *Tekoporã* is accurate.

² The EPHC excludes the provinces of Alto Paraguay and Boquerón where there is a high concentration of indigenous population. As a result, the coverage of *Tekoporã* among indigenous population cannot be estimated using the EPHC.

2 Financing healthcare

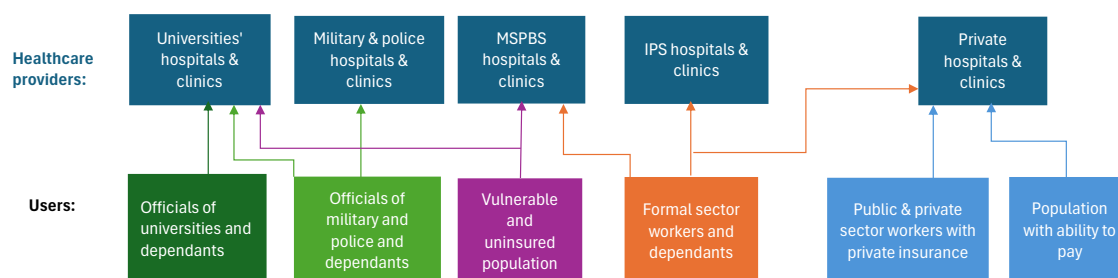
This chapter reviews healthcare financing in Paraguay and assesses policy options to improve its sustainability. It analyses the contributory health insurance system administered by the IPS, identifies key financing challenges and outlines options to strengthen revenue mobilisation. The chapter also examines the financing structure of the non-contributory public health system administered by the MSPBS.

Paraguay's health system is fragmented leading to spending inefficiencies

Paraguay's health system is characterised by institutional fragmentation, with multiple public and private actors delivering overlapping services. The principal providers include the Ministry of Public Health and Social Welfare (MSPBS), the Social Security Institute (IPS), private health insurers, and smaller public health systems operated by the military, police, and national universities.

- The MSPBS delivers basic health services free of charge to the entire population, with a particular focus on vulnerable and uninsured individuals. Nonetheless, access is not restricted by insurance status, and individuals with private or public insurance may also utilise MSPBS facilities, which are geographically more widespread across the country (see Figure 2.1).
- The IPS offers a broader range of services, including both basic healthcare and highly specialised treatments, and provides health insurance to formal private sector employees and their dependants, but also employees of certain state-owned enterprises and certain public sector workers, such as teachers.
- The military and police operate their own hospitals, which provide services exclusively to their officials, retired personnel and family dependants. However, the MSPBS and the Ministry of Defense have an agreement allowing the use of military hospitals for surgeries and hospitalisation of non-military patients, in order to enhance public health care services for the broader population. The hospital of the National University of Asunción provides medical services to the general public and is not limited to serving university personnel.
- Private insurance providers collectively represent the third-largest source of healthcare services in Paraguay. Private insurance plans provide coverage to the majority of public sector employees, who either receive private health insurance directly paid by the government or receive government subsidies to obtain such coverage.

Figure 2.1. Healthcare providers and their users in Paraguay



Note: There is an agreement between the Ministry of Health (MSPBS) and the Ministry of Defence to use the military hospitals for hospitalisation and surgery of public patients in need.

Source: OECD, adapted from World Bank (2018^[1]).

To strengthen access to basic healthcare services and complement existing public health infrastructure, Paraguay has expanded the deployment of Family Health Units (*Unidades de Salud Familiares*, USFs). In response to gaps in universal healthcare coverage, the government introduced USFs in 2008 as a means to improve outreach, particularly in underserved and rural areas. These units continue to be highly operational, with 937 USFs in place by the end of 2024, collectively serving an estimated 3 million individuals, according to data from the MSPBS. The core objective of the USF model is to enhance access to public health services, reduce waiting times, and decentralize primary care delivery. Their continued expansion reflects a strategic shift toward more inclusive and preventive

healthcare provision. Nonetheless, in 2025, hospitals accounted for 40% of all healthcare services provided (MSPBS, 2025^[2]), consistent with trends observed over the past decade (World Bank, 2018^[1]).

On the expenditure side, procurement processes are largely centralised, while the pricing of healthcare services remains highly decentralised. The MSPBS conducts centralised procurement of pharmaceuticals and medical equipment at the national or regional level. In addition, the MSPBS and the IPS started cooperating on joint procurement, which is a welcomed step. On the contrary, the pricing of healthcare services is rather decentralised, with significant variation across hospitals and no unified framework or guidance on pricing methodologies. This lack of standardisation complicates cost control and transparency across the system (World Bank, 2018^[1]).

Paraguay has defined a long-term strategic vision for its public health system. The government has articulated a strategic vision to shift towards a more integrated, preventive, and equitable healthcare model. The *Política Nacional de Salud 2015-2030* outlines a strategic objective to increase and allocate financial resources based on population health needs (MSPBS, 2015^[3]). To achieve this long-term vision, greater public investment, more transparent and efficient management, and effective coordination between all health subsystems is needed (World Bank, 2018^[1]).

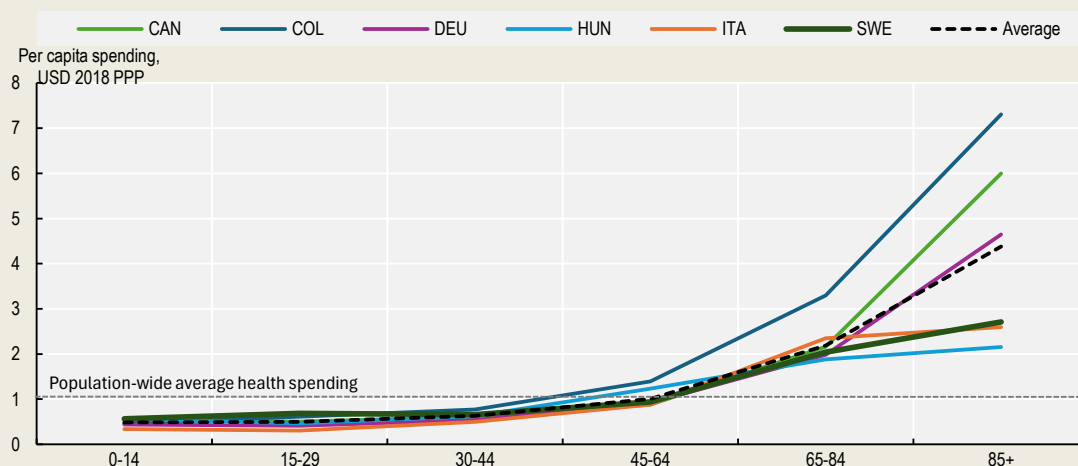
The absence of forward-looking expenditure planning is particularly problematic in light of the country's demographic trends and evolving health needs. The slowly ageing population and increased utilisation of preventive care services in Paraguay are likely to increase health expenditures in the future. Long-term projections of spending capacity and costs are essential to ensure fiscal sustainability and equitable access to healthcare. Strengthening data infrastructure to collect detailed expenditure information is therefore essential for both MSPBS and IPS, particularly for estimating health costs by age group in the context of an ageing population (see Box 2.1).

Box 2.1. Health expenditure by age group in OECD countries

Health expenditure increases with age, with particularly sharp rises observed among individuals aged 65 and over in OECD countries. A recent OECD study finds that health spending per capita rises significantly in older age groups, with the 65–84 age bracket accounting for 2 to 2.5 times the average per capita expenditure in most countries (Figure 2.2). For individuals aged 85 and above, spending varies more widely, from 2.2 times the population-wide average spending in Hungary to 7.3 times in Colombia. These differences may reflect variations in the inclusion of long-term care services in national health expenditure data or the availability of formal long-term care systems (Morgan and Mueller, 2023^[4]). As with other OECD countries, Paraguay is expected to experience demographic ageing in the coming decades. The associated increase in health costs for older populations will place growing pressure on the public health system. Therefore, Paraguay needs to anticipate these challenges by reviewing the financing of health insurance.

Figure 2.2. Age-spending profiles for selected OECD countries, 2018

Average per capita health spending for each age group relative to the overall per capita spending for each country



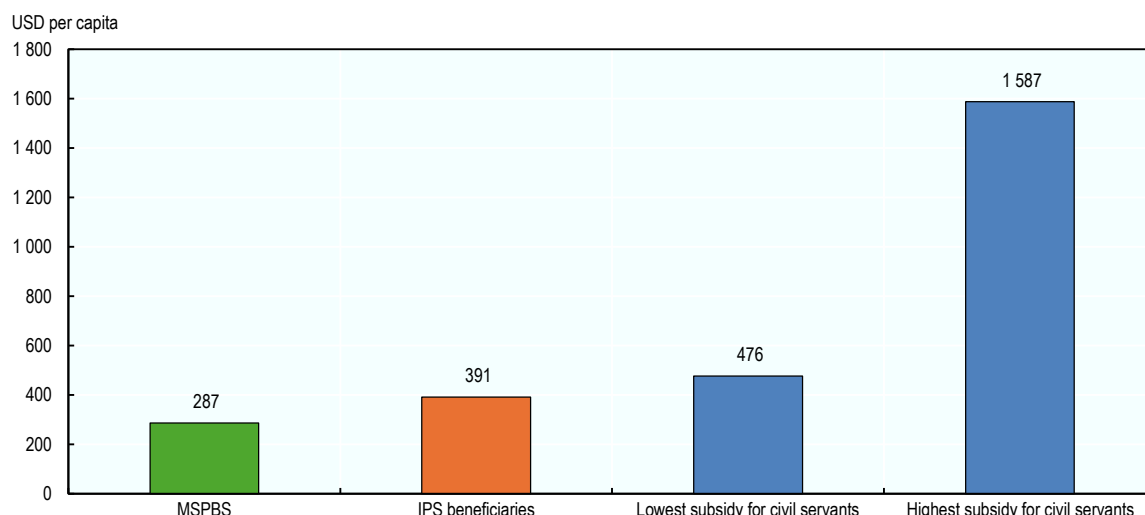
Note: The average line represents the average value for 15 OECD countries (Australia, Austria, Canada, Colombia, Estonia, Finland, Germany, Hungary, Italy, Korea, Latvia, Luxembourg, Netherlands, Sweden, Switzerland).

Source: Adapted from Morgan and Mueller (2023^[4]).

Per capita health spending in Paraguay varies substantially across scheme types, with significantly lower spending levels in public contributory and non-contributory health schemes compared to those covering public sector workers (Figure 2.3). In 2023, the MSPBS spent an estimated USD 287 per capita on individuals receiving care in its facilities. Regional disparities in per capita health spending by the MSPBS are also evident, with the highest levels recorded in Asunción (World Bank, 2018^[1]). In contrast, the IPS reported an average annual expenditure of USD 391 per beneficiary, including both contributors and their dependants. The highest per capita health spending is observed for civil servants, which either are granted private health insurance with an average annual cost of USD 1587 or benefit from a subsidy of USD 476 per year to cover healthcare expenses, with the exact amounts varying by public institution.

Figure 2.3. Per capita public health expenditure in Paraguay

Annual health expenditure per capita in USD by health scheme, 2024 or latest year



Note: The per capita expenditure of the MSPBS represents total expenditure divided by the number of uninsured individuals in 2023. Potential users of MSPBS facilities who are insured under the IPS are not considered. For the IPS, the per capita expenditure in 2024 represents total expenditure divided by the number of all beneficiaries (contributors and their dependants). Some public institutions provide for private health insurance healthcare for civil servants at a per capita cost of PYG 100 000 per month while other public sector institutions grant subsidies of approximately PYG 300 000 per month.

Source: MSPBS (2025^[2]) Cuentas de Salud 2023; INE (2022^[5]) Census 2022; IPS; MEF; EPHC (2024^[6]).

The IPS health fund needs reform

The IPS provides health insurance coverage to private sector workers, as well as to certain public sector workers and pensioners from these sectors, and their dependants. Eligibility is governed by the national social security legislation (Law No. 17071/1943) and has progressively expanded to include additional professional categories, such as private school teachers, domestic workers, and part-time employees. The IPS operates two distinct schemes: a general regime that offers both health insurance and pension benefits, and a special regime that provides health insurance only.

The IPS health fund does not only cover health insurance but also income insurance against sickness, maternity and work-related injuries. In-kind health benefits (e.g. medical care) and cash benefits (e.g. sick pay, maternity leave) are often financed through separate contribution rates. Paraguay could consider separating these benefits from the work-accident insurance premium, which could be financed through an employer contribution (CISS, 2012^[7]).

The IPS health fund faces financial challenges

In 2024, expenditures from the IPS health fund exceeded revenues. The 2024 deficit amounted to USD 55 million, representing 9.7% of total revenues. Social security contributions accounted for 99% of total income. The largest expenditure categories were medical and pharmaceutical products and human resources, representing 31% and 38% of total spending, respectively (Table 2.1). Around 9% of the expenditure corresponded to interest payments and other payments towards the financial sector. Deficits are financed through a combination of loans with the domestic financial sector and deferred payments to medical suppliers. The latter often lead to higher procurement costs, as suppliers adjust prices to account for delayed payments. The health fund's financial situation raises concerns about its long-term

sustainability and underscores the need for enhanced revenue mobilisation and greater efficiency in expenditure management.

Table 2.1. Revenue and expenditure of the IPS Health Fund, 2024

2024	PYG billion	USD million	% of revenue or expenditure
Revenue	4 275	565	100%
Social Security Contributions	4 218	558	98.7%
Other resources	56	7	1.3%
Expenditure	4 690	620	100%
Human resources	1 771	226	38%
Medical & pharmaceutical products	1 437	184	31%
Other	1 482	190	31%
Deficit current year	- 415	- 55	9.7%

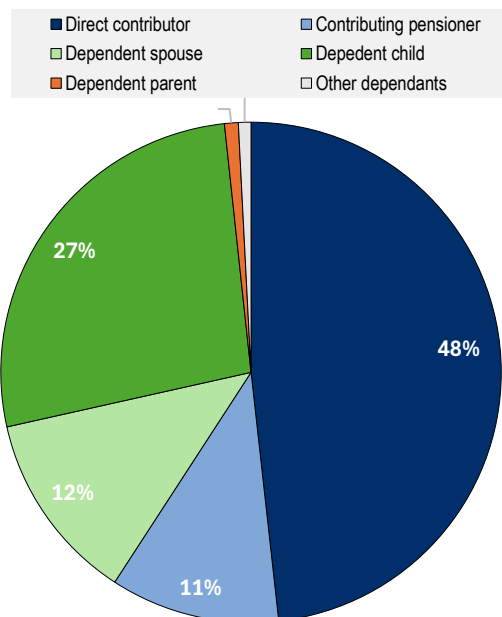
Note: The average exchange rate for 2024 from the World Bank has been applied (USD 1 = PYG 7 560.25).

Source: IPS.

A key factor behind expenditures exceeding revenues is the extension of health insurance coverage to dependants without corresponding additional contributions under the IPS health fund.

Under the IPS, contributing private sector employees and pensioners may extend health insurance coverage to family dependants at no additional cost. On average, each insured worker and pensioner provides coverage to 0.61 dependants (IPS, 2025^[8]). Eligible dependants include spouses, co-habiting partners, minor children or children with disabilities but also parents and in-laws, provided they reside within the same household. According to the 2024 EPHC survey, 12% of the insured are dependent spouses (predominantly women) and 27% are dependent children (Figure 2.4). With fertility rates remaining above two children per woman, coverage of dependent children is likely to continue representing a substantial cost for the IPS over the medium term. About 5% of informal workers are covered through mixed households where IPS coverage of formal workers is extended to dependent spouses, children and relatives. While EPHC data capture only dependants residing in the same household, IPS officials indicate that younger contributors frequently extend coverage beyond spouses and children to include parents living in separate households.

Figure 2.4. Health insurance coverage under the IPS in Paraguay, 2024

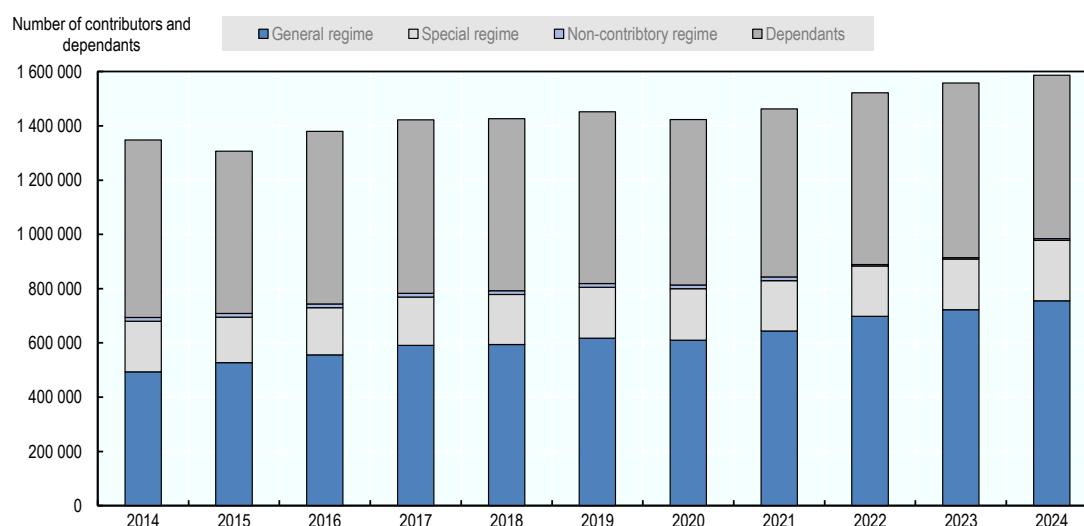


Note: It is mandatory for pensioners to pay contributions to the IPS health fund (6%), except for retired teachers who contributed under the special regime and can choose to opt out. Other dependants include dependent family members living in the same household, except for children, spouses and parents. The EPHC survey does not include the departments of Boquerón and Alto Paraguay, indigenous communities, collective housing and live-in domestic workers.

Source: OECD based on EPHC (2024^[6]).

Nonetheless, over the past decade, the increase in the number of contributors did not translate into a corresponding rise in the number of dependants that are covered. The number of insured individuals under both the general and special regimes of the IPS has been increasing gradually over time. In 2024, the IPS covered 754 837 contributors under the general regime (including pension benefits), representing approximately 80% of total contributors, and 223 414 contributors under the special regime, accounting for the remaining 20% (Figure 2.5). Since 2015, the number of contributors has grown, on average, at annual rates of 4.1% under the general regime and 3.4% under the special regime. The number of dependants insured under both regimes has remained relatively stable since 2015, with only minor fluctuations. In 2024, of the total insured population, 60% were active contributors, while the remaining 40% were dependants.

Figure 2.5. Number of contributors and dependants under the IPS, 2014-2024



Note: Contributors are split into two categories: the general regime refers to those who contribute to the IPS pension and health fund; and the special regime refers to those who contribute only to the IPS health fund. Army veterans are part of the non-contributory regime while dependants refer to dependent family members who do not contribute themselves.

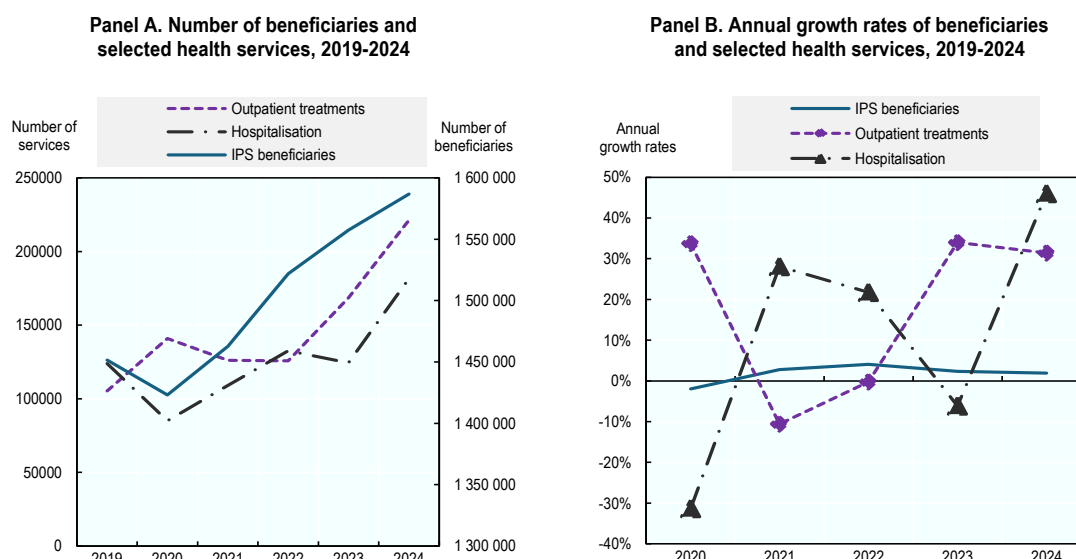
Source: IPS (2025^[8]).

Measures to extend coverage to workers with earnings below the minimum wage have implications for the financial sustainability of the IPS health fund. Private sector teachers contribute to the health insurance fund but unlike the rest of private sector workers they are not subject to a minimum contribution base (Law 4370). Similarly, measures that lower contribution requirements for specific groups of workers – such as the recent *Mipymes* Law No. 7444/2025 – risk widening the financing gap per contributor (see Chapter 6 for a description of this law).

In 2024, the average financing gap of the IPS health fund was USD 59 per contributor. Average contributions amounted to USD 570 per contributor, while health expenditures reached USD 391 per insured person (Figure 2.3). Given that on average each contributor provided coverage of 1.61 individuals, the resulting financing gap was USD 59 per contributor.

Beyond the inclusion of dependants, several additional factors have contributed to rising expenditure in the IPS health fund. The provision of health services for individuals and dependants insured under the IPS has expanded in recent years, with growth rates exceeding the growth in beneficiaries for some categories. Between 2019 and 2024, the volume of health services delivered by IPS increased across most categories, with outpatient treatments and hospitalisation showing significant increases (Figure 2.6, Panel A). The annual growth rates of these health services are exceeding the increase in the number of IPS beneficiaries (Figure 2.6, Panel B). This faster expansion in service provision has contributed to higher expenditure for the IPS health fund, as the expenditure per beneficiaries increased on average. Additional factors driving expenditure growth include the continued introduction of high-cost medicines covered by the fund and the absence of limits on hospitalisation coverage. The absence of microdata on health expenditure that would allow identification of spending by individual users constitutes a significant constraint for effective financial oversight, as well as for accurate forecasting and policy design.

Figure 2.6. Health services provided by the IPS



Source: IPS Observatorio website.

<https://public.tableau.com/app/profile/instituto.de.prevision.social.paraguay/viz/AsistenciaMdicObservatorio/PRESTACIONESSALUD>.

Paraguay has introduced measures to increase resources allocated to the IPS health fund

A gradual reallocation of contributions is being implemented over the medium term with the aim of improving the financial sustainability of the IPS health fund. The contribution rate to the IPS Health Fund is being progressively increased from 9% to 12% by 2029 without increasing overall contributions to IPS. This adjustment is financed through a reallocation of existing contributions, notably a phased elimination of 2.5 percentage points from the SENEPA and SNPP Malaria Fund and a reduction of 0.5 percentage points from the Administration Fund (Table 2.2). The aggregate contribution rate for private sector employees under the general regime remains unchanged at 25.5% throughout the transition period. Contribution rates under the special regime applicable to teachers, university professors, and staff of the public prosecutor's office will be kept constant at 5.58% and 9.5%, respectively (Table 2.2). The lower contribution rates under the special regime, which covers health insurance only, are associated with more limited benefit entitlements, including the exclusion of certain services such as prostheses. Pensioners are required to continue contributing at a rate of 6%.

Table 2.2. Contribution rates to the IPS

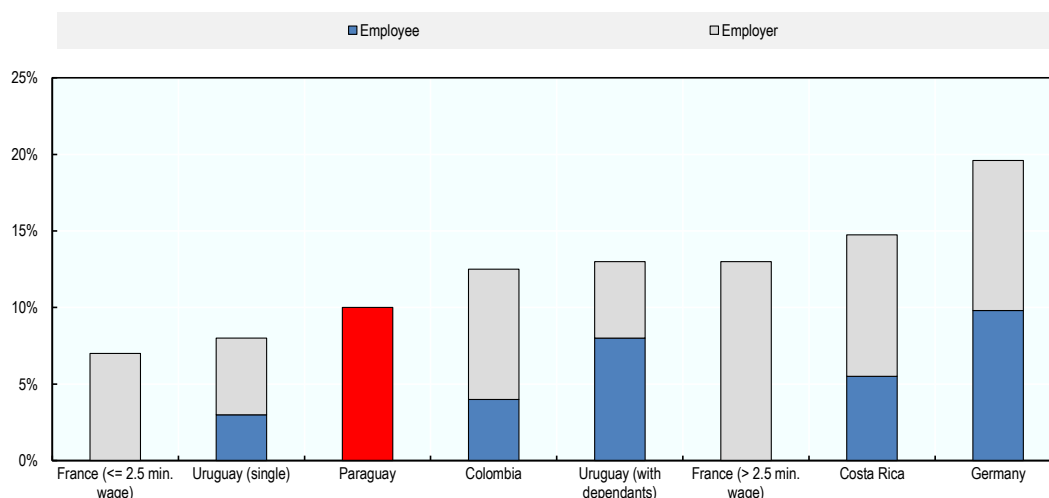
Regime	Eligible group	Year	Sickness and Maternity Fund	SENEPA Malaria Fund	Pension Fund	Administration	Total
General regime	Private sector employees (employee + employer contributions)	Until 2024	9%	2.5%	12.5%	1.5%	25.5%
		2025	10%	2%		1%	
		2026	10.5%	1.5%			
		2027	11%	1%			
		2028	11.5%	0.5%			
		2029	12%	0%			
	Pensioners		6%		-		6%
Special regime	Teachers and University professors	2025	5.5%		-		5.5%
	Judicial Power	2025	9.5%		-		9.5%

Note: Financial sector employees contribute 11% and their employers 17%.

Source: IPS (2025^[8]) *Anuario Estadístico IPS 2023*.

Health contribution rates for private sector employees in Paraguay are broadly in line with rates in other LAC and OECD countries. Figure 2.7 presents mandatory health contribution rates in selected LAC and OECD countries, covering employer and employee contributions. Paraguay's combined health contribution rate for health, work accidents, sickness and maternity benefits stands at 10% in 2025 under the general regime of the IPS, which is lower than those in several LAC and OECD countries. While no upper ceiling is applied to the contribution base under the IPS, a minimum threshold is established, corresponding to the statutory minimum wage with certain exceptions for professional groups earning below the minimum wage (see chapter 6).

Figure 2.7. Health contribution rates in Paraguay and selected countries, 2025



Note: The rates for mandatory social security contributions for health insurance for private sector employees are displayed, showing two rates in cases where rates differ depending on the income level or family status. In Uruguay, the health contributions amount to 8% of gross earnings for a single contributor and up to 13% if dependants are included. In Paraguay, the contributions also include funding of sickness, maternity and work-accidents.

Source: IBFD and national sources.

Options for strengthening revenue of the Health Fund

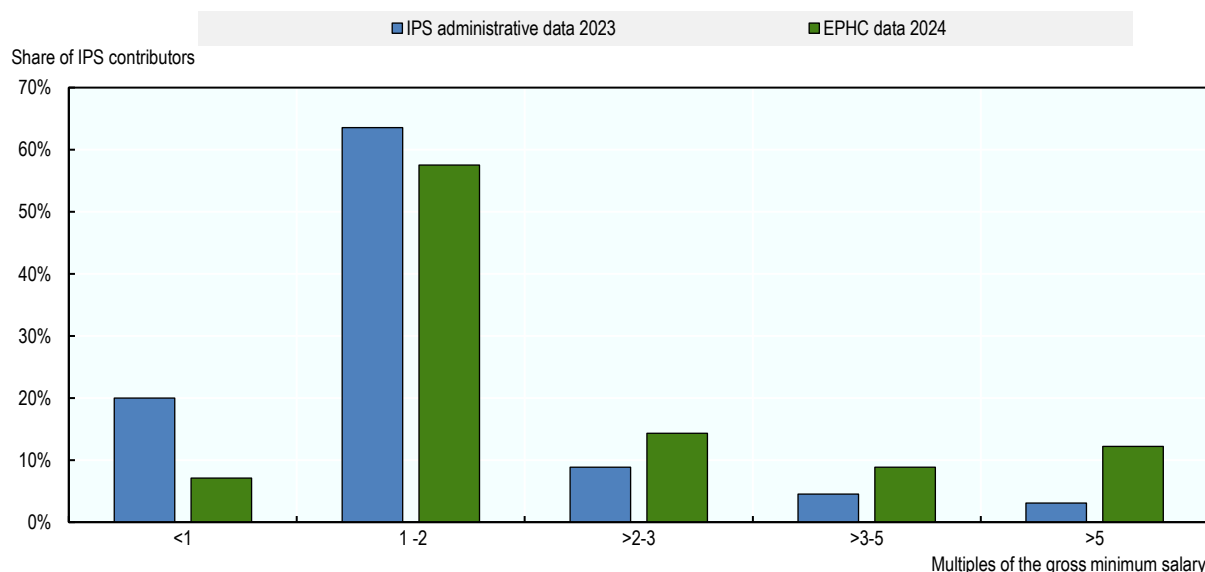
Enhanced monitoring could help reduce the incidence of income underreporting

The contributor base of the IPS is largely composed of low-income earners. In December 2023, approximately 43% of contributors reported monthly earnings at or below the statutory minimum wage (IPS, 2025^[8]). This concentration of formal incomes around the minimum wage is further corroborated by data from the 2024 EPHC survey (Figure 2.8). Fewer than one in five contributors earned more than twice the minimum wage – an income level that approximates the monthly net personal income tax (PIT) threshold (see Annex 2.A).

However, comparisons between administrative data on IPS contributors and self-reported income data from the 2024 EPHC survey suggest possible underreporting of wages in the administrative records (Figure 2.8). While IPS administrative data indicate that around 20% of contributors report earnings below the minimum wage, survey data suggest a significantly lower share, at around 7%.¹ Similarly, contributors earning between one and two times the minimum wage account for 64% of contributors in IPS administrative records, compared to 58% in the survey data. The higher concentration of contributors reporting earnings below twice the minimum wage in administrative sources may point to under-reporting of wages, potentially reflecting arrangements whereby employers and workers declare lower earnings to reduce social security contribution liabilities while increasing net take-home pay.

Strengthening monitoring, compliance and enforcement mechanisms is therefore essential to ensure that social security contributions are assessed on the basis of actual earnings.

Figure 2.8. Distribution of IPS health fund contributors by income bracket - Comparative analysis of administrative and survey data



Note: The distribution of contributors by income bracket are based on administrative data of the IPS from 2023, published in the 2025 IPS *Anuario* report is represented by the blue bars. The distribution based on the EPHC survey data from 2024 is shown in green bars. The minimum salary was PYG 2 289 324 per month from July 2023 to June 2024, and PYG 2 798 309 from July 2024 to June 2025. For the calculation presented in green bars, the average of these two minimum wages was used.

Source: IPS (2025^[6]); EPHC (2024^[6]).

Additional contributions could be levied for dependants

The IPS could consider introducing additional contributions to extend coverage to dependants.

The current structure of SSCs for health insurance in Paraguay allows insured workers and pensioners under the IPS scheme to cover all household dependants at a flat contribution rate of 9% of gross salary (or 6% of gross pension income). In contrast, many countries adjust SSC rates based on whether dependants are covered or not. For example, in Uruguay, contributions to the National Health Fund (FONASA) range from 8% to 13%, depending on the presence of a dependent spouse and children (see Box 2.2). Coverage is limited to spouses and children.

Box 2.2. Health insurance contributions for dependants in Uruguay

In Uruguay, formal workers are required to contribute to the National Health Fund (FONASA) through mandatory SSCs (Table 2.3). Workers can choose a mutual health insurance, with the public sector as one of the options available. Coverage has to be extended to the worker's children and also to his/her spouse, provided the spouse is not formally employed. Employee SSC rates range from 3% to 8% of gross salary, comprising a base rate of 3% and an additional rate determined by income level and family composition (e.g. presence of a spouse and children). For instance, single workers earning below USD 413 (2.5 Benefits and Contribution Base (BPC) units) do not pay an additional rate to cover their children if they are single parents and pay an additional 2% (total of 5%) if they cover their dependent spouse. For employees earning above 2.5 BPC, total health insurance rates increase to 6% for single parents and 8% for workers that cover both their children and dependent spouse.

Table 2.3. Employee contribution rates by family status in Uruguay, 2025

Marital status	Children	Basic contribution	Additional contribution		Total	
			Salary up to 2.5 BPC	Salary > 2.5 BPC	Salary up to 2.5 BPC	Salary > 2.5 BPC
Single	Childless	3%	0%	1.5%	3%	4.5%
	With children	3%	0%	3%	3%	6%
With Spouse	Childless	3%	2%	3.5%	5%	6.5%
	With children	3%	2%	5%	5%	8%

Note: 1 BPC corresponded to UYU 6 576 in 2025 (approximately USD 165).

Employers contribute a standard rate of 5%, with an additional contribution supplement if applicable. This supplement is calculated based on the difference between the total cost of monthly health insurance for all beneficiaries and the sum of the 3% basic employee contribution and the 5% employer contribution.

It is mandatory for self-employed workers to contribute to social security (both health and pensions). In the same way as employees, self-employed workers need to provide health insurance coverage for their dependant spouse and children. For sole proprietors, contributions are determined by applying the same rates as for employees but based on a notional income that varies by economic activity and is periodically updated. Contributions are also mandatory for workers registered through the *monotributo* (presumptive tax regime) and amount to UYU 6 673 if children are covered and UYU 7 528 per month if children and the spouse are covered.

Source: *Banco de Previsión Social*, Uruguay.

To enhance the financial sustainability of Paraguay's health insurance system, the following reform options could be considered:

- Restricting coverage to children and spouses who lack alternative health insurance through formal employment while the insurance of newly dependent parents could be discontinued. Although dependent parents seem to be the minority of the dependants in the IPS regime, the cost of their insurance is expected to increase with population ageing.
- Introducing additional contribution rates to finance the coverage of dependants, with exemptions for workers earning below the minimum wage. Table 2.4 presents alternative scenarios, which

suggest different additional contributions rates for spouses, children and dependent parents. To mitigate the regressive impact, Scenarios A and B introduce an additional SSCs rate applicable when contributors have children; however, this rate remains fixed regardless of the number of children. Scenario C avoids applying any contribution rate to children, which reduces the regressive effect but comes at the cost of lower potential revenue, given that children constitute the majority of dependants. All scenarios exempt workers earning below one minimum wage from additional contributions to further reduce regressivity. However, this exemption may create incentives for underreporting wages.

Table 2.4. Scenarios for additional health contribution rates covering family dependants

Additional insured dependants	Scenario A	Scenario B	Scenario C
Only Children	1%	2%	-
Only Spouse	1%	2%	2%
Only Dependent parents	1%	2%	2%
Spouse + children	2%	4%	2%
Spouse + children + parents	3%	5%	-
Spouse + parents / Children + parents	2%	4%	4%
Workers earning below 1 minimum wage:			
Children and/or spouse and/or parents	-	-	-

Source: OECD.

The simulated scenarios of additional contribution rates for dependants indicate that additional revenues of up to 0.24% of GDP could be generated. Table 2.5 presents the estimated revenue gains under three scenarios of rate increases, as outlined in Table 2.4. The simulations are based on data from the 2024 EPHC survey and include dependants such as children and spouses; dependent parents could not be included due to data limitations. The simulated revenue gains range from PYG 371 200 million to PYG 814 800 million, or approximately 0.11% and 0.24% of GDP, amounts that in all cases exceed the deficit faced in 2024. These additional contributions could represent a meaningful step toward enhancing the fund's financial sustainability.

Table 2.5. Annual revenue gains from introducing additional contribution rates for the inclusion of family dependants

Additional insured dependants	Scenario A		Scenario B		Scenario C	
	PYG million	% of GDP	PYG million	% of GDP	PYG million	% of GDP
Only Children	115 920	0.03%	231 600	0.07%	0	0
Only Spouse	81 360	0.02%	163 200	0.05%	163 200	0.05%
Spouse + children	210 000	0.06%	420 000	0.12%	210 000	0.06%
Total	407 280	0.12%	814 800	0.24%	371 200	0.11%
Total adjusted	485 284	0.14%	970 855	0.29%	444 677	0.13%

Note: The revenue estimates are based on wages reported in the 2024 EPHC survey which are overall slightly higher than those observed in the administrative data (see Figure 2.8). However, the survey underestimates the total number of contributors. To adjust for this limitation revenue estimates are adjusted upwards by multiplying them by the factor 1.19. This factor is the result of comparing data on actual contributions to the IPS health fund in 2024 (PYG 4 218 billion) and estimated contributions based on the survey data (PYG 3 540 billion).

Source: OECD based on EPHC (2024^[6]).

The coverage of the IPS health insurance could be extended to civil servants

Civil servants in Paraguay are not covered by the public health insurance system but receive a subsidy to pay for private health insurance. Public sector workers from the central administration are granted a subsidy, varying in amount, to help cover the cost of private health insurance. There were approximately 97 000 public sector workers eligible for the subsidy in 2024. However, it is not compulsory for them to purchase private health insurance, which leaves some public sector workers uninsured. According to the EPHC survey, about half of the civil servants that receive the subsidy have replied that they have not purchased private health insurance.

The allocation of the health subsidy varies across public entities. The lowest health subsidy amounts to approximately PYG 300 000 per month, whereas the maximum value of the subsidy can reach up to PYG 1 million per month. This fragmented approach to health coverage within the public sector raises considerations regarding equity and efficiency of health financing arrangements across government institutions. In 2024, the cost of this health insurance subsidy for civil servants amounted to USD 96 million or 0.22% of GDP (Table 2.6). Thereof, two thirds are funded by financial resources from the treasury (FF10) and one third is funded by institutional resources (FF30), hence from social security contributions paid to the Caja Fiscal.

Table 2.6. Public expenditure on health insurance subsidies for civil servants, 2024

	Total amount in million PYG	Funded by treasury resources (FF10)	Funded by institutional resources (FF30)	Total amount in million USD	% of GDP
Subsidy for health insurance (lower amount)	188 017	97%	3%	25	0.06%
Subsidy for health insurance (higher amount)	538 483	59%	41%	71	0.16%
Total	726 499	69%	31%	96	0.22%

Note: The funding source FF10 refers to general tax revenues, whereas the funding source FF30 refers to institutional resources such as contributions to the Caja Fiscal.

Source: MEF.

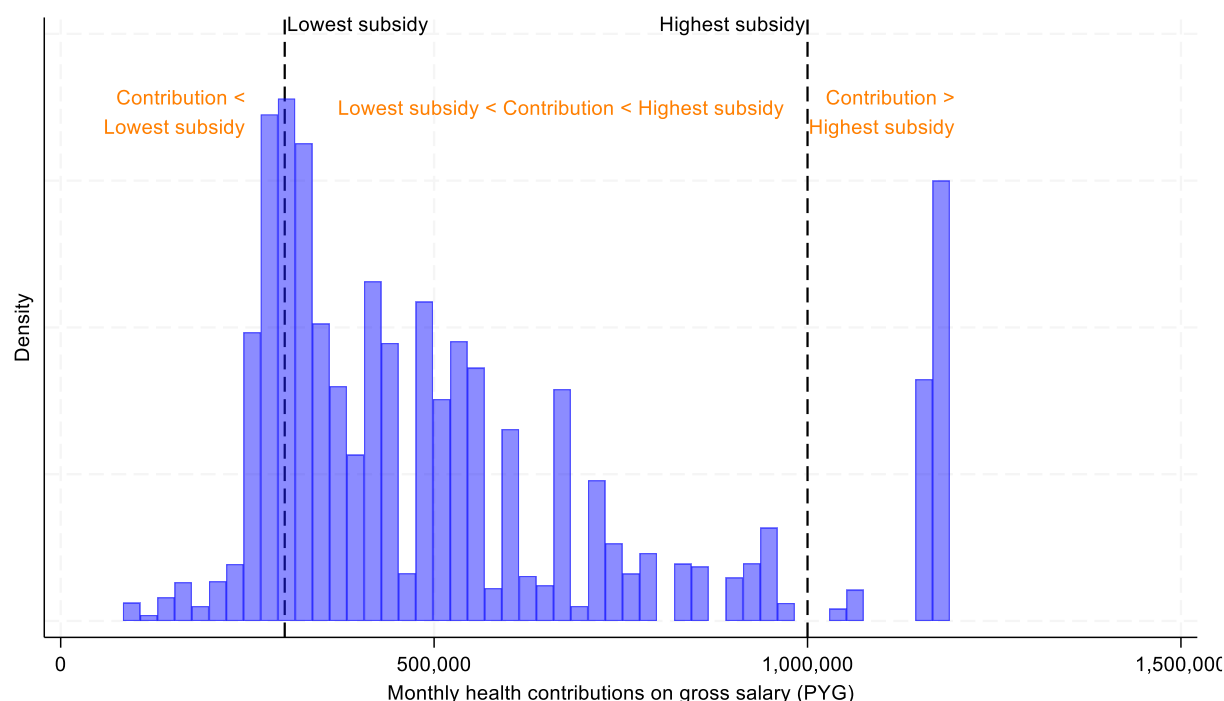
In the near term, the government could consider integrating civil servants into the IPS health insurance scheme. This reform could be implemented under harmonised contribution rates (at a rate of 10%), with the government paying for health contributions, rather than providing subsidies. According to data from the Ministry of Labour, Employment and Social Security (MTESS, 2024^[9]), the average gross monthly salary of a public sector employee was PYG 6.5 million in 2023. Applying the standard health contribution rate of 10% to the IPS would yield a monthly contribution of approximately PYG 645 350. This amount is not that different from the current average health-related subsidies provided to public employees, which amounts to PYG 676 623 per month. The contribution could be entirely covered by the government as in most cases the current subsidy exceeds the potential contribution amount. This example highlights the potential for aligning existing subsidy mechanisms with contributions to the IPS Health Fund, and in this way ensuring that public servants have health insurance while, at the same time, supporting the financial sustainability of the IPS health fund.

Integrating civil servants into the IPS health insurance scheme could enhance equity and efficiency in healthcare coverage delivery and help reduce fragmentation within the public health system.

Despite the current financial constraints facing the IPS, which limit its capacity to expand coverage to additional professional groups, the inclusion of civil servants may increase revenues for the IPS health fund. Given that civil servants tend to be among the higher-income earners in Paraguay, their inclusion would be expected to generate contribution inflows to the IPS that exceed the system's average contribution level. However, this measure should be considered alongside the introduction of additional social security contributions for dependants to ensure that the inclusion of this group is financially sustainable for the IPS. More broadly, any extension of IPS coverage to new professional groups should be implemented gradually and supported by a clear forecasting framework. From the perspective of public sector workers, such an extension would also ensure continued access to IPS health insurance coverage after retirement.

The introduction of mandatory health contributions, combined with the removal of existing health subsidies for public civil servants, could be designed to be revenue neutral or to generate additional revenues for the general budget. Approximately 70% of civil servants employed in the central administration earn between PYG 3 million and PYG 10 million per month and their health contributions would be in the range of the current subsidies. For an estimated 19% of the civil servants, the government's health contribution would fall below PYG 300 000 per month. Conversely, around 10 per cent of civil servants would require contributions exceeding PYG 1 million per month. For workers earning less than PYG 3 million per month who currently receive a PYG 300 000 subsidy, and for those earning below PYG 10 million who receive a PYG 1 000 000 subsidy, the amount of the contribution would be inferior to the current amount of the subsidy (Figure 2.9). This difference could potentially be covered by the government to ensure that their net income remains unchanged. On the contrary, the reform may lead to increased public revenue for workers earning above PYG 3 million and currently receiving a subsidy of PYG 300 000 and for workers earning more than PYG 10 million, who currently receive a subsidy of PYG 1 million. The net fiscal impact could not be assessed in this study, as available data cover only the aggregate amount of subsidies paid and do not provide information on their allocation across ministries or on the remuneration of individual workers.

Figure 2.9. Distribution of civil servants by monthly health contributions under the proposed reform scenario



Note: This estimated distribution represents potential health contributions (10% of gross salary in line with rates allocated to the IPS health fund in 2025) that the government could collect from public sector workers who currently receive a subsidy for private health insurance. The contribution base is the gross salaries of the public sector workers excluding those who already contribute to the IPS for health insurance, and the military and police who are covered by their own health system. For those public sector workers, who declared in the survey not to have a private health insurance, the lowest possible health subsidy (PYG 300 000) was subtracted from their net monthly salary. The 16% contribution to the Caja Fiscal is added to primary net income to calculate the gross income reported in the EPHC. The primary net income variable was winsorised at the 96th percentile and the last displayed bin includes all incomes above this percentile. The sample distribution is expanded by the population expansion factor.

Source: OECD based on data from EPHC (2024^[6]).

Health insurance could become compulsory for liberal professions

Independent workers are not required to contribute to health insurance. Access to healthcare for this group is typically obtained through free health services provided by the MSPBS, as dependants under the IPS, or through voluntary enrolment in private health insurance schemes. At present, independent workers may contribute voluntarily only to the IPS pension fund, but take-up remains limited, with just 967 contributors recorded in 2023. Extending health insurance coverage to independent workers could increase the attractiveness of participation in the IPS by offering more immediate and tangible benefits alongside longer-term pension entitlements.

Independent professionals could be required to contribute to health insurance by linking participation to registration with the tax administration. A significant share of independent workers falls within higher income brackets and has the financial capacity to contribute to public health insurance, notably among liberal professions such as doctors and lawyers. Extending mandatory health insurance coverage to this group could enhance the financial sustainability of the IPS by broadening the contribution base. Contribution rates could be applied to a presumptive income base calibrated to at least cover the per capita cost of care within the IPS system. This presumptive base could be differentiated by economic

activity, as is the case in Uruguay. As in the case of public sector workers, the introduction of mandatory coverage should be accompanied by additional contribution rates to finance the inclusion of dependants.

For individuals with limited or no capacity to contribute, the MSPBS remains the primary channel for access to healthcare. The IPS could nonetheless offer these groups the option of voluntary enrolment in health insurance, without eligibility to include dependants. Alternatively, mandatory health insurance contributions could be incorporated into simplified tax regimes such as the IRE RESIMPLE, in line with arrangements under the *Monotributo* schemes in Argentina and Uruguay (see Chapter 6).

Health insurance contribution rates paid by pensioners could be raised

Paraguay could consider increasing health insurance contribution rates for pensioners to the same level that applies to workers. Pensioners currently contribute 6% of their gross income to the IPS Health Fund, despite health expenditures being significantly higher for older age groups than for middle-aged individuals (see Box 2.1). Furthermore, unlike in most OECD countries, pension income in Paraguay is exempt from personal income tax. Health contribution rates for pensioners could be increased to 9% for those with incomes above the minimum wage, while maintaining the 6% rate for pensioners with incomes below the minimum wage. According to IPS estimates, such a measure could generate additional annual revenues of around USD 10 million.

The non-contributory healthcare scheme is primarily financed through general revenue

The public healthcare system administered by the MSPBS is financed primarily through general tax revenues, supplemented by external loans and earmarked revenues from social security contributions. In accordance with Law No. 5099/2013, the MSPBS provides free healthcare services through its network of public hospitals and clinics. In 2025, the MSPBS' budget amounted to PYG 9 715 billion, equivalent to 2.9% of GDP (Law No. 7408/2025). The majority of this budget was financed through general tax revenues (65%). Additionally, one percentage point of employer social security contributions is earmarked to finance the MSPBS, mandated by Law No. 1429/99. The redirection of employer health contributions from the contributory to the non-contributory system deviates from international best practices. This approach undermines the integrity of the contributory system and disincentivizes worker formalisation. Financing part of the non-contributory healthcare scheme through contributions from the IPS increases labour tax burdens and may indirectly strengthen incentives for informality. The remaining budget is financed through other institutional resources, external credit and other current and capital revenue. To increase the resources available to the non-contributory scheme, the primary focus should be on raising general tax revenue. Policies to mobilise domestic revenues are discussed in Chapter 5.

Table 2.7. MSPBS budget for 2025 by revenue categories

Revenue source	Amount (PYG)	Share of total
Treasury resources (tax revenues)	6 356 304 463 391	65.4%
Institutional resources	630 158 371 082	6.5%
External credits	1 728 233 624 901	17.8%
1% employer contribution (Law No. 1429/99)	277 502 485 721	2.9%
Other current revenues	95 545 966 887	1.0%
Capital revenue	627 907 656 536	6.5%
Total revenue	9 715 652 568 518	100%

Source: MEF, *Ingresos por Entidad*, 12.8 MSPBS, <https://www.mef.gov.py/es/marco-legal/ley-de-presupuesto/2025/ingresos-por-entidad>.

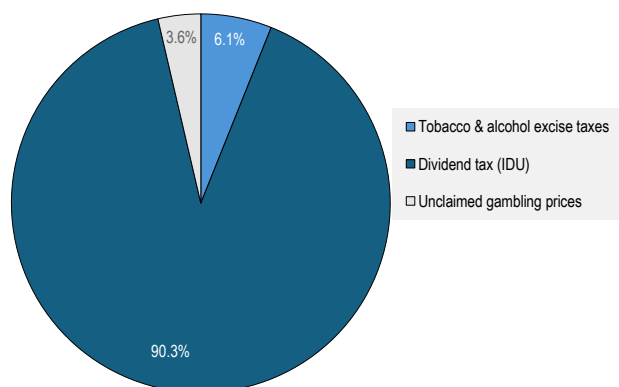
The FONARESS has shown limited capacity to serve additional patients despite increased revenue

In addition to the general public health budget, Paraguay has established the FONARESS fund to cover the treatment of specific diseases. The *Fondo Nacional de Recursos Solidarios para la Salud* (FONARESS), established in 2022, is also administered by the MSPBS but has a separate budget. The fund is designed to provide financial support for individuals without access to health insurance schemes. The FONARESS currently focuses on financing high-cost medical treatments, such as medication for spinal muscular atrophy, but also aims to finance other complex and high-cost conditions such as cardiovascular diseases and rare genetic disorders.

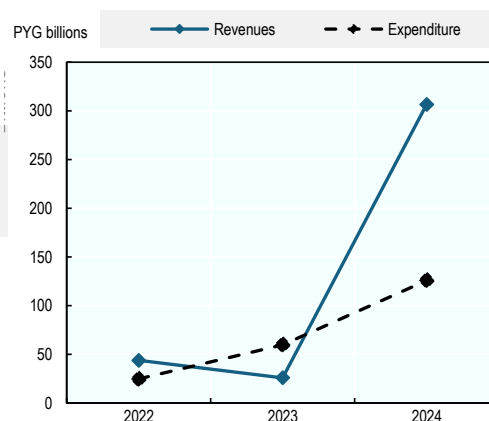
The FONARESS fund is financed through earmarked general tax revenue. In 2025, approximately 90% of the fund's resources were financed through earmarked revenues from the Dividend and Profit Tax (IDU), with a further 6% originating from earmarked health-related excise taxes and 4% from unclaimed gambling prizes (Figure 2.10, Panel A). Specifically, 10% of IDU revenues, 5% of excise tax revenues on tobacco and alcohol, and 100% of unclaimed gambling prizes are allocated to the fund. The earmarking of tax revenues for health financing provides a targeted mechanism to mobilise resources, but it also reduces overall budgetary flexibility. While reliance on IDU revenues ensures a substantial funding base, it introduces a degree of volatility linked to corporate profit cycles. By contrast, earmarking revenues from excise taxes on harmful products is a more widely used approach, as it explicitly links the consumption of health-damaging goods to the financing of healthcare services (see Chapter 5). Although earmarking is not considered a first-best financing solution, it may be appropriate in contexts characterised by high-cost treatments and rapidly rising expenditure pressures.

Figure 2.10. Financial development of the FONARESS fund

Panel A. Financial resources of the FONARESS, 2024



Panel B. Revenue and expenditure of the FONARESS, 2022-2024



Source: MSPBS.

Since its establishment, the FONARESS fund has experienced growth in revenues, while expenditure has increased more moderately, with only a limited number of patients benefiting to date. While revenues rose from under PYG 50 billion to over PYG 300 billion from 2022 to 2024, expenditure increased from PYG 25 billion to over PYG 125 billion in the same period (Figure 2.10, Panel B). In 2024, approximately 80% of total expenditure was allocated to the purchase of high-cost medications. Despite the increase in funding, the fund's reach remains limited: by 2024, only 69 patients had received support.

Box 2.3. Policy recommendations for health financing

Contributory healthcare (IPS):

- Introduce additional contribution rates linked to the coverage of family dependants, in order to better align contributions with benefit entitlements.
- Consider increasing health contribution rates for pensioners with higher pensions, for example by raising the rate from 6% to 9% for beneficiaries receiving pensions above one minimum wage.
- Any reform aimed at expanding coverage to new categories of contributors should be accompanied by either an additional contribution per dependant or restrictions on dependant coverage for these groups. In this context, policy options include:
 - Integrating public sector workers into the IPS health insurance scheme and replacing existing subsidies to private health insurance with employer contributions to the IPS.
 - Extending mandatory IPS health insurance coverage to liberal professions.
 - Offering voluntary health insurance to other independent workers, or integrating SSCs into a presumptive tax regime, building on the IRE RESIMPLE.
- Establish separate contribution rates for cash benefits related to sickness, maternity and work-related injuries.
- Strengthen monitoring and enforcement mechanisms to reduce the underreporting of wages and improve contribution compliance.

Non-contributory healthcare (MSPBS):

- Improve spending efficiency within the MSPBS.
- Ensure that the non-contributory health scheme is financed primarily through general tax revenues.
- Consider abolishing the redirection of employer contributions toward the financing of the non-contributory health system.

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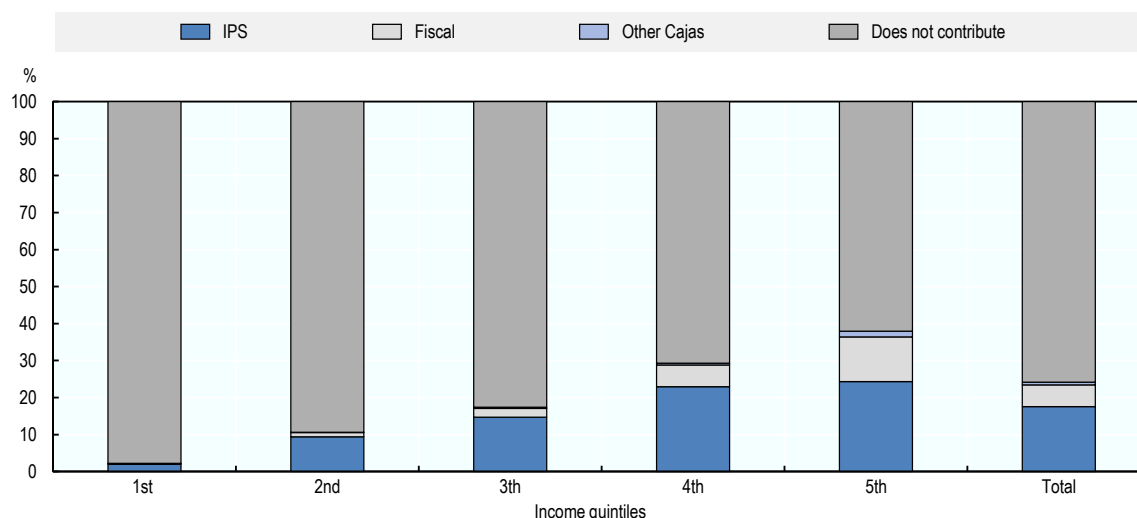
Financing contributory pensions

This chapter reviews Paraguay's main contributory pension systems, focusing on financial sustainability and reform priorities. It outlines the fragmented structure of the pension system and assesses the mandatory pension scheme for private sector workers administered by the IPS, with particular attention to coverage, benefit adequacy and long-term financial sustainability. The chapter also examines the fiscal pressures facing the *Caja Fiscal*, which manages public sector pensions, and discusses policy options to strengthen its solvency. Note that this chapter was drafted prior to the proposal and approval of the reform to the *Caja Fiscal* enacted through Law 7633/26.

The fragmentation of the contributory pension system creates inequities

Contributory pension coverage in Paraguay remains low, with only about 24% of the workforce contributing to a pension scheme. Coverage is strongly correlated with income levels (Figure 3.1). Only 3% of workers in the lowest income quintile contribute to a pension fund, and even among the highest income quintile the share remains low at 40%, compared with other LAC countries. The Instituto de *Previsión Social* (IPS) has the largest number of contributors, followed by the *Caja Fiscal*. The persistently high level of labour market informality is a key structural barrier to expanding contributory pension coverage, particularly among lower-income groups (see Chapter 6).

Figure 3.1. Breakdown of workers by contributory status and income quintile, 2024

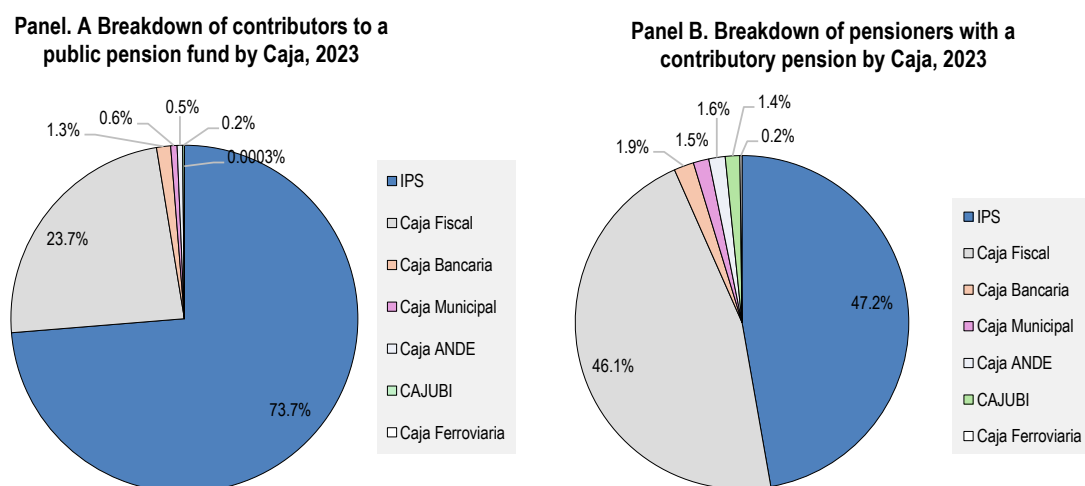


Notes: Other Caja's include the Caja Bancaria, the Caja Municipal and Private Cajas. The EPHC does not include the departments of Boquerón and Alto Paraguay, indigenous communities, collective housing, and live-in domestic workers.

Source: OECD based on EPHC (2024^[1]).

Paraguay's pension system is characterised by a fragmented structure, consisting of eight public pension funds alongside a range of private voluntary pension funds. Most public pension funds in Paraguay are defined-benefit based schemes operating on a pay-as-you-go basis.¹ Among these, the IPS and the *Caja Fiscal* represent the two principal public contributory schemes. The IPS provides pensions to private sector employees and covers approximately 74% of all individuals contributing to public pension schemes, and it also provides pensions to 47% of all beneficiaries receiving a contributory pension. The *Caja Fiscal* covers civil servants and is the second largest pension fund, covering 24% of contributors and 46% of contributory pension recipients (see Figure 3.2). In addition to these two main schemes, Paraguay has six smaller public pension funds that serve specific companies or professional groups (see Figure 3.2): the *Caja ANDE* serves employees of the national electricity company *Administración Nacional de Electricidad* (ANDE), who also contribute to the IPS health and pension funds; the *Caja Paraguaya de Jubilaciones y Pensiones del Personal de la Itaipú Binacional* (CAJUBI) is for workers at the Itaipú hydroelectric dam that contribute to the IPS; the *Caja Bancaria* covers workers in the banking sector; the *Caja Municipal* is for municipal employees; the *Caja Ferroviaria* serves workers of the public railway; and the *Caja Parlamentaria* serves members of parliament. The private pension funds mainly consist of mutual funds and cooperatives, operating on a voluntary defined-contribution basis.

Figure 3.2. Contributors and pensioners of the public pension schemes in Paraguay



Source: MTESS (2024^[2]), Boletín Estadístico de Seguridad Social 2024.

Pension contribution rates and benefit parameters differ across the eight public pension funds, giving rise to significant disparities among contributors. Table 3.1 provides a comparative overview of key parameters across the different pension schemes. For the *Caja Fiscal*, the sub-scheme for civil servants is presented, while information on the remaining sub-*cajas* is provided separately in Table 3.2. Contribution rates range from 7.5% for ANDE officials under the IPS to 28% for contributors to the *Caja Bancaria*. Other core parameters, including retirement age, minimum contribution years and replacement rates, also differ substantially across the different pension funds (Figure 3.3).

Table 3.1. Key parameters of public pension funds in Paraguay

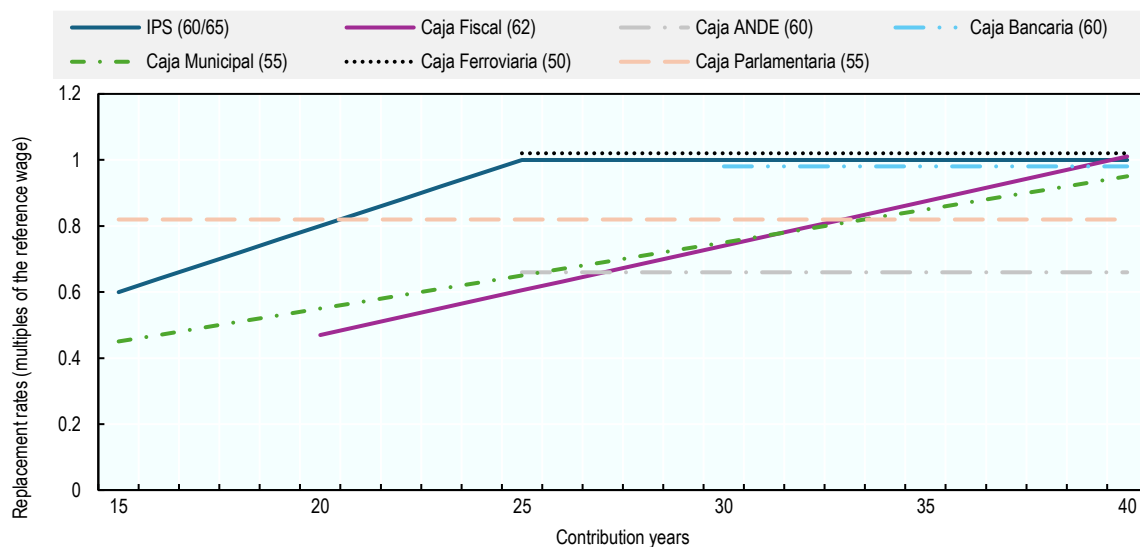
Pension fund	Eligible groups	Pension contributions (employee + employer)	Number of contributors/ pensioners (2023)	Retirement age	Minimum contribution time	Replacement rate	Reference period
IPS Pension Fund (<i>Regimen General</i>)	Private sector workers	12.5%	726 972 contribute	60 years for a full pension	25 years for a full pension	100%, capped at 10 minimum wages, floor at 1/3 minimum wage	10 years (currently gradually increased from 3 to 10 years between 2025 and 2032)
	ANDE officials	7.5%	76 105 pensioners				
	ITAIPIU officials	12.5%					
	YACYRETA officials	7.5%					
	National Directorate of Civil Aeronautics officials	12.5%					
	Paraguay Oil workers	7.5%					
	Paraguayan Communications Company workers	7.5%					
<i>Caja Fiscal*</i>	Civil servants (<i>Funcionarios Administrativos</i>)	16% employee	233 892 contribute 74 330 pensioners	62 years	20 years	47% + 2.7p.p. per year	5 years

<i>Caja ANDE</i>	ANDE officials	7% + 12-18%	4 970 contribute 2 556 pensioners	60 years	25 years	2/3	10 years
<i>Caja CAJUBI</i> (defined-contribution scheme since 2024)	ITAIPU officials	2026: 10% + 15% 2027: 10.5% + 13% 2028: 11% + 11%	1 631 contribute 2 277 pensioners	60 years	10 years		
<i>Caja Bancaria</i>	Employees of banks and other financial institutions	11% + 17%	12 928 contribute 3 104 pensioners	60 years	30 years	100%	4 years
<i>Caja Municipal</i>	Municipal employees	10% + 10%	5 862 contribute 2 430 pensioners	55 years	15 years	45% + 2p.p. per year	2 years
<i>Caja Ferroviaria</i>	Railway employees	10% + 10%	3 contribute 321 pensioners	50 years	25 years	100%	2 years
<i>Caja Parlamentaria</i>	Senators and Deputies	22% employee		55 years	15 years	80%	5 years

Note: Retirement age, minimum contribution years and replacement rates refer to ordinary pension schemes, and parameters might differ for extraordinary pensions or invalidity pensioners. *The *Caja Fiscal* has several other sub-*cajas* with varying pension parameters (see Table 3.2 for more details). The *Caja ANDE* and *Caja CAJUBI* are complementary pension funds for workers of the ANDE and Itaipu companies. Officials, who have transferred from ANDE to Yacyreta, are eligible to contribute to the IPS pension fund at the reduced rate of 7.5%.

Source: MEF, IPS (2025^[3]).

Figure 3.3. Contribution years and replacement rates of the public pension funds

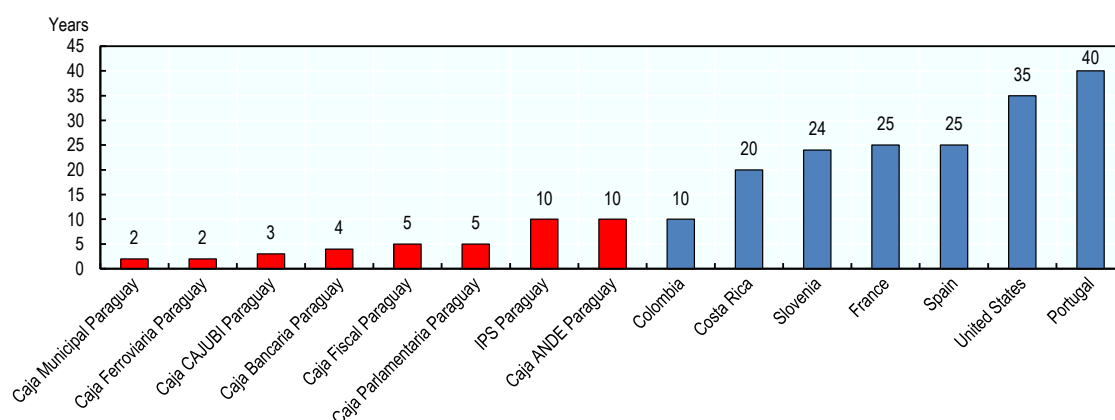


Note: The official retirement age for the pension funds is indicated in parentheses in the legend. The IPS, *Caja Bancaria* and *Caja Ferroviaria* all reach replacement rates of 100%, but are plotted slightly displaced for better visualisation. Similarly, the *Caja CAJUBI* and the *Caja Parlamentaria* have both replacement rates of 80%.

Source: MEF (2025).

The reference wage periods applied to calculate pension benefits in Paraguay's public pension schemes are short by international standards. Across the eight public pension funds, including the *Caja Fiscal*, pension entitlements are generally calculated on the basis of earnings over the final 2 to 10 years of employment. In contrast, most OECD countries calculate pension benefits using lifetime earnings, which enhances the equity and sustainability of the system (OECD, 2023^[4]). Only a few OECD countries base pension calculations on partial career earnings, typically spanning 20 to 40 years, with Colombia being a notable exception, using a 10-year reference period (Figure 3.4). To improve financial sustainability and align with international practices, Paraguay could consider extending the reference wage period in the *Caja Fiscal* and other public schemes to at least 10 years, which is aligned with the IPS reform that is being implemented.

Figure 3.4. Reference wage period for pension benefits in Paraguay and selected countries, 2025 or latest year available



Note: All OECD countries not shown in the figure calculate pension benefits based on the average wage over the entire career.
Source: Adapted from OECD (2023^[4]) with information added on Paraguay.

Differences in the design of pension parameters create horizontal inequities among contributors, as individuals with similar contribution histories may receive markedly different pension benefits depending on the fund to which they contributed. According to a study by (Bai and Zelko, 2023^[5]), contributors to the *Caja Fiscal* experience highly uneven returns on their pension contributions: teachers, judges, military personnel, and police officers receive pension benefits exceeding four times their total contributions, whereas civil servants in public administration receive returns below 2.5 times their contributions. In contrast, IPS pensioners receive benefits ranging from 2.6 to 3.8 times their contributions. The high pension returns put the financial sustainability of the funds at risk. While replacement rates are generally high, individuals who do not meet the minimum contribution thresholds are excluded from receiving a pension. Such design features may reduce incentives for sustained participation among workers with fragmented contribution histories and deter older individuals from initiating contributions.

In December 2023, the Paraguayan Congress enacted legislation establishing the Superintendency of retirement and pensions (*Superintendencia de Jubilaciones y Pensiones*) (Apella and Montt, 2024^[6]). The Superintendency provides an institutional framework for supervising and supporting the management of the various public pension funds. This establishment of the Superintendency has been a necessary step to improve transparency and accountability.

Since the enactment of Law No. 3856 in 2009, contribution periods may be aggregated across pension funds, enabling individuals with fragmented contribution histories to qualify for a pension even if they do not meet the minimum requirements within a single fund. Thus, a worker who has contributed to

more than one pension fund and who, upon reaching the age of 65, does not individually meet the requirements to qualify for a pension from any of them, can add up the years of contributions made to each fund. Each institution recognises and pays a proportional part of the benefit according to the contribution period and the calculation rules in force in its regime. Notably, there is no transfer of funds, as each fund settles the pension separately. This reform represents a step toward greater portability and equity within the pension system. However, this law presents some regulatory inconsistencies, especially in relation to the IPS Proportional Retirement Law of 2011. For example, a person with 16 years of contributions to the IPS and 10 years to the *Caja Fiscal* cannot accumulate these contribution periods to qualify for a joint benefit, given that in the IPS, 15 years of contributions within its own regime are sufficient to qualify for the IPS benefit. In practice, this limits the effective portability of accrued rights across pension funds and prevents the full recognition of contribution histories spanning multiple regimes, underscoring the need for greater harmonisation between the two regulatory frameworks. With regard to the refund or withdrawal of contributions, the IPS does not allow fund withdrawals, whereas the other pension funds offer refund mechanisms under certain conditions. In the case of the *Caja Fiscal*, the law allows contributors to withdraw 90% of their accumulated contributions if they do not meet the eligibility criteria for a pension.

The IPS pension system faces financial challenges and parametric reforms are needed

Coverage of the IPS pension fund could be further extended

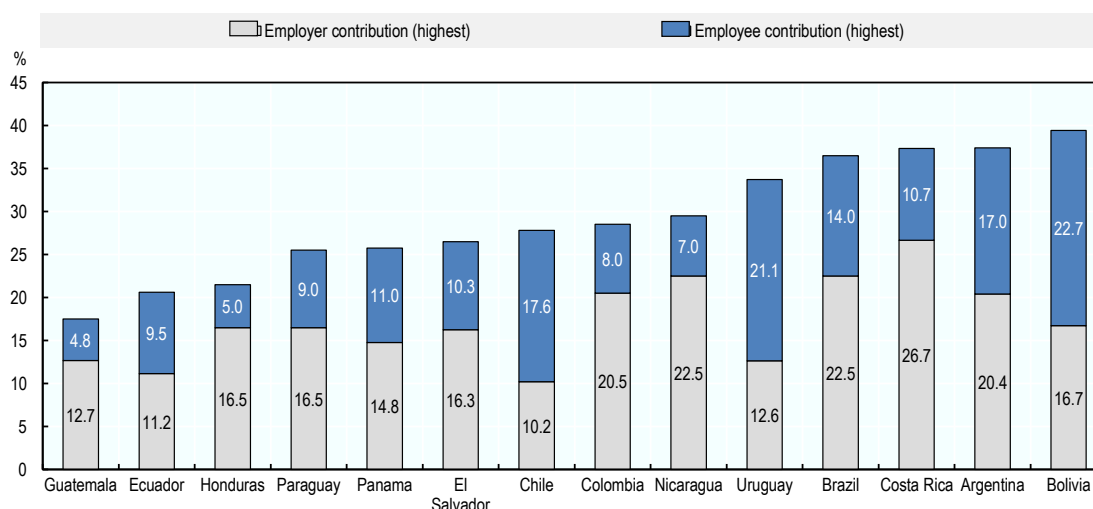
The IPS administers pensions and health insurance for private-sector employees under Paraguay's general mandatory social security regime, which was established in the 1950s. Officials working in several state-owned companies in Paraguay are also covered by the IPS (e.g. workers of the national electricity company ANDE, the binational hydroelectric companies ITAIPU and Yacyretá, oil, communications and aeronautics companies), but contribution rates vary across professional groups (Table 3.1). The workers of the ANDE company contribute to both the IPS pension regime (at reduced rates) and their respective company-specific pension fund (*Caja ANDE*). Since 2010, the IPS has revised pension schemes to offer greater flexibility for specific professional groups such as artists (since 2010), private teachers (since 2011), independent workers (since 2013), domestic workers (since 2015), owners of microenterprises (since 2016), part-time workers (since 2019) and workers in *Mipymes* (2025).

Coverage of the IPS pension fund among private-sector workers remains limited. In 2024, about 39% of salaried private sector workers in Paraguay contribute to a pension fund (EPHC, 2024^[1]). Limited pension coverage among employees reflects a lack of enforcement and the relatively high contribution burden faced by low-productivity firms and workers. The low percentage of workers that contribute to a pension fund is also partly due to very low coverage among independent workers for whom social security is voluntary. General reasons for the low levels of pension contribution coverage in Paraguay include low productivity, low wages, lack of a subjective perception of rights and obligations among workers, inaccurate information about the benefits of social insurance and its consequent underestimation (Montt, Setrini and Arce, 2021^[7]). Further analysis on the tax wedge and hurdles to formalisation is included in Chapter 6.

Social security contribution rates in Paraguay are broadly in line with regional averages. In the LAC region, contribution rates including for pensions tend to be relatively high (Figure 3.5). Under Paraguay's general social security regime of the IPS, private sector employees contribute 9% of gross earnings, while employers contribute 16.5%, resulting in a combined rate of 25.5%, thereof 12.5% are allocated to the IPS pension fund. This places Paraguay slightly below the regional average. While statutory contribution rates are not particularly high, they represent a significant burden for low-income workers, partly because contributions are calculated on at least the minimum wage, with only few exceptions (see Chapter 6).

Figure 3.5. Social security contribution rates in Paraguay and selected LAC countries

Social security contributions as a percent of gross earnings, 2025



Note: The rates for mandatory social security contributions for private sector employees are displayed, showing the highest rate in cases where rates differ depending on the sector or income level. The rates displayed include both pension and health contribution components. For Paraguay, the figure reflects the 25.5% general contribution rate applied to private-sector employees affiliated with the IPS.

Source: IBFD Country Tax Guides (IBFD, 2025^[8]).

The IPS offers a voluntary pension scheme for independent workers. However, uptake remains very limited, with only 967 contributors in 2023 (IPS, 2025^[3]). Contributions are set at 13% of the declared income, where the minimum wage serves as the minimum contribution base, subject to a limited number of exceptions (see Chapter 6). The benefit regulations are the same as under the IPS general regime: a full pension is granted at age 60 upon completion of 25 years of contributions, while a partial pension is available at the age of 65 with a minimum of 15 contribution years. Independent workers with fewer than 15 contribution years receive no pension benefit.

For independent workers with sufficient financial capacity, participation in a pension scheme could be made mandatory. According to the 2024 EPHC survey, approximately three quarters of the independent workers earn less than the minimum wage and lack contributory capacity, whereas about one quarter of the independent workers have capacity to contribute (see Chapter 6). Higher-income independent workers often rely on alternative retirement strategies, such as private savings schemes or real estate investment, rather than participating in the contributory pension scheme. A potential reform option would be to make pension contributions mandatory for higher-income independent workers, while allowing them to choose between contributing to the IPS or to a private pension fund. A similar approach has been adopted in Peru, where a reform scheduled to take effect in 2028 will require independent workers to contribute to either a public or private pension scheme (OECD, 2025^[9]). To further enhance the attractiveness of the IPS for independent workers, integrating health insurance into the scheme could be considered, although this would require adjustments to the financing of dependants as discussed in Chapter 2.

Pension benefit adequacy is high, but only for those who qualify for a pension

Contribution density among IPS contributors is low, amounting to 28% on average between 2000 and 2020 (Bai and Zelko, 2022^[10]). Half of the workers have a contribution density of less than 20% and one-third below 10%, indicating that pension contributions have been made for only a limited share of

working life. These percentages are lower than in comparable Latin American countries (e.g. Argentina ~35%, Brasil ~50%, Ecuador ~50%, Uruguay ~50%) (Álvarez et al., 2020^[11]). A low contribution density reduces the likelihood of accumulating sufficient contribution histories to qualify for a contributory pension. As a result, a large share of contributors does not meet eligibility requirements, underscoring the continued importance of Paraguay's non-contributory social pension system (see Chapter 4).

The low contribution density implies that most contributors will not receive a pension when reaching retirement age. At the statutory retirement age (65), 57.3% of current IPS contributors are projected not to meet the minimum 15-year contribution requirement. One-third of the former contributors receive a proportional pension, and only 9% qualify for a full pension (Bai and Zelko, 2022^[10]). Gender disparities persist in pension receipt, with men accounting for 58% of IPS pension beneficiaries, compared to 42% for women. In addition, pension benefits remain disproportionately concentrated among higher-income groups.

To strengthen contribution incentives and avoid penalising workers who do not meet the minimum contribution period, the introduction of partial pensions for contributors with shorter contribution histories could be considered. In the absence of such a mechanism, many workers – anticipating that they are unlikely to meet the minimum contribution requirement – face limited incentives to contribute. At the same time, Paraguay's current social pension is paid only to older adults who receive no contributory pension. To prevent the emergence of retirees receiving very low contributory pensions while remaining ineligible for social pension support, consideration could be given to introducing a tapered pension arrangement. Under such a system, social pension benefits would be gradually withdrawn as contributory pension entitlements increase, ensuring that total retirement income remains above the *Adulto Mayor* social pension and thereby strengthening incentives to contribute. The administrative implementation of such a system would be relatively straightforward, as pension income from contributory schemes is fully recorded by pension funds. An additional advantage of this approach relates to fiscal sustainability. Allowing for partial pensions, in combination with a tapered social pension top-up, would imply that individuals with some contributory history receive lower social pension supplements, helping to contain social pension costs over the long term. By strengthening incentives to contribute, such a reform could also broaden the contribution base and support the financial sustainability of the pension system, particularly if accompanied by a reduction in replacement rates for full contributory pensions. The Chilean experience with tapered non-contributory pensions combined with contributory benefits is discussed in Box 3.1. Unlike Chile's *Aporte Previsional Solidario* (APS), the proposed scheme for Paraguay would ensure that combined benefits remain above the *Adulto Mayor* social pension. However, the social pension would gradually decrease as the contributory pension increases, following a similar tapering approach as applied in Chile.

Box 3.1. Integrating contributory and non-contributory pension schemes in Chile

Tapered non-contributory pensions imply that the benefit is gradually reduced as the individual's contributory pension increases. This design avoids the large “cliff effects” seen in simple minimum-guarantee schemes, where receiving one extra unit of contributory pension can eliminate the entire state top-up. Such “cliffs” create a 100% implicit tax on extra contributions and discourage formal work and saving. A taper system replaces this with a lower implicit tax, improves incentives to contribute, and spreads fiscal resources more efficiently toward those with the lowest pensions.

Another advantage is that taper systems are straightforward to administer: the government only requires verified pension income records from the contributory system. Since these records exist for all formal-sector retirees, the state can calculate the exact top-up automatically, with little room for errors or leakage.

In 2008, Chile introduced the *Aporte Previsional Solidario* (APS) to provide support to those individuals with low contributory pension benefits. This benefit was granted to individuals aged 65 and more living in vulnerable households and covered the difference between the pension obtained through the individual savings account contributory scheme and the minimum non-contributory pension (*Pensión Básica Solidaria*). APS was replaced in 2022 by the introduction of a more generous universal social pension (*Pensión Garantizada Universal*) which follows the same principle of integrating contributory and non-contributory benefits.

Source: Chile Atiende (2025), Aporte Previsional Solidario de Vejez (APSV), <https://www.chileatiende.gob.cl/fichas/5190-aporte-previsional-solidario-de-vejez-apsv>; Chile Atiende (2025), Pensión Garantizada Universal (PGU), <https://www.chileatiende.gob.cl/fichas/102077-pension-garantizada-universal-pgu>.

Paraguay could also consider introducing voluntary, subsidised pension contributions for individuals who lose formal employment, for a limited period. For example, Thailand operates a scheme under Article 39 of the Thai Social Security Act that allows individuals to continue making voluntary contributions for up to six months following the loss of formal employment (OECD, 2025^[12]).

The current design of the IPS pension scheme provides high replacement rates for individuals who qualify for a pension. As mentioned earlier, individuals qualifying for a full pension receive benefits worth 2.6–3.8 times their contributions (Bai and Zelko, 2023^[5]). This is because the replacement rate reaches 100% after 25 years of contributions for retirement at age 60, capped at 10 times the minimum wage. In addition to providing overly generous benefits, this structure may weaken incentives for continued contributions beyond 25 years. Early retirement is possible at age 55 if 30 contribution years have been completed, at a lower replacement rate (80% plus 4 percentage points for every additional year). A proportional pension is paid out to contributors aged 65 or above with minimum 15 contribution years offering a replacement rate of 60% plus 4 percentage points for every additional year.

Paraguay's replacement rates are high by international comparison. In OECD countries, net pension replacement rates from mandatory schemes after a full career starting at age 22 in 2024 are 63% of net wages for the average earner, ranging from below 40% in Estonia, Ireland, Korea and Lithuania to over 95% in the Netherlands and Türkiye (OECD, 2025^[13]). Net replacement rates for low-income earners tend to be slightly higher in most OECD countries due to redistributive features within pension systems. Paraguay may consider aligning its pension system more closely with international benchmarks. Reducing the overly generous replacement rates would provide fiscal space to provide partial pensions to those contributing less than 15 years, which can incentivise formalisation.

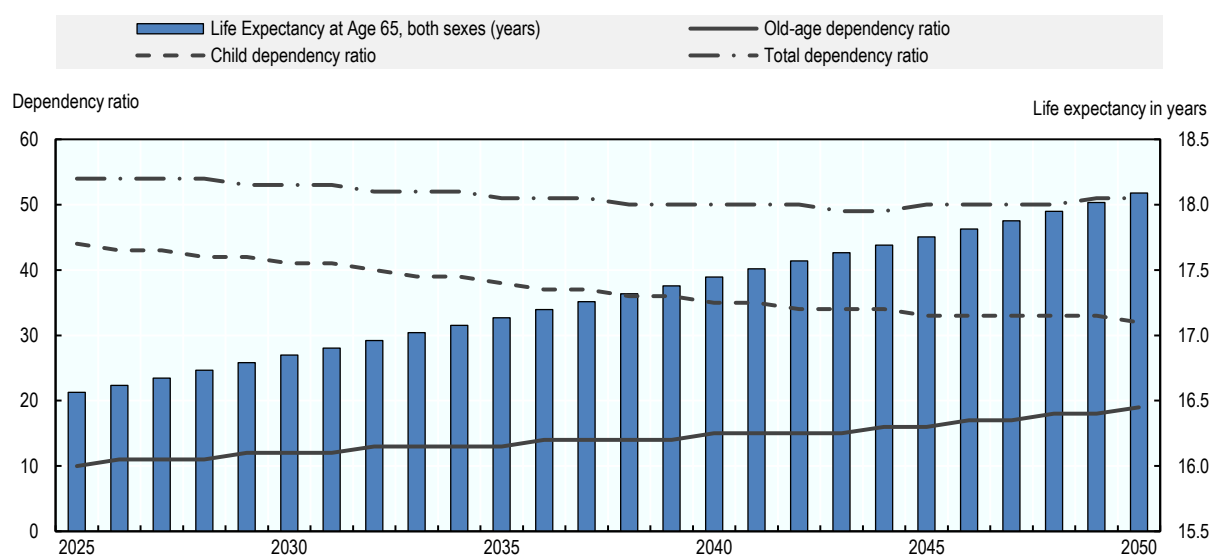
The financial stability of the IPS pension fund could be further challenged by an ageing population

At 60 years, Paraguay's statutory retirement age is below the OECD average, reflecting in part the country's lower life expectancy. Life expectancy at age 65 in Paraguay is 18 years for women and 15 years for men in 2025, projected to rise to 20 and 16 years respectively by 2050 (UN, 2024^[14]). In comparison, OECD countries project a remaining life expectancy at age 65 of approximately 23 years, on

average, by 2050-2055 (OECD, 2023^[4]). The average retirement age in OECD countries is currently 64 years, with many governments implementing reforms to increase it further.

Paraguay is currently at an early stage of its demographic transition, benefiting from a demographic dividend (OECD, forthcoming^[15]). Over the next 15 years, the working-age population is projected to continue expanding, while the youth population is expected to begin declining. These demographic developments are reflected in dependency ratios (Figure 3.6). The old-age dependency ratio is projected to increase from 10 individuals aged 65 years and over per 100 persons aged 15-64 in 2025 to 19 individuals by 2050. At the same time, the total dependency ratio is expected to decline until 2045 driven by a falling child dependency ratio. These demographic trends highlight the importance of implementing timely reforms to the IPS pension fund to ensure long-term financial sustainability.

Figure 3.6. Life expectancy and dependency ratios in Paraguay, 2025-2050

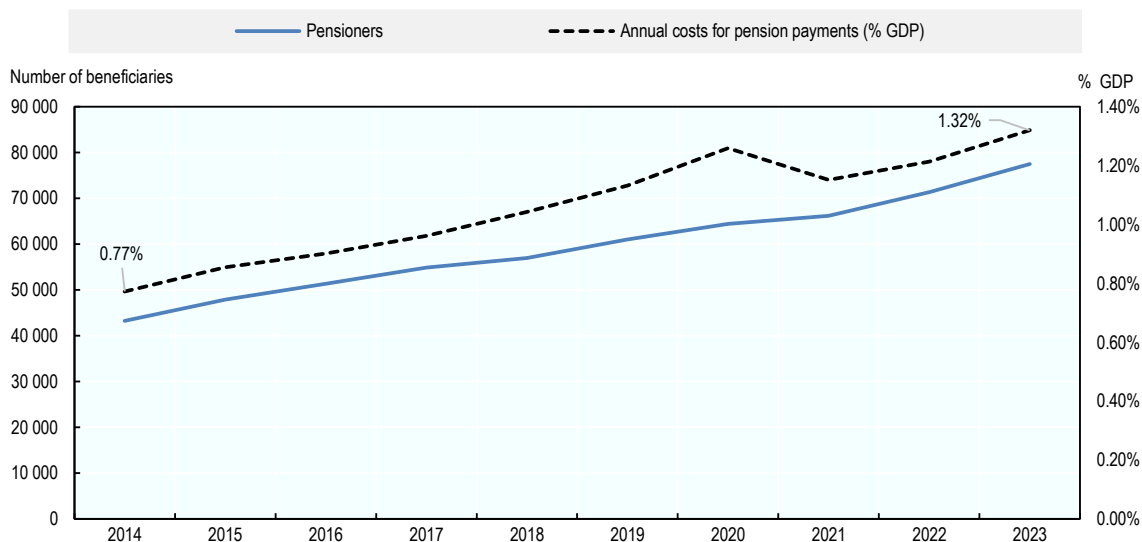


Note: The dependency ratios are measured in persons per hundred persons aged 15-64 years.

Source: UN (2024^[14]) World Population Prospects 2024.

IPS expenditure on pension benefits increased from 0.77% of GDP in 2014 to 1.32% in 2023. Pension spending as a share of GDP has been rising broadly in line with the growth in the number of beneficiaries (Figure 3.7). While population ageing does not yet constitute a major fiscal pressure, it is expected to pose increasing challenges to the sustainability of the pay-as-you-go system over the medium to long term.

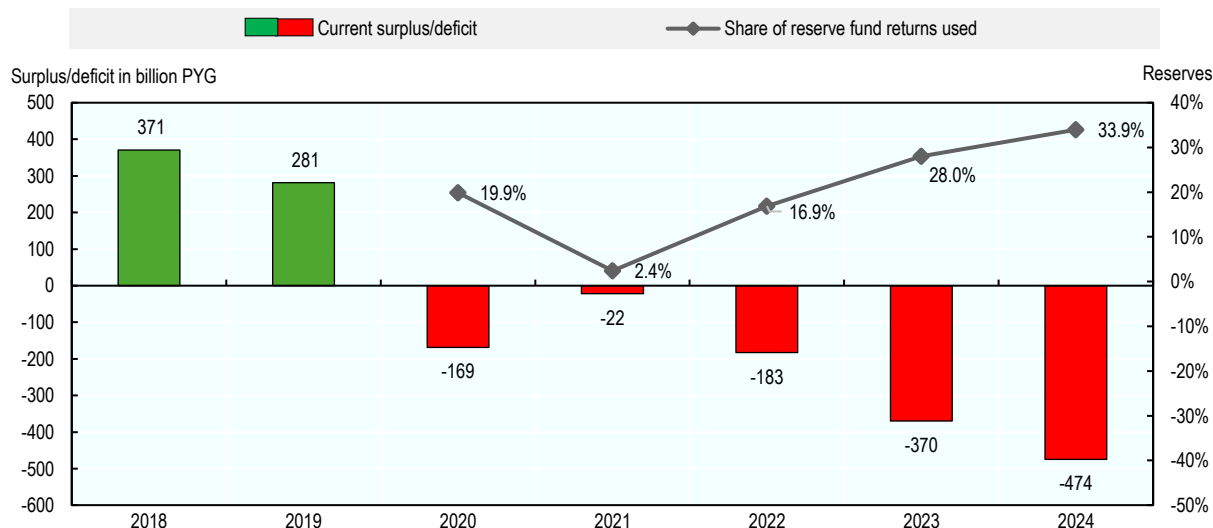
Figure 3.7. Number of pensioners and total pension costs as a percentage of GDP under the IPS, 2014-2023



Source: IPS (2025^[3]), Anuario Estadístico IPS 2023.

The IPS pension fund has recorded a deficit since 2020 and needs further structural reforms over the medium to long term. The current pension system relies on substantial internal cross-financing from contributors who do not qualify for a pension – because they have not accumulated a minimum of 15 years of contributions – which helps offset the cost of high replacement rates for eligible beneficiaries. In the absence of this cross-financing, the pay-as-you-go system would face even more significant financial pressures. Since 2020, the IPS pension fund has operated with persistent financial unbalances, which reached 0.14% of GDP in 2024. In recent years, returns generated by the reserve fund have been used to finance current deficits of the IPS pension fund. In 2024, 34% of the reserve fund's total income was allocated to supplement the financing of current pensions, up from 20% in 2020 (Figure 3.8). Reserve fund returns should primarily be reinvested to finance future pension liabilities, particularly given that these liabilities are expected to grow in line with inflation and real wage increases. The recent parametric reform extending the reference wage period used to calculate pension benefits is expected to improve the fund's financial sustainability. However, this measure alone is unlikely to be sufficient to restore long-term fiscal balance. According to a preliminary actuarial assessment by the IPS, under current system parameters the pension fund deficit is projected to widen over the coming decades, with expenditures expected to reach around 130% of revenues by 2060. While returns on the reserve fund are projected to cover current pension payments until around 2036, financing beyond that point would require drawing down the fund's capital.

Figure 3.8. Evolution of the surplus/deficit of the IPS pension fund and share of the reserve fund's returns used, 2018-2024



Note: The line graph represents the share of the return on the reserve fund used to finance the deficit of the IPS pension fund.

Source: Adapted from IPS (2026_[16]).

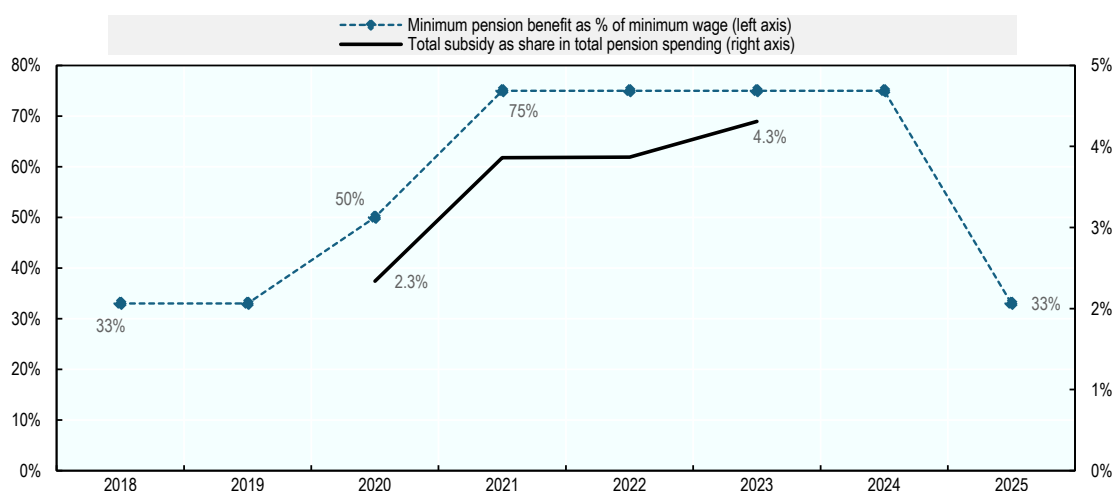
Several provisions contribute to the financial challenges faced by the IPS Fund

The additional annual benefit increases financial pressures on the IPS pension fund. Since 1995, pensioners have been granted an additional annual benefit equivalent to one month of their pension without any associated financing sources. According to IPS estimates, an increase in contribution rates by 1.25 percentage point would be required to finance this additional benefit without using income from the reserve fund for pension payments until 2036 (IPS, 2026_[16]).

Paraguay provides for a minimum pension. Several factors explain why some workers reach retirement with such low declared earnings. First, wages have not been adjusted for inflation when calculating the reference wage. Second, the years preceding retirement, some workers may have contributed on a base below the statutory minimum wage for various reasons. Some pensioners have no or little declared income in the years used as reference period for the calculation of the benefit (four years in January 2026 but increasing to 10 years by 2032). Third, certain occupational groups (e.g. agricultural workers) contribute based on minimum bases below the statutory minimum wage. Finally, the benefit for recipients of survivor pensions or partial pensions often yields very low amounts. As a result, the IPS is required to supplement their pension benefits up to the legal minimum level. Under current legislation (Law No. 4426/2011 and a resolution from 2024), the minimum pension benefit (*Haber Mínimo Jubilatorio*) is set at 33% of the minimum wage.

A temporary increase in the minimum pension benefit resulted in significant costs for the IPS. Between 2020 and 2024, temporary measures substantially raised the minimum pension level: in 2020, eligible retirees and pensioners were guaranteed benefits equivalent to 50% of the minimum wage, and from 2021 to 2024, this threshold increased to 75% for retirees while minimum pension benefits for survivors remained at 50%. These higher minimum benefits remain in place for retirees and pensioners who qualified during this period, while new retirees will revert to the statutory level of 33% of the minimum wage. This temporary policy resulted in a more than six-fold increase in IPS subsidies to maintain minimum pension payments (Figure 3.9). Approximately 20 000 retirees and pensioners (about one fourth of all IPS retirees and pensioners) receive this minimum benefit in 2025.

Figure 3.9. Subsidy for IPS minimum pension benefit



Source: IPS.

The short reference wage period used to calculate pension benefits – currently being extended gradually to ten years – has contributed to relatively high pension payouts. In 2024, Paraguay enacted pension reform through Law No. 7446/2024, extending the reference wage period under the IPS from three years to ten years. The reform is being implemented gradually between January 2024 and December 2031, with the reference period increasing by one month each calendar month to reach 120 months by 2032. This measure is intended to strengthen both the equity and the financial sustainability of the pension system. By broadening the reference period, the reform reduces incentives for wage inflation in the years immediately preceding retirement, as well as for under-reporting earnings earlier in the career and helps ensure that pension benefits more accurately reflect contributors' lifetime earnings.

To ensure long-term financial sustainability and expand coverage, further parametric reforms to the pension system will be required. Delays in implementing these adjustments are likely to result in higher long-term costs, thereby increasing the need for more substantial corrective measures in the future. Key reform options discussed above include:

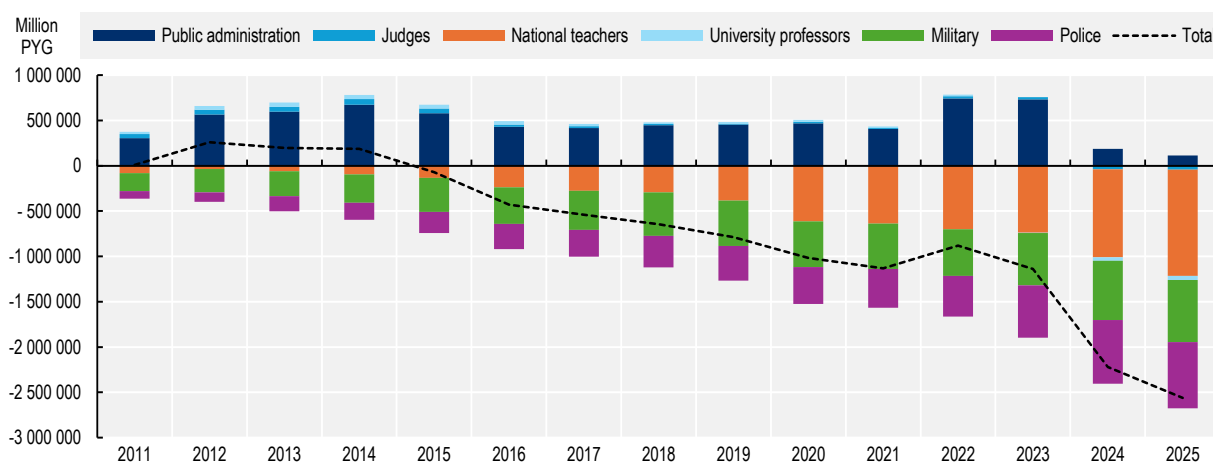
- First, the IPS could consider introducing a partial pension for individuals who reach the statutory retirement age of 65 without having accumulated the minimum 15 years of contributions. Access to such a benefit should not preclude eligibility for the non-contributory pension scheme, *Adulto Mayor* (see Box 3.1). While this measure would improve pension coverage and reduce old-age income insecurity, it would also place additional financial pressure on the IPS pension fund.
- Second, to help offset these costs and strengthen incentives for longer contribution histories, the structure of replacement rates could be revised. In particular, replacement rates could be redesigned so that additional contribution years beyond the current 25-year threshold lead to further increases in pension entitlements, with a full replacement rate (100%) reserved for individuals with at least 40 years of contributions.
- Finally, pension contributions could be made gradually compulsory for independent workers, particularly those with higher incomes. These individuals could retain the option to contribute either to the IPS or to a private pension fund, thereby preserving a degree of choice while broadening the contributory base.

The *Caja Fiscal* needs urgent reform for fiscal consolidation²

The *Caja Fiscal* is Paraguay's primary pension scheme for public sector workers, including civil servants, teachers, military personnel, police officers, and judges. The *Caja Fiscal* was established in the early 20th century and underwent a major restructuring with the enactment of Law No. 2345 in 2003. The reform created a more unified pay-as-you-go pension scheme for the public sector workers, standardizing employee contribution rates at 16%. The *Caja Fiscal* is administered directly by the Ministry of Economy and Finance.

The *Caja Fiscal* has been running deficits for more than a decade. Between 2016 and 2022, the financial deficit of the *Caja Fiscal* accounted for approximately 15% of the central government's overall fiscal deficit, representing between 2.2% and 4.5% of tax revenues (Apella and Montt, 2024^[6]). Sub-funds covering public administration, judicial magistrates, and university professors have generally recorded financial surpluses, while those serving national teachers, armed forces, and police personnel have consistently operated in deficit (Figure 3.10). In 2024 and 2025, only the sub-fund for civil servants in the public administration operated with a surplus. The deficit in the national teachers' fund is currently financed from the surplus of other civil funds (e.g. contributions from public administration staff). On the contrary, the deficit of the national police and armed forces funds is financed by general tax revenues (Apella and Montt, 2024^[6]).

Figure 3.10. Fiscal deficit of the *Caja Fiscal*, 2011-2025



Note: The *Caja Fiscal* also comprises three additional special regimes for nurses, doctors and dentists of the MSPBS, which have their own pension parameters.

Source: MEF website, <https://www.mef.gov.py/es/situacion-caja-fiscal>.

The deficit of the *Caja Fiscal* has widened in recent years. In 2024, the deficit of the *Caja Fiscal* amounted to 0.66% of GDP or a quarter of Paraguay's total fiscal deficit (PYG 2 559 903 million in 2025). This outcome is closely linked to the high level of generosity embedded in the system, including relatively early retirement ages, low minimum required contribution periods, replacement rates of up to 100% of previous earnings, and short reference periods used to calculate the reference wage. The most generous schemes tend also to be those experiencing the greatest financial pressures. The absence of employer contributions by the State further exacerbates existing financing challenges.

The financial deficit of the *Caja Fiscal* is projected to increase over time. According to official projections, the reserve fund of the civil servant sub-fund, which covers public administration workers,

judges, teachers and university professors, will be exhausted by 2027. In the absence of a reform, the average annual deficit is forecasted to reach USD 796 million or 1.2% of GDP for the period 2027-2031 (MEF, 2026^[17]). This deterioration is primarily driven by rising pension expenditures, reflecting demographic trends such as increased longevity and a growing number of beneficiaries, while revenue levels remain relatively stable.

A review of pension parameters across the schemes administered by the *Caja Fiscal* points to substantial differences between professional groups, contributing to inequities within the system (Table 3.2). These differences must be understood within their historical context, as they may have emerged through negotiations that encompassed not only pension entitlements but also broader employment benefits, such as wage adjustments. While the analysis presented in this section focuses exclusively on the pension parameters of the *Caja Fiscal* schemes, it is essential to consider the full range of benefits provided to each group while designing reform measures to ensure a comprehensive and equitable approach.

Table 3.2. Pension parameters of the *Caja Fiscal* by professional categories

Eligible group	Retirement age	Minimum contribution years	Replacement rate	Reference wage period
Public administration				
Civil servants	62	20	47% + 2.7p.p. per year	Last 5 years
Nurses and General Services of Care Centres, Midwives	55	25	90%	Last 5 years
Highway Patrol officers	Not required	15	55%	Equivalent to the salary of active personnel
Park Rangers	Not required	30	100%	Not stated
Doctors from all public institutions, Dentists and Biochemists from MSPBS, Psychologists	55	25	90% + 2p.p. per year	Last 3 years
Disabled public service workers	55	20	100%	Last 5 years
National Teachers				
National Teachers	Not required	25-28	83-87%	Last 5 years*
Inclusive Education	Not required	20	87%	Last 2 years
University professors	Not required	25	83%	Last 5 years
Judges	50	24	94%	Last 5 years
National Police	Not required	10	30% after 10 years 100% after 30 years	Equivalent to the salary of active personnel
Military	Not required	15	50% after 15 years 100% after 30 years	Equivalent to the salary of active personnel

Note: The uniform contribution rate to the *Caja Fiscal* is 16% of the employee's salary. *For national teachers, the base salary will be the average of the last five years, unless there were increases in shifts and teaching hours during that period, in which case it will be the average of the last ten years.

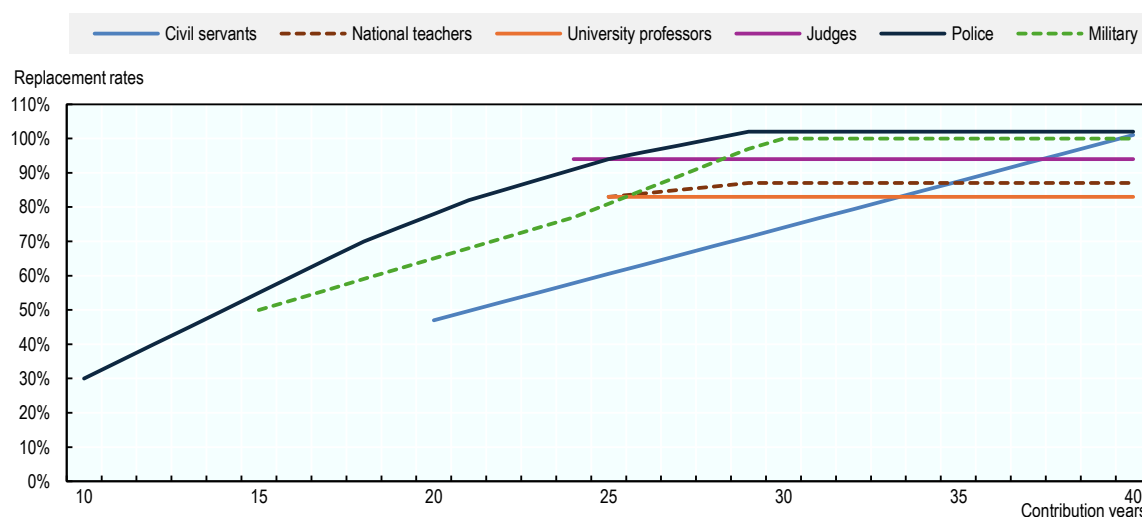
Source: MEF (2025).

Retirement ages under the *Caja Fiscal* are relatively low, and some sub-schemes do not establish a statutory retirement age. The minimum retirement age for receiving a public pension ranges from 50 years for judges to 62 years for civil servants, while no minimum retirement age applies to some professions, including national teachers, university professors, park rangers, patrol officers, police officers and military staff. On average the retirement age is lower than for private sector workers insured under the IPS (60 years). While lower retirement ages for specific occupations – such as military personnel or

workers in physically demanding roles – are common international practice, the absence of a legally defined retirement age is unusual. Combined with relatively generous and largely flat replacement rates, these rules create strong incentives to retire as soon as the minimum contribution period is fulfilled.

Minimum qualifying contribution periods for pension eligibility are low, while replacement rates are generous. Figure 3.11 represents the minimum contribution periods and income replacement rates for the sub-schemes of the *Caja Fiscal*. Most pension schemes provide replacement rates exceeding 80% of previous earnings after only 25 years of contributions. The civil servants' scheme is the only scheme where replacement rates increase with additional contribution years, creating incentives to work longer. A replacement rate of 100% is only reached after 40 contribution years under this scheme. As mentioned earlier, in OECD countries, net pension replacement rates from mandatory schemes are about 63% for the average earner. Another indicator to compare the generosity of the schemes is the return-on-contributions ratio. In the *Caja Fiscal*, the minimum return is observed for central administration workers who retire at age 62 (a return of 1.6) and the maximum for judicial magistrates who retire at age 50 (a return of 4.5). For police and military staff retiring at age 50 after 30 contribution years, the pension return is about 4. To set incentives to work longer and contribute more years, the other *Caja Fiscal* schemes could introduce replacement rates that increase in contribution years and penalise early retirement. In line with such a reform, the legal retirement ages need to be adapted and harmonised as much as possible.

Figure 3.11. Replacement rates and contribution years by sub-scheme of the *Caja Fiscal*



Note: The presented replacement rates may apply at different ages, as official retirement ages vary across the Cajas or are undefined for some Cajas. The police and military personnel both reach replacement rates of 100% but are plotted slightly displaced for better visualisation.

Source: OECD based on data provided by MEF.

Box 3.2. Policy recommendations on contributory pensions

General recommendations:

- Reduce fragmentation within the public sector pension system and promote more uniform treatment across sub-*cajas*.
- Ensure the sustainable financing of the pension system across schemes.
- Introduce incentives to extend working lives beyond the statutory retirement age by providing larger increases in replacement rates for additional years of contribution.

IPS pension fund:

- Set incentives to contribute:
 - Consider introducing a partial pension arrangement for individuals who do not meet the minimum contribution period, while gradually withdrawing the *Adulto Mayor* social pension as contributory pension benefits increase.
 - Allow for voluntary/subsidised contributions during periods of formal job loss for a limited duration, drawing on international experience such as Thailand.
- Adjust replacement rates downward, while allowing for increased pension replacement rates for contribution years beyond 25.
- Consider gradually extending mandatory coverage to high-income independent workers in liberal professions, while allowing them to choose between contribution to the IPS pension fund or to an approved private pension scheme.

Caja Fiscal:

- Gradually increase the reference period used for pension calculations to at least 10 years, in line with the parameters introduced under the recent IPS reform.
- Harmonise minimum qualifying contribution periods and replacement rate parameters across the different sub-*cajas* to reduce fragmentation and improve horizontal equity.
- Consider introducing an employer contribution rate in the public sector to reduce reliance on general government revenues to finance the deficit of the *Caja Fiscal*.
- Introduce and, to the extent possible, standardize statutory retirement ages across the different *cajas*.

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Notes

¹ The pension fund CAJUBI is a defined-contribution schemes since January 2024 (Resolution RCA-018/2023).

² This section was drafted prior to the approval of the reform to the *Caja Fiscal* enacted through Law 7633/26. The reform introduced minimum retirement ages for workers in sectors that previously had no statutory retirement age requirements. It also increased the minimum number of contribution years and introduced higher employee contribution rates in specific sectors whose sub *cajas* were facing financial deficits. Moreover, the reform included the introduction of an employer contribution paid by the state and standardised the calculation rule across public sector professions by requiring the use of at least the average earnings over the last five years as the reference wage for pension calculations, and established incentives for later retirement. The measures included in the reform represent an important step towards restoring financial sustainability reducing reliance on general tax revenues and strengthening incentives to remain in work. They are broadly aligned with the recommendations set out in this report.

4 Costs and poverty impact of expanding social assistance

This chapter reviews Paraguay's main social assistance programmes, with a focus on design, coverage, targeting performance and fiscal costs. It examines three flagship programmes – *Tekoporã*, *Adulto Mayor*, and *Hambre Cero* – and analyses reform scenarios to enhance poverty reduction and cost-effectiveness. The chapter also presents detailed costing of the proposed reform options.

Social assistance programmes in Paraguay face coverage gaps and low benefit adequacy

Tekoporã is Paraguay's main conditional cash transfer programme, designed to reduce poverty and vulnerability among beneficiary households. The programme combines direct income support with family and community-based support services delivered by field staff. It targets families identified as monetary or multidimensionally poor (Box 4.1) and provides additional allowances for children, pregnant women, older persons without pension entitlements, and persons with disabilities.

Adulto Mayor is a non-contributory social pension that guarantees a minimum income for Paraguayans aged 65 and over who are not covered by contributory pension schemes. Persons with severe disabilities can access the benefit from the age of 60 while indigenous people are eligible from age 55. The transfer is equivalent to 25% of the minimum wage.¹

Hambre Cero is a national school meals programme that provides free meals in public schools and some subsidised private schools² with the objective of ensuring that all children in *initial* and primary schools have access to adequate nutrition during the school day. The programme also covers middle schools in the regions *Central*, *Capital* and *Presidente Hayes*. In public schools, coverage rates are 97% in *initial* education, 95% in basic education, and 19% in middle education, with a total coverage rate of 81% of enrolled children. Meals are provided for approximately 180 school days per year. The programme also supports formalisation by requiring contracted service providers to employ *Tekoporã* beneficiaries as formally registered workers.

Table 4.1. Main characteristics of social assistance programmes

Selected social assistance programmes in Paraguay, 2024 or latest year available

Programme	Description	Coverage	Targeting criteria		Benefit amount PYG	Costs billion PYG
<i>Tekoporã</i>	<i>Tekoporã</i> is a conditional cash transfer programme that supports poor and vulnerable families, the programme provides socio-family and community guidance, including field staff support, training, and community leadership initiatives.	200 030 families receive cash transfers, 77 551 families receive guidance	Monetary and/or multidimensionally poor	Family Food Allowance	112 500 (1 per family)	306
				Children/Adolescents (0–18 years)	50 000 (up to 4 household members)	
				Pregnant women	50 000 per woman	
				Older adults (65+ without <i>Adulto Mayor</i>)	50 000 per person	105
				Person with mild disability	50 000 per person	
				Person with severe disability	187 500 (up to 2 household members)	
				Indigenous family bonus (one-time)	281 250 (1 per family)	101
<i>Adulto Mayor</i>	Social pension	324 661 adults	Those aged 65 or above without a contributory pension		25% of the minimum wage	2 700

<i>Hambre Cero</i>	School meals	Public schools: 1 226 890; Coverage rates: 97% in <i>initial</i> education, 95% in basic education, 19% in <i>media</i> education (81% in total). Privately subsidised schools: 178 120; Coverage rates: 10% in <i>initial</i> education, 12% in basic education, 6% in <i>media</i> education (11% in total).	Public schools (daycare, primary and certain middle schools) and certain subsidised	1 lunch and 1 breakfast or afternoon snack per day per student	908 in 2024 (project ed 2 089 in 2025).
<i>Tenonderá</i>	Micro-credit programme	7 125 participants received micro-credits, 20 862 participants received capacity building trainings	<i>Tekoporã</i> households	4 000 000	28.5
<i>Asistencia pescadores</i>	Provides a subsidy to fishing households during the closed fishing season (<i>veda pesquera</i>)	4 491 fishermen	Monetary and/or multidimensionally poor	...	6.7
<i>Tekoha</i>	Supports poor and extremely poor families by granting legal land titles	1 047 families	Monetary and/or multidimensionally poor	...	
Community kitchens and community centres	Supports food security for vulnerable groups by supplying food and equipment to community kitchens	25 356 people	Monetary and/or multidimensionally poor	...	

Source: Administrative data provided by the Paraguayan Ministry of Social Development (MDS).

***Hambre Cero* operates through a public procurement process.** The government sets reference prices for school meals prior to each tender, and bids submitted by providers cannot exceed these reference prices by more than 5%. Private enterprises compete for contracts lasting two years and are required to have relevant experience. Contracts also include local development requirements: at least 10% of supplies must be sourced from regional farmers and 5% from small local businesses. While firms may be based outside the region, they must maintain a logistics base within 100 kilometers of the delivery area. The financing of the *Hambre Cero* programme through non-tax revenues from Paraguay's two hydropower dams is only secured until 2027, raising concerns about its sustainability and long-term impact.

Paraguay's social assistance programmes extend beyond cash transfers to include training, community-based support, and productive development components (Table 4.1). *Tenonderá*, for example, links micro-credits with capacity-building for entrepreneurship, while *Tekoporã* incorporates community guidance and leadership initiatives.

***Coverage of the programmes remains incomplete*³**

Some of Paraguay's main social assistance programmes are still in the process of being rolled out. For programmes such as *Hambre Cero* and *Adulto Mayor*, the currently modest coverage levels largely reflect their partial implementation rather than shortcomings in eligibility determination alone (see

Chapter 1). As a result, coverage indicators should be interpreted with caution, taking into account both administrative capacity constraints and available fiscal space.

Tekoporã targets poor households, but still fails to reach all those eligible. According to the analysis of the 2024 *Encuesta Permanente de Hogares Continua* (EPHC) survey data, only 17% of eligible families are covered by the programme (Table 4.2).⁴ Nevertheless, the programme has made significant progress in reaching particularly vulnerable groups: for example, coverage among indigenous families reaches 92%. This reflects the government's initial decision to prioritise the rollout of the programme in communities facing the highest levels of poverty and vulnerability. At present, however, no data are available to assess the programme's effectiveness in reaching persons with disabilities.

Table 4.2. Coverage of social assistance programmes

Coverage of selected social assistance programmes in Paraguay, 2024 or latest year available

		Share of <u>total</u> population that benefit	Eligibility rate	Coverage rate (Share of <u>eligible</u> who receive the benefit)	Inclusion error (Share of non- eligible who receive the benefit)	Targeting Accuracy (Share of benefits to eligible)	Leakage (Share of benefits to non-eligible)
<i>Tekoporã</i>	Families (HH-level)	7.8%	28.2%	17%	4%	61%	39%
	Indigenous households (HH-level)	82%	89%	92%	...	...	...
<i>Adulto Mayor</i>		6.9% of individuals	11.1% of individuals	62%	...	...	...
<i>Hambre Cero</i>	Public schools	81%	100%	81%	...	...	...
	Privately subsidised schools	11%	...	...	...	...	...

Notes: Data for *Tekoporã* and *Adulto Mayor* is based on EPHC survey data from 2024 available in INE's website in 2025. Households within this table are defined as people living under the same dwelling. The underlying survey data does not include the departments of *Boquerón* and *Alto Paraguay*, nor indigenous communities. The coverage of *Tekoporã* for indigenous households is calculated using administrative data. There is no data available to calculate the coverage for disabled people under *Tekoporã*. Data for *Hambre Cero* is based on administrative data provided by the MDS from July 2025.

Source: OECD based on (EPHC, 2024^[1]); INE, *Censo Nacional de Población y Viviendas, 2022*; MDS, 2025.

The outreach of *Tekoporã*'s support staff, known as family guides, varies considerably across regions. Family guides provide assistance on issues such as vaccination and school enrolment. As of October 2025, 54% of *Tekoporã* beneficiary families had not been assigned a family guide, pointing to budget constraints in the delivery of complementary support services.

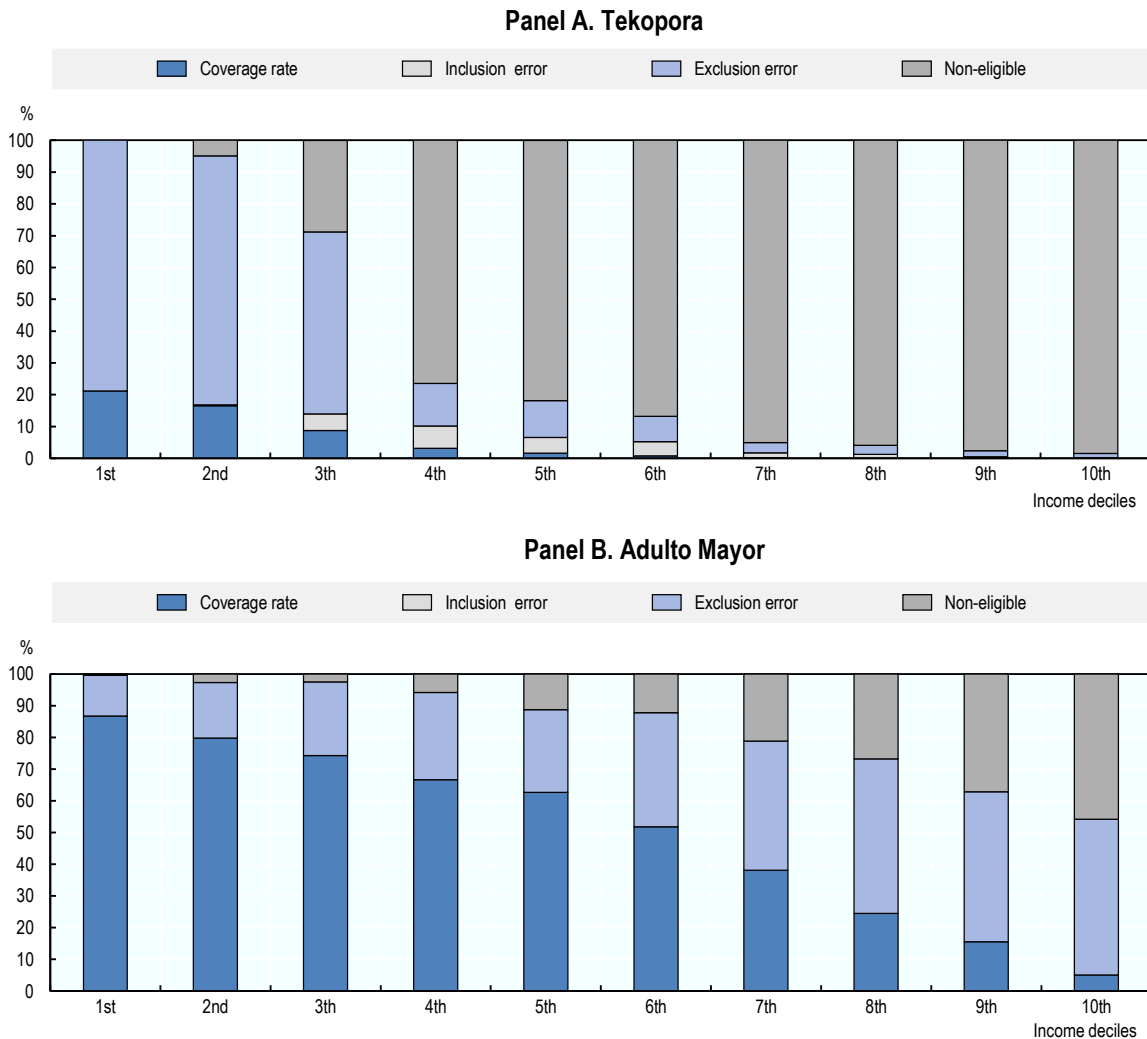
Approximately 40% of beneficiaries receive benefits even though they are not eligible. These so-called inclusion errors mostly occur among families in the middle of the income distribution, particularly those in the fourth to sixth income deciles (Figure 4.1, Panel A). This is likely due to the way households are classified using proxy means tests, which sometimes identifies families as deprived even if they are above the monetary poverty line or are not multidimensionally poor.

***Adulto Mayor* achieves high coverage among poorer old-age adults, with coverage declining steadily as income increases.** In 2024, 62% of the eligible population aged 65 and over was covered by *Adulto Mayor*. Coverage exceeds 85% in the first income decile and remains close to 80% in the second income decile, before declining progressively across higher income deciles (Figure 4.1, Panel B). This

pattern reflects the programme's rollout strategy, which initially prioritised enrolment among the poorest older adults.

Figure 4.1. Coverage rates and targeting errors in *Tekoporã* and *Adulto Mayor* by income decile

Coverage rates and targeting errors by income decile, 2024



Notes: *Tekoporã* beneficiaries are considered eligible if they are monetarily or multidimensionally poor. Multidimensional poverty exists – albeit at declining levels – across all income deciles, and thus eligible individuals are also present in the higher income deciles. The rural poverty line corresponds to an income level around the 2nd income decile, while the urban poverty line corresponds to an income level around the 3rd income decile. This explains why some rural households in the 2nd income decile are classified as non-poor, while urban households in the 3rd income decile may still be considered poor. Eligibility for *Tekoporã* is determined based on income before transfers. If transfers lift a household out of poverty, this is not classified as an inclusion error. *Adulto Mayor*'s coverage rates are shown for individuals aged 65 and over and does not include indigenous or disabled people who are eligible for the programme at lower ages. The data do not include the departments of *Boquerón* and *Alto Paraguay*, indigenous communities, collective housing and live-in domestic workers. Source: OECD based on (EPHC, 2024^[1]).

The *Adulto Mayor* and *Hambre Cero* programmes are not subject to income-related inclusion errors, as they are not means-tested programs. *Adulto Mayor* is designed as a universal programme and, as such, its coverage extends beyond poor households. Among individuals aged 65 and over who

meet *Adulto Mayor*'s eligibility criteria, only around 13% are classified as multidimensionally poor. Similarly, *Hambre Cero* also extends to households that are not necessarily poor. Its benefits are tied to school enrolment and apply to both public and certain subsidised private schools, thereby covering families across the income distribution. Exclusion remains a challenge as well, in part because the programme is still being rolled out, leaving a significant share of children in middle school without coverage (Figure 4.2).

Box 4.1. Targeting framework under *Tekoporã*

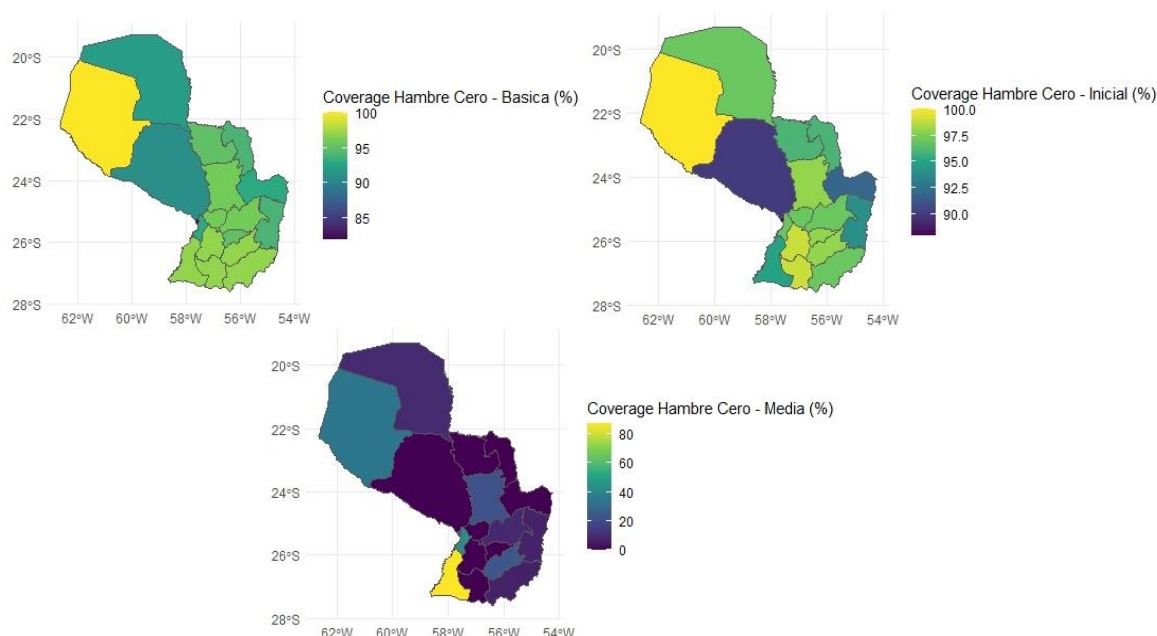
The Ministry of Social Development (MDS) applies a sequential targeting process to determine eligibility for *Tekoporã*. The first stage relies on a geographic filter, whereby communities are selected based on the concentration of poverty, using a combination of monetary poverty and multidimensional poverty indicators derived from the nationally representative household survey (EPHC). Once a community is selected, field teams conduct household visits to collect detailed information using a registration questionnaire. The variables included in this form are selected based on their predictive power for household income in the EPHC, consistent with a proxy-means testing methodology.

The household assessment questionnaire collects a broad set of variables used as proxies for income and living standards. These include 15 questions on housing conditions (such as the type of walls, floor, roof, and access to water and sanitation), 20 questions on ownership of durable goods and services (ranging from refrigerators and vehicles to internet access and waste disposal) and approximately a dozen questions on household composition, education, and work status. In total, the form incorporates more than 50 variables to construct a comprehensive profile of household living conditions. These data are processed through a Proxy Means Test to estimate household income and assess multidimensional poverty, enabling the classification of households as poor or non-poor in the absence of reliable income information.

Eligibility is cross-checked against social security records. Prior to enrolment in *Tekoporã*, the MDS coordinates with the social security institution (IPS) to verify whether household members hold formal employment or receive pensions. This verification aims to prevent the inclusion of households with formal incomes exceeding the programme's eligibility threshold.

Source: MDS.

Coverage of the *Hambre Cero* programme varies across regions and school cycles (Figure 4.2). In July 2025, coverage in *Inicial* and *Básica* schools was close to universal, exceeding 90% in all regions except for Asunción. By contrast, coverage in *Media* schools remains limited, reaching only 19%, with several regions not yet covered. These differences reflect the phased roll-out strategy adopted by the MDS, which prioritised *Inicial* and *Básica* schools before extending the programme to *Media* education. While coverage within each school cycle shows relatively limited regional variation, disparities are notably larger for *Media* schools, where implementation has not yet been completed, except for the regions *Central*, *Capital* and *Presidente Hayes*. Coverage of subsidised private schools is also currently concentrated in a small number of regions (e.g. *Boquerón*, *Alto Paraguay* and *Ñeembucú*), where the availability of public schools is particularly low.

Figure 4.2. Coverage rates of *Hambre Cero* programme by region and school cycle, 2025

Note: The maps show the regional distribution of students in public schools (*Básica, Inicial, Media*) benefitting from the *Hambre Cero* programme. Source: OECD based on administrative records.

Programmes are effective in reducing poverty

Paraguay's social assistance system achieves a modest reduction in monetary poverty and inequality. Overall, existing programmes reduce poverty by 4.5 percentage points and inequality by 1.6 Gini points, closing approximately one quarter of the pre-transfer poverty gap (PGE) (Table 4.3). Around one-third of total transfers contribute directly to reducing the poverty gap (PRE), while 45% of social spending reaches households that are poor prior to transfers, as measured by vertical expenditure efficiency (VEE).

Table 4.3. Distributive impacts of selected social assistance programmes

Distributive impact of selected social assistance programmes in Paraguay, 2024

	Poverty gap estimate (PGE)	Poverty reduction efficiency (PRE)	Vertical expenditure efficiency (VEE)	Spillover	Reduction in poverty rate (p.p.)	Inequality reduction (Gini points)
<i>Tekoporã</i>	3%	49%	54%	8%	0.38	0.19
<i>Adulto Mayor</i>	16%	33%	47%	30%	3.34	1.06
<i>Hambre Cero</i>	6%	31%	34%	10%	0.72	0.38
All	24%	33%	45%	26%	4.47	1.62

Note: The poverty gap estimate (PGE) measures the proportion of the total pre-transfer poverty gap that is filled (or eliminated) by social transfers. It captures the extent to which transfers reduce the depth of poverty among those who were poor before receiving transfers. The poverty reduction efficiency (PRE) measures the share of total transfers that reduces the poverty headcount by lifting individuals above the poverty line. Vertical expenditure efficiency (VEE) measures the proportion of total programme spending that is received by households who were poor before transfers. Spillover measures the share of transfers received by pre-transfer poor households that exceeds the amount required to close their poverty gap (i.e. transfers that raise beneficiaries above the poverty line), based on Beckerman (1975^[2]).

Source: OECD based on (EPHC, 2024^[1]).

***Adulto Mayor* has the largest impact on reducing monetary poverty, reflecting its comparatively large budget and broad beneficiary coverage.** The social pension programme lowers poverty by 3.34 percentage points and inequality by 1.06 Gini points and closes about 16% of the pre-transfer poverty gap (PGE).

The distributive impact of *Hambre Cero* is increasing as the programme scales up. The present analysis relies on 2024 data, when approximately 360 000 students benefited from school meals. Coverage expanded substantially in 2025, reaching more than one million children, around 72% of all students enrolled in public and private schools. As a result, poverty-reduction effects estimated on the basis of 2024 data are likely to underestimate the programme's current impact. Simulations suggest that extending coverage to all publicly enrolled students would more than triple the programme's poverty-reducing effect, while modestly improving spending efficiency, as a larger share of resources would accrue to poorer households.

***Tekoporã* is the most efficient programme in terms of reducing poverty and inequality, despite its relatively limited overall impact.** *Tekoporã* delivers the largest reduction in the poverty gap, estimated at 49%. However, its aggregated effects are constrained by modest budget allocations and limited coverage, resulting in a reduction in poverty by only 0.38 percentage points and inequality by 0.19 Gini points.

Within *Tekoporã*'s transfer components, the additional child benefit and the basic family benefit are the most effective in reducing poverty. Transfers directed to children exhibit the highest efficiency in reaching poor households, while the family benefit plays an important role. By contrast, the additional transfer to older adults has only a limited direct impact on poverty reduction, reflecting the fact that households with older beneficiaries are, on average, less likely to be among the poorest segments of the income distribution. Poverty rates rise with household size, particularly among families with multiple children. This pattern suggests that reforms, such as increasing the child allowance or shifting from a flat family transfer to a per-person family allowance, could yield larger gains for households at the bottom of the income distribution.

***Tekoporã* faces trade-offs between efficiency and inclusion that are common in targeted social assistance programmes.** Targeted programmes are generally the most cost-efficient instrument for reducing poverty and inequality. However, increasing the precision of targeting criteria also raises the risk of exclusion errors, particularly for households located just above eligibility thresholds. Conversely, expanding the programme to reach a broader share of the vulnerable population inevitably increases inclusion errors, as a higher number of non-poor households become beneficiaries. Evidence suggests, nevertheless, that most ineligible but beneficiary households are not well-off; rather, they tend to be clustered just above the monetary poverty line and are likely to experience forms of multidimensional poverty. Striking an appropriate balance between inclusion and exclusion errors in poverty-targeted programmes is ultimately a policy choice for national authorities. This decision should take into account not only administrative capacity and feasibility, but also the presence and adequacy of well-funded and widely rolled-out categorical programmes, which can help mitigate the adverse consequences of exclusion by reaching a substantial share of the poor, particularly in contexts such as Paraguay, where poverty remains closely linked to lifecycle-related vulnerabilities.

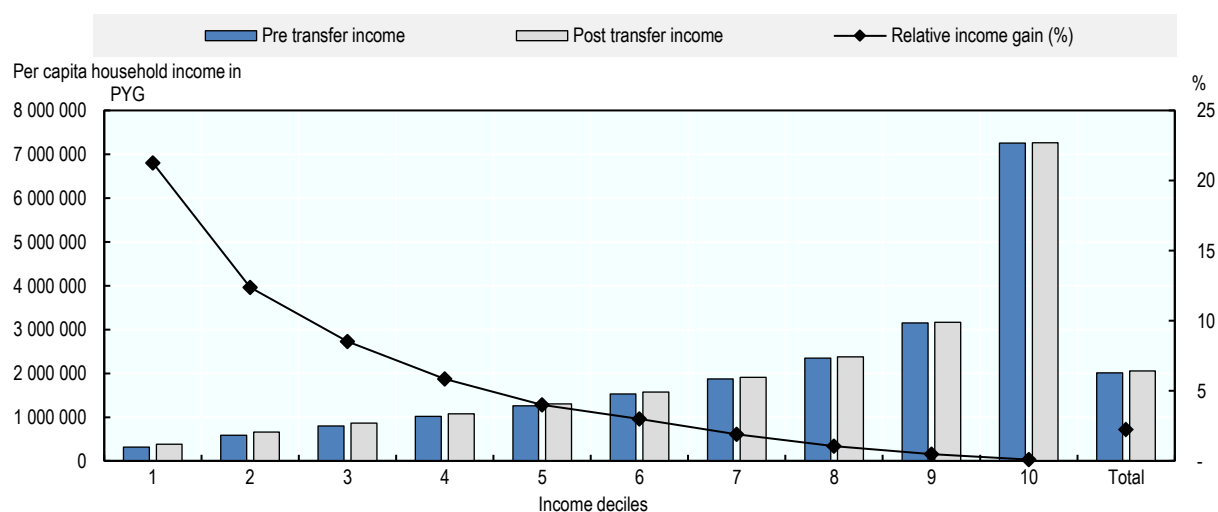
Categorical programmes with broad coverage, such as *Adulto Mayor* and *Hambre Cero*, have a significant impact on poverty reduction despite being less efficient. Assessing these programmes solely through efficiency metrics understates their broader role, as their scale delivers the largest aggregate reductions in poverty and inequality and generates tangible benefits for a wide share of the population. For Paraguay, an effective social assistance system is therefore likely to combine these complementary approaches: broad, categorical programmes that provide basic income security for population groups without a labour-market substitute, including children, older persons and people with

disabilities, alongside targeted, poverty-focused programmes such as *Tekoporã* to reach households who fall outside categorical eligibility yet remain poor.

As expected, lower-income households benefit the most from social assistance transfers. The largest income gains accrue to households in the bottom income decile with an increase in monthly income of around 21%. Gains amount to 12% and 9% in the second and third deciles, respectively (Figure 4.3). By contrast, the impact declines markedly at higher income levels, with income gains falling to 3% or less from the sixth decile onward.

Figure 4.3. Pre and post transfer average household income

Pre and post transfer average monthly household income measured as absolute and relative income gains



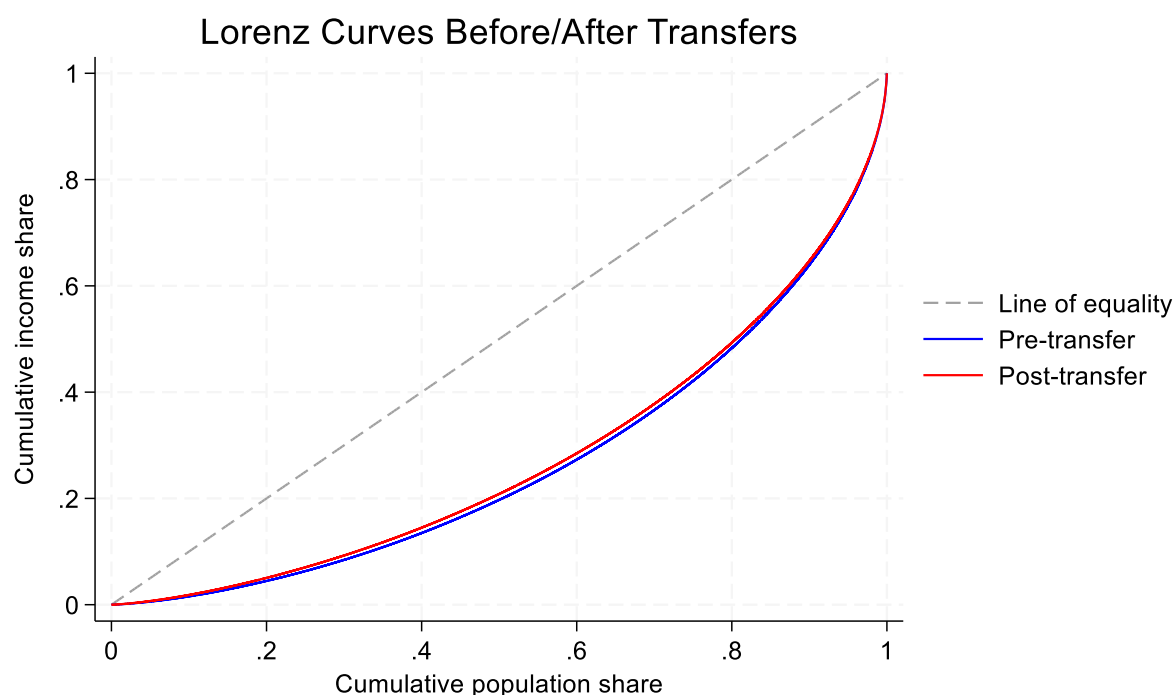
Notes: Bars indicate the average monthly per capita household income before and after transfers received through the social assistance programmes *Tekoporã*, *Hambre Cero* and *Adulto Mayor*. The line graph measures the relative income gains expressed in percent. Results reflect only first-round, static impacts of the social assistance transfers; behavioural responses, multiplier effects, or broader general equilibrium impacts are not considered.

Source: OECD based on (EPHC, 2024^[1]).

Social assistance programmes reduce overall inequality slightly by providing proportionally larger income gains for poorer households. On average, social transfers increase household income by around 2% across the population, with these gains concentrated almost entirely among the bottom three income deciles. This result is reflected in a post-transfer Lorenz curve that shifts slightly closer to the line of equality, indicating a narrowing of income disparities (Figure 4.4). While households in the top income decile experience virtually no change in income after transfers, the bottom 30% record meaningful improvements. However, given that middle- and higher-income households account for a large share of total income, changes in their incomes exert a stronger influence on the Gini coefficient than relatively small gains at the lower end of the distribution.

Figure 4.4. Lorenz curve

Income distribution before and after the transfer of selected social assistance programmes, 2024



Note: The Lorenz curve presents the distribution of income within a population, showing the proportion of total income earned (vertical axis) by cumulative percentages of the population (horizontal axis). Results reflect only first-round, static impacts of social assistance transfers. Behavioural responses, multiplier effects, or broader general equilibrium impacts are not considered. The selected social assistance programmes include *Tekoporã*, *Hambre Cero* and *Adulto Mayor*.

Source: OECD based on (EPHC, 2024^[1]).

Selected social assistance reform scenarios

Significant improvements in Tekoporã's coverage and design can be achieved at a moderate cost

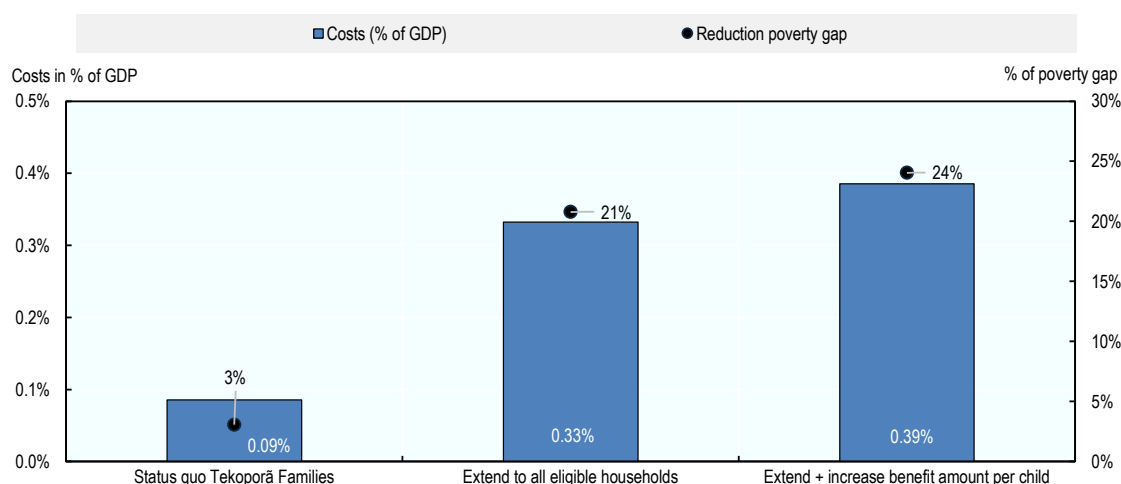
Tekoporã faces challenges related both to coverage, with gaps in reaching all eligible households, and to benefit adequacy. This section analyses the cost and poverty impact of the following reform scenarios:

- Extending the programme to all eligible households using the current benefit amounts.
- Extending the programme to all eligible households, increasing the amount per child to PYG 70 000.
- Increasing the basic family allowance to PYG 200 000 for families currently receiving benefits.
- Increasing the additional amount per child to PYG 70 000 for families currently receiving benefits.
- Removing the limit on the number of children per household for families currently receiving benefits.
- Modifying the basic family allowance to PYG 50 000 per person.
- Analysing the cost of assigning a family guide to all families currently receiving benefits.
- Extending the programme to all eligible indigenous households

Extending *Tekoporã* to all eligible households would cost 0.33% of GDP and could reduce the poverty gap by 21%. In 2024, expenditure on the *Tekoporã* programme amounted to 0.09% of GDP (Figure 4.5). Extending coverage to all eligible households would increase costs to about 0.33% of GDP, rising further to around 0.39% of GDP if the child allowance were increased to PYG 70 000. At present, *Tekoporã* reduces the poverty gap by 3%, while an extension to all eligible households would decrease the poverty gap by 21%, or by 24% if the child allowance were also increased.

Figure 4.5. Total cost and poverty gap reduction from selected *Tekoporã* expansion scenarios

Cost (as a share of GDP) and pre-transfer poverty gap reduction (in percent) for the status quo and selected *Tekoporã* expansion scenarios



Notes: The status quo cost refers to costs of benefits to *Tekoporã* families in 2024 based on administrative records. Disability benefits and costs of *Tekoporã* for indigenous households are not included in the analysis. Results reflect only first-round, static impacts of transfers. Behavioural responses, multiplier effects, or broader general equilibrium impacts are not considered.

Source: OECD based on EPHC (2024^[1]) and administrative records.

Increases in *Tekoporã* benefit levels could be achieved at low fiscal cost. Policy options such as increasing the family or child allowance, or removing the cap on child benefits, would raise expenditure by less than 0.1% of GDP at current coverage levels (Table 4.4). However, once *Tekoporã* coverage is expanded, the budgetary impact of these measures would increase by around four to five times.

Expanding the number of family guides across regions and extending *Tekoporã* to all eligible indigenous households would entail negligible fiscal costs, even at higher coverage levels. Ensuring that all beneficiary households are supported by family guides – based on a minimum ratio of one guide per 150 families – would increase programme expenditure by an estimated PYG 31 000 million, equivalent to less than 0.01% of GDP.

Table 4.4. Additional costs of *Tekoporã* reform scenariosAdditional costs for *Tekoporã* reform scenarios as a share of GDP

Reform scenarios	Additional costs of the reform scenario at the current coverage level	Additional costs of the reform scenario at full coverage level, assuming no further leakage	Additional costs of the reform scenario at full coverage level with same leakage rate or inclusion error
1) Expansion to all eligible households	-	0.25%	0.36%
2) Extend to all eligible households and raise child allowance to PYG 70 000	-	0.30%	0.42%
3) Raise the basic family allowance to PYG 200 000	0.04%	0.37%	0.44%
4) Raise child allowance to PYG 70 000	0.02%	0.08%	0.11%
5) Remove the 4-child cap for receiving a child allowance	<0.01%	<0.01%	<0.01%
6) Replace the basic family allowance with per-person allowance (PYG 50 000)	0.02%	0.1%	0.08%
7) Expand the number of family guides	-	<0.01%	<0.01%
8) Expand <i>Tekoporã</i> to all eligible indigenous households	<0.01%	<0.01%	<0.01%

Notes: Costing scenarios 1 to 5 do not account for households with indigenous people or families with persons with disabilities. Results reflect only first-round, static impacts of transfers. Behavioural responses, multiplier effects, or broader general equilibrium impacts are not considered. The current leakage rate or share of beneficiaries that are not eligible under *Tekoporã* is 39%.

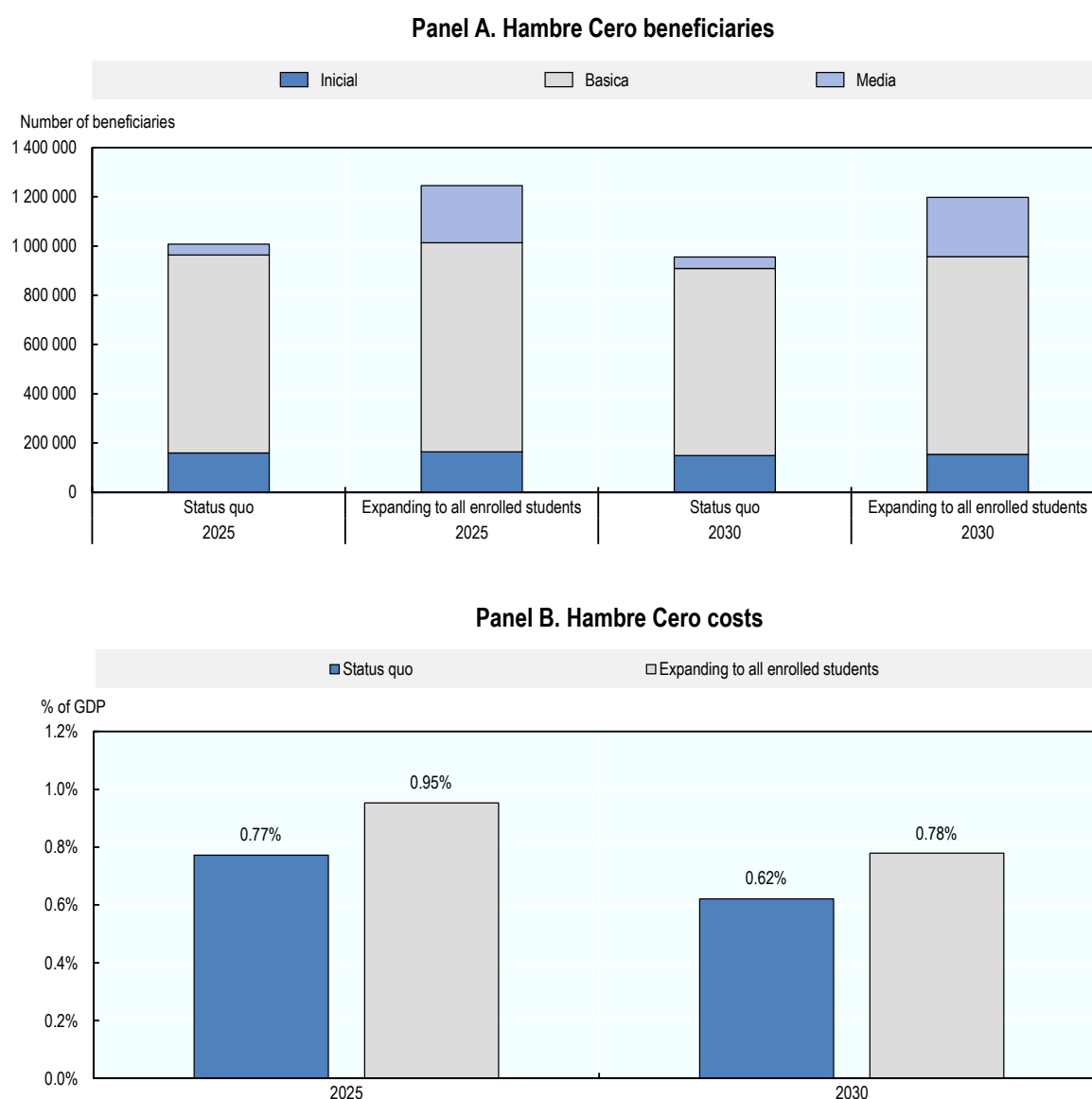
Source: OECD based on EPHC (2024^[1]) and administrative records.

Extending *Hambre Cero* to all middle school students would entail a relatively modest fiscal cost, while delivering a meaningful reduction in poverty among households with children

Expanding the *Hambre Cero* programme to all students enrolled in public basic and middle schools would cost an additional 0.2% of GDP. *Hambre Cero* costs were projected to reach 0.8% of GDP in 2025. Extending the programme to all enrolled students would increase costs to 1.0% of GDP (Figure 4.6, Panel B). By 2030, the number of school-age children eligible for *Hambre Cero* is projected to decline slightly, reflecting reductions in fertility rates (Figure 4.6, Panel A). While programme costs are projected to increase in nominal terms by 2030 as a result of inflation, expenditures are expected to remain broadly stable as a percentage of GDP under both scenarios considered, at around 0.6% and 0.8% of GDP, respectively.

Figure 4.6. Assessing the fiscal costs of scaling up *Hambre Cero*

Number of beneficiaries and costs as a share of GDP for selected expansion scenarios, 2025 and 2030



Note: Two reform scenarios are presented for the years 2025 and 2030. The status quo scenario assumes that *Hambre Cero* coverage remains constant at 2025 levels for the different school types. The second scenario assumes that *Hambre Cero* is extended to all publicly enrolled students in *media* school, while keeping the share of private subsidized school students constant. Enrolment rates are assumed to remain constant. Results reflect only first-round, static impacts of transfers. Behavioural responses, multiplier effects, or broader general equilibrium impacts are not considered. GDP is expressed in current prices.

Source: OECD calculations using administrative records.

***Hambre Cero* is effective in reducing both poverty and inequality.** Even during its rollout phase in 2024, the programme is estimated to have closed around 6% of the national poverty gap and reduced poverty by almost one percentage point (Table 4.5). Simulation results indicate that, once full coverage of students enrolled in public schools is achieved, the programme's poverty-reducing impact could more than triple, with a modest improvement in spending efficiency. Extending coverage to students in both public and privately subsidised schools would yield similar results. The results highlight that – although *Hambre*

Cero is not an income means-tested programme – its broad reach among low-income households makes it an effective and efficient instrument for reducing poverty among families with children. Further reductions in child poverty would depend on the expansion of *Tekoporã* or the introduction of a universal family transfer.

Table 4.5. Distributive impacts of *Hambre Cero* expansion scenarios

Distributive impacts of expansion scenarios on poverty and inequality, 2024

	Poverty gap estimate (PGE)	Poverty reduction efficiency (PRE)	Vertical expenditure efficiency (VEE)	Spillover	Poverty Reduction (p.p.)	Inequality Reduction (Gini points)
Status quo	6%	31%	34%	10%	0.72	0.38
All public enrolled students	22%	38%	42%	8%	2.6	1.5
All public and privately subsidized enrolled students	23%	36%	4%	9%	2.7	1.6

Notes: The status quo estimates refer to 2024 figures, when *Hambre Cero* was still in a roll-out phase. Enrolment rates are assumed to remain constant. Results reflect only first-round, static impacts of transfers; behavioural responses, multiplier effects, or broader general equilibrium impacts are not considered. The poverty gap estimate (PGE) measures the proportion of the total pre-transfer poverty gap that is filled (or eliminated) by social transfers. It captures the extent to which transfers reduce the depth of poverty among those who were poor before receiving transfers. The poverty reduction efficiency (PRE) measures the share of total transfers that reduces the poverty headcount by lifting individuals above the poverty line. Vertical expenditure efficiency (VEE) measures the proportion of total programme spending that is received by households who were poor before transfers. Spillover measures the share of transfers received by pre-transfer poor households that exceeds the amount required to close their poverty gap (i.e. transfers that raise beneficiaries above the poverty line).

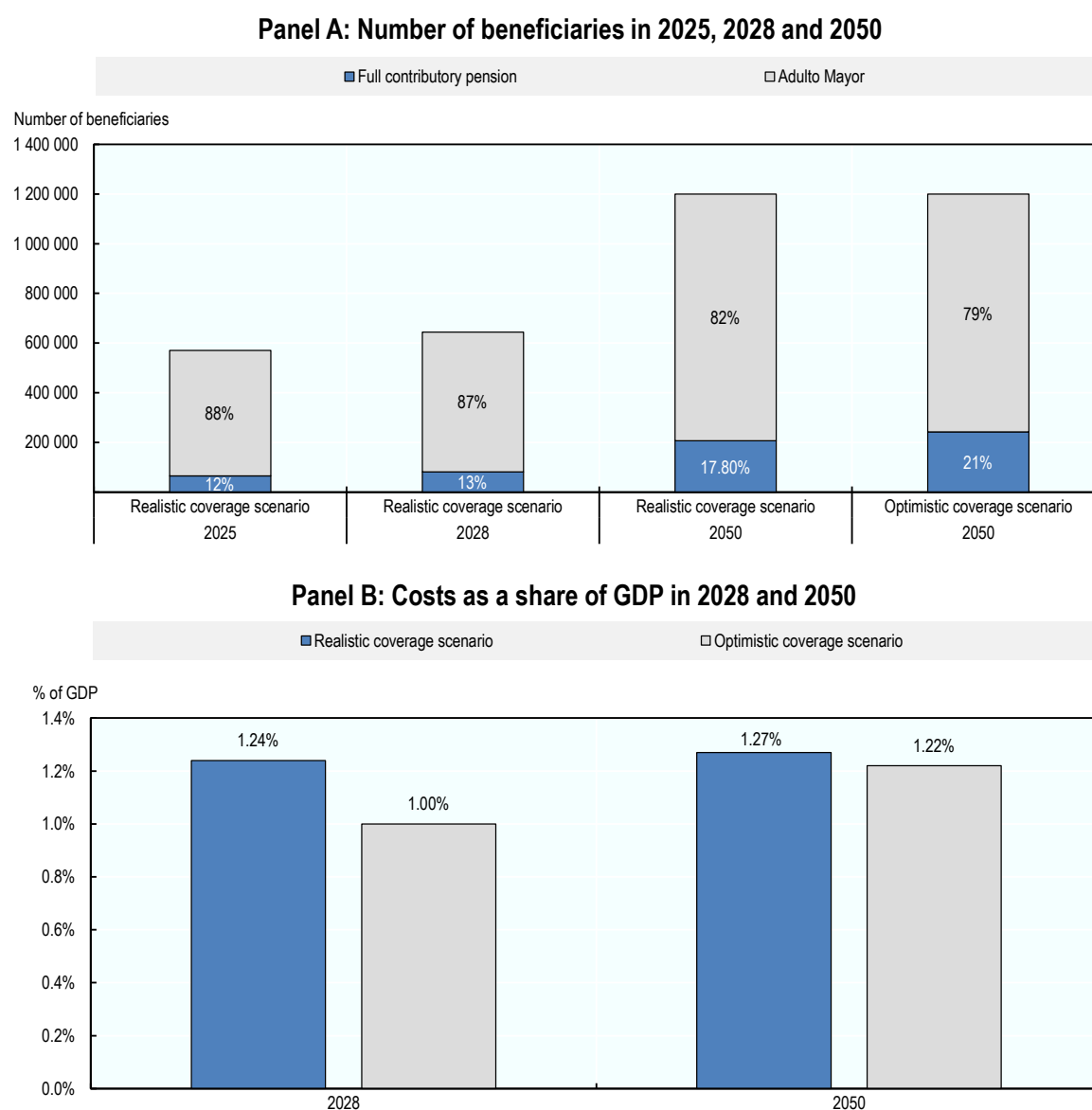
Source: OECD based on EPHC (2024^[1]) and administrative records.

Adulto Mayor is expected to remain the primary source of income support for older adults over the coming decades

Expenditure on *Adulto Mayor* is projected to increase from 0.8% of GDP in 2025 to between 1.0 and 1.2% of GDP by 2028, and to 1.2-1.3% of GDP by 2050 (Figure 4.7, Panel B). The largest increase is expected to occur in the *initial* years, reflecting the gradual rollout of the programme. Paraguay is expected to complete the gradual expansion of *Adulto Mayor* to all individuals aged 65 and over by 2028. These projections assume full implementation, with all eligible beneficiaries effectively receiving the transfer. Once full coverage is reached, expenditure growth is expected to slow, driven primarily by population ageing and the associated increase in the number of beneficiaries (Figure 4.7, Panel A). Two scenarios are considered for 2050 with respect to contributory pension coverage among older persons. Under the baseline scenario, the share of individuals aged 65 and over receiving a contributory pension is assumed to rise from 12% in 2025 to 18% by 2050. An alternative, more optimistic scenario assumes that contributory pension coverage reaches 21% by 2050. Under the optimistic scenario the costs of *Adulto Mayor* in 2050 would only be 0.05 percentage points lower than under the realistic coverage scenario (Figure 4.7, Panel B).

Figure 4.7. Costing expansion scenarios for *Adulto Mayor*

Number of beneficiaries and associated costs as a share of GDP for selected expansion scenarios



Notes: The realistic coverage scenario assumes that contributory pension coverage among people aged 65+ increases from 11.8% in 2025 to 17.8% in 2050. This corresponds to an annual increase of 0.48 percentage points in the share of contributors (rising from 23% in 2025 to 35% in 2050). The vesting rate of contributory pensions is assumed to increase from 43% in 2025 to 50% in 2050. The annual GDP growth rate is assumed at 3.5%. The optimistic coverage scenario assumes that contributory pension coverage increases from 11.1% in 2025 to 20.8% in 2050, with faster growth in the number of contributors (+1.0 pp/year, from 23% in 2025 to 48% in 2050) and a higher vesting rate (60%). The scenarios assume the same severe-to-mild disability ratio, where severe disability defined as having multiple disabilities. No disabled or indigenous individuals are assumed to receive contributory pensions and indigenous population growth is assumed equal to total population growth.

Source: OECD calculations using administrative records.

***Adulto Mayor* is expected to remain the main source of old-age income in the coming decades.** Two scenarios are considered for 2050 with respect to the share of the older population receiving a contributory pension. Under both scenarios, the proportion of older adults relying on *Adulto Mayor* rather than a

contributory pension is projected to decline only marginally, from 88% in 2025 to, at best, 79% by 2050 (Figure 4.7, Panel A). While the share of workers contributing to social security has risen gradually over the past decades, these gains have not yet translated into a higher share of old-age adults that are eligible for a contributory pension. Between 2001 and 2022, the proportion of workers contributing to social security rose from around 12% to 22%, yet the share of adults aged 65 and over receiving a contributory pension has remained broadly stable at approximately 15%. This reflects the significant time lag between increases in contributory participation during working life and higher share of contributory pension recipients in old age. Moreover, the rise in contributory participation does not appear to have been accompanied by improvements in contribution density or vesting rates – that is, the share of months in an individual's employment history during which contributions are made. As a result, a large share of workers have not accumulated sufficient contribution histories to qualify for a contributory pension. Consequently, *Adulto Mayor* is expected to remain the main source of income security for the majority of older adults in Paraguay over the coming decades.

A gradual expansion of contributory pensions could reduce the reliance on *Adulto Mayor* over time.

Reforms to the contributory pension system, such as the introduction of partial pensions for workers who do not meet full eligibility requirements (see Chapter 3), could strengthen incentives to contribute and support further formalisation. Allowing contributors to qualify for a partial pension when minimum contribution thresholds are not fully met would increase vesting rates and encourage greater continuity in contribution histories. Over time, such reforms could expand the pool of workers eligible for contributory pensions and gradually reduce dependence on *Adulto Mayor*. However, the effects would materialise only slowly, as sufficient years of contributions are required before workers become eligible for contributory benefits.

Once *Adulto Mayor* has reached full coverage of the eligible population, the programme's poverty-reduction efficiency is expected to gradually decline. In 2024, *Adulto Mayor* reduced poverty among the old age population by 3.3 percentage points (Table 4.6). Once the programme has been rolled out to the entire eligible population, the programme is projected to reduce poverty by 4.1 percentage points. However, additional beneficiaries are increasingly likely to come from higher-income groups, where exclusion errors are less prevalent and the scope for further reductions in the poverty gap is more limited. As a result, while broader coverage will continue to increase aggregate impacts on poverty and inequality, the marginal poverty-reducing return of additional spending is expected to diminish. This pattern is reflected in the decline in the poverty reduction efficiency (PRE) indicator reported in Table 4.6.

Table 4.6. Distributive impacts expansion scenarios *Adulto Mayor*

Distributive impacts expansion scenarios on poverty and inequality for 2024

	PGE	PRE	VEE	Spillover	Poverty Reduction (p.p.)	Inequality Reduction (Gini pts)
Status quo (2024)	0.155	0.329	0.474	0.304	3.3	1.06
All eligible older adults	0.198	0.231	0.347	0.335	4.1	1.24

Notes: The poverty gap estimate (PGE) measures the proportion of the total pre-transfer poverty gap that is filled (or eliminated) by social transfers. It captures the extent to which transfers reduce the depth of poverty among those who were poor before receiving transfers. The poverty reduction efficiency (PRE) measures the share of total transfers that reduces the poverty headcount by lifting individuals above the poverty line. Vertical expenditure efficiency (VEE) measures the proportion of total programme spending that is received by households who were poor before transfers. Spillover measures the share of transfers received by pre-transfer poor households that exceeds the amount required to close their poverty gap (i.e. transfers that raise beneficiaries above the poverty line). Results reflect only first-round, static impacts of transfers. Behavioural responses, multiplier effects, or broader general equilibrium impacts are not considered.

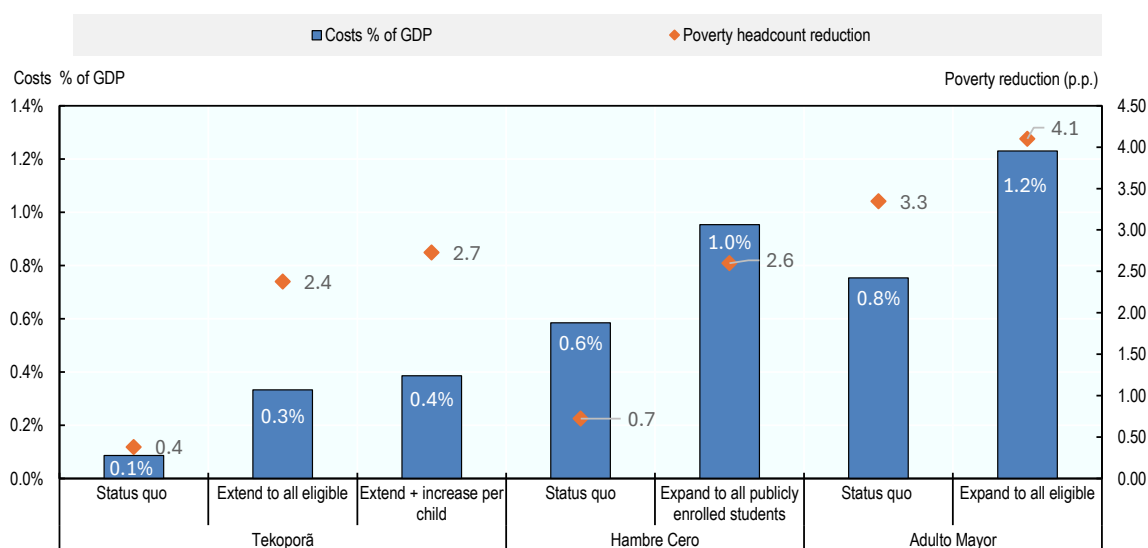
Source: OECD based on EPHC (2024^[1]) and administrative records.

Expanding social assistance coverage would significantly reduce poverty at moderate cost

Extending the coverage of the three main social assistance programmes to their full target populations would entail additional costs of around 1.2% of GDP. Extending coverage of the three programmes to everyone that meets the eligibility requirements would almost double total social assistance spending, from 1.5% of GDP to 2.6-2.8% of GDP. Such an expansion would be associated with substantial reductions in poverty (Figure 4.8) and a significant narrowing of the poverty gap (Table 4.7). *Tekoporã* is the most cost-effective programme in reducing poverty as it targets poor households. However, the reported cost-efficiency indicator in Table 4.7 appears particularly low because the scenario assumes no additional leakage, that is, the programme is expanded exclusively to eligible households. Taken together, these results suggest that combining broad coverage through lifecycle-based categorical programmes with well-targeted transfers focused on the poorest households could enhance both the inclusiveness and the efficiency of Paraguay's social protection system.

Figure 4.8. Costs and poverty-reduction impact of expanding selected social assistance programmes

Costs as a share of GDP and poverty headcount reduction in percentage points



Notes: For *Tekoporã*, two scenarios are displayed: (i) extending the programme to all eligible households without modifying transfer amounts, and (ii) expanding coverage to all eligible households while increasing the child benefit to PYG 70 000. These scenarios only consider households that are non-indigenous and disability benefits are not simulated. For *Hambre Cero*, the scenario of expanding the programme to all eligible students in public pre-schools, primary and middle schools is presented. For *Adulto Mayor*, the scenario of expanding the programme to all eligible population by 2028 is presented. Results reflect only first-round, static impacts of transfers. Behavioural responses, multiplier effects, or broader general equilibrium impacts are not considered.

Source: OECD based on EPHC (2024^[1]) and administrative records.

Table 4.7. Cost effectiveness of expanding social assistance programmes

Programme	Reform scenario	Additional costs as % of GDP	Additional poverty gap reduction	Cost in billion PYG per 1% reduction in total poverty gap
<i>Tekoporã</i>	1) Extend to all eligible	0.25-0.36%	18%	57.2
	2) Extend + increase per child	0.37-0.44%	21%	57.3
<i>Hambre Cero</i>	3) Expand to all publicly enrolled students	0.37%	16%	124
<i>Adulto Mayor</i>	4) Expand to all eligible	0.37%	4%	178
Total	Scenarios 2+3+4	1.1-1.3%		

Note: The range of estimates reported for *Tekoporã* and the total costs reflect a lower-bound estimate assuming no further leakage and an upper-bound estimate, assuming the inclusion error or leakage is maintained at 35% of the beneficiaries. The indicator on the costs per 1% reduction in total poverty gap assumes that there are not additional inclusion errors when extending *Tekoporã*'s coverage. The estimates do not include additional administrative costs.

Source: OECD based on EPHC (2024^[11]) and administrative records.

Box 4.2. Policy recommendations for social assistance

Tekoporã:

- Prioritise the expansion of coverage to all eligible households.
- Increase the number of family guides per region, with a minimum of one guide per 150 beneficiary households.
- Consider parametric reforms to strengthen the poverty-reducing impact of *Tekoporã*, including:
 - Lifting the cap on the number of children per household eligible for benefits.
 - Increasing the levels of the child and basic family benefit.
 - Replacing the flat family benefit with a per-person transfer.
 - Indexing benefits to inflation to preserve their purchasing power.

Adulto Mayor:

- Assess the introduction of a pension design that combines partial contributory pensions with the social pension, with social pension benefits being progressively reduced as contributory entitlements increase (see Chapter 3).

Hambre Cero:

- Expand coverage to all public middle school students.
- Further reductions in child poverty will depend on the expansion of *Tekoporã* or on the introduction of a universal child benefit, or a benefit targeted to children enrolled in public schools.

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- EPHC (2024), *Encuesta Permanente de Hogares Continua de Paraguay*, Instituto Nacional de Estadística (INE) Paraguay, <https://www.ine.gov.py/microdatos/Encuesta-Permanente-de-Hogares-Continua.php>. [1]
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- MTESS (2024), “Boletín Estadístico de Seguridad Social 2024 incorpora valioso comparativo entre las cajas jubilatarias”, <https://www.mtess.gov.py/?p=30115>. [4]

Notes

¹ The minimum wage is PYG 2 899 048 per month as of 1st July 2025.

² Some religiously affiliated subsidised schools – previously covered under the *Programa de Alimentación Escolar (PAE)* – are also included under *Hambre Cero*, though not all receive financing. These schools are often located in regions such as *El Chaco*, where public school provision is limited and where implementation of the earlier PAE programme was inconsistent.

³ In March 2026, the National Institute of Statistics revised the household survey expansion factors for 2022–2025. The analysis in this report is based on the 2024 EPHC microdata released in 2025.

⁴ Estimating the total number of *Tekoporã* beneficiary households using the EPHC faces several limitations that are discussed in Annex 4.A. However, the EPHC is the primary data source for measuring poverty. This study assumes that the estimated share of poor households receiving *Tekoporã* is accurate.

Annex 4.A. Methodology for costing selected reform scenarios for *Tekoporã*

Challenges in the use of household survey data and strategies to overcome them

This annex presents the methodology and costing assumptions underlying the simulated *Tekoporã* reform scenarios. Two main data sources are used: the 2024 EPHC and administrative records provided by the MDS. The household survey is used to simulate reforms that involve expanding programme coverage and to estimate their distributive and poverty impacts. Administrative records from the *Tekoporã* programme are used to cost parametric reforms affecting benefit levels (family allowance, child allowance and per-person transfers), the expansion of family guides, and the extension of coverage to indigenous families.

The EPHC defines a household as individuals residing within the same dwelling which differs from *Tekoporã*'s definition of family, the latter being closer to a nuclear family concept. It is possible to find more than one beneficiary family that live in the same household. However, based on survey responses, this overlap is limited: only 2.5% of beneficiaries reported living in a household with another beneficiary family. The survey has additional limitations, as it does not identify persons with disabilities, and it excludes indigenous communities.

The EPHC underestimates the number of *Tekoporã* beneficiaries. The 2024 EPHC identifies 105 119 families as beneficiaries, whereas administrative records report 187 106 beneficiaries (excluding indigenous people, people with disabilities, and areas not covered by the EPHC survey) as of April 2025. Therefore, it is important to acknowledge that the EPHC does not provide representative coverage of the programme's full target population. To partially address this limitation of survey data, two beneficiaries per household were identified, when the head of household had grandchildren and when there were two women – one adult and another adult aged at least 14 years or older. Using this criterion, 16 348 households in the survey data were reclassified as containing two beneficiary families, increasing the total number of *Tekoporã* families identified through the EPHC to 119 157. The remaining underestimation of beneficiaries using the survey data appears to be primarily due to the exclusion of indigenous families residing in communities not surveyed and, to a lesser extent, families with disabilities who applied independently for benefits but do not live in the geographically prioritized areas of high poverty incidence. For these groups, the costing of achieving full coverage will be carried out separately using data from the Census and other surveys. The EPHC is only used to estimate the cost of extending coverage to poor households, while changes in benefit amounts are costed using administrative data.

The poverty reduction impact and costs of *Tekoporã* were estimated using the survey data. The EPHC reports households that receive *Tekoporã* but also indicates the amount of benefits received. To estimate the poverty reduction effect of *Tekoporã*, the current benefit amounts received were subtracted from household income to construct a counterfactual scenario. The overall programme costs were calculated as the sum of total benefits received by households.

To assess the distributive and fiscal impact of expanding *Tekoporã* coverage, all households classified as either monetarily poor or multidimensionally poor were identified as eligible to receive transfers. Benefits were allocated to eligible households based on household composition: family allowances, child allowances, and old-age allowances (for individuals not covered by contributory pensions). In cases where household composition suggested the presence of two or more families within one household, the family allowance was applied to both, and the cap on child allowances was multiplied accordingly.

Methodology and costing estimates of selected Tekoporã reform scenarios

The reform scenarios considered for *Tekoporã* are the following:

- Extending the programme to all eligible households using the current benefit amounts.
- Extending the programme to all eligible households, increasing the amount per child to PYG 70 000.
- Increasing the basic family allowance to PYG 200 000 for families currently receiving benefits.
- Increasing the additional amount per child to PYG 70 000 for families currently receiving benefits.
- Removing the limit on the number of children per household for families currently receiving benefits.
- Modifying the basic family allowance to PYG 50 000 per person.
- Analysing the cost of assigning a family guide to all families currently receiving benefits.
- Extending *Tekoporã* to all eligible indigenous families.

Scenarios (1 and 2) on coverage extension were simulated using the household survey (Table 4.A.1). In the second scenario, the child allowance was increased from 50 000 to 70 000. In both scenarios, households that were included in the EPHC as beneficiaries – even if not identified as eligible by the survey – were retained in the costing and distributive impact analysis of the reform scenarios.

Annex Table 4.A.1. Costing and poverty reduction impact of *Tekoporã* reform scenarios on coverage extension

Costs in billion PYG or as a share of GDP and reductions in poverty and inequality

Status quo and reform scenarios	Total costs	Additional costs	% of GDP	Additional costs % of GDP	Poverty reduction (p.p.)	% Poverty Gap Reduced	Inequality reduction
Status quo <i>Tekoporã</i> families	306	-	0.09%	0.00%	0.38	3.1%	0.19
1. Extending the programme to all eligible households using current benefit amounts (keeping those households that are already included but technically not eligible).	1 188	881	0.33%	0.25%	2.38	20.8%	0.20
2. Extending the programme to all eligible households (keeping those households that are already included but not eligible), increasing the amount per child to PYG 70 000.	1 378	1 071	0.39%	0.30%	2.73	24.1%	0.23

Note: The survey data do not include indigenous communities.

Source: OECD calculations based on EPHC 2024.

The estimates of scenario 3 on *Tekoporã* expenditures for 2025 are derived from administrative records identifying the number of beneficiary families by department, excluding households with indigenous members or persons with disabilities. For each department, the cost per family was calculated under two benefit levels: the current transfer of PYG 112 500 and a higher family allowance of PYG 200 000.

The costing of scenarios 4 and 5 relies on administrative records of current *Tekoporã* beneficiary families, excluding indigenous communities and households with members with disabilities. These records provide the number of families and their distribution by number of children, allowing for precise estimation of child allowance expenditures. For reform 4, costs were recalculated by increasing the child allowance from PYG 50 000 to PYG 70 000 per child while keeping the current beneficiary base unchanged. For reform 5, the existing cap of four children per family was removed, and costs were recalculated by applying the PYG 50 000 allowance to all children.

The costing of scenario 6 is based on administrative records of current *Tekoporã* beneficiary families, excluding indigenous communities and households with members with disabilities. Under the status quo

situation, the family allowance benefit of PYG 112 500 per family translates into an average benefit of PYG 38 769 per household member, given the average beneficiary family size of 2.9 persons. For the reform scenario, this amount was adjusted to a uniform transfer of PYG 50 000 per person across all family sizes, applied to the total number of individual beneficiaries recorded in the administrative data. This approach captures only the budgetary effect of increasing the per capita family allowance for existing beneficiary families, without considering the expansion of coverage.

The cost of expanding family guides (*guías familiares*, scenario 7) was estimated by comparing current coverage levels of family guides with the number of family guides required to reach all participating households. Each family guide is assumed to effectively accompany at maximum 150 families, depending on the number of beneficiaries in each department. The difference between the number of currently assigned guides and the number required under this assumption yields the number of additional family guides needed in each department. The total additional cost was then calculated by multiplying the number of additional family guides by the average annual remuneration per guide. The resulting additional cost amounts to approximately PYG 30.8 billion, equivalent to 0.009% of GDP.

The costing of expanding *Tekoporã* to all eligible indigenous families (scenario 8) combines administrative data on current programme expenditures for 2025 with population information from *INE's Censo Nacional de Población y Viviendas 2022*. Since the census data precedes the administrative records, the number of indigenous families in 2022 was projected forward to 2025 by applying the average annual population growth rate observed between 2020 and 2024. Poverty rates by department from the census were then applied to estimate the number of indigenous families eligible for the programme. These figures were compared with administrative records on current departmental expenditures to simulate the costs of extending coverage to all eligible indigenous households, using the current benefit amounts (Table 4.A.2).

Annex Table 4.A.2. Cost of expanding *Tekoporã* to all eligible indigenous families by region

Costs in billion PYG

Departments	Indigenous 2022	families	Indigenous 2024	families	Indigenous rate	poverty	Eligible families	Costs quo	status	Annual Costs
<i>sunción</i>		188		204		34.2	70		4	0
<i>Concepción</i>		967		1 049		92.9	974		6	3
<i>San Pedro</i>		1 381		1 498		91.9	1 376		8	5
<i>Cordillera</i>		6		7		14.3	1		0	0
<i>Guairá</i>		545		591		93.6	554		24	2
<i>Caaguazú</i>		3 456		3 748		95.5	3 579		9	12
<i>Caazapá</i>		1 361		1 476		90.9	1 341		4	5
<i>Itapúa</i>		997		1 081		93.2	1 008		13	3
<i>Misiones</i>		12		13		7.7	1		2	0
<i>Paraguarí</i>		50		54		69.1	37		4	0
<i>Alto Paraná</i>		2 650		2 874		89.9	2 584		0	9
<i>Central</i>		943		1 023		42.6	436		2	1
<i>Ñeembucú</i>		9		10		8.0	1		2	0
<i>Amambay</i>		3 919		4 250		97.1	4 125		0	14
<i>Canindeyú</i>		5 053		5 480		86.0	4 711		0	16
<i>Presidente Hayes</i>		7 928		8 598		95.6	8 223		0	28
<i>Boquerón</i>		7 066		7 664		83.2	6 380		22	22
<i>Alto Paraguay</i>		1 318		1 429		90.0	1 287		5	4
Total		37 849		38 887		89	33 841		105	114

Source: OECD calculations based on administrative records.

Annex 4.B. Methodology for costing reform scenarios for *Adulto Mayor*

The projections estimate the future fiscal cost of Paraguay's *Adulto Mayor* social pension as coverage expands to all adults aged 65 and over and demographic ageing accelerates. The costing scenario assumes that the programme's rollout will be fully completed by 2028 and that all eligible older adults will receive the transfer without implementation gaps. The costs are presented in constant prices and as a share of GDP, which is projected to grow annually by 3.5% in real terms. Sensitivity tests were also conducted assuming alternative GDP growth rates of 3% and 4%, showing only modest variation in results.

The projected number of *Adulto Mayor* beneficiaries is driven by demographic change and the gradual expansion of contributory pension coverage. Population projections are derived from the most recent national census data and reflect Paraguay's expected demographic transition through 2050. The model first estimates the share of workers contributing to social security, which is assumed to increase by 0.48 percentage points per year, in line with historical trends observed between 2001 and 2022. The vesting rate – the proportion of contributors who ultimately qualify for a pension – is assumed to be 43% and is taken from ILO estimates (Mont, Schmidlin and Jorquera, 2022^[3]). The vesting rate is projected to increase to 50% by 2025 and remain constant thereafter. These two parameters are used to project the share of the population aged 65 and over that will receive a contributory pension, applying a 20-year lag between contribution and retirement to capture the delay between labour market participation and eligibility for pension benefits. The number of pensioners with contributory pensions is calculated using the yearly publication from the social security office (MTESS, 2024^[4]), which calculates the share of pension beneficiaries above the age of 65 for each pension fund. The number of pensioners is then divided by the total population in 2023 to calculate the coverage rate of contributory pensions.

The share of older adults without contributory pensions determines the potential beneficiary population of *Adulto Mayor*. Multiplying this share by the total population aged 65 and over yields the number of beneficiaries in each year. The benefit amount is held constant in real terms and projected forward using inflation assumptions to preserve purchasing power.

Additional assumptions are made about the evolution of disabled and indigenous people. Individuals with severe disabilities between the ages of 60–64 are assumed not to receive contributory pensions and hence to benefit from *Adulto Mayor*. The ratio of severely to mildly disabled individuals is assumed to remain constant over time, with severe disability defined as having more than one functional limitation. The indigenous population is projected to grow at the same rate as the total population. All indigenous people aged 55–64 are assumed to receive a social pension.

Annex 4.C. Methodology and data for costing reform scenarios for *Hambre Cero*

The analysis on *Hambre Cero* projects the coverage and cost of the programme until 2030 under both the status quo and expansion scenarios. The analysis combines data on demographic projections, school enrolment and administrative records of the programme to estimate the number of beneficiaries and associated costs. The number of potential beneficiaries for *Hambre Cero* is calculated by education level. Children, who attend public or subsidised private schools, are grouped into the following school types: *Inicial* (0–5 years), *Básica* (6–14 years), and *Media* (15–17 years). Demographic projections are used to estimate the total number of children in each age cohort, while enrolment rates are applied to determine the share of children attending targeted schools. The programme coverage is measured by comparing the number of authorised meals to the number of enrolled students at each school level and by department. In the expansion scenarios, these coverage rates are adjusted. Furthermore, unit costs are calculated as the cost per school day at each level, multiplied by 180 school days per year. These costs are applied to the projected number of beneficiaries (Table 4.C.1). Costs are then aggregated across departments and education levels to generate total costs at the national level, which are expressed both in absolute terms and as a share of GDP (Table 4.C.2).

Annex Table 4.C.1. Beneficiaries of *Hambre Cero*

Beneficiaries of *Hambre Cero* by school type, 2025–2030

School type	Enrolled/Covered	Public/private schools	Share of children by age group	2025	2026	2027	2028	2029	2030	
<i>Inicial</i> (0-5)			Age cohort 0-5	605 492	592 703	582 714	576 096	571 033	565 725	
	Enrolled	public	27%	161 955	158 534	155 862	154 092	152 738	151 318	
		subsidised	5%	29 552	28 928	28 440	28 117	27 870	27 611	
		private	5%	28 515	27 913	27 442	27 131	26 892	26 642	
	Covered	public	97%	156 418	153 114	150 534	148 824	147 516	146 145	
		subsidised	10%	3 096	3 031	2 980	2 946	2 920	2 893	
		private	0%	-	-	-	-	-	-	
	<i>Basica</i> (6-14)			Age cohort 6-14	1 002 097	1 000 419	994 055	981 947	965 771	947 654
		Enrolled	public	83%	833 517	832 121	826 828	816 757	803 302	788 233
			subsidised	13%	127 208	126 995	126 187	124 650	122 597	120 297
private			9%	88 858	88 709	88 145	87 071	85 637	84 030	
Covered		public	95%	788 664	787 343	782 335	772 806	760 075	745 817	
		subsidised	12%	14 779	14 754	14 660	14 482	14 243	13 976	
		private	0%							

				-	-	-	-	-	-
<i>Media</i> (15-17)			Age cohort 15-17	315 770	315 687	317 158	320 223	324 578	329 322
	Enrolled	public	73%	231 418	231 357	232 435	234 681	237 873	241 350
		subsidised	7%	21 360	21 354	21 454	21 661	21 956	22 277
		private	15%	47 367	47 355	47 575	48 035	48 688	49 400
	Covered	public	19%	44 975	44 963	45 173	45 609	46 230	46 905
		subsidised	6%	1 283	1 283	1 289	1 301	1 319	1 338

Note: Enrolment rates and coverage rates are assumed to remain constant for the scenario of expanding *Hambre Cero* to all *Media* schools.
Source: OECD calculations using administrative records.

Annex Table 4.C.2. Projected costs of *Hambre Cero* after expansion to public and subsidized middle schools

Costs in billion PGY by school type, 2025-2030

Annual Cost projections (billion PYG)		2025	2026	2027	2028	2029	2030
Inicial (0-5)	public	428	434	442	452	464	476
	y subsidised	8	9	9	9	9	9
Basica (6-14)	public	2 158	2 234	2 299	2 350	2 392	2 429
	subsidised	40	42	43	44	45	46
<i>Media</i> (15-17)	public	123	128	133	139	145	153
	subsidised	4	4	4	4	4	4
Total (billion PYG)	Total	2 761	2 850	2 929	2 998	3 060	3 117
	public	2 709	2 796	2 874	2 941	3 001	3 058
	subsidised	52	54	56	57	58	59
% of GDP		0.77%	0.75%	0.72%	0.68%	0.65%	0.62%

Note: Enrolment rates and coverage rates are assumed to remain constant for the scenario of expanding *Hambre Cero* to all *Media* schools.
Source: OECD calculations using administrative records.

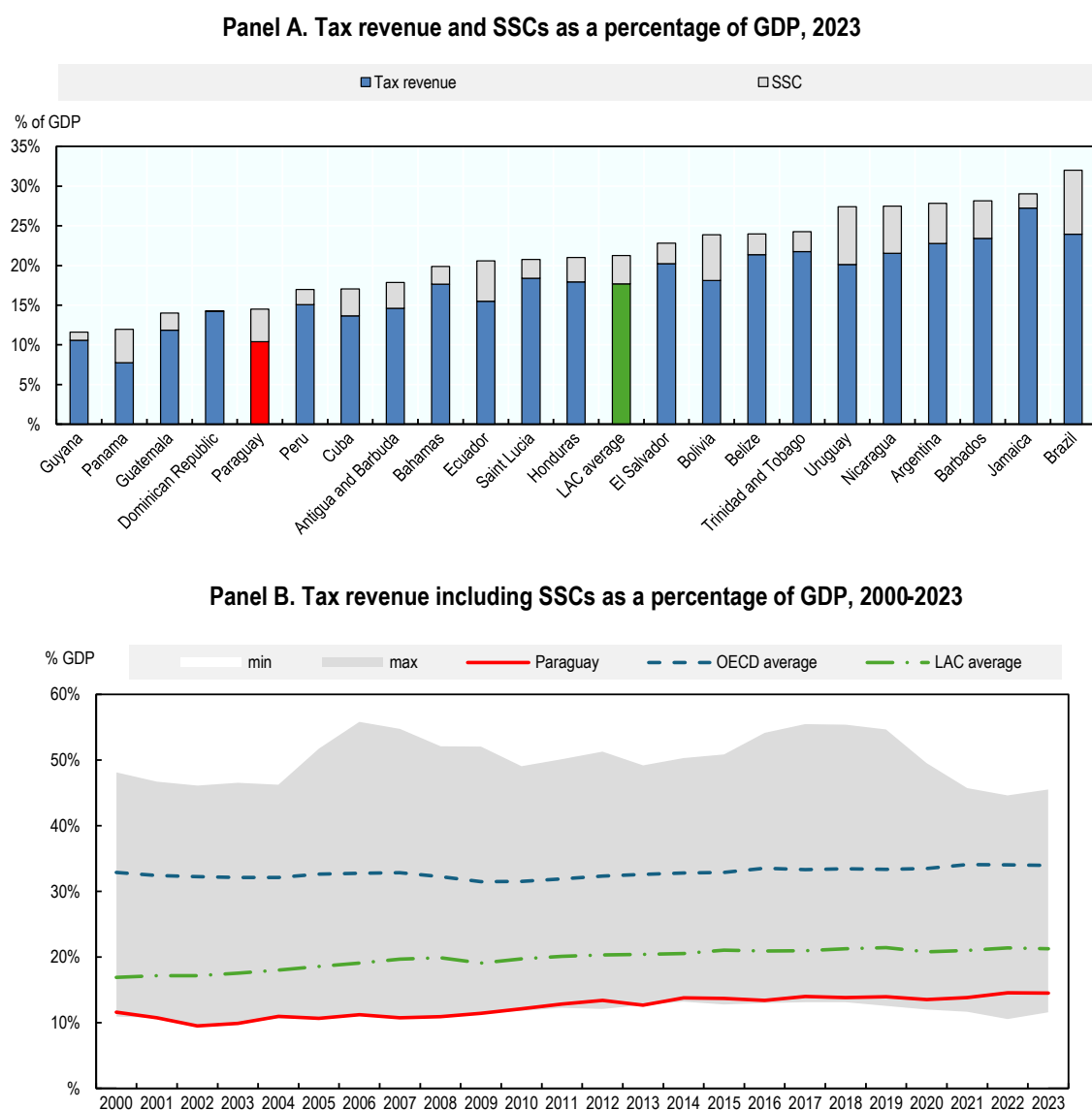
5 Mobilising general tax revenues

This chapter assesses options to strengthen Paraguay's tax system and increase revenue in a fair and growth-friendly manner. It reviews the tax mix, tax structure and revenue buoyancy, with a detailed analysis of the personal income tax, including an assessment of tax expenditures. The chapter also examines corporate income taxation, dividend taxation and the VAT, and discusses the potential for additional revenue mobilisation through health excise taxes, environmentally related taxes and property taxes.

Paraguay's tax revenues are low but buoyant, increasing with economic growth

Paraguay's tax revenue remains low by both regional and international standards, limiting the government's fiscal space to finance public goods and services, including for social protection. In 2023, the tax-to-GDP ratio, including social security contributions (SSCs), stood at 14.5%, significantly below the Latin America and the Caribbean (LAC) average of 21.3% and the OECD average of 33.9% (Figure 5.1, Panel A). Excluding SSCs, Paraguay's tax revenues are only 10.4% of GDP, highlighting the limited contribution of taxation to revenue mobilisation. Between 2000 and 2023, Paraguay's tax-to-GDP ratio increased by 3.1 percentage points, compared to an average increase of 4.4 percentage points across LAC countries (Figure 5.1, Panel B). However, over the same period, Paraguay recorded an average annual GDP growth rate of 3.1%, exceeding the LAC regional average of 2.3%, which partly explains the smaller increase in Paraguay's tax-to-GDP ratio. From 2023 to 2024, tax revenue increased by one percentage point to 11.4% of GDP, mainly due to a rebound in corporate income tax (CIT) revenue and improvements in the tax administration (IMF, 2025^[1]).

Figure 5.1. Tax-to-GDP ratio in Paraguay and selected countries



Note: The grey areas in Panel B present the difference between the lowest and highest tax-to-GDP ratios in the LAC region.

Source: OECD/ECLAC/CIAT/IDB (2025^[2]).

In addition to tax revenues, Paraguay collects non-tax revenues equivalent to 4.2% of GDP in 2023.

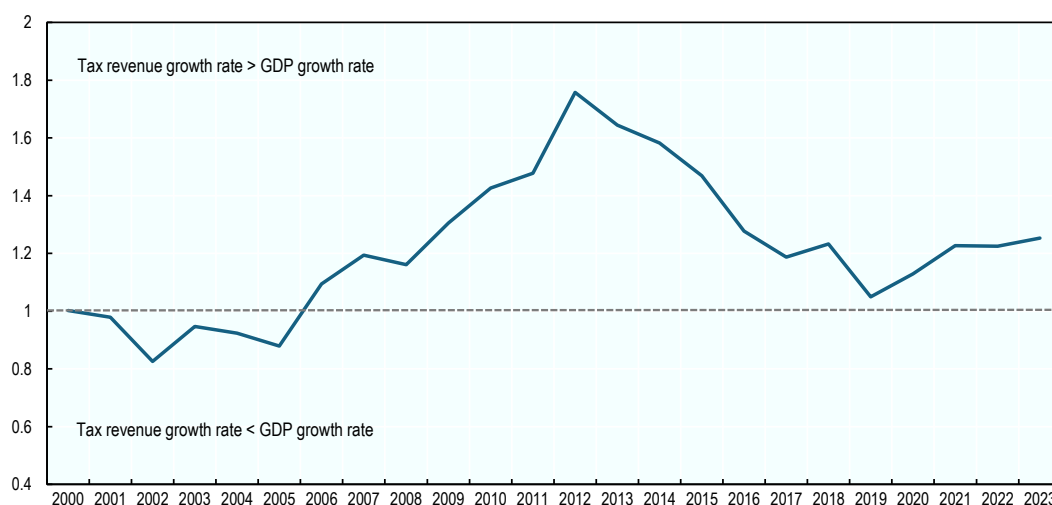
The reliance on non-tax revenues is a common feature across LAC countries, with levels ranging from 11.6% of GDP in Cuba to 0.4% in Peru (OECD et al., 2025^[2]). In Paraguay, approximately 1% of GDP in non-tax revenues is derived from the country's participation in two binational hydroelectric projects: the Itaipu dam, jointly operated with Brazil, and the Yacretá dam, shared with Argentina.

Paraguay's tax revenues have shown strong responsiveness to economic growth over the past two decades. Tax buoyancy, defined as the percentage change in tax revenue resulting from a 1% change in GDP, reflects the combined effect of discretionary tax policy changes and the relationship between economic growth and revenue. Figure 5.2 presents estimates of long-run tax buoyancy based on 5-year moving averages from 2000 to 2023. Over this period, average annual tax buoyancy stood at 1.3, implying that for every 1% increase in GDP, tax revenues rose by roughly 1.3%¹. These estimates are consistent

with the IMF's estimate of 1.2 for Paraguay over the 2004-2024 period (IMF, 2025^[1]). In the LAC region, average long-run tax buoyancy amounted to 1.07 for the period 1999-2021 (OECD, 2023^[3]).

Tax buoyancy exhibited considerable volatility over the past two decades, reflecting periods of both weak and strong revenue responsiveness (Figure 5.2). Between 2000 and 2005, tax revenue growth lagged behind GDP growth, with buoyancy below one. Since 2006, however, tax revenue growth has consistently outpaced GDP growth. The buoyancy ratio peaked in 2012, when tax revenue growth was 80% higher than GDP growth. Although buoyancy declined between 2012 and 2019, it has recovered since 2021 (excluding the COVID-19 shock in 2020) and has remained stable at approximately 1.2. This recent trend reflects strengthened revenue mobilisation and a tax system that has become increasingly responsive to economic growth. Boosting growth while ensuring that this translates into higher revenue should be a key policy objective. As long as tax buoyancy is above one, GDP growth would, under the current tax system, lead to a more rapid increase in the tax-to-GDP ratio.

Figure 5.2. Long-run tax buoyancy in Paraguay



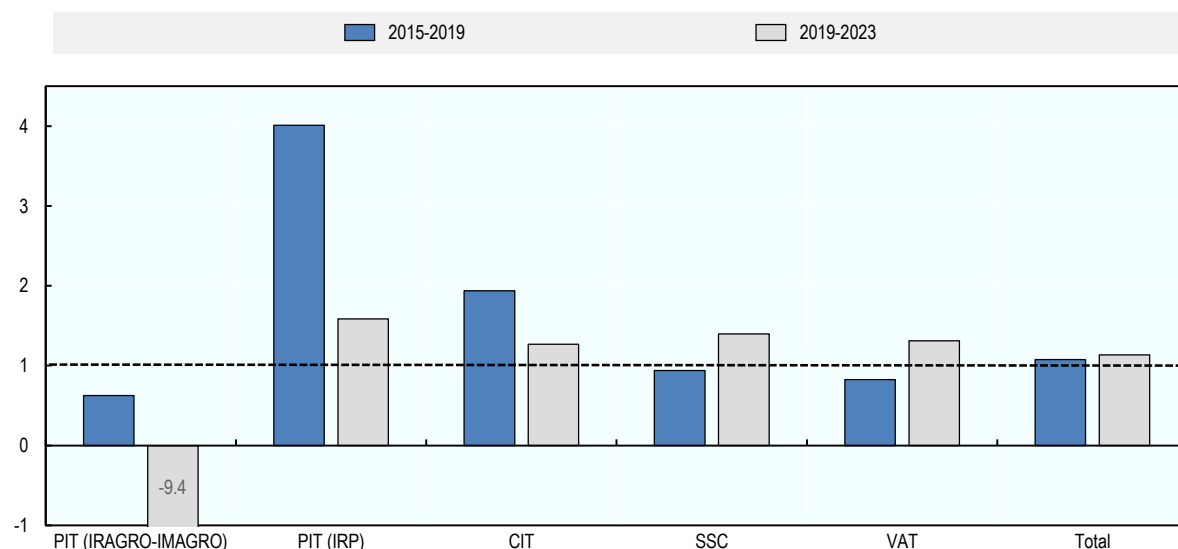
Note: The figure presents the estimated tax revenue buoyancy for Paraguay, including social security contributions. The values shown reflect a five-year moving average; for example, the estimate for 2005 represents the average buoyancy over the period 2001-2005. Buoyancy is calculated as the ratio of the annual percentage change in (nominal) tax revenues to the annual percentage change in (nominal) GDP. To better reflect long-run trends, the value of the year 2020 is imputed to remove the effects of the COVID-19 shock, i.e. the value for 2020 is replaced by the average buoyancy value of 2019 and 2021.

Source: OECD based on OECD (2025^[2]) and IMF (2025^[4]).

Tax buoyancy across major tax categories has varied significantly over recent periods. For example, CIT revenues remained buoyant throughout 2015-2023, with revenue growth outpacing GDP growth (Figure 5.3). However, tax buoyancy was more pronounced during the period 2015–2019 than in 2019–2023. Social security contributions and value-added tax (VAT) displayed the opposite pattern: From 2015 to 2019, both SSC and VAT revenues grew at a slower pace than GDP, while from 2019–2023, these revenues outpaced economic growth, indicating improved buoyancy. The personal income tax (PIT) revenue collected under the *Impuesto de la Renta Personal* (IRP) exhibited strong buoyancy between 2015 and 2019, driven primarily by gradual tax base broadening as the IRP exemption threshold was gradually lowered over this period. From 2019 to 2023, IRP revenue grew faster than GDP, though at a reduced pace. Conversely, revenue collected from individual's profits declined, reflecting the removal of dividend income from the PIT base and the elimination of the IRAGRO-IMAGRO tax following the 2019 tax reform.

Figure 5.3. Tax buoyancy by tax types in Paraguay

Tax revenue growth rate divided by GDP growth rate for periods 2015-19 and 2019-23



Note: The graph shows the ratio between the annualised tax revenue and GDP growth rates in the five-year periods. The PIT revenue is split into two components, revenue from the IRP and revenue from the IRARGRO-IMAGRO tax.

Source: OECD based on OECD (2025^[2]) and IMF (2025^[4]).

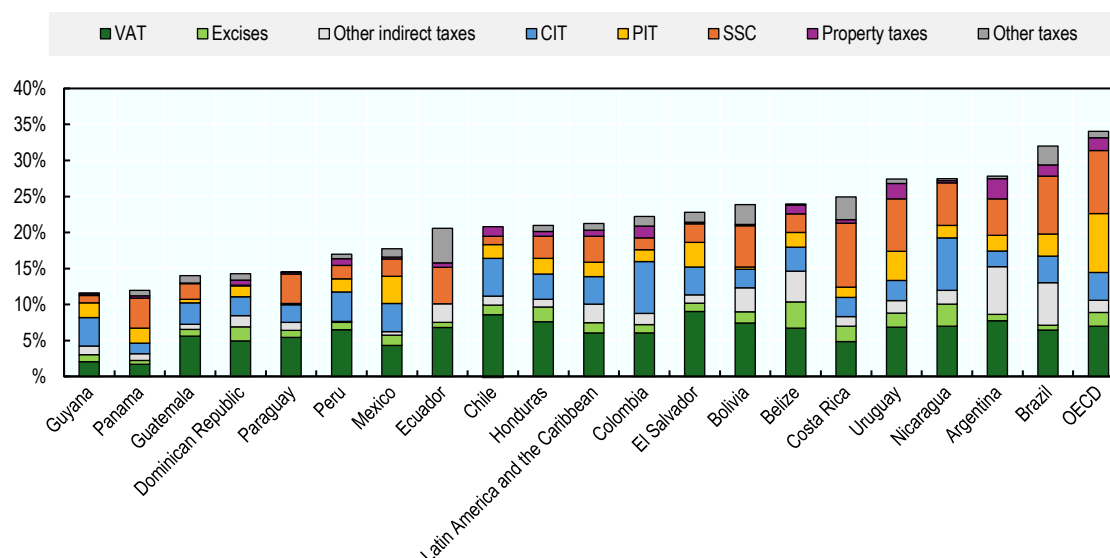
Paraguay's tax mix relies on indirect taxes

Paraguay's tax structure is characterised by a strong reliance on indirect taxation. In 2023, taxes on goods and services accounted for approximately half of total tax revenues, with the VAT accounting for 5.4% of GDP, excise taxes 1% of GDP, and other indirect taxes 1.1% of GDP (Figure 5.4). Direct taxes represented around one-fifth of total revenues, comprising 2.5% of GDP from CIT and 0.2% of GDP from PIT. Social security contributions accounted for a significant share, generating nearly one-third of total tax revenues, or 4.1% of GDP.

Paraguay collects less revenue from indirect and direct taxes than the average LAC country. Like most other LAC countries, Paraguay relies heavily on indirect taxation, particularly the VAT (Figure 5.4). In 2023, Paraguay's VAT revenue stood at 5.4% of GDP, below the LAC average of 6.0% of GDP. This comparatively lower revenue performance may be partly attributed to Paraguay's relatively low standard VAT rate (10%) and the extensive use of VAT-related tax expenditures. CIT generates relatively more revenue than PIT in Paraguay and across the LAC region, and in contrast to OECD countries. Paraguay lags behind a number of LAC peers in the mobilisation of both PIT and CIT revenues, with 23 countries collecting more PIT revenue and 20 countries collecting more CIT revenue as a share of GDP. This underperformance may reflect relatively low statutory rates, the presence of generous tax expenditures and a higher prevalence of informality relative to the average LAC country. On the contrary, Paraguay's SSC revenue, at 4.1% of GDP, exceeds the LAC average of 3.6% of GDP. This may partly reflect Paraguay's relatively high reliance on public pension funds, in contrast to the greater prevalence of private pension funds observed in many other LAC countries. Contributions to private pension funds are not classified as tax revenue in OECD revenue statistics.

Figure 5.4. Tax mix in Paraguay and selected countries

Tax revenue as a percentage of GDP by tax type, 2023

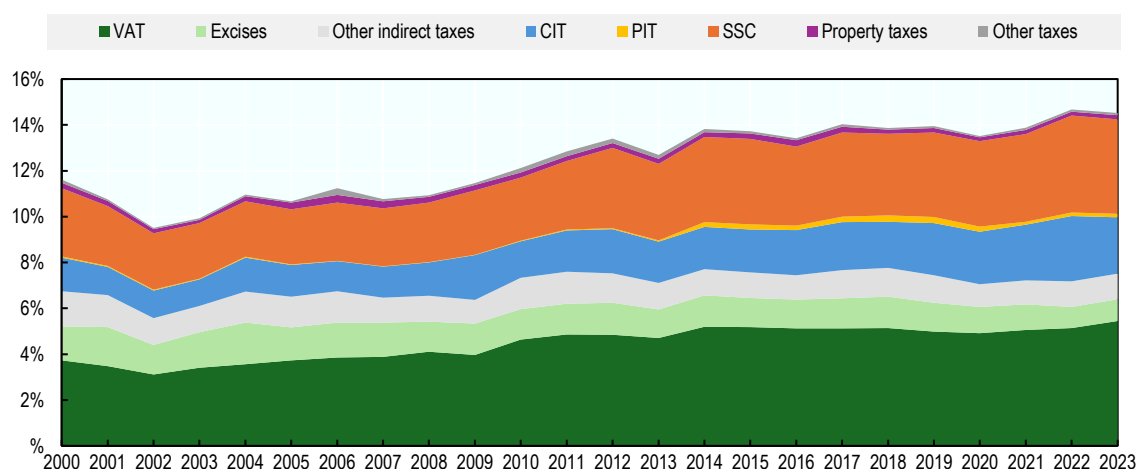


Source: OECD/ECLAC/CIAT/IDB (2025^[2]).

The composition of Paraguay's tax mix has undergone notable shifts since 2000. The share of indirect taxes in total revenues declined from 60% in 2000 to approximately 50% in 2023. Within this category, the VAT's contribution increased, while the share of excise taxes declined (Figure 5.5). Direct taxes have become more important in the tax mix over the period: CIT increased from 13% of total tax revenues in 2000 to 19% in 2023, while PIT showed a modest increase to 1% of total revenues in 2023. SSCs have become an increasingly important source of revenue, rising from 26% of total tax revenues in 2000 to 28% in 2023.

Figure 5.5. Tax mix in Paraguay

Tax revenue as a percentage of GDP by tax type, 2000-2023



Source: OECD/ECLAC/CIAT/IDB (2025^[2]).

Significant additional tax revenue could be collected from direct taxes and indirect taxes. As mentioned before, Paraguay raises more revenue from SSC as a percentage of GDP than other LAC countries (Table 5.1). However, Paraguay raises lower revenues as a percentage of GDP than the average LAC countries for PIT, CIT, VAT, excise taxes, and property taxes. A rough estimate of the additional tax revenue potential by tax type is calculated as the difference between tax revenue in Paraguay and average tax revenue in the LAC region (Table 5.1, row 3). Benchmarking Paraguay against the LAC average, where countries face comparable structural constraints, may understate the scope for further revenue mobilisation. The largest additional tax revenue potential is found in PIT, CIT, exceeding one percentage point of GDP. Policies aimed at broadening the PIT base – particularly by enhancing formalisation and ensuring more comprehensive taxation of labour and capital income – could play an important role in supporting stronger revenue mobilisation.

Table 5.1. Paraguay's tax revenue potential by tax, 2023

Indicator	Reference area	SSC	Direct taxes		Indirect taxes			Property taxes
			PIT	CIT	VAT	Excise taxes	Other indirect taxes	
Tax-to-GDP ratios	Paraguay	4.1%	0.2%	2.5%	5.4%	1.0%	1.1%	0.2%
	LAC average	3.6%	2.0%	3.8%	6.0%	1.5%	2.6%	0.8%
Additional tax revenue potential (p.p. of GDP)	Difference Paraguay and LAC average	-0.5 p.p.	1.8 p.p.	1.3 p.p.	0.6 p.p.	0.5 p.p.	1.5 p.p.	0.6 p.p.

Note: The first two rows indicate the tax-to-GDP ratios for Paraguay and the LAC average by tax type for 2023. The third row shows the distance between Paraguay's tax-to-GDP ratio and the LAC average.

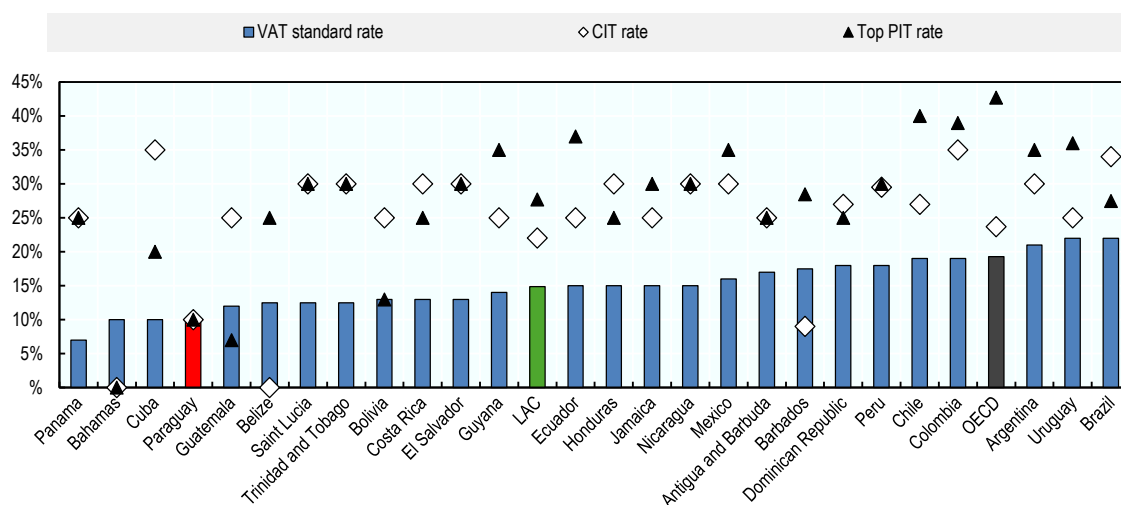
Source: Calculations based on OECD (2024^[5]).

Expanding public expenditure on health, social protection and other priority areas will require an increase in tax revenues in Paraguay. The current government intends to increase the tax revenues almost exclusively through improvements in tax compliance. In this context, the tax administration has set a target to increase tax revenues (excluding social security contributions) from 11.4% of GDP in 2024 to 12.0% of GDP by 2029 (DNIT, 2025). This projected increase is expected to be achieved exclusively through gains in tax efficiency, as no significant changes to tax rates or broadening of tax bases are currently envisaged. In a context of weak tax compliance, strengthening the tax administration represents a valid approach, as it could strengthen the tax base while avoiding potential distortions that may arise from rate increases. While this objective reflects a step towards enhanced revenue mobilisation, it remains modest in light of pressing fiscal demands, particularly linked to social assistance, health and pension expenditure (see Chapters 2, 3 and 4). In the short term, revenue gains could be achieved through a combination of tax administrative measures strengthening compliance and tax policy measures that limit tax expenditures and build a capital income tax base. Developing a strategy to strengthen the formalisation of the economy would be an integral part of a tax base broadening reform. However, to approach the LAC average over the medium to long term, adjustments to tax policy, including rate increases, will likely be necessary. The adoption of a medium-term revenue strategy, underpinned by clear intermediate targets, could support a more sustainable and predictable path for tax revenue growth (IMF, 2024^[6]).

Recent tax policy and administration reforms

Paraguay's tax system is characterised by comparatively low statutory tax rates. As illustrated in Figure 5.6, the standard rates for VAT, CIT, and the top marginal PIT rate are each set at 10%. These rates are significantly below the regional averages observed in LAC, where the average VAT rate stands at 15%, the CIT rate at 22%, and the top PIT rate at 27.7%.

Figure 5.6. VAT, CIT and top PIT rates in Paraguay and selected countries



Source: IBFD, OECD.

In 2019, Paraguay undertook a comprehensive tax reform aimed at modernising and simplifying its tax system. Law No. 6380 introduced significant changes to both direct and indirect taxes, reflecting a strategic shift towards strengthening direct taxation (Box 5.1). According to estimates by the Ministry of Economy and Finance (MEF), the reform contributed to an increase in tax revenues equivalent to 0.23% of GDP in 2022 and 0.19% of GDP in 2023 (Artana and Guardarucci, 2025^[7]). Changes made to the taxation of dividends contributed to 81% of this revenue increase in 2022 and 26% in 2023.

Box 5.1. Measures introduced under Paraguay's 2019 tax reform

Corporate income tax (IRE):

- The former corporate income taxes IRACIS and IRAGRO were replaced by the *Impuesto de la Renta Empresarial* (IRE) at a flat rate of 10% on net income.
- Introduction of two simplified regimes for small and medium enterprises (SIMPLE for firms with annual turnover below PYG 2 billion, and RESIMPLE for firms with annual turnover below PYG 80 million).
- Introduction of loss carry forward rules which allow carry forward of tax losses for five years, capped at 20% of net income per year.
- Introduction of Transfer Pricing rules, including Transfer Pricing documentation requirements.
- Broadening of the tax base through the taxation of foreign income by resident companies, but only for foreign income taxed at a lower rate than in Paraguay.

Dividend income tax (IDU):

- Introduction of the dividend income tax (IDU), with a tax rate of 8% for residents and 15% for non-residents.

Personal income tax (IRP):

- Transition to a dual system for taxing individual income, where a progressive tax rate schedule applies to labour income, and capital gains, rental and interest income are taxed separately at an 8% flat rate.
- The annual income exemption threshold was set at PYG 80 million and is no longer calculated as a multiple of the monthly minimum wage.
- Introduction of a third income bracket (PYG 50-150 million) taxed at a 9% rate.
- Tax deductions for expenses abroad limited to health and education expenses.

Non-resident income tax (INR):

- Introduction of a 15% tax on Paraguayan-source income earned by non-resident individuals and corporations.
- Digital services provided by non-residents to Paraguayan users are taxed at an effective rate of 4.5% (15% on a presumed taxable base of 30% of the gross payment).

Value added tax (IVA):

- The 10% standard rate and 5% reduced rate for selected items remain unchanged.
- Introduction of a VAT on digital services at the 10% standard rate.

Selective consumption taxes (ISC):

- Increase of tax rates for tobacco and alcohol, and introduction of a 2% sugar sweetened beverages (SSB) tax.

Source: Paraguayan Law No. 6380, MEF.

As part of the 2019 reform, Paraguay reformed its taxation of dividend income by introducing a dividend income tax *Impuesto a los Dividendos y Utilidades (IDU)*, which entered into force in 2020. Prior to the reform, dividend income was taxed both under the CIT and the PIT. Since its implementation, revenue from the IDU has shown a steady upward trend, increasing from 0.36% of GDP in 2020 to 0.42% of GDP in 2023. The IDU applies a withholding tax rate of 8% on dividend income received by resident individuals and 15% for non-residents. The tax base comprises the net amount of dividends and distributed profits, excluding corporate income tax (IRE) already paid by the distributing entity. Dividends or distributed profits not subject to the IDU are taxed under the personal income tax (IRP).

In 2023, Paraguay implemented a major institutional reform by merging the former tax and customs administrations to establish the *Dirección Nacional de Ingresos Tributarios (DNIT)* (Law 7143 and Decree 1184). This reform aimed to enhance the efficiency and effectiveness of revenue administration and to strengthen overall tax compliance and revenue mobilisation. To support this transformation, a strategic plan for the period 2024–2029 outlines a comprehensive modernisation agenda. Key priorities include the introduction of new tax collection processes, the expansion of digital tools such as electronic invoicing, and the reorganisation of internal administrative procedures. The integration of tax and customs functions also facilitates improved taxpayer identification and monitoring through the use of a unified taxpayer identification number (*Registro Único del Contribuyente, RUC*), which links information across the tax filing system (*Marangatú*) and the customs system (*Sofía*).

Current revenue mobilization efforts focus on strengthening tax administration and enhancing compliance. Notable progress has been made in this area, including a growing emphasis on digitalisation.

The combination of increased tax administrative capacity and low tax rates is an opportunity for Paraguay to first strengthen compliance, formalise the economy and broaden tax bases. Once this is achieved, further tax policy reforms – including potential tax rate increases – may be required, as the tax administrative measures might not be sufficient to generate the required increase in revenue in the long-term.

The PIT base is narrow, resulting in low revenue

Tax revenue collected from PIT in Paraguay is particularly low. In 2024, the PIT generated only 0.16% of GDP, reflecting one of the lowest revenues from the PIT in the region. A persistent challenge across LAC countries remains the narrow PIT base, largely attributable to high levels of informality in labour markets, which significantly constrain revenue mobilisation through personal income taxation (ECLAC, 2023^[8]). Paraguay's narrow PIT base is explained by a high exemption threshold and the availability of particularly generous deductions. The PIT in Paraguay operates under a dual structure, that distinguishes income from employment and income from capital. In 2024, revenues from employment income amounted to 0.13% of GDP, while revenues from capital income and gains accounted for 0.03% of GDP.

The PIT's design departs significantly from standard international practice

Paraguay has a progressive PIT rate schedule (Table 5.2), which applies to taxable income of individuals earning labour income if their annual income exceeds PYG 80 million. The absence of a zero-rated income tax bracket results in very high marginal tax rates for individuals with earnings just above the PIT threshold, as their full income becomes subject to PIT once the threshold is exceeded.

Table 5.2. Progressive PIT rate schedule in Paraguay

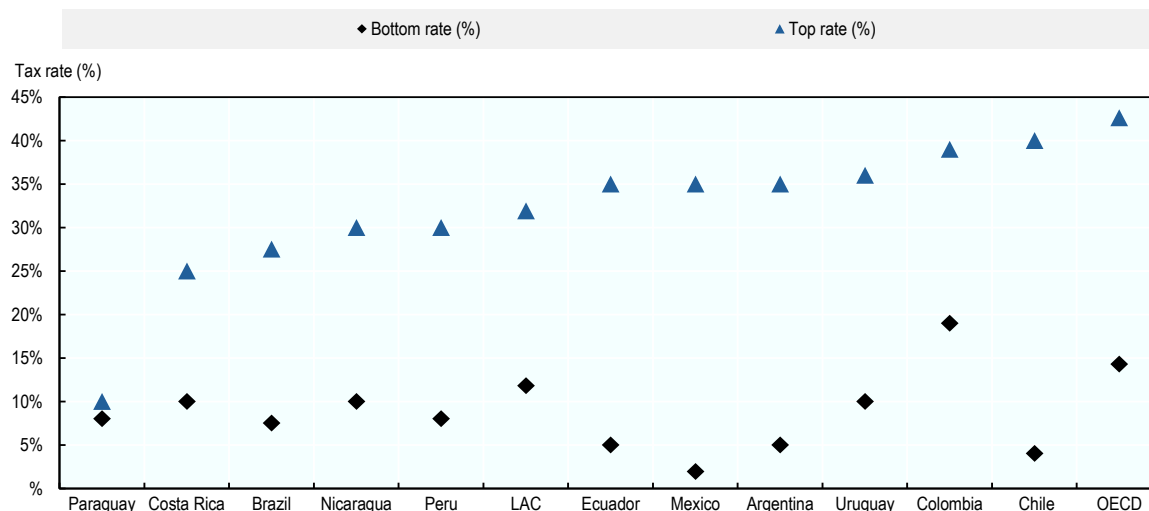
Annual taxable income (PYG)	Annual income (USD)	Multiples of minimum wage	Rate
< 50 000 000	< 6 289	< 1.4	8%
50 000 000 – 150 000 000	6 289 – 18 866	1.4 - 4.3	9%
> 150 000 000	> 18 866	> 4.3	10%

Note: Only taxpayers with annual labour incomes above PYG 80 million need to prepare a tax return and pay PIT on their full income. The minimum wage is PYG 2 899 048 per month as of 1st July 2025. The average exchange rate for January to June 2025 was USD 1 = PYG 7 950. Source: DNIT.

Paraguay applies a low top marginal PIT rate compared with other LAC countries. Paraguay has the lowest top marginal PIT rate in the LAC region, at 10% (Figure 5.7). This rate is equivalent to the bottom marginal PIT rate in several other LAC countries, including Costa Rica, Nicaragua, and Uruguay.

Figure 5.7. Top and bottom marginal PIT rates in Paraguay and selected countries

Top and bottom marginal PIT rates in percent

Source: OECD adapted from ECLAC (2023^[8]).

PIT is not withheld at source by the employer, but instead taxpayers are required to self-declare and remit their PIT liability to the tax authorities. Individuals earning labour income below PYG 80 million are not required to file a tax return and are tax exempt. The progressive PIT rate schedule (Table 5.2) applies to the taxpayer's taxable labour income (from wages and self-employment), starting from the first Guaraní earned. Article 64 of Law No. 6380 from 2019 defines a number of deductible expenses that are subtracted from gross income. Taxpayers must retain and submit acceptable documentation – including invoices, receipts, and financial statements – to support expense claims for tax purposes (Box 5.2). Only in a few specific cases, agents need to withhold PIT on non-labour income.² International good practice is for employers to withhold PIT and remit it directly to the tax administration, a procedure that could also be adopted in Paraguay.

Box 5.2. Administrative process for PIT declaration in Paraguay

Registration for PIT on labour income (*Impuesto a la Renta Personal – Rentas de Servicios Personales*, IRP-RSP) is mandatory when a taxpayer's gross labour income exceeds PYG 80 million within a tax year. Upon exceeding this threshold, the taxpayer must register for the PIT and begin self-declaring labour income.

In the initial year of registration, only income earned from the day after the PIT threshold is exceeded until 31 December is subject to PIT. Deductible expenses are also limited to this same period. From the subsequent tax year onwards, the income earned in the full calendar year – if exceeding PYG 80 million – is considered for taxation. If, in any following year, the taxpayer's gross income falls below the PIT threshold, a tax return must still be filed even if no PIT is due.

To declare expenses, the taxpayer needs to provide accurate documentation, which includes printed and electronic invoices, receipts, sales slips, bank statements, credit or debit card statements, tickets for transport or events. All supporting documents must be registered in the Marangatu online system, where the tax return is submitted.

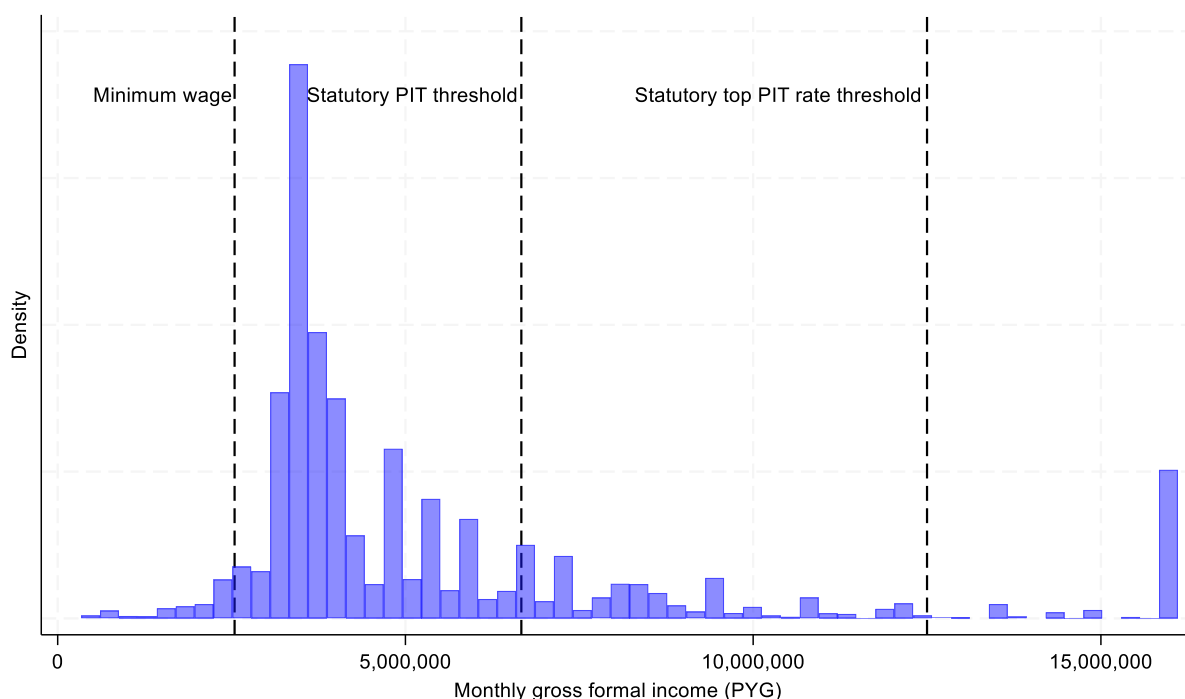
Labour income (IRP-RSP) and capital income (IRP-RGC) is reported separately, using two distinct tax returns (Forms 515 and 516). There is no statutory threshold for declaring capital income.

Source: OECD based on information from MEF and DNIT.

The PIT base is narrow and PIT liabilities are often low

In Paraguay, most formal employees earn income below the PIT threshold. Figure 5.8 illustrates the distribution of gross earnings among formal salaried workers contributing to a pension fund. While most formal salaried workers earn above the legal minimum wage, their incomes remain below the PIT registration threshold (with a significant proportion of workers' earnings concentrated around PYG 3.5 million per month). Only 22% of formal salaried workers earn above the statutory PIT threshold, and 7% of taxpayers earn gross income above the top statutory PIT rate threshold.

Figure 5.8. Distribution of monthly gross income of formal employees



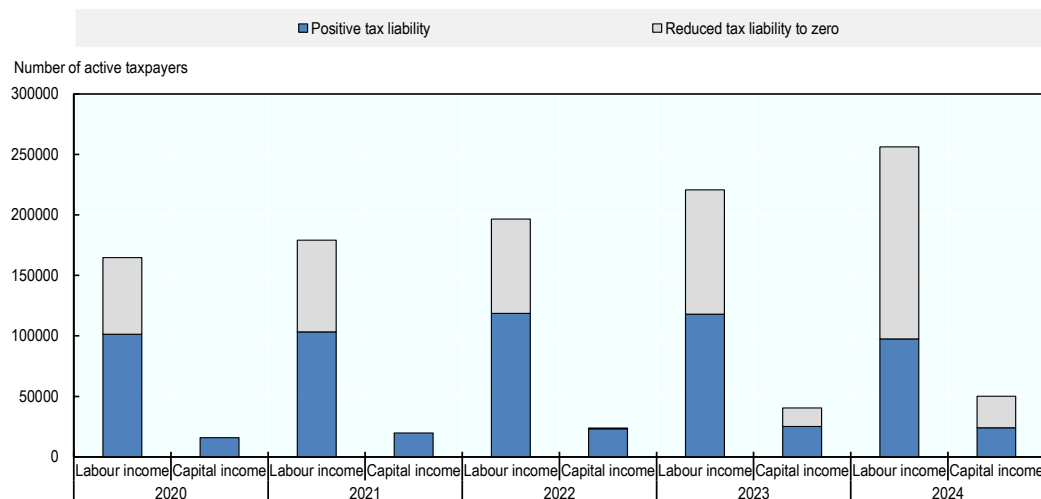
Note: Formal income is defined as primary and secondary income for which employees contribute to a pension fund. Gross income is calculated as net income plus social security contributions, considering the different contribution rates for private and public sector employees. The average monthly minimum wage of 2023 and 2024 is displayed. The statutory PIT threshold amounts to PYG 80 million annual gross income (approximately PYG 6.6 million monthly gross income). The top PIT rate (10%) applies to gross incomes above PYG 150 million per year (PYG 12.5 million per month). Note that self-employed workers' and employers' earnings are excluded from the figure.

Source: OECD based on EPHC (2024^[9]).

Although the number of taxpayers reporting labour and capital income has increased over time, the number with positive tax liability has remained stable (Figure 5.9). The number of active taxpayers from labour income rose from 164 752 in 2020 to 256 285 in 2024. For capital income, the number of active taxpayers more than tripled from 15 692 in 2020 to 47 292 in 2024. Despite this expansion, the percentage of workers subject to PIT remains limited, with labour income tax filers accounting for only 7% of the working population and approximately 20% of formal workers. Furthermore, over the same period, the share of the taxpayers reducing their tax liability to zero has also increased, leaving the number of taxpayers with a positive tax liability on labour income relatively stable since 2020, with a significant drop in 2024.

Figure 5.9. Number of taxpayers that file a PIT return by tax liability status

Number of taxpayers reporting labour and capital income, by tax liability status, 2020-2024



Source: MEF/DNIT (2025).

A significant share of labour income taxpayers with earnings above the PIT threshold report zero tax liability. In 2024, 62% of individuals that filed a PIT return on employment income reduced their tax liability to zero (Figure 5.9) due to the extensive range of deductions – many of which are uncapped – and exemptions (see Box 5.3).

For capital income, about 50% of registered taxpayers reported zero tax liability. In 2024, 50% of the registered taxpayers reduced their tax liability on capital income to zero primarily by either reporting sales prices below the original purchase price for capital assets or expenditures exceeding rental income. Another factor that contributes to explain this result, though to a lesser extent, is the number of inactive taxpayers. In 2024, 5% of taxpayers who filed the capital income tax return did not report any capital income but were nonetheless required to file a tax return because they reported earning capital income in a previous year.

Paraguay grants particularly generous PIT deductions

Paraguay does not provide a general tax allowance under its PIT system but instead allows for a wide range of deductions. Taxpayers may deduct a broad range of expenses from their taxable income, including purchases of goods and services for themselves and their dependants. Eligible deductible expenses include both essential consumption items, such as food and clothing, and leisure-related spending (Box 5.3). Dependants for tax purposes include children of legal age enrolled in higher education, as well as grandparents, parents, and parents-in-law (who do not need to live in the same household), provided that each dependant's annual income does not exceed PYG 30 million. In addition to deductions

for basic consumption goods and services, taxpayers may deduct education and health expenditures incurred abroad for themselves and their dependants, with no limitation on the amount (Box 5.3). Additional provisions permit the full deduction of high-value purchases, including vehicles (once every three years) and residential property (once every five years). These deductions can be accumulated and, in many cases, reduce taxable income to zero, even for individuals with gross incomes well above the PIT threshold.

PIT deductions are regressive as the associated revenue forgone increases with income. In other words, taxpayers facing the 10% marginal tax rate benefit from a larger total deduction than those subject to the 8% rate. The regressive impact is further amplified as deductions are not subject to caps.

Box 5.3. PIT deductions and exemptions in Paraguay

PIT deductions:

The following expenses can be deducted from gross income under the PIT in Paraguay, as stated in Art. 64 of Law No. 6380 and the personal income tax filing Form 515:

- Expenses directly related to a business activity (furniture, equipment, construction, remodelling or refurbishment of the office).
- Any personal or dependant's expenses incurred in the country (including food, clothing, health, education, renting and maintenance of housing, acquisition of furniture, household appliances and goods, expenditures for recreation, etc.).
- Personal and dependents' expenses incurred abroad exclusively for health and education purposes.
- Personal expenses for the acquisition of a vehicle every 3 years.
- Employer's social security contributions paid on accounts of domestic workers.
- Contribution to a private insurance scheme made by independent workers.
- Donations made in favour of the State and associations (up to 5% of the gross taxable income of the fiscal year).
- Personal expenses for the acquisition of a property for housing every 5 years in cash or through a loan (this expense may be carried forward in the following fiscal years).

PIT exemptions:

The following types of income are exempt from PIT in Paraguay as stated in Art. 56 of Law No. 6380:

- Interest generated by government and municipality bonds.
- Income and capital gains derived from the income from expropriated real estate.
- Income and capital gains derived from the sale or disposal of movable property, provided that the sum of these in the fiscal year does not exceed PYG 20 000 000.
- The exchange rate difference arising from the holding of foreign currency or from deposits or credits in foreign currency.
- Christmas bonus or thirteenth salary.
- Severance payments up to the legal minimum.
- Remunerations of diplomats, consular agents and other foreign official representatives of countries or international organisations.
- Retirement benefits and pensions, whether contributory or non-contributory.
- Capital gains from the sale of stock exchange bonds.

- Earnings from trading regulated securities.
- Investment fund earnings.
- Interest from bank and savings accounts.
- Prizes from lotteries, raffles, drawings, bingos and similar events held in Paraguay with a value below PYG 500 000.
- Scholarships promoted by the Government, destined to the coverage of the expenses of stay and per diem.

Source: DNIT, Law No. 6380, Form No. 515.

PIT deductions lead to substantial revenue forgone

The majority of the deductions under the PIT can be classified as tax expenditures. Tax expenditures are defined as provisions within the tax legislation that reduce the tax liability of certain individuals or groups, relative to a defined benchmark tax system. These provisions are typically introduced to pursue specific policy objectives – such as promoting economic development, enhancing social welfare, improving equity, or simplifying tax administration. The majority of deductions under Paraguay's PIT, as set out in Article 64 of Law No. 6380, can be classified as tax expenditures (see Table 5.A.1 in the Annex). An exception are deductions for expenses directly related to income-generating business activities (Field 15 of tax return form 515). These business-related deductions are not classified as tax expenditures because they are integral to the definition of net taxable income under the benchmark tax system.

The uncapped deduction of personal and dependant's related expenses in Paraguay represents the costliest deduction under the PIT. PIT designs generally include a first zero-rate bracket or a general tax allowance that aims at covering expenses incurred by the individual that allows him or her to earn income. This zero-rate bracket or basic tax allowance is generally not considered a tax expenditure. The PIT in Paraguay does not include a zero-rate bracket nor a basic tax allowance, but these expenses are deducted together with other personal or dependant's expenses within the country in field 16 of form 515. That is, deductions reported in field 16 of the tax return would be considered as a tax expenditure except for those directly necessary to earn income (e.g. transport from job to work, job specific clothing, etc.). Under the assumption that the amount of expenses workers incur to generate their income would be equal to the minimum wage, which likely is an over-estimation, one could estimate the amount of tax expenditures. I.e., the amount of expenses deducted in field 16 of form 515 that exceed the value of one annual minimum wage would be classified as a tax expenditure. Revenue forgone from this deduction is substantial, amounting to 0.7% of GDP (Table 5.3).

PIT deductions result in revenue losses estimated at approximately 0.76% of GDP. Table 5.3 presents detailed cost estimates of revenue forgone for some PIT deductions that are considered tax expenditures. A complete list of all identified PIT tax expenditures is included in the Annex (Table 5.A.1) estimates of revenue forgone for the remaining tax expenditures are pending. Among the tax expenditures for which revenue forgone estimates are available, the deduction for personal and their dependants' expenditure accounts for the largest share of total revenue forgone (0.7% of GDP). The second largest tax expenditure relates to the deduction for vehicle purchases, although the associated revenue forgone remains limited, at only 0.033% of GDP. This modest fiscal cost likely reflects the fact that many taxpayers already reduce their income tax liability to zero through deductions for basic expenditures, thereby rendering the remaining deductions unused. However, should the scope of basic expenditure deductions be narrowed, the revenue forgone associated with this tax expenditure could increase accordingly. The deduction for social security contributions made by households employing domestic workers represents 0.008% of GDP, making it the fourth-largest PIT tax expenditure in Paraguay in terms

of revenue forgone. This comparatively low level may reflect compliance challenges, as a significant share of domestic workers are not formally registered, and employers therefore do not pay the associated SSCs that would otherwise be deductible. As a comparison, a similar provision ranks as the second largest of all tax expenditures in France. Note that even if most PIT exemptions provided under Article 56 of Law No. 6380 (see Box 5.3) are considered tax expenditures, the analysis does not include them as there is so far no data available to calculate their revenue forgone.

Table 5.3. Revenue forgone from some deductions in the labour income PIT returns considered as a tax expenditure

Tax expenditure	Field in tax return file (No.515)	Cost estimate 2024 (thousand PYG)	Cost estimate 2024 (% GDP)	Share of total cost
Personal and dependants' expenditure in the country	Field 16	2 320 851 868.51	0.70%	92%
Personal and dependants' expenditure abroad for health and education	Field 17	56 786 524.56	0.02%	2%
Personal expenditure for the purchase of a vehicle every 3 years	Field 18	110 470 369.66	0.03%	4%
Employer's social security contribution paid to domestic workers	Field 19	28 072 820.06	0.008%	1%
Voluntary contribution to a private social security system made by the independent personal service provider.	Field 20	3 487 938.63	0.001%	<1%
Dues, contributions, tithes and donations made in favour of the State and other associations	Field 21	3 843 027.41	0.001%	<1%
Total assessed PIT tax expenditures		Total cost	0.76%	100%

Note: The DNIT is currently reviewing the measurement of the tax expenditure in Field 16 of Form 515 and is considering measuring revenue forgone from additional tax expenditures in form 515 (Fields 28 and 38), and in form 516 on capital income. See Table 5.A.1 in the Annex for a complete list of the identified tax expenditures.

Source: DNIT (2025).

The estimated revenue forgone in this analysis is larger than previous estimates reported in the literature. For example, Salim (2024^[10]) estimates that PIT-related tax expenditures amounted to only 0.01% of GDP over the period 2000-2022, although the study does not provide a detailed breakdown of PIT tax expenditures. Similarly, the MEF reported revenue forgone of 0.01% of GDP for PIT tax expenditures in 2021 (MEF, 2023^[11]). The PIT-related tax expenditures reported in this study are larger because more provisions are excluded from the benchmark.

The regular cost estimation and publication of tax expenditure reports is widely recognised as international best practice. Given that tax expenditures can entail substantial fiscal costs, their systematic assessment and reporting on a provision-by-provision basis are essential for enhancing fiscal transparency and supporting informed decision-making in the allocation of public resources. The breakdown presented in Table 5.3 and Table 5.A.1 in the Annex could be included in forthcoming tax expenditure reports. In the future, Paraguay could broaden the scope of its PIT tax expenditure estimates by incorporating exemptions into the analysis. Achieving this would require improved data collection from third-party sources. For example, financial institutions could be mandated to report information on exempt capital gains, thereby enabling a more comprehensive and accurate assessment of PIT tax expenditures.

There is significant scope for improving the design of the PIT

There is significant scope to strengthen revenue mobilisation from the PIT. While estimated revenue forgone from PIT tax expenditures cannot be fully considered as revenue gains – given possible

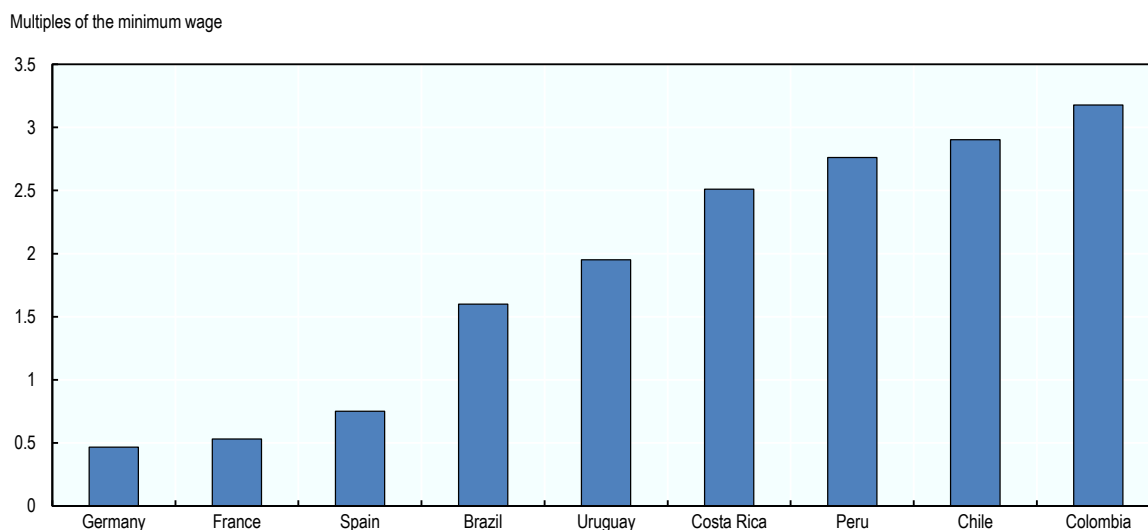
behavioural responses – the elimination of certain tax expenditures could nonetheless generate substantial revenue gains.

Paraguay could consider replacing broad-based PIT deductions by introducing a basic tax allowance or a zero-rate bracket and significantly limiting the remainder deductions. The current design of Paraguay's PIT substantially limits its revenue-raising capacity and undermines the progressivity of the tax. The introduction of a zero-rate income tax bracket or a basic allowance that replaces the deduction in field 16 of form 515 would simplify compliance for taxpayers, who would no longer need to retain receipts for a wide array of everyday expenses, and improve administrative efficiency for the tax authority. This would imply abolishing the current PIT registration threshold of PYG 80 million, which generates very high marginal tax rates for incomes at this threshold value and creates potential distortions such as incentives for wage underreporting. The introduction of a zero-rate bracket would help smooth marginal tax rate transitions and reduce these discontinuities. This reform could be accompanied by a requirement for employers to withhold PIT from employees.

Introducing a basic allowance or zero-rate bracket would bring Paraguay's PIT structure more closely in line with international practices. Most OECD countries provide a personal tax allowance or tax credit (e.g. 27 OECD countries), and several include a zero-rate first bracket in their PIT (e.g. 10 OECD countries) (OECD Personal Income Tax database, 2024). As shown in Figure 5.10, exemption thresholds vary widely, ranging from around half a minimum wage in Germany to three minimum wages in Colombia. Paraguay could consider introducing an exemption threshold within this range, potentially around 1 to 1.5 annual minimum wages.

Figure 5.10. Personal income tax exemption threshold in selected OECD and LAC countries

Thresholds of the first PIT bracket, when income is tax exempt, in multiples of the national minimum wage



Source: IBFD Country Tax Guides, national sources.

Additional allowances could be granted for spouses and dependent children while other existing deductions could be eliminated or significantly limited (e.g. deductions for house and vehicle purchases). Converting the remaining deductions into tax credits would constitute better practice, as it would ensure that all taxpayers with a positive tax liability are eligible for the same level of relief when they have, for instance, dependent children.

If the introduction of a zero-rate bracket or basic allowance proves unfeasible in the short term, limiting deductions and introducing a general cap could be an important first step toward improving equity and revenue raising capacity of the PIT. Under that scenario the deduction for personal and dependents' expenditure should be capped while other deductions could be abolished or capped. Moreover, the introduction of an overall cap on total deductible amounts as a percentage of taxable income could prevent taxpayers from reducing their tax liability to zero. For example, Colombia implemented a cap on total PIT deductions and exempt income, which is set at 40% of total income, limited at UVT 1 340 annually (approximately USD 19 000).

Paraguay could consider taxing pension income under the PIT as is common practice in OECD countries. In Paraguay, pension benefits (i.e. the pension received) are fully exempt from PIT, while employee pension contributions are deductible from taxable income. In contrast, most OECD countries apply an "Exemption-Exemption-Tax" (EET) benchmark to mandatory pension systems, under which pension contributions are deductible from taxable personal income and returns are exempt during the accumulation phase, while the pension is taxed when it is received (OECD, 2025^[12]). In Paraguay, income taxation applies only to amounts received from voluntary pension schemes and to early withdrawals of pension contributions (Decree No. 7,047/2022), which is also uncommon as many countries apply a "Tax-Tax-Exempt" benchmark to voluntary pension savings. Taxing pensions of taxpayers with income above the PIT threshold would therefore align Paraguay's system more closely with international practice (EET benchmark). Even though only a small number of pensioners receive pension income above the current PIT threshold, such a reform would improve coherence within the tax system while maintaining protection for low-income retirees. The proposed change may not generate a visible impact under the current income tax threshold and deduction structure, but it could yield additional revenue if the other proposed PIT design changes are implemented.

Strengthening tax administration and improving monitoring mechanisms will be essential to limit the extent to which taxpayers can reduce their labour and capital income tax liabilities to zero. This is particularly important in what concerns form 516 where 45% of the taxpayers that filed a tax return in 2024, reduced their tax liability to zero by either reporting sales prices below the original purchase price for capital assets or expenditures exceeding rental income. This high percentage does not seem realistic and merits more monitoring.

Business taxation is a key area for base broadening in Paraguay

In 2023, CIT revenue in Paraguay amounted to 2.5% of GDP, below the LAC regional average of 3.8% of GDP. CIT is levied under the *Impuesto a la Renta Empresarial* (IRE), which applies a standard statutory rate of 10%. However, simplified tax regimes are available for small and medium-sized enterprises, and reduced rates apply under certain special regimes. The 2023 total CIT revenue includes primarily revenue from the IRE (2% of GDP), but also from the dividend income tax (0.42% of GDP) and some small amounts from the former corporate income tax IRACIS (OECD et al., 2025^[2]).

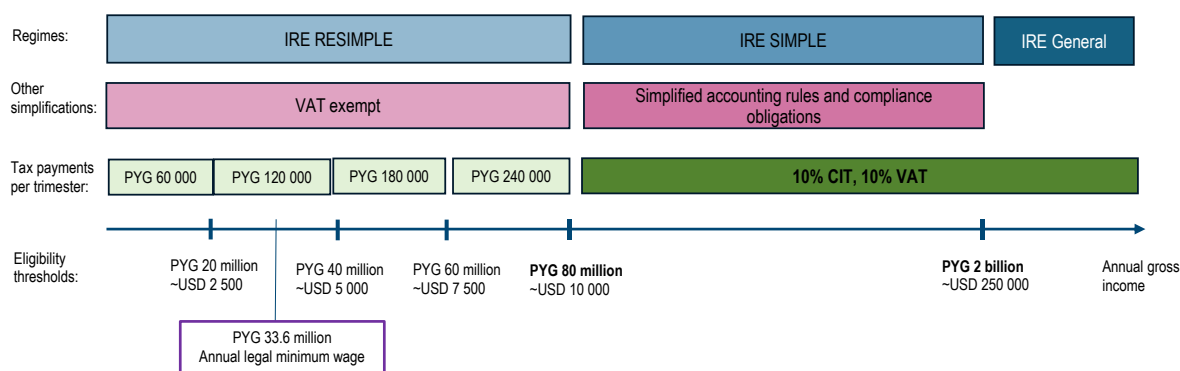
Business tax collection is highly concentrated among large taxpayers. Approximately 90% of revenue from IRE is collected from the 10% largest corporate taxpayers (Salim, 2024^[10]), highlighting the importance of effective large taxpayer management in Paraguay's tax administration. This level of concentration is significantly higher than observed in many other LAC countries. As of 2025, the Large Taxpayer Office (LTO) oversees around 750 taxpayers.

Paraguay operates three business tax regimes

Paraguay applies a tiered business tax system under the IRE that differentiates tax obligations according to firms' annual turnover (Figure 5.11). This structure seeks to align tax and compliance requirements with the capacity of different taxpayer segments.

- **General IRE regime:** Firms with annual turnover above PYG 2 billion (approximately USD 250 000) are subject to a 10% corporate income tax rate.
- **IRE SIMPLE regime:** Small enterprises with annual turnover between PYG 80 million and PYG 2 billion (USD 10 000–250 000) are also taxed at a 10% standard rate, but they benefit from simplified accounting and reporting obligations. To report taxable income, the taxpayer can choose between reporting a presumptive tax base (30% of the turnover) or actual profits.
- **IRE RESIMPLE regime:** Microenterprises with annual turnover up to PYG 80 million are exempt from VAT and pay a quarterly lump-sum IRE contribution ranging from PYG 60 000 to PYG 240 000, depending on their income level.

Figure 5.11. Standard IRE regime vs. SIMPLE and RESIMPLE regimes



Note: The scales on the horizontal axis do not reflect the scales of the actual income. The exchange rate used is approximately PYG 7 200 per USD 1.

Source: OECD based on Law No. 6380/2019.

The number of active taxpayers increased across the three IRE regimes in the last five years (Table 5.4). The number of active taxpayers has increased under the IRE General scheme but slightly decreased in the past 1-2 years under the IRE SIMPLE and RESIMPLE schemes. The share of active taxpayers among all registered taxpayers varies between 38% in the RESIMPLE, 65% in the SIMPLE, 58% in the IRE General. Overall, participation under the IRE RESIMPLE scheme is very limited, with only 5 233 active taxpayers in 2024.

Table 5.4. Active taxpayers under the IRE

Year	IRE General	IRE SIMPLE	IRE RESIMPLE
2020	100 850	290 204	4 589
2021	107 110	258 955	6 632
2022	114 982	278 640	6 906
2023	124 173	313 867	6 399
2024	136 282	300 587	5 233

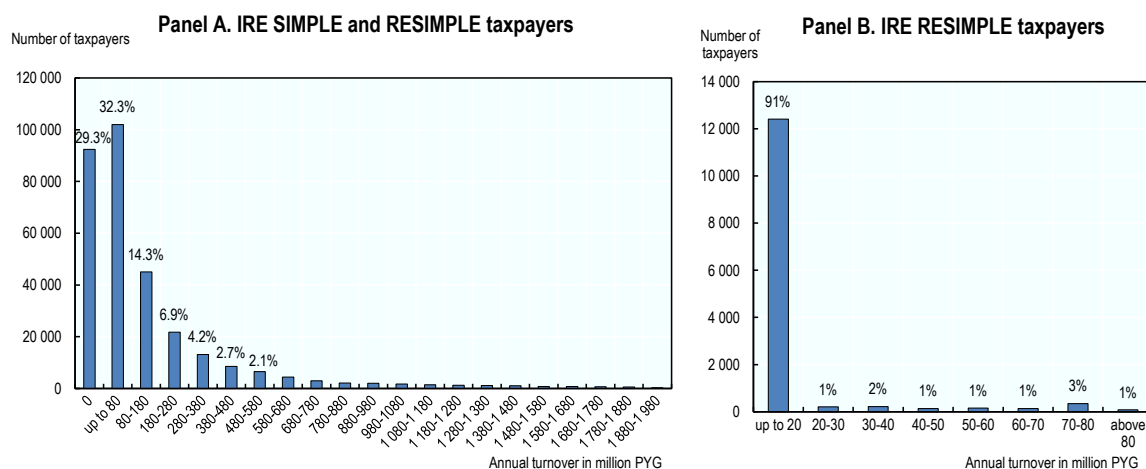
Source: MEF/DNIT (2025).

Paraguay's presumptive tax regime has not attracted many firms

Small taxpayers operating under the simplified regimes are highly concentrated in the lowest turnover brackets. In 2024, around one-third of taxpayers registered in the simplified regimes (IRE SIMPLE and RESIMPLE) were inactive or declared zero gross income (Figure 5.12, Panel A). An additional 32% of all small taxpayers report annual gross income of up to PYG 80 million (RESIMPLE presumptive regime eligibility threshold). However, only about 13% of taxpayers within this income range are registered under RESIMPLE. Most taxpayers with gross income below PYG 80 million were already registered under IRE SIMPLE in previous years, and therefore remain in that regime even if their turnover fell below the RESIMPLE eligibility threshold in 2024. Taxpayers may also prefer to remain in the SIMPLE regime because their tax liability is lower due to modest profit levels and because the SIMPLE regime allows them to claim input VAT credits. In addition, the possibility of inflating deductible costs in a low-monitoring environment may also influence this preference. Within RESIMPLE, 91% of taxpayers report annual turnover below PYG 20 million, qualifying for the lowest lumpsum payment under the simplified regime (Figure 5.12, Panel B). This pattern suggests that taxpayers tend to opt for the RESIMPLE regime only if they qualify for the lowest lump-sum payment.

Figure 5.12. Distribution of IRE SIMPLE and RESIMPLE taxpayers by turnover brackets

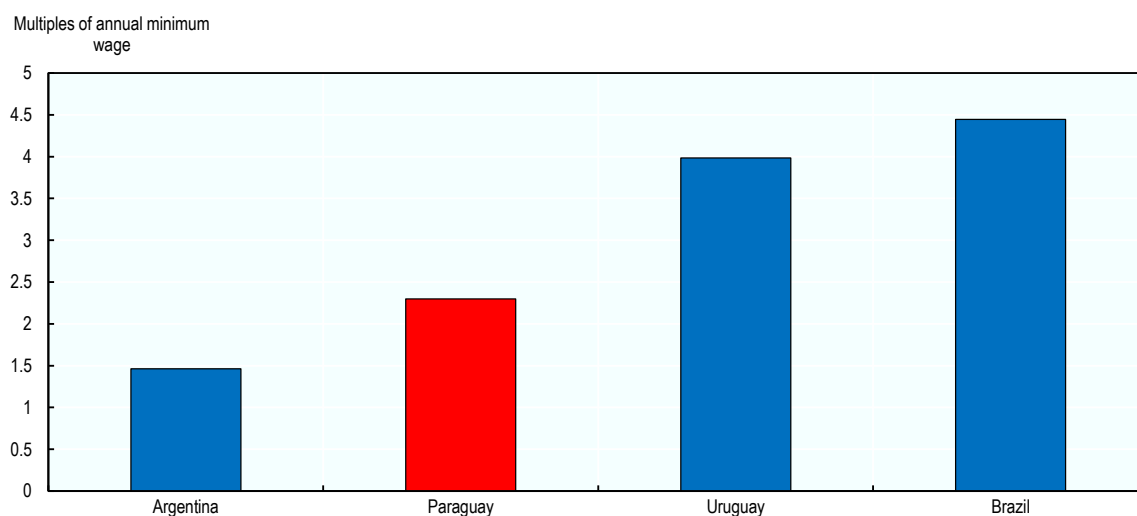
Distribution of taxpayers by annual turnover brackets in million PYG, 2024



Source: DNIT (2025).

Transitions between Paraguay's simplified tax regimes follow best practices. To support firms' growth, the tax administration grants a 1.5-year period to switch from the RESIMPLE to the SIMPLE regime once a firm exceeds the PYG 80 million turnover threshold. Transitions from the SIMPLE regime to RESIMPLE are generally not permitted to avoid abuse of the presumptive regime.

Figure 5.13. Turnover thresholds for presumptive tax regimes in Paraguay and selected countries



Note: Displayed thresholds: Paraguay - RESIMPLE : PYG 80 million; Brazil - *Micro-empendedor Individual*: BRL 81 000; Uruguay - *Monotributo*: UYU 1 129 055; Argentina – *Monotributo* (2023 threshold): ARS 5 650 236.51.

Source: National websites and Mas-Montserrat, Colin and Brys (2024^[13]).

The turnover thresholds of the IRE regimes have not been updated since the establishment of the regime in 2019. To update the thresholds, a legislative or regulatory amendment to Law No. 6380/19 would be necessary. Due to inflation, the real values of the thresholds will reduce over time, automatically pushing small companies from the RESIMPLE in the SIMPLE regime.

However, the RESIMPLE's eligibility threshold appears appropriate. The eligibility threshold of Paraguay's RESIMPLE regime is higher than the threshold of the simplified tax regime in Argentina (*Monotributo*) but lower than the thresholds of the simplified regimes in Uruguay (*Monotributo*) and Brazil (*Simples Nacional* for micro-entrepreneurs), when measured in multiples of the annual minimum wage (Figure 5.13).

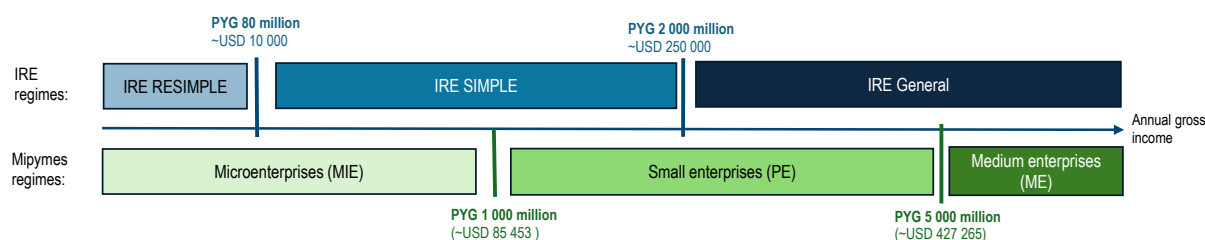
Alignment between simplified tax regimes and regimes offering reduced social security contributions could be improved

Paraguay does not have a comprehensive presumptive tax regime (PTR) covering both taxes and social security contributions. The IRE RESIMPLE regime is a presumptive tax regime for taxes (CIT and VAT) but does not include social security contributions. Social security contributions under the IPS are governed by several different regimes (see Chapter 6). For workers in microenterprises, the most relevant scheme is the recently introduced Mipymes scheme (Law No. 7444/2025), which allows contributions on a reduced base equivalent to 80% of the minimum wage. The RESIMPLE regime exempts taxpayers from VAT and thus does not allow for input VAT refund, which may reduce its attractiveness for microenterprises purchasing from formal suppliers.

The classification of enterprises under the simplified IRE schemes and the Mipymes law use different turnover thresholds (Figure 5.14). Firms are classified as microenterprises where annual turnover does not exceed PYG 1 billion (approximately USD 85 453), and as small enterprises where annual turnover does not exceed PYG 5 billion (approximately USD 427 265). The thresholds for the categorisation of Mipymes are adjusted annually for inflation, whereas the income thresholds under the IRE regime are not subject to regular updates. Under the current design, the IRE RESIMPLE scheme only

covers the smallest microenterprises, the IRE SIMPLE covers microenterprises and small enterprises and the general IRE covers small, medium-sized and large enterprises.

Figure 5.14. Gross income thresholds for firms under the IRE and Mipymes regimes



Note: The scales on the horizontal axis do not reflect the scales of the actual income. The exchange rate used is approximately PYG 7 200 per USD 1.

Source: OECD based on Law No. 6380/2019 and Law No. 7444/2025.

Both regimes provide preferential tax treatment for small and micro-enterprises. While the simplified IRE regimes provide lower business taxation, the Mipymes law exempts microenterprises from commercial licence and municipal fees for the first 36 months and provides discounts for small enterprises. Although this three-year exemption for municipal fees provides support to new microenterprises, it may also create incentives for firms to discontinue their business and open a new business to prolong access to these benefits.

A simplified regime covering both general taxation and social security contributions is recommended to promote the formalisation of microenterprises. The taxation and social security contribution obligations of firms could be consolidated within a revised presumptive regime drawing on practices implemented in other countries in the region. This could be an alternative approach to increase formalisation of workers in microenterprises, if the recent Mipymes law would have limited success in increasing the number of workers that pay SSCs. Bundling taxes and SSCs under a PTR could incentivise formalisation and help expand social insurance coverage to workers in microenterprises. Such a tax design is not intended to replace the standard tax and SSC regime but rather to facilitate the transition to it.

Paraguay offers a range of tax incentive regimes to attract investment

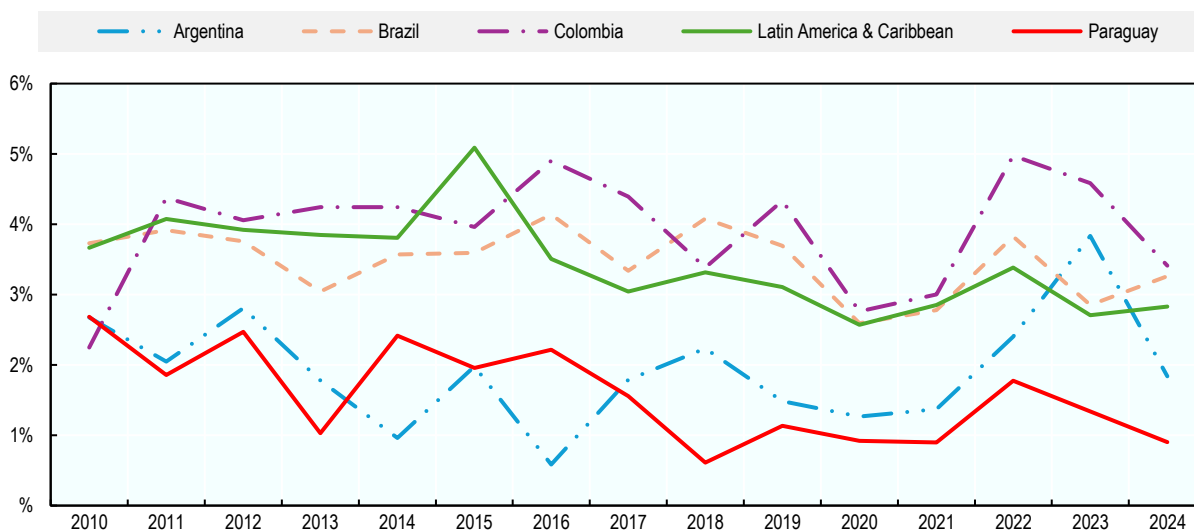
Paraguay offers a range of tax incentive regimes designed to incentivise foreign and domestic investment, particularly in export-oriented and capital-intensive sectors (Annex A.1, Table 5.A.2). The recent Law No. 7547 from September 2025 reforms several tax incentive regimes and overall broadens the scope of corporate tax incentives, while introducing sunset clauses to limit the benefit period of some incentives.

- **Maquila regime:** Companies benefit from a single tax rate of 1% on the value added created in Paraguay or the amount exported, whichever is greater, along with exemptions from customs duties and VAT on imported inputs. The single tax substitutes all other taxes including the dividend tax, CIT and non-resident income tax (INR). Established under Law No. 1064/97, the regime is applicable to companies which import raw materials and components for processing or assembly in Paraguay, provided the final goods are exported. The regime permits users to sell up to 10% of the production to the domestic market, which increases the complexity of monitoring the regime and raises concerns regarding fair competition with other domestic firms. The recent reform under Law No. 7547/2025 extended beneficiaries under the Maquila regime to service providers with an export orientation (e.g. call centres or software industry companies), as well as to self-employed and unipersonal businesses. The new law also introduced a sunset clause on the benefits, which can only be granted for 20 years, with the option for another 20 years renewal.

- **Free Trade Zones (FTZ):** Companies operating in FTZs are subject to a reduced income tax rate of 0.5%, and benefit from broad exemptions on customs duties, VAT, dividend tax (IDU), and non-resident income tax (INR). Governed by Law No. 523/1995, this regime enables commercial, industrial, and service activities within designated zones, primarily aimed at foreign markets. Paraguay currently operates one free trade zone in Ciudad del Este, close to the border with Brazil and Argentina.
- **Capital Investment Law (Law No. 60/90):** This regime provides tax exemptions for approved investment projects, including exemptions from customs duties, VAT, and certain municipal taxes. Projects exceeding USD 5 million may also benefit from withholding tax exemptions on interest, commissions, and remittances for up to five years. Dividends are also exempt from dividend income tax, if the investment exceeds USD 13 million. Law No. 7548 of September 2025 reforms the Capital Investment Law by maintaining the existing tax incentives under the previous law and introducing additional new tax incentives and measures that reform the administration of the regime. The reform package introduces clearer eligibility criteria, stricter renewal limits, a sunset-clause of 20 years, and improved monitoring and enforcement mechanisms. Additional measures include extending VAT exemptions to the sale of capital goods imported under the regime and extending the dividend tax (IDU) exemption to domestic capital investments. The DNIT will be added to the Investment Council to manage the regime together with MEF and MIC.
- **National Automotive Policy (Law 4838/2012):** Paraguay offers a targeted tax incentive regime for the automotive industry aimed at fostering domestic value creation within the sector. Eligible companies benefit from exemptions on customs duties for imported inputs used in production, a reduced VAT base whereby the 10% VAT rate applies to only 20% of the sale price of new vehicles, and a 50% reduction in customs duties for vehicles imported for re-export.

Despite generous special regimes and the low statutory tax rate, Paraguay has not attracted high levels of foreign direct investment. Between 2010 and 2024, FDI inflows into Paraguay fluctuated around an average of 1.6% of GDP, significantly below the LAC regional average of 3.5% of GDP (Figure 5.15). No comprehensive evaluation has been conducted to assess the effectiveness of these regimes in attracting FDI or their broader economic impact, including job formalisation. Given the generous tax incentives offered under the Maquila regime and in Free Trade Zones, it is recommended that future analysis assesses their cost-effectiveness and their contribution to formal employment creation.

Figure 5.15. FDI inflow (% of GDP) in Paraguay and selected countries, 2010–2024



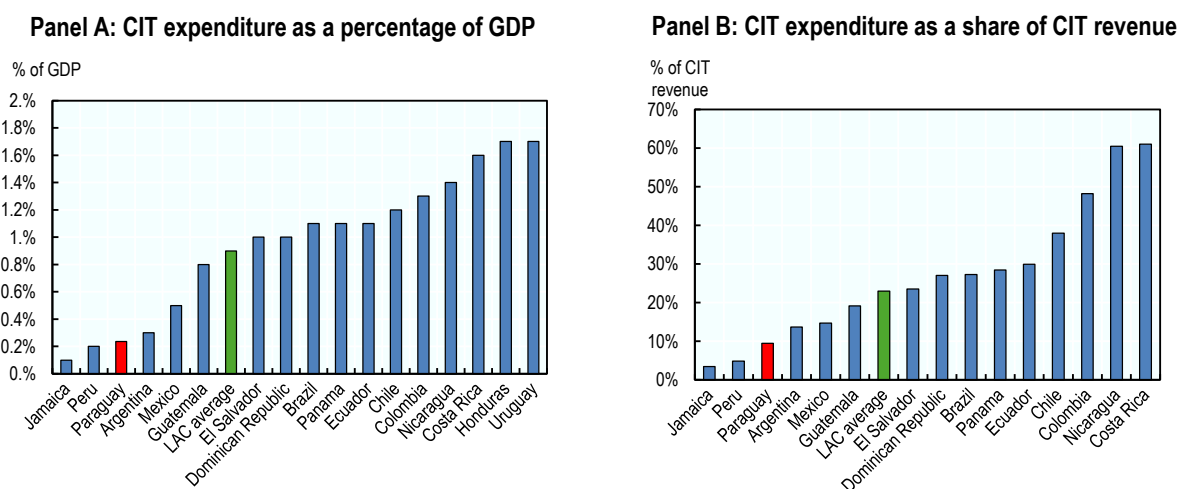
Source: World Bank (2026^[14]), World Development Indicators.

There is scope for a more comprehensive measurement of tax expenditures in the CIT

The foregone revenue from CIT expenditures remains modest in Paraguay compared to regional peers, despite their generosity. In 2024, tax expenditures in the CIT amounted to 0.24% of GDP, well below the LAC average of 0.9% of GDP (Figure 5.16, Panel A). These expenditures account for around 10% of total tax expenditures in Paraguay and correspond to 9.4% of CIT revenue, well below the regional average of 23.5% of CIT revenue (Figure 5.16, Panel B). The relatively low level of revenue forgone from tax expenditures may reflect several factors including limited access to information from special regimes, limited take-up of tax incentives and high non-compliance and underreporting. Finally, Paraguay's significantly lower standard CIT rate compared to other LAC countries partly explains the lower revenue forgone from tax expenditures.

Figure 5.16. Corporate income tax expenditures in Paraguay and selected countries

Revenue forgone from tax expenditures, 2024 or latest year available



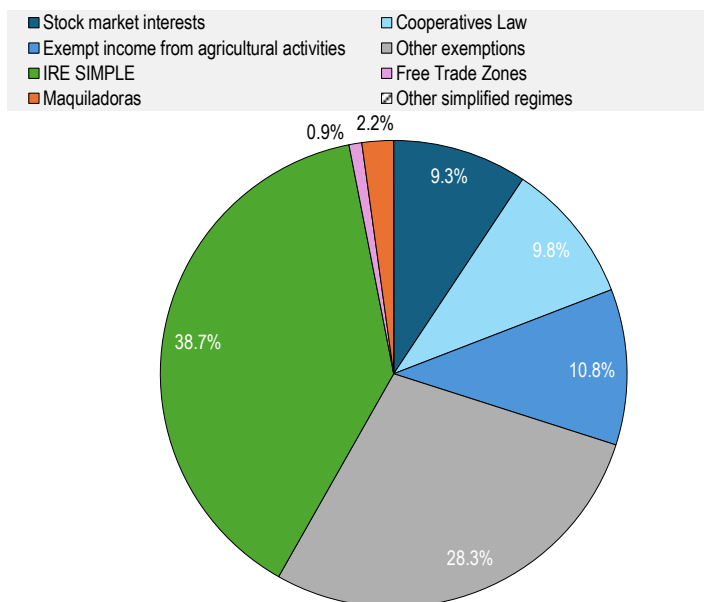
Note: The LAC average only includes the 18 LAC countries presented in this graph.

Source: Adapted from Peláez Longinotti (2025^[15]) and the TEDLAC database; MEF.

The largest corporate income tax expenditures in Paraguay are associated with tax exemptions in the general regime and tax expenditures in the IRE SIMPLE regime (Figure 5.17). Tax expenditures under the corporate income tax encompass various types, including exemptions, simplified tax regimes, special tax incentive regimes, and reduced rates. The largest share of revenue forgone arises from tax exemptions, amounting to 0.14% of GDP. Within this category, exemptions related to stock market interest income, Cooperatives Law, and agricultural income each represent around 10% of total revenue forgone, approximately 0.02% of GDP (Box 5.4). The IRE SIMPLE regime accounts for approximately 39% of total revenue forgone under CIT tax expenditures, equivalent to 0.09% of GDP in 2024. Free trade zones and the Maquila sector represent a relatively small share of CIT revenue forgone, 0.9% and 2.2%, respectively. However, the estimated revenue forgone of the Maquila regime is expected to increase due to the recent expansion of the regime to the services sector.

Figure 5.17. Breakdown of revenue forgone from tax expenditures in the corporate income tax

Share of revenue forgone in CIT tax expenditures by type of tax expenditure, 2024



Note: Other exemptions include exemptions for religious institutions, industrial activities, real estate activities, and the tourism, transport, communication sectors, etc.

Source: MEF/DNIT (2025).

Box 5.4. Tax exemptions in the IRE

Exempt income in the IRE under **Article 25 of Law 6380/2019**:

- Interest and profits from public debt securities issued by the State or municipalities
- Income from recognised educational services (preschool to higher education)
- Dividends and profits taxed under the IDU, received by shareholders, partners of corporations or limited partnerships
- Surpluses of cooperative entities, within legal limits (Law No. 438/1994)
- Income from international freight services related to exports, with proper transport documentation
- Interest from Central Bank placements (Monetary Regulation Bonds and Commitment Letters)
- Returns and capital gains from trading securities on regulated stock exchanges
- Gains from valuation or sale of participation in Investment Equity Funds (Law No. 5452/2015)
- Income of foreign official bodies (with reciprocity) and international public law organizations
- Donations to religious institutions
- Income of legally recognised non-profits engaged in social, cultural, environmental, or humanitarian work, provided no profit distribution occurs
- Income of recognized political parties, unions, and business associations
- Income of legally established or recognized social security institutions, including mutuals

However, exemptions do not apply to permanent, profit-oriented activities (e.g., transport, hospitality, advertising, leasing, construction, etc.) conducted by non-profits or religious entities.

The tax benchmark of CIT tax expenditures could be reviewed to identify additional provisions that qualify as tax expenditures. Specifically, the difference between actual profits and the presumptive tax base (30% of turnover) under the IRE SIMPLE could be considered a tax expenditure. When the taxpayer opts for the presumptive income option, this effectively grants relief equal to the difference between presumptive and actual profits. The same consideration applies to taxpayers who choose to use 30% of gross income as the tax base for activities in the forestry sector, as well as for those declaring income from property sales under the IRE General.

The value-added tax is efficient and generates high revenue

Value-added tax (VAT) is a key source of revenue, generating 5.4% of GDP in revenue in 2023 and representing more than one third of total tax revenue. The VAT revenue ratio (VRR), which compares actual VAT revenue to the theoretical revenue that would be collected if the standard VAT rate were applied to all final consumption, stood at approximately 70% in Paraguay over the past decade, indicating that 70% of the VAT revenue potential was actually collected. This very high VRR rate – well above the LAC average of 0.55 and the OECD average of 0.58 (OECD, 2024^[16]; Peláez Longinotti, 2024^[17]) – may partly reflect an underestimation of informal consumption in the national accounts and needs to be interpreted with caution.

The VAT regime applies a standard rate of 10% to a broad base and a reduced rate of 5% to basic consumer goods and some other goods (Table 5.5). The 2019 tax reform introduced a VAT on digital services at the 10% standard rate. Input VAT is creditable against output VAT, and exports are treated as zero-rated, allowing exporters to claim refunds on input VAT for goods and services directly or indirectly linked to export activities. However, input VAT on raw materials used in agricultural products destined for export – such as flour, raw oils, expeller, and pellets – is not refundable.

Table 5.5 VAT rates and exemptions in Paraguay

Tax	Tax rate	Products
VAT standard rate	10%	Goods and services, imports of low-value-goods, use of property, and loans, digital services by foreign providers
VAT reduced rate	5%	Basic consumer goods, agricultural products, the transfer of immovable property, the leasing of residential real estate, and pharmaceutical goods for human use
Tourism shopping regime	1.25% (10% VAT rate on 12.5% of the value of the imported good)	Imported goods for resell to non-residents in selected cities
VAT exempt		Fuels, Electric vehicles, Hybrid vehicles, Small businesses under RESIMPLE regime

Note: Exports are treated as zero-rate supplies under the VAT regime, allowing for full recovery of input tax, whereas domestically supplied products that are VAT-exempt do not qualify for input VAT recovery.

Source: DNIT, Law No. 6380/2019.

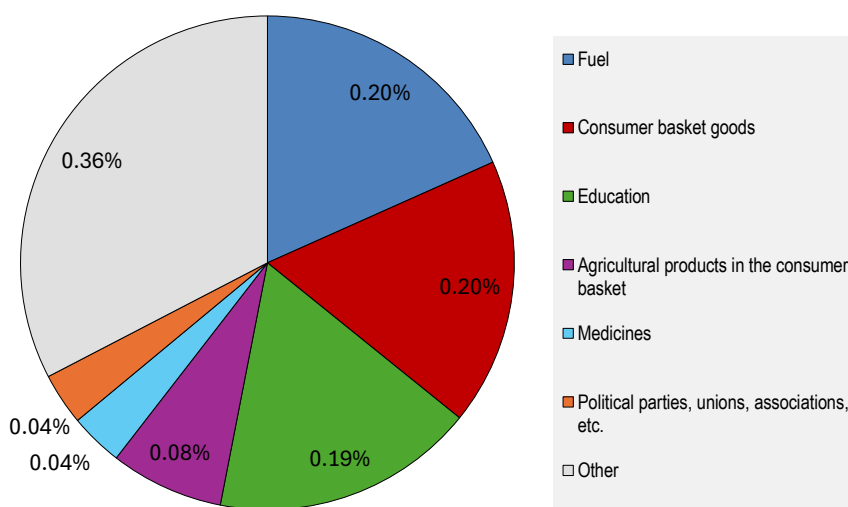
Paraguay's VAT system incorporates withholding taxes aimed at enhancing compliance and securing revenue collection. The withholding rate varies depending on the nature of the transaction: payments to foreign suppliers are subject to a 100% VAT withholding, while payments to domestic suppliers are generally subject to a 30% withholding. A reduced withholding rate of 10% applies to transactions involving agricultural products. These measures are designed to strengthen enforcement and reduce the risk of non-compliance in VAT collection.

Paraguay does not impose a VAT registration threshold. However, small businesses under the RESIMPLE regime with annual gross income below PYG 80 million (~USD 10 000) are VAT exempt. A key difference between a VAT registration threshold and the Paraguayan RESIMPLE threshold is that firms below the VAT threshold may opt into VAT registration and recover input VAT, while such voluntary registration and refund entitlements are not available to firms under the RESIMPLE regime.

VAT accounts for the largest share of revenue forgone from tax expenditures

Tax expenditure from VAT amounted to 1.1% of GDP in 2024. The VAT expenditures originate mainly from six items: Fuels (0.2% of GDP), consumer basket goods (0.2%), education (0.19%), agricultural products included in the consumer basket (0.08%), political parties, unions, associations, among other entities (0.04%), and medicines (0.04%) (Figure 5.18). About 60% of VAT tax expenditure is linked to exemptions (fuel, education, etc.) and 40% is due to reduced VAT rates (e.g. for basic consumption goods, agricultural products and medicines) (Salim, 2024^[10]). In 2023, VAT tax expenditure accounted for 45% of total tax expenditure and 17% of VAT revenue.

Figure 5.18. Tax expenditure in the VAT (% of GDP), 2024



Source: MEF (2025).

The elimination of reduced VAT rates on basic goods should only be considered once *Tekopora* and *Adulto Mayor* reach all the eligible population. A potential reform option could be to eliminate existing reduced rates on consumer goods, while compensating the lowest income deciles. However, this should only be considered once *Tekopora* can be expanded to the first three deciles and *Adulto Mayor* is fully implemented. The VAT compensation could take the form of a monthly cash transfer or an immediate refund if *Tekopora* beneficiaries are allowed to purchase goods using an electronic wallet linked to the transfer, as is the case in Uruguay with beneficiaries of the family allowances cash-transfer programme (AFAM-PE).

There is scope to reform other VAT expenditures including eliminating the VAT exemption on fuels and on the purchase of hybrid and electric vehicles. Furthermore, reduced rates for the transfer of immovable property and the leasing of residential real estate are not very common and could be reconsidered.

Paraguay has a preferential VAT regime for tourism-related purchases (*Régimen de Turismo de Compras*, RTC). The regime applies to imported goods that are sold within Paraguay to non-resident

entities or individuals, but only in five designated border cities. Under this scheme, the 10% standard VAT rate is levied on a reduced tax base equivalent to 12.5% of the value of the imported goods, resulting in an effective VAT rate of 1.25% (Table 5.5). In case that goods are sold to resident entities or individuals outside the regime, VAT applies to the full tax base, but input VAT can be credited. According to the DNIT, 465 firms were active under this regime in 2025. Given its preferential tax treatment of selected taxpayers, the tourism shopping regime should be considered a tax expenditure. The revenue forgone associated with this preferential regime amounted to approximately USD 230 million or 0.5% of GDP in 2025. However, this estimate should not be interpreted as the potential revenue gain from eliminating this preferential rate, as such a change could lead to a decline in tourist purchases. In the medium term, it is advisable to evaluate the cost-effectiveness of this regime, given the substantial amount of revenue foregone it generates.

Health excise tax revenue has been declining over the past decade

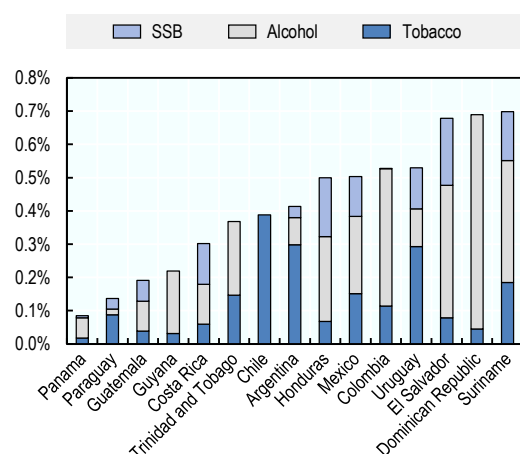
Health excise taxes represent a triple win, as they improve public health by discouraging the consumption of unhealthy products, while also generating tax revenues and reducing long-term healthcare costs (WHO, 2025^[18]). Health taxes are not only a revenue raiser but a health policy instrument. This type of taxation continues to gain momentum worldwide. In the latest years, many jurisdictions have raised taxes on tobacco, alcohol, and sugar-sweetened beverages to support public health objectives and increase revenues (OECD Tax Policy Reform reports 2023-2025).

In 2024, Paraguay's revenue from health excise taxes levied on products that have negative public health effects, amounted to 0.14% of GDP, which is among the lowest in the region (Figure 5.19, Panel A). However, revenue from tobacco excise taxes has declined by 0.07 percentage points of GDP since 2019 and represents 0.09% of GDP in 2024 (Figure 5.19, Panel B). Alcohol excise tax revenue has fallen by 0.05 percentage points of GDP since 2014 and represents only 0.02% of GDP in 2024. The sugar-sweetened beverage (SSB) tax represents a stable but small revenue source for Paraguay (0.03% of GDP). In comparison to peer countries in the region, health taxes have a high revenue potential in Paraguay.

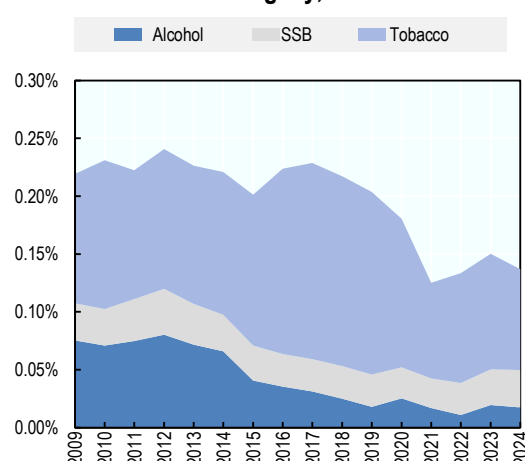
Figure 5.19. Health excise tax revenue in Paraguay and selected countries

Health excise tax revenue from alcohol, tobacco and SSBs, as a percent of GDP

Panel A: Paraguay and peers, latest year available



Panel B: Paraguay, 2009-2024



Note: Data presented in Panel A is from 2023, except for Paraguay (2024) and Suriname (2022).

Source: OECD.

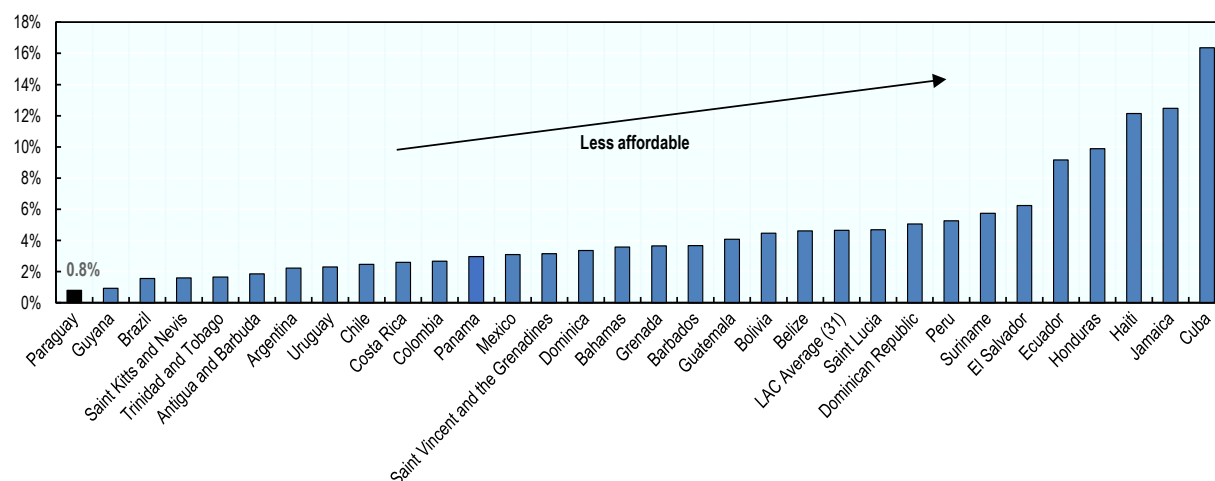
Tobacco excise tax could be reformed

The prevalence of tobacco smoking amongst adults has declined but it has increased amongst youth, together with increasing electronic cigarette use.³ The prevalence of tobacco smoking among Paraguayan adults declined by 14% between 2011 and 2022, with a registered rate of 12.5% in 2022 according to data obtained from national surveys (MSPBS, 2012^[19]; MSPBS, 2023^[20]). However, tobacco smoking has increased among students aged 13-15, with a registered rate of 7.2% in 2019 (WHO, 2021^[21]) compared to a rate of 5.8% in 2014 (WHO, 2018^[22]). No information is available of how smoking prevalence has changed for students aged 13-15 over more recent years. Additionally, 12.5% of 13–15-year-old students reported using electronic cigarettes in 2019, a significant increase from 2014 when this figure stood at 3.7%. Recent empirical evidence concludes that youngsters who use electronic cigarettes are more likely to start smoking traditional cigarettes and become regular smokers (Banks et al., 2023^[23]). Intensifying the efforts to reduce tobacco smoking prevalence rates becomes particularly important when considering the trend for younger generations.

Paraguay has the most affordable cigarettes in the LAC region. In 2024, only 0.8% of the GDP per capita was needed to purchase 100 packs of 20 sticks of the most sold cigarette brand (Figure 5.20). Although cigarettes have become slightly less affordable compared with 2014 (by 0.2 percentage points), Paraguay is the country in the region where cigarettes are currently the most affordable. Furthermore, Paraguay stands out with one of the highest smoking-attributable medical costs as a proportion of GDP in the LAC region, amounting 0.8% of GDP or 11% of total health expenditure in 2015 (Pichon-Riviere et al., 2020^[24]). In order to further reduce tobacco use and the costs it causes to the Paraguayan society, it is important that cigarette prices are increased. Tobacco taxes are the most cost-effective instrument to achieve this goal (WHO, 2021^[25]).

Figure 5.20. Affordability of the most sold brand of cigarettes in LAC, 2024

Percentage of GDP per capita required to purchase 100 packs of 20 cigarettes



Note: The affordability indicator measures the percentage of the country's GDP per capita required to purchase 100 packs of 20 cigarettes of the most sold brand in each country. A higher percentage means lower affordability of cigarettes while a lower percentage means higher affordability.

Source: WHO report on the global tobacco epidemic (WHO, 2025^[26]).

Paraguay has scope to further align its tobacco tax system with WHO tobacco tax policy best practices (Table 5.A.2, Annex 5.A). The OECD (OECD, 2024^[27]) identified twelve best practices on tobacco tax policy compiled by the WHO to assess LAC countries' tobacco tax policy in a consistent

manner. These best practices are based on global evidence on the effectiveness of tobacco taxes to reduce tobacco use (WHO, 2021^[25]). Paraguay is completely aligned with 20% of these best practices. Tobacco tax policy areas where the country scores particularly well include the number of products subject to an excise tax, since the country levies an excise tax on all traditional tobacco products and on heated tobacco products, albeit at very low rates. Uniform tax rates are applied on all taxable tobacco products, which are more effective than tiered rates). Additionally, when compared to 2014, Paraguay has made some progress in reducing cigarette affordability and increasing the tax share applied to cigarettes. However, the country still has the most affordable cigarettes of the region, and the second lowest cigarette tax burden in LAC. Other tobacco tax policy areas that could be strengthened according to international best practices are discussed below.

The cigarette tax burden in Paraguay is the second lowest in the region. In Paraguay, the tobacco indirect tax burden accounted for only 20% of the retail price of a 20-cigarette pack of the most sold brand in 2024. Paraguay levies an ad valorem excise tax on traditional and heated tobacco products, in addition to import duties and VAT. The ad valorem excise tax rate levied on those products is set at 22% for 2025. Law No 7508/2025 establishes an ad valorem excise tax on additional tobacco, nicotine, and other derivative products consumed through electronic devices with a tax rate that can range between 22% and 24%. However, as of January 2026, the Law has not been regulated and, therefore, the excise tax for these products is not yet enforced. Setting uniform rates for the tobacco excise tax is in line with WHO best practices (Table 5.A.2, Annex 5.A). However, it is recommended to rely more on specific over ad valorem tobacco taxes⁴, since the former are more effective than the latter in increasing retail prices, particularly for the cheaper brands, and hence in reducing tobacco consumption (WHO, 2021^[28]). Additionally, the ad valorem excise tax rate on traditional and heated tobacco products is low in Paraguay compared to other countries in the region which levy an ad valorem tobacco excise tax only (OECD, 2024^[27]).

The ad valorem tobacco excise tax is applied to the ex-factory price for domestic products or the customs value for imported taxable products, while it is best practise to levy it on the retail price. The tobacco excise tax is levied on the first domestic transaction made – either upon importation of tobacco products or the initial sale following production – with manufacturers and importers as taxpayers. It is best practice to levy the ad valorem tax on the retail price rather than on intermediate prices of tobacco products such as ex-factory or import values. The retail price exceeds the ex-factory price or customs value since it includes the value added by tobacco wholesalers and retailers. The broadest tax base is preferable because it strengthens the tobacco tax burden and prevents tax base manipulation strategies.

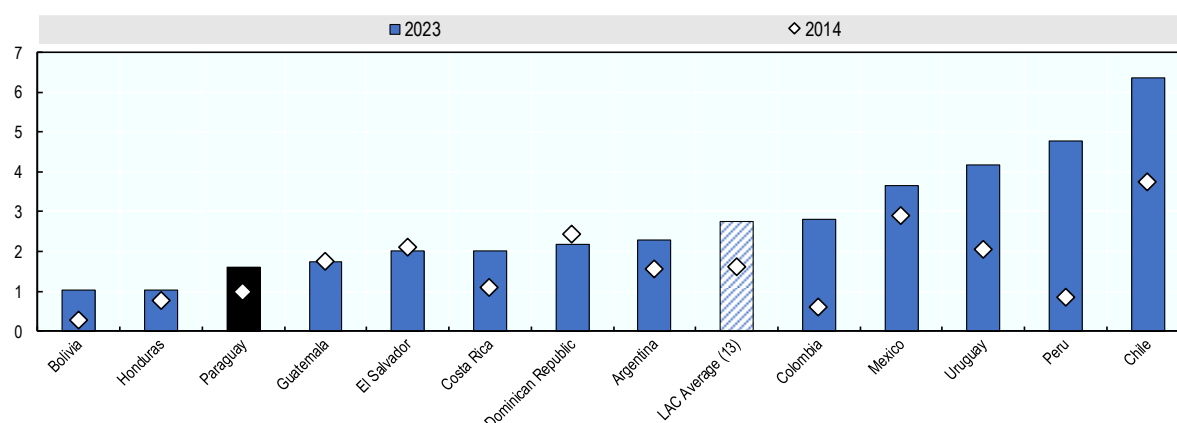
Paraguay could strengthen the design of its tobacco excise tax through several measures. First, introducing a specific tobacco excise tax component – set at a level sufficient to raise retail prices, particularly for lower-priced brands – would help reduce price dispersion and affordability of tobacco products, and therefore discourage the consumption of these products. If an ad valorem excise tax component remains part of the system, Paraguayan authorities could assess the feasibility of levying it on the retail price of tobacco products. Data available to the administration could be used for tax base enforcement purposes. In addition, establishing a minimum tax or minimum tax base across all tobacco products, set high enough to influence retail prices, would ensure that a minimum amount of excise tax is paid. Indexing the specific tax, minimum tax, or minimum tax base to inflation and real income growth would avoid that tobacco products would become increasingly affordable over time. Finally, regulating Law No 7508/2025 would ensure that other tobacco and nicotine products consumed through electronic devices are taxed, thereby reducing their affordability, which is particularly important considering the increasing electronic cigarette use among young people.

Tax revenue collected from tobacco products is low compared to peers

The average excise tax revenue collected per pack of cigarettes in Paraguay is low compared to other countries in the region and the LAC average, signalling that there is scope to further increase the tax burden on cigarettes and leverage the revenue potential of tobacco taxation. Tobacco excise tax revenue expressed as a percentage of GDP has been declining in Paraguay since 2018, with a short exception in 2022 and 2023 (Figure 5.19, Panel B). In 2023, Paraguay collected USD purchasing power parity (PPP) 1.6 per pack of cigarettes sold on the legal market, which is significantly below the LAC average (USD PPP 2.8) (Figure 5.21). If Paraguay would increase the excise tax revenue raised per cigarette pack to align it to the LAC average (USD PPP 2.8), the country could raise in the short-term additional excise tax revenue amounting between 7% and 46% of its current tobacco excise tax revenue collection.⁵

Figure 5.21. Average excise tax revenue collected per pack of 20 cigarettes sold

Tobacco excise tax revenue in USD PPP collected per pack of legal cigarettes sold, 2014 and 2023



Note: The country selection is motivated by the availability of cigarette sales data in Euromonitor International's Tobacco Industry edition. Brazil and Ecuador have been excluded due to limitations on data availability on their tobacco excise tax revenue.

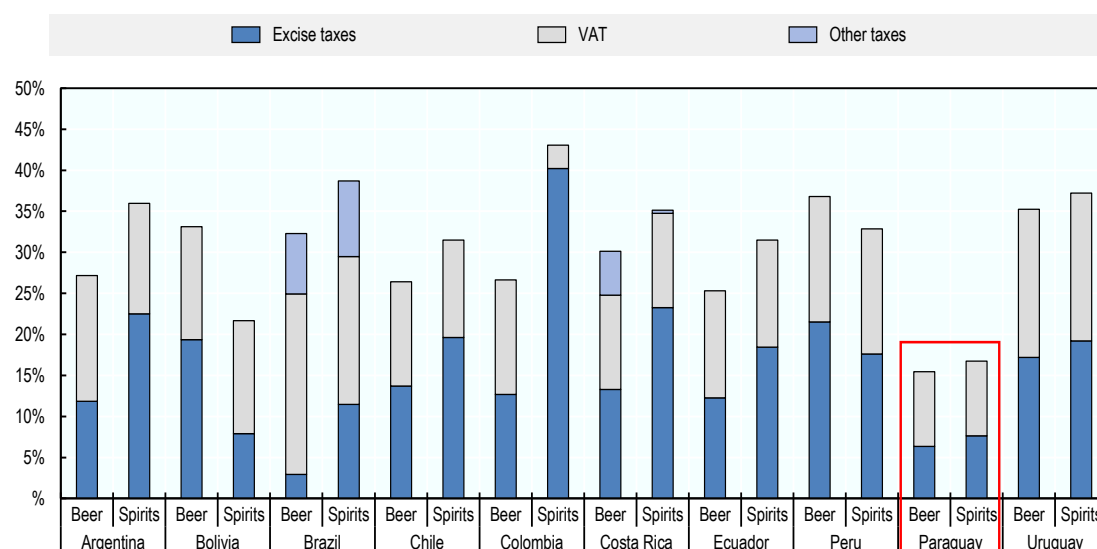
Source: OECD calculations based on Euromonitor International's Tobacco Industry edition⁶ (Euromonitor International, 2025^[29]); Paraguay's Revenues from the *Impuesto Selectivo al Consumo* (DNIT, 2025^[30]); OECD Revenue Statistics in Latin America and the Caribbean 2025 (OECD et al., 2025^[2]); WHO report on the global tobacco epidemic, 2025 (WHO, 2025^[26]); World Bank Group Data (World Bank, 2026^[14]).⁷

Alcohol excise taxes could be strengthened

The tax burden on alcoholic beverages in Paraguay is low compared to other countries in the region (Figure 5.22). Current rates range from 8% to 9% for beer and 11% for other alcoholic beverages. The 2019 tax reform introduced only a modest increase of 1 percentage point in these rates. Paraguay's alcohol excise tax system does not include a specific component, and the tax is levied solely on an ad valorem basis. The tax base is defined as the ex-factory price for domestic production or the customs value for imports.

Figure 5.22. Taxes on alcoholic beverages in Paraguay and selected countries

Total taxes on alcoholic beverages as a percentage of the retail price of the most sold brand of beer and spirits, 2024



Source: WHO (2024_[31]).

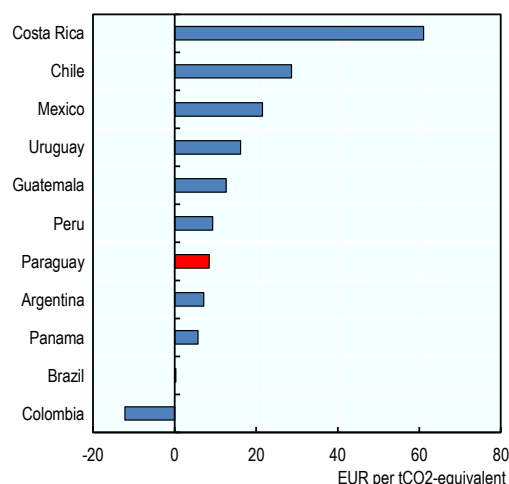
Revenues from alcohol excise taxes have declined significantly over the last decade. Between 2009 and 2024, alcohol excise tax revenue declined from 0.07% of GDP to 0.02% of GDP (Figure 5.19, Panel B). This trend is partly attributable to tax planning practices whereby producers establish affiliated distribution companies and set artificially low prices on the first sale. Since excise duties are levied on the initial transaction, these arrangements have significantly eroded the tax base.

Several options could be considered to strengthen the design of alcohol excise taxes. First, a specific component based on alcohol content (e.g. fixed amount of tax per litre of ethanol) could be introduced to better align taxation with health objectives. Second, if the design relying only on ad valorem taxes would be maintained, a minimum tax could be implemented to ensure the collection of a minimum amount of excise tax revenue. A differentiated minimum tax could be established per drink category, to approximate to the principle of taxing the harm (i.e. alcohol content), if setting a fixed amount of tax per ethanol volume would not be administratively feasible. Third, Paraguayan authorities could assess the feasibility of levying the ad valorem excise tax on the retail price of alcoholic beverages rather than the first sale price. This would address tax avoidance strategies that leverage on the current design of the alcohol excise tax base. Finally, there is scope to increase rates, particularly for beverages with higher alcohol content, which remain among the lowest in the region.

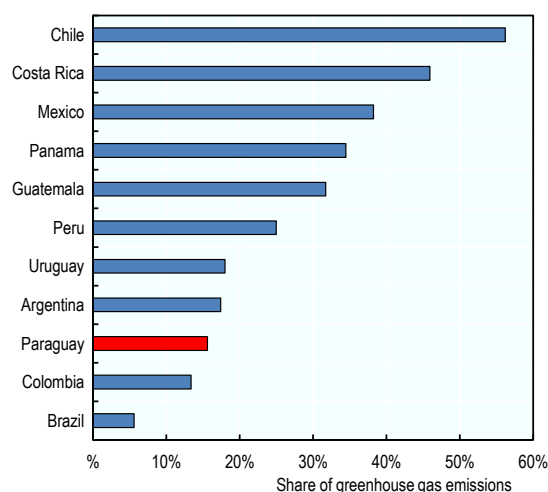
The role of environmental taxes could be strengthened

Environmentally related taxes mobilise only 0.8% of GDP in tax revenues (World Bank, 2025_[32]). The low revenue from environmentally related taxes could be partially attributed to the low net effective carbon price compared to other LAC countries (Figure 5.23). Paraguay's net effective carbon rate is low at EUR 8.5 per tonne of CO₂ and only about 16% of the greenhouse gas emission in Paraguay are taxed.

Figure 5.23. Net effective carbon rates in Paraguay and selected countries

Panel A. Effective carbon rate (EUR/tCO₂), 2023

Panel B. Percentage of greenhouse gas emissions that are taxed, 2023



Note: Both graphs are based on net effective carbon rates.

Source: OECD (2024^[33]).

Paraguay could consider increasing the tax burden on fuels once the recent increase in energy prices has subsided. As part of an IMF agreement (IMF, 2024^[34]), Paraguay plans to introduce a carbon tax on liquid fuels (diesel, gasoline, LPG) replacing the existing excise tax so that the reform is revenue neutral. While this reform would not change effective tax rates, it could create the conditions for future, gradual increases in the carbon tax.

The taxation applied to the importation or purchase of vehicles could be increased, in particular for non-electric cars. The importation and registration of petrol and diesel vehicles could be taxed under the excise tax, or a feebate mechanism could be established (World Bank, 2025^[32]). Another alternative could be to introduce an annual tax on CO₂ emissions generated by vehicles. Furthermore, tax incentives could be restricted to only fully electric vehicles, excluding hybrid vehicles (World Bank, 2025^[32]).

Property taxes could be strengthened

Property taxation in Paraguay remains underutilised as a revenue source, generating only 0.2% of GDP in 2023, well below the LAC regional average of 0.8% of GDP. The recurrent real estate tax (*impuesto inmobiliario*) is levied annually on the cadastral value of property, which is determined based on official valuations by zone and gradually adjusted to market values over a five-year period. The standard tax rate is 1%, with a reduced rate of 0.5% applied to rural properties smaller than five hectares. The tax is payable by property owners or users and is administered and collected at the municipal level. However, weak enforcement at the local level significantly undermines its effectiveness. The DNIT is responsible for updating cadastral values annually based on consumer price indices, with a full cadastral revision mandated every five years. Nonetheless, according to DNIT officials, data limitations – particularly in rural areas – hinder the accuracy and comprehensiveness of these updates. A surtax also applies to rural properties exceeding 10 000 hectares. In addition, a 0.3% tax is levied on the transfer of immovable property, based on the higher of the transaction price or cadastral value. While the overall revenue potential of property taxation remains modest, strengthening its administration could enhance subnational revenues and support fiscal decentralisation.

Box 5.5. Recommendations to mobilise tax revenues

Personal income tax:

- Introduce a generous basic tax allowance or zero tax rate for the first income bracket with a high threshold and eliminate the PYG 80 million exemption threshold. Alternatively, introduce an overall cap on total deductions defined as a percentage of taxable income.
- Abolish some deductions and limit the remaining ones.
- Introduce PIT withholding for labour income.
- Strengthen monitoring mechanisms to prevent a significant share of taxpayers from reducing their labour and capital income tax liability to zero.
- Tax pension income.
- Assess the costs of tax expenditures in the PIT, including deductions and exemptions, on an annual basis. Quantify revenue forgone of PIT tax exemptions, using third-party data.

Corporate income tax:

- Refrain from extending corporate tax incentives.
- Evaluate the impact of existing tax incentive regimes on formal job creation in the domestic economy.
- Consider reporting and measuring additional tax expenditures in the IRE.

Value-added tax:

- Consider the preferential tourism shopping regime as a tax expenditure and assess its cost-effectiveness.
- Eliminate the VAT exemption on fuels and on the purchase of hybrid and electric vehicles.
- Maintain reduced VAT rates on basic consumer goods as long as *Tekoporã* is not fully expanded to all eligible low-income households and *Adulto Mayor* is fully rolled-out, then consider eliminating reduced rates on basic consumer goods while compensating low-income households.

Health taxes:

- Tobacco:
 - Introduce a sufficiently high specific excise tax component and index it at least to inflation.
 - Levy the ad valorem excise tax on the retail price of tobacco and nicotine products instead of the ex-factory price.
 - In the absence of a specific excise tax, introduce a sufficiently high minimum tax or tax base on all tobacco and nicotine and index it at least to inflation.
- Alcohol:
 - Introduce a specific component based on alcohol content (e.g. fixed amount of tax per litre of ethanol).
 - In the absence of a specific tax, a minimum tax could be implemented to ensure the collection of a minimum amount of excise tax revenue.
 - Apply the excise tax rate on the retail price rather than the first sale price.
 - Consider increasing excise tax rates, particularly for beverages with higher alcohol content.

Environmental taxes:

- Increase taxation on fuels once the recent increase in energy prices has subsided.

Property taxes:

- Strengthen the administration of property taxes to enhance subnational revenues and support fiscal decentralisation.

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Notes

¹ The long-run average tax buoyancy value is 1.1 if the 2020 value is not imputed.

² The following agents need to withhold PIT: Entity that distributes dividends and profits not taxed under the IDU; Entity that pays royalties to individuals; Notary when involved in selling real estate; Casinos and similar institutions that pay out prizes exceeding PYG 500 000; Foreign Ministry and military for remunerations paid to staff providing services abroad; Independent workers need to withhold income tax on non-residents when they hire services from a non-resident INR. In these, cases the withholding agents must submit withholding taxes through Formulario No. 725 on Settlement of Withholdings of the Income Taxes to the DNIT.

³ Electronic cigarettes include Electronic Nicotine Delivery Systems (ENDS) and Electronic Non-Nicotine Delivery Systems (ENNDS).

⁴ Ad valorem tobacco taxes are those levied as a percentage of the value of the tobacco product being taxed, whereas specific tobacco taxes are those levied per quantity of the tobacco product (WHO, 2021^[25]).

⁵ To estimate a range of potential additional tobacco excise tax revenue collection, two different average cigarette price elasticities computed from existing evidence on LAC countries have been considered: -0.75 from Guindon et al. (2025^[36]) and -0.31 from Guindon et al. (2018^[37]). These computations have been developed assuming that the additional excise tax raised per cigarette pack would be fully passed through into cigarette prices.

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⁷ Data on tobacco excise tax revenue for this Figure was obtained from three different sources: (i) OECD Revenue Statistics in Latin America and the Caribbean (2025^[2]) for Argentina, Chile, Colombia, Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Mexico, and Uruguay; (ii) the WHO report on the global tobacco epidemic (WHO, 2025^[26]) for Bolivia and Peru; and (iii) national data for Paraguay.

Annex 5.A. Additional tables and figures

Annex Table 5.A.1. Tax expenditures identified in the PIT in Paraguay

Tax expenditures	Location in tax return file	Calculation of the TE
Tax return file No. 515 for labour income	File No. 515	
Personal and dependants' expenditure in the country	Field 16	Calculate the difference in the current tax liability and the tax liability if the amount of the respective deduction were added
Personal and dependants' expenditure abroad for health and education	Field 17	
Personal expenditure for the purchase of a vehicle every 3 years	Field 18	
Employer's social security contribution paid to domestic workers	Field 19	
Voluntary contribution to a private social security system made by the independent personal service provider.	Field 20	
Dues, contributions, tithes and donations made in favour of the State and other associations	Field 21	
Personal expenditure for the cash purchase of a property for housing every 5 years, or deduction of interest and capital for the purchase of a property by loan.	Field 28	
Portion of tax loss from previous tax years, which is offset against the net income for the current year reported in Field 29, which shall be limited to 20% of said net income.	Field 38	
Tax return file No. 516 for capital income	File No. 516	
Movable property	Field 1	Subtract the value in Column IV from the value in Column III and multiply with the PIT rate
Real estate sold on instalment terms, where the instalments are collected prior to the transfer of the property, provided that the sale was carried out by the taxpayer and was not subject to withholding		
Shares		
Capital contributions		
Assignment of rights and similar transactions		
Rental of real estate	Field 2	
Sublease of real estate		

Note: The DNIT is currently reviewing the measurement of the tax expenditures in Field 16 of Form 515 and is considering measuring revenue forgone from additional tax expenditures in form 515 (Fields 28 and 38), and in form 516 on capital income. Tax exemptions in form No. 516 are considered tax expenditures if the presumptive income base is smaller than the real net income base (applying to all items listed in Rubros 1 and 2, file No. 516). The revenue forgone of those tax expenditures could be calculated as the difference between the real net income (column III, file 516) and the presumptive net income (column IV, file 516) times the personal income tax rate.

Source: DNIT.

Annex Table 5.A.2. Investment tax incentive regimes in Paraguay

	Maquila regime	Free trade zone (FTZ) regime	Capital investment law
Legislation	Law No. 1064/1997 & Law No. 7548	Law No. 523/1995	Law No. 60/90 & Law No. 7548
Managing institution	National Council of the Maquiladora Export Industry (CNIME) guides the MEF & MIC in the administration	MIC	Investment Council administered by MEF & MIC & DNIT
Target group	Paraguayan company or unipersonal business that produces any product or service for a foreign Parent company (related or unrelated party) and creates value added	Concessionaire and user companies located in the FTZ	Capital investment companies (domestic and foreign), need to prepare a feasibility study
Number of taxpayers (2023)	260	206	421
Tax revenues (2023 or 2022)	PYG 50 634 million (<1% of CIT revenue), in 2023	PYG 121 097.54 million, in 2022 (Artana and Guardarucci, 2025 ^[7])	PYG 21 241.98 million, in 2022 (Artana and Guardarucci, 2025 ^[7])

	(Vargas and Gómez Sánchez, 2024 ^[35])		
Objective	Promote industrial production, incorporate national labour, create Paraguayan value added	Promote investments, jobs, exports, and international trade from within FTZ	Increase domestic and foreign investment into capital assets to generate growth, create permanent employment, increase production efficiency, promote exports
Business model of beneficiaries	Companies import input material, add value to the goods in an industrial process, and export the goods again	State authorizes the concessionaire entity to operate the FTZ, who leases space within the FTZ to other user companies	Beneficiaries invest in cash, financial instruments, capital goods, raw materials, trademarks, technology, technical assistance services, or leasing of capital goods.
Tax incentives		<i>For FTZ users:</i>	
<i>Corporate income tax</i>	1% single tax rate on Paraguayan value added or gross exports to the parent company (whichever is higher), but 10% IRE for sales of imported goods to the domestic market	0.5% single tax rate on gross export income	General IRE applies (10%), but tax exemption on the remittances, interest and commissions from foreign investment > USD 5 million
<i>Dividend income tax (IDU)</i>	Dividends remitted to foreign shareholder are tax exempt	Dividends remitted to shareholder are fully exempt	10 years IDU exemption, if foreign or domestic investment > USD 13 million, and foreign investor is not resident of a low-tax jurisdiction
<i>VAT</i>	Exemption for imported goods and exported goods and services, refund of input VAT paid to local suppliers for exported goods	Transaction between FTZ users and with domestic suppliers are VAT exempt	VAT exemption for imported capital goods, raw materials and inputs for the local industry, and the sale of capital goods
<i>Custom duties</i>	Imported goods and raw materials are exempt	Import of goods and export of goods and services are exempt	Imported capital goods, raw materials and inputs for domestic industry are exempt
<i>Non-resident income tax (INR)</i>	INR (15%) and VAT (10%) withheld for payments on services or financing from abroad	Payments for royalties, commissions, fees, interest, services, technical assistance, technology transfers, loans and financing, equipment rentals, and other services provided from abroad are not subject to INR withholding.	INR exemption, if the investment > USD 13 million, and the foreign investor is a bank, financial or credit institution
<i>Transfer pricing rules</i>	Transactions between maquiladores companies and foreign related parties are not subject to Paraguayan transfer pricing rules	Transactions between FTZ users and their related foreign entities are not subject to Paraguayan transfer pricing rules	
<i>Other incentives</i>	Exempt from all other national, departmental, or municipal taxes; but local taxes are withheld for services and financing contracted from abroad	Within the FTZ, goods' entry and exit are not subject to national, departmental, or municipal taxes.	Exemption from municipal and national taxes related to the incorporation and registration of companies
<i>Sunset clause</i>	20 years, with 20 years renewal		20 years, with 20 years renewal

Source: Vargas and Gómez Sánchez (2024^[35]); Artana and Guardarucci (2025^[7]); Law No. 7548 from 2025; microdata on the IRE provided by MEF.

Assessment of tobacco tax policy performance in Paraguay

Selected WHO tobacco tax policy best practices are:

- **BP1:** Increase tobacco taxes significantly to reduce the affordability of tobacco products. To reduce affordability, tax increases need to result in nominal retail price increases that exceed the increase in nominal incomes (**affordability**).
- **BP2:** Rely more on tobacco excise tax increases over other general indirect (and direct) taxes as they are most effective in raising both absolute and relative prices of tobacco products (**type of taxes**).

- **BP3:** Rely more on specific tobacco taxes over *ad valorem* taxes, and in mixed tax structures, give more weight to the specific tax component than to the *ad valorem* tax component (**tobacco excise tax structure**).
- **BP4:** Tax all traditional tobacco products (i.e. cigarettes, cigars, cigarillos, roll-your-own [RYO] tobacco) with a tobacco excise tax (**taxable products**).
- **BP5:** Tax new and emerging tobacco and nicotine products (i.e. electronic nicotine delivery systems [ENDS], electronic non-nicotine delivery systems [ENNDS] and heated tobacco products [HTP]) with an excise tax when their sales are not banned (**taxable products**).
- **BP6:** For *ad valorem* tax structures, set the retail price as the tax base rather than, for instance, the cost, insurance and freight (CIF) value or the producer price (**tobacco excise tax base**).
- **BP7:** For specific excise taxes, clearly define the tax base (for cigarettes, cigars and bidis, it is the number of sticks; for other tobacco products, such as smokeless tobacco or RYO tobacco, it is the weight of tobacco) (**tobacco excise tax base**).
- **BP8:** Tax all tobacco and nicotine products similarly (e.g. similar tax structure, similar tax rates) (**tobacco excise tax rates**).
- **BP9:** Rely more on uniform excise tax rates over tiered rates (**tobacco excise tax rates**).
- **BP10:** Adjust specific tobacco taxes for inflation and real income growth on a regular basis (prices are not decreased at times of deflation) (**indexation**).
- **BP11:** Complement the *ad valorem* excise tax with an excise tax floor (e.g. a minimum excise tax, a minimum retail price) (**excise tax floors**).
- **BP12:** Implement non-tax policies affecting price levels of tobacco products (e.g. sale restriction for single sticks of cigarettes, bans of promotional discounts for tobacco products, minimum number of cigarettes per pack) to support the effectiveness of tobacco tax policies (**sale regulations that affect tobacco tax policy design**).

Annex Table 5.A.3. Implementation of WHO tax policy best practices – Paraguay

Affordability	Type of taxes	Excise tax structure	Taxable products		Excise tax base		Excise tax rate		Indexation	Tax floor	Sale regulation
			Traditional tobacco products	New tobacco, nicotine, and other derivative products	Ad Valorem	Specific	Comparable tax rates across products	Uniform tax rates			
(BP1)	(BP2)	(BP3)	(BP4)	(BP5)	(BP6)	(BP7)	(BP8)	(BP9)	(BP10)	(BP11)	(BP12)
Cigarettes are less affordable (by 0.2 p.p.), and the tax share has increased since 2014. However, Paraguay still has the most affordable cigarettes of the region, and the second lowest cigarette tax burden in LAC	For the most sold brand of cigarettes in the country, the excise tax weight in the tobacco tax mix is between 50% and 60% (55%).	The tobacco excise tax structure is ad valorem only.	All traditional tobacco products are subject to a tobacco excise tax.	Heated tobacco products are taxed with an ad valorem excise tax.	The ad valorem excise tax applied to traditional and heated tobacco products is levied on the ex-factory price or customs value including import duties, net of the VAT and the excise tax itself.	-	Traditional and heated tobacco products are subject to the same excise tax structure and rates. However, a special provision is exclusively foreseen for traditional tobacco products domestically produced which allows to deduct the gross profit margin – up to 17% – when determining the excise tax base.	Uniform tax rates apply to all taxable tobacco products (traditional and heated).	-	There is a minimum tax base for imported cigarettes only, expressed as a fixed amount of USD 75 per master box of imported cigarettes (approximately USD 0.15 per pack of 20 cigarettes).	The sale of single cigarette sticks is banned, and the Law establishes a minimum number of 10 cigarettes per pack. There is no explicit ban of promotional discounts for tobacco, nicotine and other derivative products.
-	Does not apply	No policy or weak measure	Minimal measure	Moderate measure	Complete measure						

Note: BP refers to best practice based on the WHO framework.

Source: OECD based on WHO technical manual on tobacco tax policy and administration (WHO, 2021^[25]); WHO report on the global tobacco epidemic 2025 (WHO, 2025^[26]) and national legislation: Law 5538/2015, Minister of Health's General Resolution 630/2019, Law 6380/2019, Decree 3109/2019, National Directorate of Tax Revenue's Binding Ruling 358/2023, Decree 8878/2023, Law 7508/2025.

6 Extending social insurance to all workers

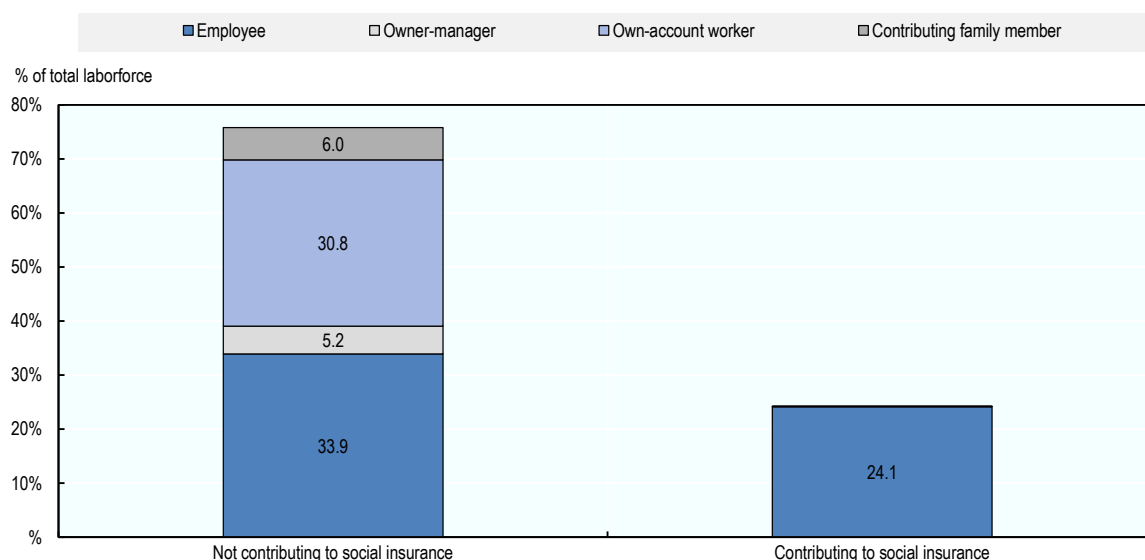
This chapter analyses challenges and policy options for extending social insurance coverage in Paraguay. It examines coverage gaps among employees and independent workers, with particular attention to the high minimum contribution threshold. The chapter reviews recent reforms, including targeted schemes for youth, domestic workers, microenterprises and small businesses, and outlines further reform options. It also discusses additional measures to strengthen compliance and enforcement of social security contributions.

Social insurance coverage among the employed population remains low

More than three-quarters of Paraguay's workforce remain outside the social insurance system. Among non-contributors, employees account for the largest share, followed closely by independent workers (Figure 6.1). Despite mandatory participation for employees, more than half do not contribute to social insurance. For owner-managers and own-account workers, participation is voluntary; however, take-up remains marginal. This underscores the limited effectiveness of voluntary arrangements in extending social insurance coverage.

Figure 6.1. Social insurance coverage by employment status

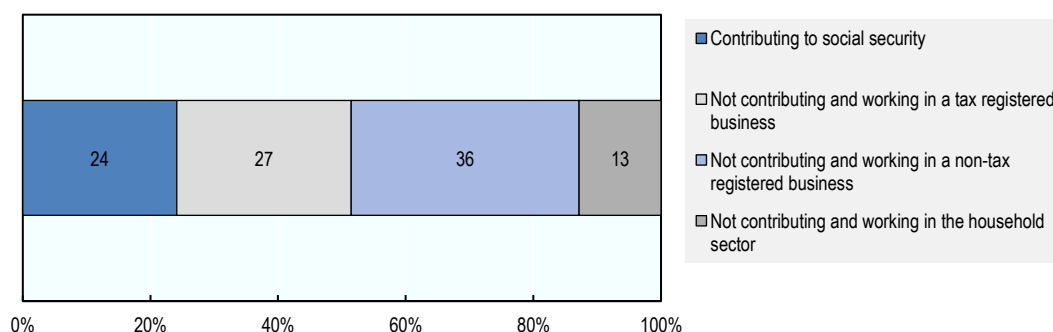
Social insurance coverage as a percent of the total labour force by employment status in Paraguay, 2024



Notes: Social insurance coverage is defined as individuals who contribute to a pension fund for their primary job. Private sector employees make bundled health and pension contributions, whereas for self-employed and public sector workers, health insurance arrangements operate separately from the pension system. Less than 0.2% of workers contributing to social insurance contribute to a private pension fund. Contributing family members are persons who work in family businesses without remuneration and have a family relationship with the owner of the business. Source: OECD based on EPHC (2024_[1]).

About two-thirds of workers without social insurance work in non-tax registered businesses (Figure 6.2). Among non-contributing private sector employees, 51% work in tax-registered firms according to information from the *Encuesta Permanente de Hogares Continua* (EPHC). The remaining work in unregistered firms (29%) and in the household sector (20%). Among owner-managers and own-account workers who are not covered by social insurance, 79% work in businesses that are not registered for tax purposes (see Table 6.A.2 in Annex 6.A).

Figure 6.2. Distribution of workers by contribution status and sector



Source: OECD based on EPHC (2024^[1]).

Informality remains widespread across Paraguay's workforce (Box 6.1 and Table 6.1). Around seven in ten individuals aged 15 or above are employed, while just under one-third are economically inactive and only a small proportion are unemployed. However, among those in employment, informality is the norm rather than the exception. According to the National Institute of Statistics (INE) definition, 63% of workers hold informal jobs when agricultural occupations are excluded. This share rises to 68% under the ILO definition, which includes agricultural workers. Informality is particularly prevalent in the private sector, where 59% of the private sector workers are classified as informal according to the INE definition.

Box 6.1. A snapshot of Paraguay's informal labour market

Informal employment, according to the 20th International Conference of Labour Statisticians, is defined as comprising all economic activities by workers and economic units that are, in law or in practice, not covered or insufficiently covered by formal arrangements (ILO, 2018^[2]). The INE in Paraguay follows the ILO definition of informality, however it excludes agricultural workers. Public and private sector employees as well as domestic workers are defined as informal if they do not contribute to a pension fund, despite legal obligations in Paraguay. Own-account workers and employers are defined as informal if their business is not registered with a taxpayer identification number (RUC). In practice, this means that own-account workers and employers can be classified as formally employed even if they do not contribute to social security, a situation consistent with Paraguay's legal framework, where these groups are not obliged to contribute to social security. Family members who work in a family business without formal remuneration are by definition considered informally employed.

Informal workers differ from formal workers in many dimensions:

- In Paraguay, 68% of all workers are informal according to the definition of the ILO (63% if agricultural workers are not considered according to the INE definition). The following figures reported in this Box are based on the ILO definition.
- Working hours: Informal workers work shorter weeks on average, around five hours less than formal workers. Part-time employment affects roughly one-third of informal workers, compared with one in seven formal employees.
- Multiple jobs: informal employment in Paraguay is predominantly characterised by single-job arrangements with 89% of informal workers holding a single job.
- Gender gaps: 67% of men work informally and 69% of women (61% of men and 65% of women if we exclude agricultural workers). Women in informal employment work about six hours less per week than men and are nearly twice as likely to hold part-time jobs.

- Earnings gaps: Informal workers earn about 40% less per month and per hour than formal employees. This earnings gap reflects informality's concentration in smaller, lower-productivity firms and sectors. About two-thirds of informal employees earn below the legal minimum wage, compared to one-third of formal workers.
- Informality and household poverty: Over half of all households (54%) rely exclusively on informal employment, and nearly four in five (77%) include at least one informal worker. Fully informal households face a 31% poverty rate, compared with 7% among formal households and 3% among mixed ones. Informal workers earning less than half the median wage are among those with low education (no schooling or only primary education), limiting their access to formal, better-paying opportunities.

Source: OECD based on EPHC (2024^[1]).

Table 6.1. Characteristics of workers by formality and social security status

Distribution of workers by employment formality and social security status, 2024

Dimension	Formal worker & contributing to social security	Formal worker & not contributing to social security	Informal (*) worker & not contributing to social security
Share of total employment	24%	8%	68%
Social protection coverage	100% contribute to a pension fund; ~85% also covered by health insurance	~ 6% have health insurance coverage as dependants.	5% have health insurance coverage as dependants.
Type of worker	99.7% employees	60% own-account workers; 41% employers	50% employees; 38% own-account workers; 9% contributing family
Main institutional sector	67% private, 31% public, 2% household	100% private	78% private, 19% household, 3% public
Firm size	68% work in large firms (20+ employees); 19% in small firms (up to 10 workers)	97% work in small firms (up to 10 workers)	87% work in small firms (up to 10 workers)
Tax-registration / banking status of the firm	95% tax-registered, 83% banked	100% tax-registered, 99.8% banked	25% tax-registered, 22% banked
Main sectors of activity	Public administration, education, health, commerce, manufacturing	Commerce, finance, manufacturing, community services	Commerce, services, agriculture, manufacturing, construction,
Occupational profile	Professionals, technicians, clerical, service staff	Managers, traders, skilled craft workers	Service and sales, craft, unskilled labour

Note: (*) In this table the ILO definition of informality is applied (see Box 6.1). Agricultural workers that are not covered by social insurance are considered informal under the ILO's definition of informality, while the INE in Paraguay excludes agricultural workers from the definition of informality.

Source: OECD based on EPHC (2024^[1]).

Independent workers often operate businesses that are formally registered but do not contribute to the social security system. These businesses are typically very small and family-based, and are concentrated in commerce, services, and professional activities. While some independent workers comply with business registration and tax obligations, they nonetheless remain outside the social insurance system.

The presence of envelope wages and partial social insurance coverage further undermines the effectiveness of the social security system. Most workers hold a single job (89%); however, among those with multiple jobs, 30% contribute to a social security fund for only one position, resulting in the underreporting of income. In addition, preliminary evidence suggests wage underreporting among formally insured workers affiliated with the IPS. These issues are examined in greater detail in Chapter 2 and point to persistent gaps in compliance and enforcement, even within the formal sector.

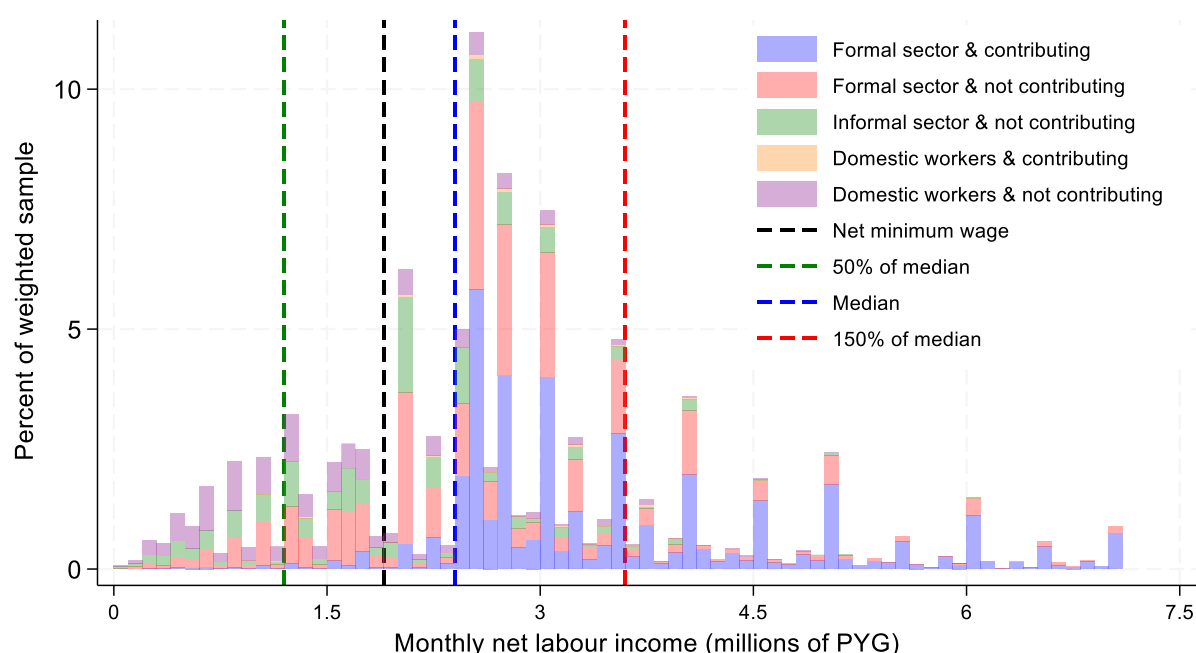
The coverage of social insurance among employees is low

Around 61% of private sector employees do not contribute to a pension fund. Approximately 32% of these workers are employed in informal firms, where the lack of business registration precludes participation in the social insurance system altogether. The remaining 68% are employed in tax-registered firms, indicating the presence of informal employment relationships within businesses that are visible to the tax authorities and integrated into the formal economy. For instance, 32% of informal private sector employees work in tax-registered firms that have a firm size larger than ten employees. Furthermore, among the non-contributing employees 20% work as domestic workers (Table 6.A.1 in Annex 6.A).

Employees working in tax-registered firms who are not covered by social insurance represent a group with strong potential for formalisation through enhanced enforcement. These workers share many characteristics with contributing employees, including similar education levels and economic sectors in which they work. Targeted enforcement efforts, combined with simplified administrative procedures or contribution incentives, could therefore yield substantial gains in coverage.

Social insurance coverage also varies significantly by income level. Employees with higher earnings are more likely to contribute to social insurance. As shown in Figure 6.3, contributing employees earn higher net incomes on average than their non-contributing counterparts. Contributing employees in formal firms are concentrated in the upper half of the wage distribution, while non-contributing employees in formal firms are clustered around the middle of the wage distribution. Domestic workers and employees in informal firms, by contrast, are disproportionately concentrated at the lower end of the wage distribution.

Figure 6.3. Distribution of net labour income from employees' primary occupation



Note: Formal sector refers to individuals working in enterprises registered with a RUC (taxpayer ID number). Contributing indicates that contributions are made to a public or private pension fund. Net labour income comprises self-reported wages and self-employment earnings received by an individual after the deduction of taxes and SSC. The monthly net minimum wage for employees is approximately PYG 1.9 million. The displayed median incomes (vertical lines) indicate the median primary labour income of the total labour force, which is about PYG 2.4 million per month. The distribution is capped at the 95th percentile.

Source: OECD based on EPHC (2024^[1]).

The average tax wedge is relatively flat, but varies across low-income salaried workers

The average tax wedge for salaried workers in Paraguay is relatively flat across income levels above the statutory minimum wage.¹ This reflects the high-income threshold above which PIT applies to total earnings. For a single private-sector worker earning between one and 2.2 statutory minimum wages, the average tax wedge amounts to 25.5% of total labour costs (Figure 6.4). In Paraguay, SSCs apply to all earned income, subject to a floor set at the minimum wage but without an upper contribution ceiling. Paraguay's SSC rates are broadly in line with the LAC average (Figure 3.5 in Chapter 3) and are higher than those observed in OECD countries on average. By contrast, the PIT accounts for a significantly larger share of total tax revenues in OECD countries than it does in Paraguay.

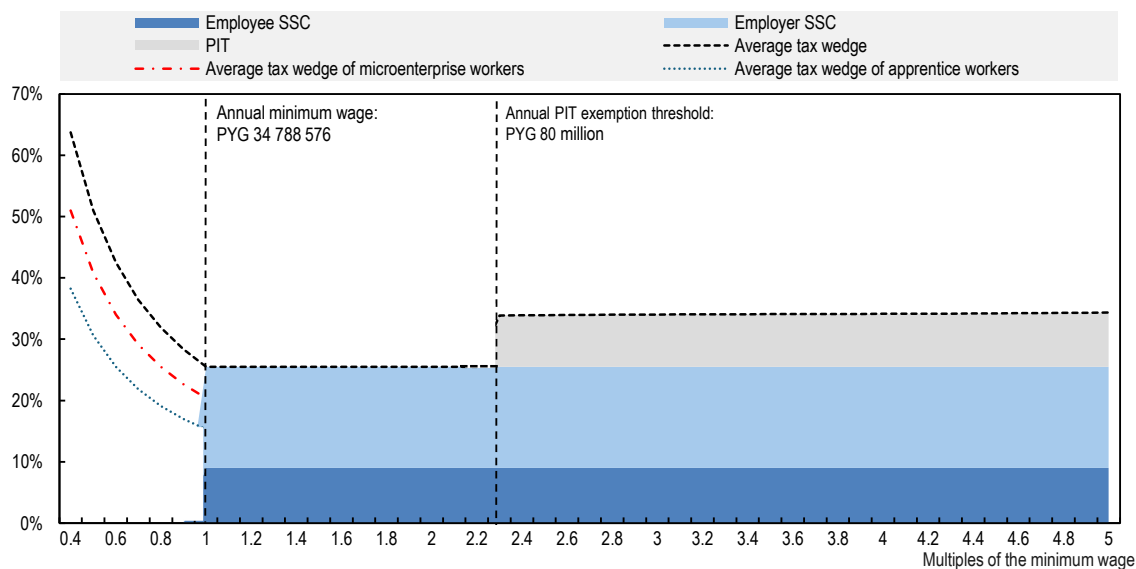
The tax wedge is particularly high for individuals earning below the minimum wage. This reflects the application of the minimum contribution base for SSCs, which is set at the legal minimum wage. Under the general scheme, SSCs are calculated on at least the monthly minimum wage, regardless the actual earnings. Given the observed wage distribution, this minimum contribution threshold seems relatively high and may act as a barrier to formalisation (Figure 6.3). This effect is particularly pronounced for low-income workers, such as domestic workers. By contrast, workers in microenterprises and apprentices benefit from reduced contribution bases, set at 80% and 60% of the minimum wage, respectively (Figure 6.4). These reduced bases result in a lower tax wedge for these groups, who typically earn income below the statutory minimum wage (Figure 6.3).

The average tax wedge rises sharply to 33.5% of gross income once taxable income exceeds PYG 80 million per year. This threshold corresponds to approximately 2.3 times the minimum wage. The sharp

increase in the average tax wedge above this threshold reflects the fact that, once income exceeds the threshold, all of the income will be taxed under the PIT (Figure 6.4). As a result, the marginal tax wedge rises sharply at the threshold where PIT starts being levied. These estimates, however, do not capture the effect of the extensive range of PIT deductions. In practice, these deductions substantially reduce taxable income and may, in some cases, eliminate PIT liabilities altogether (see Chapter 5).

Figure 6.4. Average tax wedge of a single private sector employee

Employee and employer SSC rates and PIT rates as a share of gross income across multiples of the minimum wage



Note: The horizontal axis presents multiples of the legal minimum wage (PYG 2 899 048 per month) in Paraguay as of 1st July 2025. The vertical axis measures the tax wedge as a sum of employee and employer SSC and PIT for a single taxpayer who is an employee in the private sector and insured under the IPS. Exemptions and deductions to the PIT are not considered in this figure.

Source: OECD.

Expanding social insurance coverage for employees

In recent years, legislative reforms have aimed at incentivising formalisation among certain occupational groups. Certain professional categories benefit from reduced contribution bases under the IPS (Table 6.2).

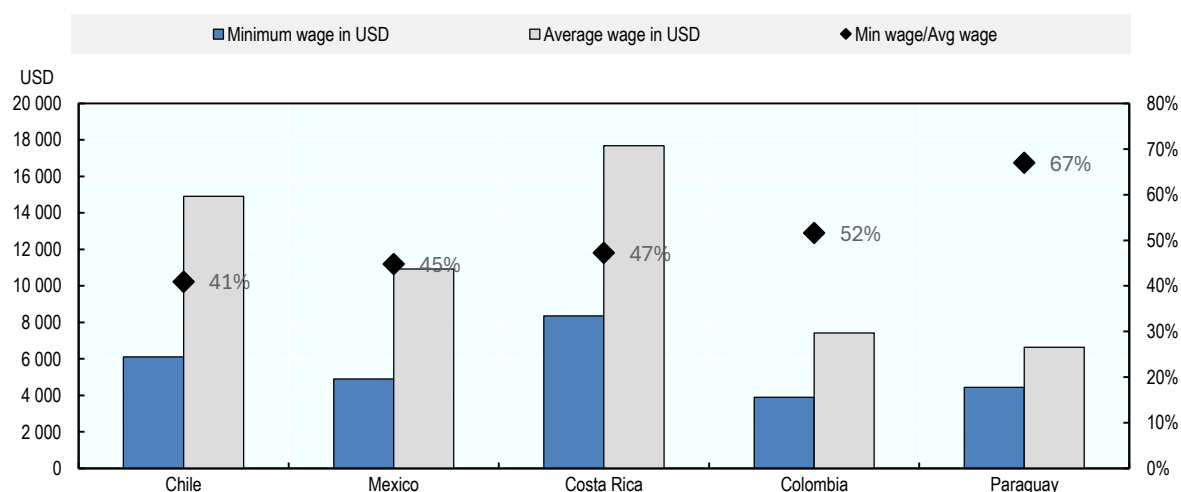
Table 6.2. Preferential IPS regimes for specific professional groups

Professional group	Relevant Laws/Decrees	Contribution	Contribution base and minimum contribution base	Health insurance coverage for dependants	Benefits
Artists	Law 4199/2010, Decree No. 9.606/2012	Voluntary, 2010: 5.5% health, 12.5% pensions; 2012: 10.5% health and administration, 12.5% pensions	Gross income, Minimum contribution base: minimum wage (Law has not been regulated)	Yes	Health insurance, but pension is also optional
Independent workers	Law 4933/2013	Voluntary, Independent worker: 13%	Gross income, Minimum contribution base: minimum wage	No	Pension
Domestic workers	Law 1085/1965 (only health in Asunción), Resolution No. 089-012/2009 (nationwide extension), Law 5407/2015, Law 6338/2019	Mandatory, Since 1965: G 75 employer, G 150 employee; Since 2009: 5.5% employer, 2.5% employee; Since 2015: 16.5% employer, 9% employee	Minimum contribution base: since 1993: 40% of min. wage, 2015-2019: 60% of min. wage, since 2019: 100% of min. wage	Yes	Health & pension
Owners of Mipymes	Law 5741/2016	Voluntary, 23%	Minimum wage	Yes	Health & pension
Part-time workers (16-32 hours per week)	Law 6339/2019	Mandatory, Employer: 16.5%, Employee: 9%	Pension Fund: Gross income (minimum base is proportion of the min. wage for the hours worked). Health Fund: Gross income, but at least the minimum wage (employer needs to top up the contribution if salary < min. wage)	Yes	Health & pension
Apprentice workers and minors	Law 213/1993	Mandatory, Employer: 16.5%, Employee: 9%	Gross income, Minimum contribution base: at least 60% of the minimum wage	Yes	Health & pension
Livestock farming	Decree No. 8730/1960, IPS Resolutions No. 069-017/2005 and 076-037/2005	Mandatory, Employer: 16.5%, Employee: 9%	Minimum contribution base: minimum wage for the agricultural sector + 20% for in-kind remuneration (defined by MTESS Resolution No. 677/2025, updated annually)	Yes	Health & pension
Daily wage worker	Decree No. 8730/1960, IPS Resolutions No. 069-017/2005 and 076-037/2005	Mandatory, Employer: 16.5%, Employee: 9%	Minimum base: 18 daily minimum wages	Yes	Health & pension
Youth (18-23 years)	2025	Employer: 2.5% for one year, Young employee: 5% for one year, MTESS: 18% for one year	Minimum wage	Yes	Health & pension
Workers in micro enterprises	Law 7444/2025,	Mandatory, Employer: 16.5%, Employee: 9%	80% of minimum wage (limited to newly hired workers and only for 3 years since reception of the Mipymes certificate)	Yes	Health & pension

Note: The legal minimum wage is updated yearly in July and specific minimum wages exist for some professions or sectors (see MTESS Resolution No. 677/2025). The health benefit includes health insurance, sickness and maternity leave, as well as work accident insurance. Source: IPS, MTESS.

Paraguay's statutory minimum wage is relatively high when compared to the average wage of formal sector workers. When expressed in USD, the minimum wage is broadly comparable to minimum wage levels in Colombia and Mexico. However, measured as a share of the average annual wage of formal workers, it is considerably higher than in OECD countries in the region (Figure 6.5). A substantial proportion of workers earn below the statutory minimum wage, pointing to both a misalignment between the minimum wage level and underlying productivity and limitations in the capacity of labour and tax authorities to enforce the minimum wage across the economy.

Figure 6.5. Minimum and average annual wages in Paraguay and selected countries, 2024 or latest years available



Note: The gross average annual wage is calculated for all formal full-time workers in the private sector as reported in OECD Taxing Wages (2025^[3]). For Paraguay, the average annual wage for all workers insured under the IPS in 2023 is used.

Source: Own calculations based on OECD (2025^[3]); MTESS (2024^[4]) and national sources.

While contribution floors based on the minimum wage support financing and compliance objectives, they can also create significant barriers to formalisation when the minimum wage exceeds productivity-aligned earnings. Levying SSCs on at least the minimum wage can be justified on the grounds that a minimum level of social protection requires a minimum level of financing, and that a contribution floor helps ensure a basic contribution is made. This approach also limits opportunities for wage underreporting, as SSCs are levied on no less than the minimum wage. However, when the statutory minimum wage is set above the actual earnings of a large share of workers, the resulting contribution base may discourage formal employment. In such circumstances, a contribution floor tied to the minimum wage may inadvertently undermine efforts to broaden social insurance coverage.

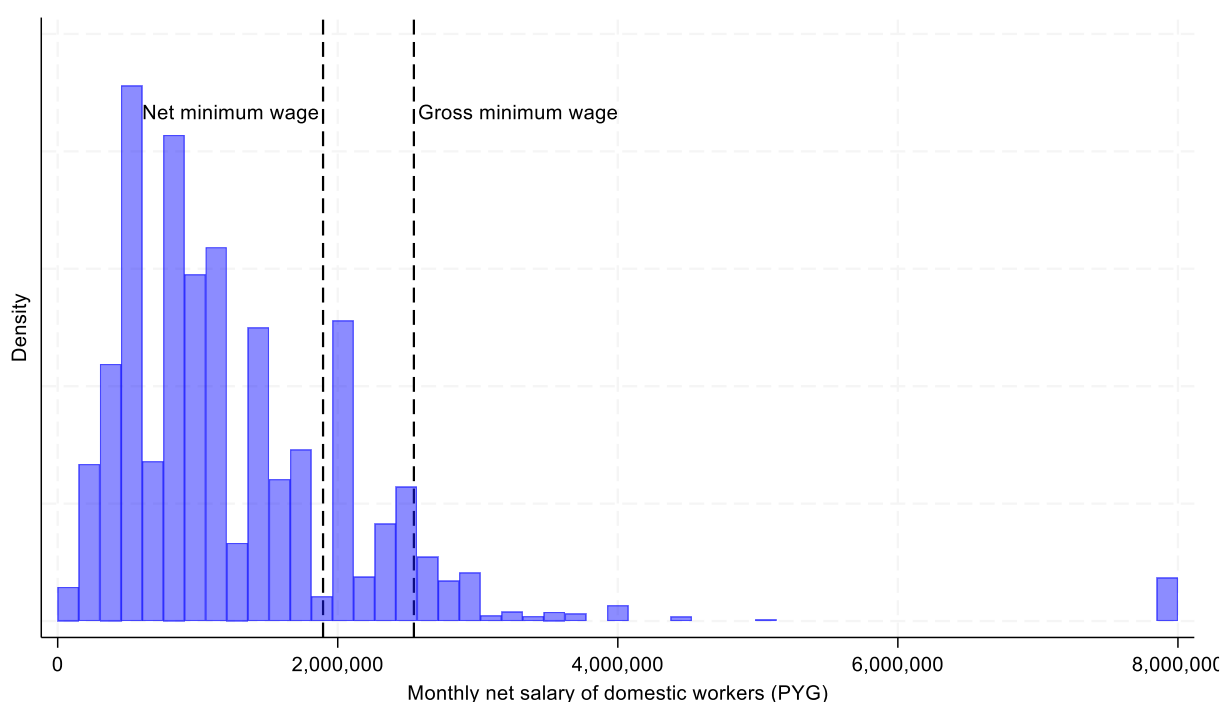
The extension of social insurance to domestic workers is limited

Domestic workers account for approximately 7% of Paraguay's workforce, yet only 5% contribute to the IPS pension fund and health insurance. According to the EPHC (2024^[1]), around 90% of domestic workers lack health insurance. Female domestic workers account for 24% of all female informal workers, according to the INE definition of informality. For many years, Paraguay subsidised social insurance coverage of domestic workers through a reduced contribution rate and lower contribution base. Since 2019, however, domestic workers have been subject to the full SSC rate of 25.5%, calculated on at least the minimum wage, replacing the previous reduced contribution base of 60% of the minimum wage. This

increase in contribution requirements was followed by a decline in the registration of domestic workers and in contribution payments to the social insurance system.

A key barrier to the formalisation of domestic workers is the combination of low earnings in the sector and a relatively high statutory minimum wage. An estimated 82% of domestic workers earn below the minimum wage, limiting their capacity to contribute to the IPS (Figure 6.6). More broadly, the average worker in Paraguay earns less than twice the minimum wage, which constrains the ability of many households to pay domestic workers at the statutory minimum level. Paraguay could consider reinstating reduced contributions for domestic workers to support their formalisation. However, a major challenge arises from the entitlement allowing insured workers to include their dependants in health coverage at no additional cost. This feature places considerable pressure on the financial sustainability of the IPS health fund, making subsidised contribution schemes for low-earning workers particularly costly.

Figure 6.6. Distribution of primary salary of domestic workers



Note: The displayed gross minimum wage is PYG 2 543 816 per month, the average of the 2023 and 2024 minimum wages. The distribution shows monthly net salaries of domestic workers and the variable is winsorised at the 95th percentile.

Source: OECD based on EPHC (2024^[1]).

Paraguay could consider introducing complementary measures to support the formalisation of domestic workers. Subsidised SSCs, as discussed in the previous paragraph, could be combined with measures that strengthen compliance incentives, such as facilitating wage payments through free bank accounts, as implemented in Uruguay under the Financial Inclusion Law (Law No. 19.210, Articles 10 and 11). This mechanism is attractive for workers, as it promotes financial inclusion, while increasing incentives for employers to register domestic workers with the social security system as it would increase the risk of detection if the employer would not pay SSCs. In addition, allowing employers to deduct employer SSCs paid on the salary of domestic workers from their PIT liabilities – an option that already exists in Paraguay – could further encourage formalisation. The effectiveness of this measure would likely increase if other PIT deductions were eliminated or significantly reduced, as discussed in Chapter 5.

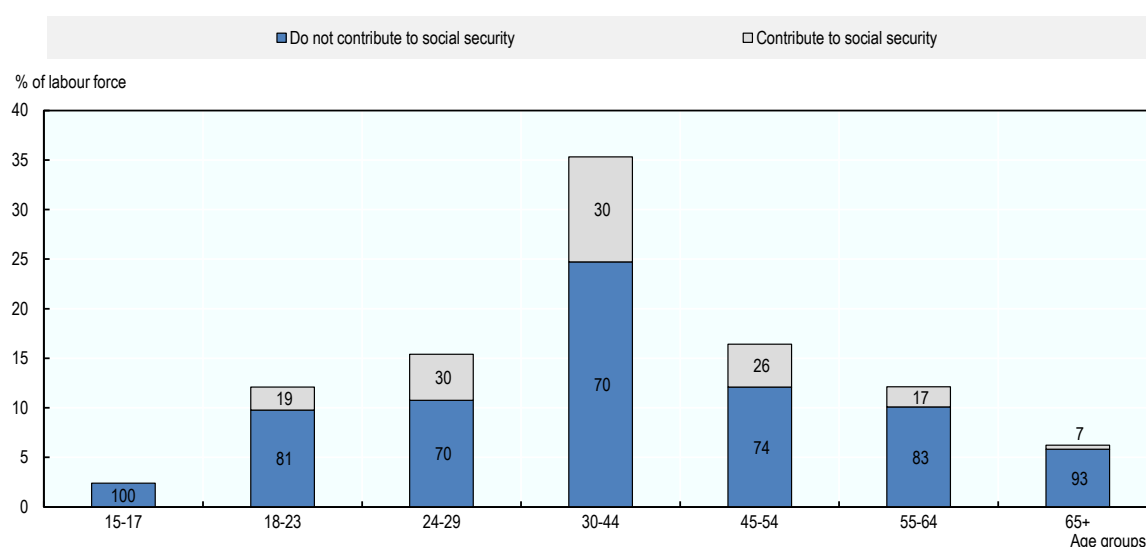
A new programme seeks to expand social security coverage among the youth

To address high levels of informality among young workers, the Paraguayan government has launched a new initiative, *EmpleaPY Joven*. Informality is particularly elevated among young workers, amounting to approximately 81% of young employees aged 18-23 (Figure 6.7). Jointly implemented by the IPS and the Ministry of Labour, Employment and Social Security (MTESS), and phased in between 2025 and 2026, the programme targets individuals aged 18 to 29 entering their first formal job. Its primary objective is to expand social security coverage among youth by offering a temporary reduction in employer and employee contributions: participating employers are required to contribute only 2.5% of the minimum wage, while employees contribute 5%. The remaining 18% of contributions are subsidised by the MTESS for a period of one year, after which standard contribution rates apply. Young workers enrolled in the programme receive full IPS health and pension benefits for themselves and their dependants, as well as access to free training and labour market orientation services. The contribution subsidies are fully financed from the general government budget for the 2025–2027 period. However, the entitlement allowing coverage of dependants at no additional costs once again raises concerns regarding the financial sustainability of the IPS health fund.

It is recommended to assess the programme's medium-term effectiveness in enrolling and retaining young workers into the social security system. Evidence from a comparable reform implemented in Sweden between 2007 and 2009 suggests that reductions in SSC rates for young workers can yield positive employment effects. In Sweden, a 50% reduction in SSCs for workers aged 19 to 25 increased youth employment by around 2 to 3 percentage points (Saez, Schoefer and Seim, 2019^[5]). The positive employment effects were found to persist beyond the period of eligibility, with employment levels remaining at the post-reform peak among cohorts that had previously benefited from the subsidy (Saez, Schoefer and Seim, 2021^[6]).

Figure 6.7. Breakdown of workers by age group and social security coverage

Share of workers in the total labour force by age group and contribution to social security, 2024



Note: The data labels in the bars indicate the share of workers contributing to social security or not within each age group.

Source: OECD based on EPHC (2024^[11]).

A reduced contribution base for microenterprises is intended to support formalisation

The majority of workers in micro and small enterprises are informal even if they work for tax-registered businesses. While 72% of workers or owners of micro and small enterprises report that their primary workplace is registered and holds a taxpayer identification number (RUC), only 20% contribute to a pension fund and are registered with the social security system.

Low wage levels combined with relatively high SSC rates and a high minimum contribution base contribute to the low formalisation of workers in micro and small enterprises (*Mipymes*). Figure 6.8 illustrates the wage distribution of salaried workers in microenterprises with ten or fewer employees. Among these workers, 57% earn less than the statutory minimum wage. Tax-registered microenterprises tend to pay slightly higher wages than unregistered ones. Informality remains widespread even within tax-registered microenterprises: 79% of workers in tax-registered microenterprises do not contribute to social insurance. This suggests that informality among *Mipymes* workers is not driven solely by the tax and contribution burden, but may also reflect other factors, including limited access to information, short-term decision-making, and low levels of trust in the social security system (Apella and Montt, 2024^[7]).

Figure 6.8. Distribution of net income of salaried microenterprise workers



Note: The definition of microenterprises used in this figure is solely based on the number of workers in the company (up to 10 workers), as the EPHC does not provide data on the turnover of the company where people are employed. This definition might falsely categorise some firms as microenterprises due to their number of workers, but regarding their turnover they would not be classified differently. The graph includes only respondents who reported being employed in the private sector employees. The displayed gross minimum wage is PYG 2 543 816 per month, the average of the 2023 and 2024 minimum wages, and the net minimum wage is subtracted social security contributions. Net labour income comprises self-reported wages received by workers after the deduction of taxes and SSC, where applicable. The salary variable is winsorised at the 95th percentile.

Source: OECD based on EPHC (2024^[1]).

The primary objective of the recent reform of the *Mipymes* Law (No. 7444/2025) is to promote formalisation among micro and small enterprises by offering targeted tax incentives and labour-regulated reliefs. Key provisions include:

- **Social security contributions:** The law mandates participation in the IPS system, with reduced contributions applying for the first 36 months after registration as *Mipymes*. For microenterprises, contributions can be made on a reduced base amounting to 80% of the legal minimum wage. The reduced contribution base applies only to workers hired after the law entered into force; all other workers in the micro-enterprise continue to contribute on the full contribution base, even if their salary falls below the minimum wage. Small and medium-sized enterprises need to contribute to the IPS at the general contribution rates, i.e. at least 100% of the minimum wage or the actual wage if higher.
- **Labour regulation:** Micro enterprises may hire workers under fixed-term contracts of up to 12 months, renewable for a cumulative maximum period of 36 months (Article 45, Law No. 7444/2025). Upon completion of this period, wages must not fall below 100% of the statutory minimum wage.
- **Simplified accounting practises:** Microenterprises are only required to maintain records of income and expenses.
- **Other tax incentives:** Microenterprises are fully exempt from commercial licence and municipality fees for the first three years and then benefit from a 75% reduced rate. Small enterprises receive a 75% discount for the first three years after which they are eligible for a 50% discount. Medium-sized enterprises are subject to the standard tax obligations as defined in the legislation.
- **Access to credit:** The law also mandated the creation of a trust (*FONAMIPYMES*), approved by decree in January 2026, to facilitate access to finance and trainings for *Mipymes*.
- **Eligibility criteria:** To benefit from the *Mipymes* law, eligible firms are required to register their business at no cost and are issued a unique taxpayer identification number (RUC). Upon registration, the Ministry of Industry and Commerce (MIC) automatically grants the *Mipymes* certificate (*Cédula Mipymes*), which is updated every year to monitor transitions of firms across the schemes and ensure continued benefit eligibility. According to decree 4535/2025, firms are categorised into microenterprises (annual turnover up to PYG 1 000 million, up to 10 workers), small enterprises (annual turnover up to PYG 5 000 million, 11-30 workers) and medium enterprises (annual turnover up to PYG 10 000 million, 31-50 workers). The MIC maintains a comprehensive registry of certified *Mipymes*, which is cross-checked with taxpayer data from the DNIT, labour statistics from the MTESS and social security data from the IPS.

Reducing the minimum contribution base to 80% of the statutory minimum wage, as introduced under the recent reform, has the potential to broaden social insurance coverage among workers in microenterprises. Currently, 16% of workers in microenterprises earn between 80% and 99% of the minimum wage. The new contribution rules may therefore encourage the formalisation not only of workers earning below the minimum wage but also those with slightly higher incomes. However, the inclusion of workers, and their dependants, who contribute on a reduced contribution base may place additional pressure on the financial balance of the IPS health insurance fund. This underscores the importance of carefully assessing the long-term sustainability implications of expanding coverage to low-income workers. In addition to tax reliefs, stronger enforcement of the social security law is needed, particularly among small firms (11-30 workers), although this entails significant costs for the IPS. The combination of stricter enforcement and lower contributions could help formalise more workers in microenterprises. If successful, a similar reform strategy could be gradually extended to other categories of workers.

Eligibility for owners of microenterprises for subsidised social security schemes is currently being revised. Prior to the *Mipymes* Law, the IPS-MIC scheme (Law No. 5741/2016) offered voluntary social security coverage exclusively for owners of microenterprises and their dependants, with contributions set

at 23% of the minimum wage. The *Mipymes* Law (No. 7444/2025) foresees a reduced contribution base exclusively for employees of microenterprises while owners of microenterprises will be required to contribute on the basis of at least 100% of the statutory minimum wage.

Empirical evidence on the impact of reduced SSCs on the formalisation of low-income workers remains limited and mixed, with substantial variation across country contexts. In Turkey, reforms that reduced SSC rates for employees in selected regions were associated with increases in formal employment of 5% or more (Aşık et al., 2022^[8]; Betcherman, Daysal and Pagés, 2010^[9]). Similarly, evidence from Colombia suggests that the 2012 reduction in SSC rates for most workers – those earning below ten times the minimum wage – contributed to higher formal employment in the months following implementation (Morales and Medina, 2017^[10]; Kugler, Kugler and Herrera-Prada, 2017^[11]). Evidence from France further indicates that substantial reductions in payroll taxes for low-wage workers in the 1990s significantly increased employment among low productivity- workers (Breda, Haywood and Wang, 2024^[12]). However, the study also underscores that sustained formalisation gains depend on the interaction between labour taxes and minimum wages. By contrast, empirical evaluations of payroll tax reduction reforms in Chile and Argentina do not find significant impacts on formal employment (Cruces, Galiani and Kidyba, 2010^[13]; Gruber, 1997^[14]).

Access to social insurance could be extended to independent workers

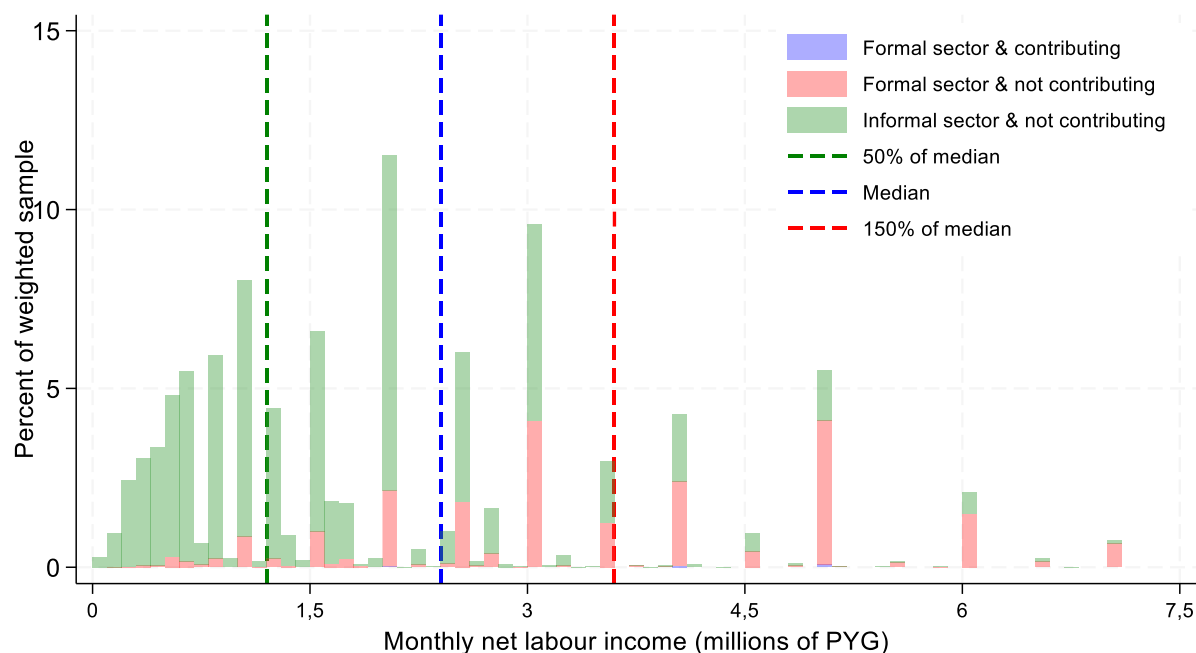
Most owner-managers and own-account workers operate in the informal sector, where low earnings and poverty significantly limit access to social insurance. Around three-quarters of independent workers are informal, meaning they operate in non-registered firms. Nearly half of these workers earn less than half of the median wage and 18% live in monetary poverty. This suggests that the lack of social insurance coverage is, in many cases, associated with low productivity and subsistence-level activity (Figure 6.9).

Even within the formal sector, most own-account workers and owner-managers do not contribute to a pension fund, despite having the financial capacity to do so. This highlights the limited attractiveness of current social insurance arrangements for independent workers. Overall, fewer than 0.5% of owner-managers and own-account workers are active contributors to the social security system. Most independent workers operating in the formal sector earn incomes above the net statutory minimum wage, indicating that they have the financial capacity to contribute but opt out voluntarily.

The lack of social insurance coverage among own-account workers and owner-managers is strongly associated to low education levels, enterprise characteristics and geographic location (Annex 6.A, Table 6.A.2). Most independent workers operating in the informal sector do not have upper-secondary or tertiary education and are concentrated in craft and elementary occupations, which constrains productivity and compliance capacity. Around one-third of informal independent workers are employed in agriculture, while another third work in small-scale commerce. For own-account workers in rural areas, barriers to formalisation are likely driven by multiple structural factors rather than tax or contribution requirements alone. Limited earnings potential, restricted access to productive markets, and lower skill levels reduce their capacity to engage in formal employment. Addressing these challenges requires broader economic development and sustained investment in skills and productivity, rather than adjustments to social insurance design alone.

Figure 6.9. Distribution of labour income of owner-managers and own-account workers

Distribution of net labour income of owner-managers & own-account workers from their primary occupation



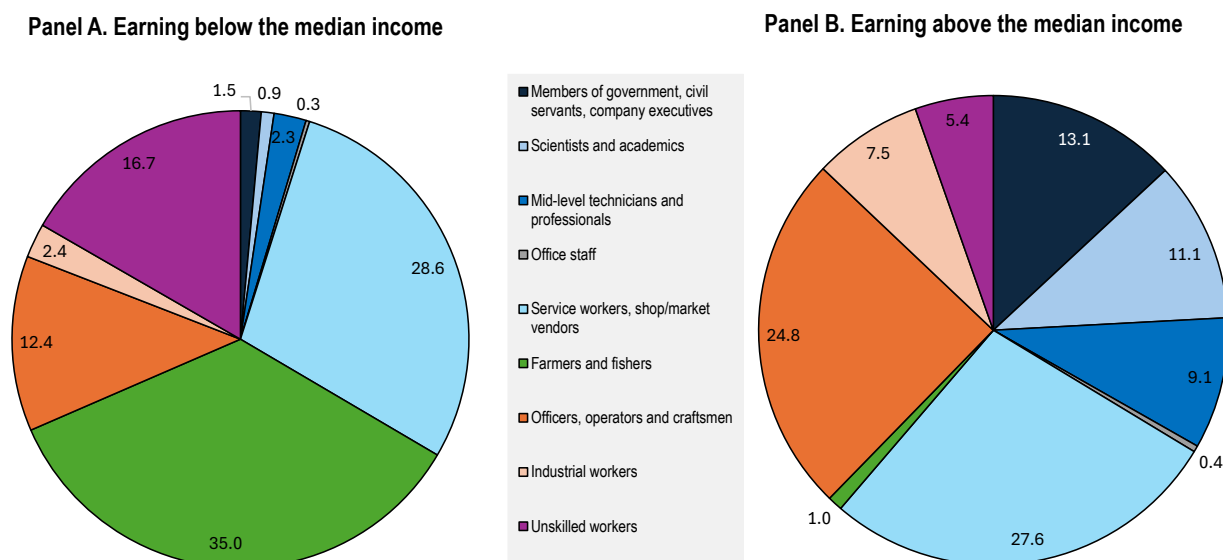
Note: Formal sector refers to individuals working in enterprises registered with a RUC (taxpayer ID number). Contributing indicates that contributions are made to a public or private pension fund. The displayed median incomes (vertical lines) indicate the median primary labour income of the total labour force, which is about PYG 2.4 million per month. Net labour income comprises self-reported earnings of owner-managers and own-account workers after the deduction of taxes and SSC. The distribution is capped at the 95th percentile.

Source: OECD based on EPHC (2024_[1]).

Independent workers could be gradually required to contribute to social security, starting with selected liberal professions where contributory capacity is stronger. Figure 6.10 presents the occupational distribution of own-account workers and owner-managers who do not contribute to a pension fund, distinguishing between those earning below or above the national median income. Independent workers with limited capacity to contribute are predominantly farmers, service sector workers, vendors, unskilled workers and craftsmen (Figure 6.10, Panel A), while higher-income independent workers are more likely to be employed in the public sector or engaged as academics, technicians, service sector workers and officers (Figure 6.10, Panel B). This heterogeneity suggests scope for a differentiated approach to extending, at least in the short run, mandatory social insurance coverage among independent workers.

Contributions to social insurance by independent workers in liberal professions could be made mandatory. At present, participation for these workers is voluntary, with contributions to the IPS pension fund set at a rate of 13% of gross income. One reform option would be to require compulsory health insurance coverage by linking professional licensing to IPS affiliation (see Chapter 2). With respect to old-age protection, workers in liberal professions could retain the option to contribute either to the IPS pension fund or to a private pension scheme (see Chapter 3). This would allow individuals already affiliated with private pension funds to preserve their existing arrangements while ensuring minimum coverage. Offering a combination of mandatory short-term health protection and flexible long-term pension options could enhance the attractiveness of IPS participation for independent workers and support a gradual extension of social insurance coverage.

Figure 6.10. Own-account workers and owner-managers by profession



Note: The group of own-account workers and owner-managers is split at the median primary labour income of the total labour force, which is about PYG 2.4 million per month.

Source: OECD based on EPHC (2024^[11]).

There is scope to strengthen monitoring and enforcement to ensure that independent workers with a de facto dependent employment relationship – often referred to as bogus self-employment – are appropriately reclassified as employees and receive social insurance coverage. While these workers are typically registered with the tax authorities, they are not enrolled in the IPS scheme, as SSCs remain voluntary under their formal status as independent workers. This practice is also observed within the public sector. The DNIT could leverage tax administrative data to identify potential cases of misclassification, for example by flagging independent workers who derive most of their income from a single client through regular payments. Sharing such information with the IPS would enable systematic cross-checks of social security registration and support targeted interventions to extend coverage to this group.

Box 6.2. Policy recommendations to expand social insurance coverage

Salaried workers:

- Strengthen compliance and monitoring of compulsory SSCs, before pursuing further reductions in contributions for low-income workers.
- Consider lowering the minimum contribution base for domestic workers to improve affordability and support formalisation.
- Assess the effectiveness of the *EmpleaPY Joven* programme in promoting formal employment among young workers.
- Evaluate the impact of the reduced contribution base for microenterprise workers on formal employment and social insurance coverage.
- Improve coordination across social insurance schemes for owners of *Mipymes* to prevent overlap, gaps in coverage and fragmentation.
- Facilitate wage payments through the provision of free bank accounts for all salaried workers to support formalisation.
- Preserve incentives for PIT taxpayers to deduct SSCs paid for domestic workers, including by limiting access to alternative PIT deductions.

Independent workers:

- Consider introducing mandatory social security contributions for independent workers in selected liberal professions, where contributory capacity is stronger and enforcement is more feasible.
- Strengthen data-sharing between DNIT and IPS to better detect non-compliance and cases of bogus self-employment, and to enforce social security contributions for workers with de facto dependent employment relationships.
- Improve the attractiveness of social insurance for voluntary contributors by expanding access to short-term benefits and enhancing the perceived value of participation.

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Note

¹ The statutory monthly minimum wage is set at PYG 2 899 048 (approximately USD 370) as of 1st July 2025.

Annex 6.A. Characteristics of social security status by employment type

Annex Table 6.A.1. Characteristics of employees by institutional sector and social security status

Dimension	Formal sector & contributing	Formal sector & not contributing	Informal sector & not contributing	Household sector & not contributing
Share of total employees	40.50%	33.10%	13.80%	12.00%
Low income (< 50 % of median)	0.50%	8%	19%	33%
High income (> 150 % of median)	43%	20%	7%	3%
Poverty rate (monetary)	2%	7%	18%	17%
Firm size	Small 18%; Medium 13%; Large 68%	Small 60%; Medium 13%; Large 27%	Small 94%; Medium 3%; Large 3%	N/A
Institutional sector	Public 33% / Private 67%	Public 10% / Private 90%	Private 100%	Household 100%
Sector of activity	Services 36%; Commerce 25%; Manufacturing 15%; Construction 3%; Agriculture 3%	Commerce 35%; Services 21%; Manufacturing 14%; Construction 9%; Agriculture 7%	Construction 40%; Agriculture 14%; Commerce 22%; Services 7%	100% in Services (social & personal)
Education	Primary 7%; Upper-secondary 31%; Tertiary 60%	Primary 16%; Upper-secondary 40%; Tertiary 33%	Primary 34%; Upper-secondary 39%; Tertiary 9%	Primary 35%; Upper-secondary 38%; Tertiary 13%
Occupation (ISCO major group)	Managers 10%; Professionals 19%; Technicians 16%; Clerical 13%; Service 14%; Elementary 11%	Managers 4%; Professionals 7%; Technicians 12%; Clerical 9%; Service 20%; Elementary 21%	Managers 0%; Professionals 1%; Technicians 2%; Craft 6%; Service 32%; Elementary 41%	Service 17%; Elementary 81%
Qualification match	Under-qualified 11%; Matched 60%; Over-qualified 29%	Under-qualified 20%; Matched 49%; Over-qualified 31%	Under-qualified 29%; Matched 40%; Over-qualified 31%	Under-qualified 7%; Matched 38%; Over-qualified 55%
Male	57%	66%	84%	6%
Rural share	19%	30%	43%	36%

Note: The data do not include the departments of Boquerón and Alto Paraguay, indigenous communities, and collective housing. Domestic workers who contribute to social security are excluded as their sample size is too small.

Source: OECD based on EPHC (2024^[1]).

Annex Table 6.A.2. Characteristics of owner-managers and own account workers who do not contribute to social security by institutional sector

Dimension	Formal sector	Informal sector
Share of total group	20.97%	79.09%
Low-income (< 50 % of median)	14%	58%
High-income (> 150 % of median)	51%	7%
Poverty rate (monetary)	3.30%	22.80%
Urban residence	88.8 % urban; 11.2 % rural	66.9 % urban; 33.1 % rural
Firm size	16.6 % small (up to 10); 82.9 % medium (11–20 workers); 0.5 % large (> 20 workers)	77.1 % small; 7.4 % medium; 0 % large
Main sector of activity	Agriculture 8.5 %; Manufacturing 11.7 %; Commerce 42.9 %; Finance 15.5 %; Services 11.0 %	Agriculture 32.2 %; Manufacturing 8.2 %; Commerce 33.7 %; Finance 1.9 %; Services 14.7 %
Education	Primary 14.2 %; Upper-secondary 35.4 %; Tertiary+ 47.0 %	Primary 47.7 %; Upper-secondary 31.2 %; Tertiary+ 14.8 %
Occupation	Managers 17.8 %; Professionals 14.5 %; Technicians 8.2 %; Craft 7.5 %; Elementary 2.5 %	Managers 1.5 %; Professionals 1.1 %; Technicians 3.4 %; Craft 28.9 %; Elementary 16.2 %
Qualification for their job	Under-qualified 25.3 %; Matched 49.5 %; Over-qualified 25.1 %	Under-qualified 46.2 %; Matched 34.6 %; Over-qualified 19.2 %
Gender	66 % men; 34 % women	59 % men; 41 % women

Note: Formal sector refers to individuals or enterprises registered with a RUC (taxpayer ID number), and informal sector indicates the absence of a RUC. The statistics displayed refer to owner-managers and own-account workers who do not contribute to any public or private pension fund.

Source: OECD based on EPHC (2024^[1]).

Financing Social Protection in Paraguay

The Role of General Revenues and Social Security Contributions

This report provides a comprehensive assessment of the financing of Paraguay's social protection system, with a particular focus on the role of tax revenues and social security contributions. It examines reform options to address financing challenges in contributory health insurance, including the introduction of an additional contribution rate for dependents and the gradual extension of mandatory coverage to different categories of workers. It also assesses the financing challenges of mandatory pension schemes and proposes key parametric reform priorities. The report identifies gaps in the coverage and adequacy of Paraguay's main social assistance programmes (*Tekoporã*, *Adulto Mayor*, and *Hambre Cero*) and estimates the financing required to expand their coverage under alternative scenarios. It further outlines options to increase general tax revenue, including broadening the personal income tax base. Additional revenue could also be mobilised through higher-excise tax rates on tobacco and alcohol. Finally, the report reviews recent reforms aimed at promoting formalisation and proposes further policy options.



PRINT ISBN 978-92-64-32927-0
PDF ISBN 978-92-64-54348-5



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