



PARAGUAY

July 2024

2024 ARTICLE IV CONSULTATION, THIRD REVIEW UNDER THE POLICY COORDINATION INSTRUMENT, MODIFICATION OF TARGETS, AND FIRST REVIEW UNDER THE ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY —PRESS RELEASE; AND STAFF REPORT

In the context of the 2024 Article IV Consultation, Third Review Under the Policy Coordination Instrument, Modification of Targets, and First Review Under the Arrangement Under the Resilience and Sustainability Facility, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board and summarizing the views of the Executive Board as expressed during its June 26, 2024 consideration of the staff report on issues related to the Article IV Consultation and the IMF arrangement
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 26, 2024, following discussions that ended on May 8, 2024, with the officials of Paraguay on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on June 10.
- An **Informational Annex** prepared by the IMF staff.
- An **Updated World Bank** Assessment Letter for the Resilience and Sustainability Facility

The documents listed below have been or will be separately released:
Selected Issues

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Paraguay: IMF Executive Board Concludes 2024 Article IV Consultation, Third Review of the Policy Coordination Instrument and First Review under the Resilience and Sustainability Facility

FOR IMMEDIATE RELEASE

Washington, DC – June 27, 2024: The Executive Board of the International Monetary Fund (IMF) concluded the 2024 Article IV consultation, Third Review under the Policy Coordination Instrument (PCI), modification of targets, and the First Review of the Arrangement under the Resilience and Sustainability Facility (RSF) for Paraguay on June 26, 2024.^{1,2}

In 2023, the economy experienced robust post-drought growth, driven by significant contributions from the agriculture and electricity sectors. Inflationary pressures diminished, with inflation expectations closely aligned with the central bank's 4 percent target. The external current account was in surplus, attributed to solid export performance, while the Guarani maintained relative stability. However, the fiscal outlook worsened, partly due to settlement of previously unrecorded claims suppliers. The economy started this year on a strong footing and risks to the outlook are balanced.

The PCI underpins Paraguay's economic strategy and structural objectives of maintaining macroeconomic stability and promoting social welfare and inclusion. The PCI is yielding positive results, though two targets were missed due to the identification of additional unrecorded healthcare-related expenditure. Three reform targets have been met. Some of the reform targets agreed with the previous government are now being reformulated, namely enhancements to the insolvency framework and property cadaster, and actions with respect to the formalization of labor.

Under the two-year program under the RSF, the government is committed to enacting a series of adaptation and mitigation measures and to preserve and expand its green energy matrix. Three of the four reform measures were completed and aim at expanding clean electricity generation and protecting forests. The establishment of energy efficiency standards will require a more extensive consultation process with the private sector.

Following the Executive Board's discussion, Mr. Kenji Okamura, Deputy Managing Director and Acting Chair of the Board, issued the following statement:

"Paraguayan authorities continue to implement policies aimed at maintaining macroeconomic stability that have translated into robust economic growth, low inflation, thriving exports, and a

¹ The PCI is available to all IMF members that do not need Fund financial resources at the time of approval. It is designed for countries seeking to demonstrate commitment to a reform agenda or to unlock and coordinate financing from other official creditors or private investors (see Policy Coordination Instrument).

² The Resilience and Sustainability Facility (RSF) provides affordable long-term financing to countries undertaking reforms to reduce risks to prospective balance of payments stability, including those related to climate change and pandemic preparedness (see IMF Resilience and Sustainability Trust)

stable banking system. Risks to the outlook are balanced amid expected robust economic growth in 2024 and the medium term.

“The new government is committed to continuing reforms guided by the PCI and RSF arrangements. It is crucial for Paraguay to rebuild fiscal buffers, ensure the sustainability of the public servants’ pension fund and enhance supervision of public enterprises to limit contingent risks. Improving the targeting of social assistance programs, closing gender gaps, and reducing the cost of financial services should also be pursued to promote sustainable growth and inclusion. Taking decisive action against corruption to minimize reputational risks, reducing informality, and increasing international market integration will make Paraguay a significantly more attractive investment destination, including for green projects. Adaptation and mitigation measures should reduce the country’s vulnerability to climate change and preserve its substantial natural assets and clean energy matrix.”

Executive Board Assessment³

Executive Directors agreed with the thrust of the staff appraisal. They welcomed the broadly satisfactory performance under the PCI and RSF arrangements. Directors looked forward to continued efforts to bolster macroeconomic stability, advance structural reforms and strengthen climate resilience, supported by Fund capacity development in collaboration with development partners.

Directors agreed on the importance of fiscal consolidation to rebuild fiscal buffers and safeguard debt sustainability. They called for domestic revenue mobilization, including by enhancing tax collection and considering broadening the tax base and raising tax rates if needed to protect social spending and priority investments. Directors encouraged the authorities to improve spending efficiency, including through better targeting of social assistance programs. They also stressed the need to reform the public pension system and minimize contingent liabilities from planned public-private partnerships.

Directors noted that Paraguay continues to benefit from a robust inflation targeting framework, complemented by a transparent and flexible exchange rate system. They welcomed the data-driven approach to monetary policy, with the central bank continuing to respond to inflation dynamics and inflation expectations as needed. Directors also stressed the importance of continuing to limit FX interventions to address disorderly market conditions. While welcoming that the banking sector is profitable and well capitalized, they called for continued efforts to expand financial oversight and inclusion, strengthen deposit protection and banking resolution, and address AML/CFT risks.

Directors agreed that an inclusive growth strategy for Paraguay should prioritize reducing informality, improving governance, and reducing gender gaps. They encouraged efforts to diversify export products and markets, enhance infrastructure, and improve the business climate. Directors stressed the importance of strengthening anti-corruption measures, governance, and transparency to further boost growth potential and attract foreign investment.

³ At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country’s authorities. An explanation of any qualifiers used in summings up can be found here: <http://www.IMF.org/external/np/sec/misc/qualifiers.htm>.

Directors welcomed the role that the PCI and RSF arrangements continue to play in signaling the authorities' macroeconomic and structural reform objectives and supporting their climate change policy agenda. They stressed the importance of corrective public financial management actions that are being adopted to prevent the recurrence of unrecorded claims. Directors also acknowledged the authorities' preference for a more extensive consultation process before establishing energy efficiency standards.

It is expected that the next Article IV consultation with Paraguay will be held in accordance with the Executive Board decision on consultation cycles for members with Fund arrangements.



PARAGUAY

June 10, 2024

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION, THIRD REVIEW UNDER THE POLICY COORDINATION INSTRUMENT, MODIFICATION OF TARGETS, AND FIRST REVIEW UNDER THE ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY

EXECUTIVE SUMMARY

Recent developments: Paraguay's economy had a strong year in 2023, growing 4.7 percent. Growth this year continues to be led by robust agricultural production, exports, and high electricity generation. Monetary policy was adjusted timely to rapidly falling inflation and is now approaching a neutral stance. The fiscal position deteriorated but consolidation has started. The external current account is expected to stay close to balance. Banks remain profitable and well provisioned.

PCI program implementation: Two of four quantitative (QTs) under the PCI for December were missed due to the recognition of additional unrecorded claims (0.1 percent of GDP) to private contractors from the Ministry of Health. Three of four of the reform targets (RTs) were completed. Some of the reform targets agreed with the previous government are now being reformulated and modified, namely enhancements to the insolvency framework and property cadaster, and actions to foster the formalization of labor.

RSF Program implementation: The government met all but one reform measures (RMs) under the RSF. The establishment of energy efficiency standards will require a more extensive consultation process with the private sector.

Policy recommendations: The new administration is maintaining economic stability and making strides in advancing important and long-standing structural reforms. While fiscal consolidation is needed to rebuild buffers, it would be important to safeguard social and infrastructure spending. Larger revenue intake, including through higher tax collection, would help achieve these objectives. Stabilizing the financial position of the public pension fund remains imperative. Fiscal reform priorities appropriately focus on improving administrative and operational efficiencies. Given still sizable external risks, monetary policy should be data driven, with the exchange rate serving as a shock absorber. The agenda for structural reforms should prioritize promoting inclusive growth, as well as enhancing governance and combating corruption. Delivering on commitments to implement a comprehensive set of climate-related reforms will open investment opportunities and help build resilient and sustainable growth.

Approved By
Patricia Alonso-Gamo
(WHD) and Eugenio
Cerutti (SPR)

Discussions were held in Asunción between April 27 and May 8, 2024. The staff team comprised Mauricio Villafuerte (head), Jonas Nauerz, Keiichi Nakatani, Svetlana Vtyurina (all WHD), Jehann Jack (SPR), Maximiliano Appendino (Resident Representative) and Pablo Alonso Mendez (local economist). Diego Gutiérrez and Nicolás Landeta (all WHD) provided research and administrative assistance. Jorge Corvalan (OED) attended the policy meetings. The team met with the Minister of Economy and Finance Carlos Fernandez Valdovinos, Central Bank of Paraguay (BCP) President Carlos Carvalho Spalding, Minister of Public Works and Communications Claudia Centurión, other senior officials from the government, representatives from think tanks, banking sector, and development partners.

CONTENTS

CONTEXT	4
RECENT DEVELOPMENTS AND PROGRAM PERFORMANCE	4
OUTLOOK AND RISKS	7
POLICY DISCUSSIONS	9
A. Fiscal Policy: Managing Difficult Trade-Offs by Rebuilding Buffers and Tackling Development Needs	9
B. Monetary and Exchange Rate Policies: Caution in an Uncertain External Environment	15
C. Financial Sector Policies: Maintaining Macro-Financial Stability Through Improvements in Supervision	16
D. Structural Reforms: Improving Social Conditions and Governance	19
E. Climate Policies: Reducing Vulnerability to Shocks	22
PROGRAMS MODALITIES, SAFEGUARDS' ASSESSMENT, AND CAPACITY DEVELOPMENT	23
STAFF APPRAISAL	24
BOXES	
1. C-PIMA Findings and Recommendations	14
2. Trends and Patterns of FDI in Paraguay	21

FIGURES

1. Recent Developments	26
2. Fiscal Developments	27
3. External Sector Developments	28
4. Monetary Indicators	29
5. Financial Sector Developments	30

TABLES

1. Timeline of the RSF Reviews and Reform Measures Completion	8
2. Selected Economic and Social Indicators	31
3a. Operations of the Central Government (In billions of Guaranies)	32
3b. Operations of the Central Government (In percent of GDP)	33
4. Balance of Payments	34
5. Summary of Accounts of the Central Bank	35
6. Summary Accounts of the Financial System	36
7. Gross External Financing Needs and Sources, 2021-24	37
8. Medium-Term Outlook	38
9. Financial Soundness Indicators	38
10. Capacity to Repay Indicators, 2024-45	39

ANNEXES

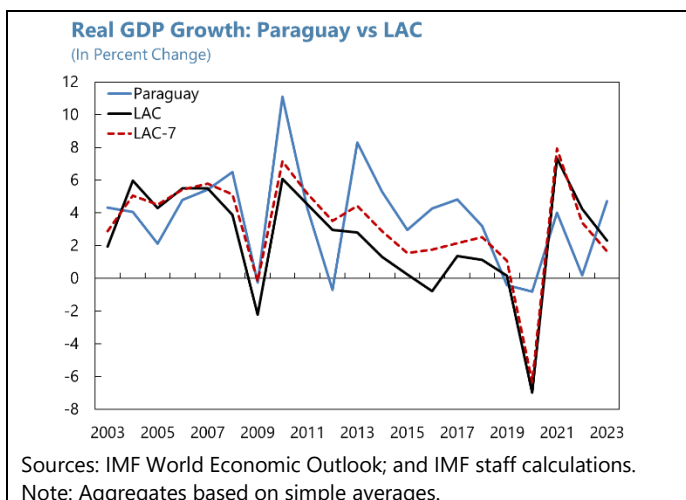
I. Status of Past Article IV Recommendations	40
II. External Stability Assessment	42
III. Risk Assessment Matrix	45
IV. Sovereign Risk and Debt Sustainability Analysis	47
V. Domestic Revenue Mobilization	59
VI. Financial Inclusion: Marking 10 Years of Progress	62
VII. Capacity Development Strategy for FY23/24	65
VII. Surveying the Gender Landscape in Paraguay	67
VIII. Data Issues Annex	72

APPENDICES

I. Program Statement	74
Attachment I. Program Statement May 2024 – November 2025	76
Attachment II. Technical Memorandum of Understanding	93

CONTEXT

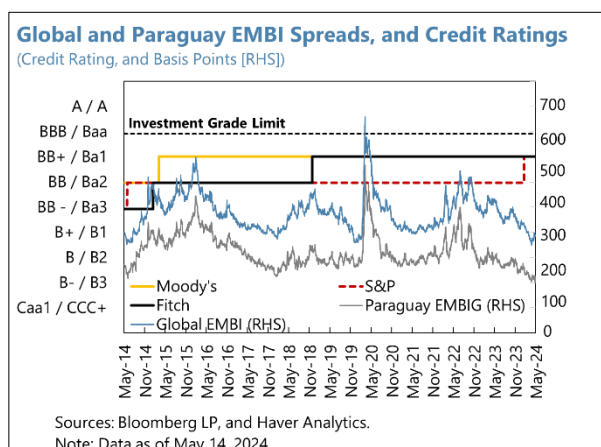
1. Paraguay’s economy has performed well over the past two decades and recovered strongly from COVID-19 and recent droughts. The government that started last August used its party’s majority in Congress to pass important reforms to enhance the efficiency of the state, create a Superintendency of Pensions, and recalibrate the fiscal adjustment path including the regularization of previously unrecorded claims. The program under the PCI continues to help signal the authorities’ macroeconomic and structural reform objectives. Over the past two years, steps have been taken to implement the recommendations of previous Article IV consultations (Annex I).



2. Given Paraguay’s exposure to climate-related shocks, the government is committed to a series of adaptation and mitigation measures, including under a Resilience and Sustainability Facility (RSF) arrangement. That arrangement is aimed at fostering reforms focused at reducing the vulnerabilities to climate change and achieving more sustainable long-term growth, including through the further development of green industries and the protection of the country’s substantial natural assets and clean energy matrix.

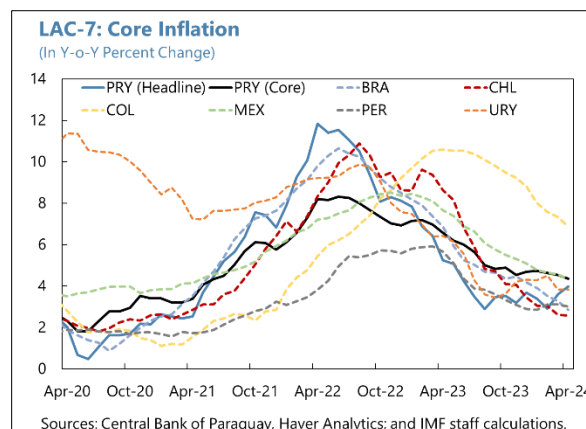
RECENT DEVELOPMENTS AND PROGRAM PERFORMANCE

3. Paraguay grew at one of the highest rates in Latin America in 2023. Electricity, agriculture, and livestock led the recovery from the 2021/22 drought, with overall real GDP growth of 4.7 percent. From the demand side, consumption and external trade performed strongly. Very recently, Paraguay resumed its exports of meat to the United States after a 25-year break. Paraguay’s sovereign rating is currently at one notch below investment grade (BB+). Paraguay is one of the countries with the lowest sovereign spreads in the region. Its first global Guarani-linked bond issued in February was largely oversubscribed (a 7-year bond for an

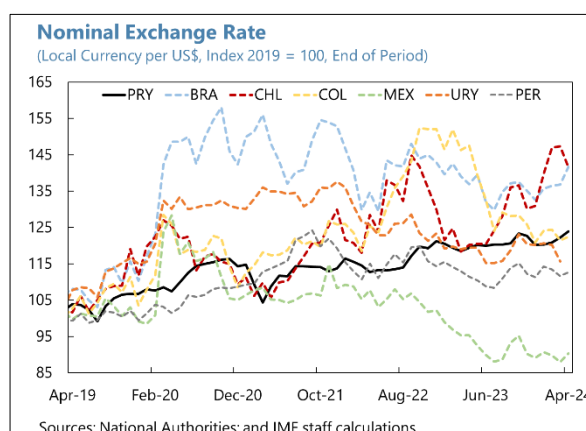


equivalent of US\$500 million with a 7.9 percent coupon). The consumer satisfaction index was the highest in the region in 2023, which bodes well for the economy's prospects.

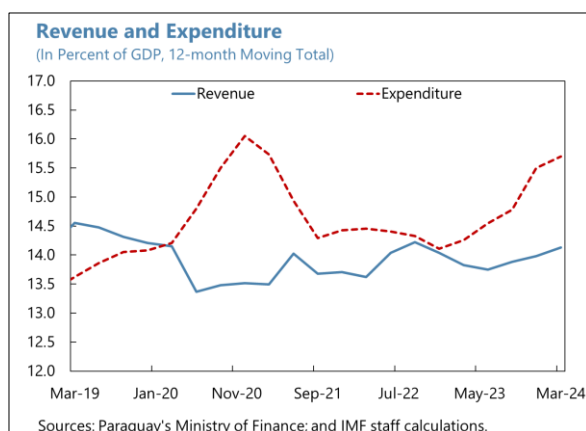
4. Headline inflation dropped sharply in 2023 and stabilized in 2024. The reduction in commodity prices, the restrictive monetary policy stance, and inflation expectations in line with the central bank's (BCP) 4 percent target contributed to the moderation of inflationary pressures. In this context, the BCP steadily reduced its policy rate since August 2023 to 6 percent by March 2024. Inflation averaged 3.5 percent in the first 4 months of 2024.



5. The external current account (CA) improved sharply in 2023. Net exports were buoyed by the recovery in agriculture and electricity generation. The current account shifted from a deficit of 7.1 to a surplus of 0.3 percent of GDP over 2022-23. The Guarani remained relatively stable in nominal terms. Reserves were at 198 percent of the reserve adequacy ratio (ARA) at end-2023. The external position was stronger than implied by economic fundamentals and desirable policies (Annex II).



6. The 2023 fiscal deficit increased sharply mostly on account of one-off expenditures. The central government deficit stood at 4.1 percent of GDP, in line with projections at the second PCI review, and public debt increased to about 40 percent of GDP. While total revenue slightly outperformed relative to projections, spending overruns occurred in primary current expenditure. The new government recognized outstanding unrecorded claims (1.1 percent of GDP) accumulated in response to the pandemic with suppliers to the Ministries of Public Works and Health. After proper vetting, those with Health Ministry turned out to be larger than initially expected by around 0.4 percent of GDP, resulting in larger primary expenditure in 2023. On the other hand, those with the Ministry of Public Works were smaller than initially envisaged.



7. The 2024 budget prioritizes spending on health, social transfers, and security. The budget formulation process for 2024 was cautious, with the fiscal deficit projected to be reduced to

2.6 percent of GDP thanks to a recovery in corporate income taxes and a reduction in spending in goods and services and in public investment. A planned standardization and homogenization of the definitions regarding purchases of medicine is expected to allay concerns regarding the cost of medicines. Through April this year, tax revenue collection has been 24 percent higher than in the corresponding period of 2023, which is mostly explained by the 2023 rebound in agriculture production and exports and a reported reduction in retail contraband activity from Argentina (specifically on fuel products). The last part of claims (US\$125 million) to the Ministry of Health were repaid in early 2024, compensated by higher-than-projected tax revenues.

8. The implementation of targets and measures under the PCI and RSF is progressing well.

- **Quantitative Targets (QTs).** The December targets on the central government's deficit target and on inflation were met, but the targets on current primary expenditure and floating debt were missed due to larger than envisaged unrecorded claims to private contractors from the Ministry of Health (about 0.1 percent of GDP). The deviations relate to the same set of claims that were identified at the time of the PCI first review and the new government took the responsibility of settling them. These are temporary and actions have been taken to improve expenditure control systems (RTs).

Text Table 1. Paraguay: Quantitative Targets 2023

	2023	
	June	December
Quantitative Targets		
Ceiling on the central government fiscal deficit	missed	met
Ceiling on current primary expenditure of the central government	missed	missed
Ceiling on the net incurrence of floating debt by the central government	missed	missed
Continuous Targets		
Ceiling on accumulation of external debt payment arrears by the central adr	met	met
Inflation Consultation Band		
Inflation	below the band	met
Memorandum Items		
Social assistance benefits	met	met

Sources: Paraguayan Authorities; and IMF staff calculations.

- **PCI Reform Targets (RTs).** The December 2023 RT on pension fund supervision law, which establishes a supervisory agency for public and private pension funds, was submitted on time, the law was subsequently approved by Congress by year-end (Table 11). The March 2024 RT on issuing the guidelines of decree on "SIPEN" (Pension Information System) to the beneficiaries of the "Coordination of Various State Obligations" (CODE) was met. The December 2023 RT on the issuance of regulations for the Law Creating the National Council of Public Companies was missed but was subsequently completed in May. The March 2024 RT on the submission to Congress of a bill aimed at fostering the formalization of workers employed in micro, small, and medium-sized enterprises (MSMEs) and self-employed was not met. The new government is recalibrating its strategy in this area.
- **RSF Reform Measures (RMs).** [Three](#) of the four RSF RMs were completed. The authorities enacted the regulation of the non-conventional renewable energy law (RM4), replaced the

decree creating the registry of industrial biomass users and establishing the prerequisites for the use of biomass (RM11), enacted a decree creating joint intervention protocols for land use change, and changed INFONA's normative framework to strengthen its institutional and financial capacities to protect native forests and respond to deforestation alerts (RM12). The establishment of energy efficiency standards, including a detailed implementation schedule, will require a more extensive consultation process than initially anticipated, and is now expected by November 2024. The authorities are already working with the Fund and other development partners in the implementation of RMs for upcoming reviews: a recently concluded C-PIMA and upcoming follow-up FAD Capacity Development (CD) project will support the incorporation of climate aspects to the public investment process, and the authorities have requested FAD CD for the introduction of a carbon tax. The IADB and the WB have started to work with the authorities towards the adoption of several RMs in the financial, and energy sectors (see Attachment I).

OUTLOOK AND RISKS

9. Paraguay's growth prospects are encouraging for 2024 and the medium term. The economy started this year on strong footing and growth is projected at 3.5 percent over the medium term. The opening of more foreign meat markets will help with the expansion of the livestock sector. Strong electricity generation is expected to support the manufacturing and agricultural sectors. Consumption should remain a strong driver of growth given stable inflation and lower borrowing costs. Inflation is projected to remain at the 4 percent target from 2024 onwards. The CA deficit is expected to jump in the next couple of years due to a temporary increase in imports associated with large FDI inflows into the forestry and manufacturing sectors before slowly converging back to a balanced position.¹

Text Table 2. Paraguay: Medium-Term Outlook for Selected Macroeconomic Indicators

	2021	2022	Act.	Proj.					
			2023	2024	2025	2026	2027	2028	2029
(In Percent of GDP, unless otherwise indicated)									
Real GDP growth (in percent)	4.0	0.2	4.7	3.8	3.8	3.5	3.5	3.5	3.5
Per capita GDP (U.S. dollars, thousands)	5.4	5.6	5.7	5.9	6.0	6.3	6.5	6.8	7.1
Consumer prices (end of period; in percent)	6.8	8.1	3.7	4.0	4.0	4.0	4.0	4.0	4.0
Terms of trade (annual percent change)	9.6	-6.8	0.0	0.3	0.1	-0.1	-0.1	0.0	0.0
External current account	-0.9	-7.1	0.3	-0.5	-2.4	-2.3	-0.3	-0.2	-0.2
Gross international reserves (in US\$ billion)	10.1	10.2	10.4	10.8	11.2	11.7	12.2	12.7	13.2
Central government fiscal balance	-3.6	-2.7	-4.1	-2.6	-1.9	-1.5	-1.5	-1.5	-1.5
Public sector debt	37.5	40.5	41.2	42.8	42.5	41.8	41.1	40.3	39.6

Sources: Central Bank of Paraguay; Ministry of Finance; and IMF staff estimates and projections.

¹ See 2024 Selected Issues Paper analyzing FDI trends and Patterns in Paraguay.

Table 1. Paraguay: Timeline of the RSF Reviews and Reform Measures Completion

	Dec 2023	June 2024	Nov 2024	May 2025
	RSF Approval	RSF 1 st Review	RSF 2 nd Review	RSF 3 rd Review
Key Challenge 1: Public investment is not resilient to climate shocks			RM1: MEF to amend and publish the Decree 4436/20 to incorporate climate aspects at each stage of project development of public investment projects (appraisal, selection, external audit etc.) in line with Fund TA recommendations.	
Key Challenge 2: Lack of financial resources to support adaptation and mitigation efforts			RM2: MEF and BCP to publish a green taxonomy aligned with Paraguay's NDC.	
Key Challenge 3: Vulnerability of financial sector to climate shocks				RM3: BCP to: (i) establish reporting requirements and a data repository for material climate-related exposures of banks; (ii) adopt a framework to monitor and assess climate-related financial risks for banking sector; and (iii) issue supervisory guidelines for banking sector to incorporate climate-related risks to their risk management frameworks, along with timelines for the adoption of the guidelines.
Key Challenge 4: Preservation and expansion of clean electricity matrix		Met RM4: MOPC and VMME to enact regulation of the non-conventional renewable energy law 6977/2023 , including (1) the specification / rationalization of economic incentives, (2) technical aspects (i.e., requisites to connect to the national interconnection system, detailed criteria for licenses, and conditions that would enable an effective development of non-hydro non-conventional renewable energy through all the defined players (generators, co-generators, self-providers, and exporters)).	RM5: ANDE to publish an external audit and a study of international benchmarks for its costs at different segments of its operations and efficiency parameters by an internationally reputed firm.	RM6: ANDE to develop, publish, and gradually adopt transparent and well-specified methodologies for adapting electricity tariffs in line with Law 966/64, accounting for operating costs, the financial costs of projected capital spending needs for preserving and expanding the clean electricity matrix, and efficiency gains on the basis of the results of the external audit and study by an internationally reputed firm (RM5), and the evolution of losses according to the plan in RM8.
		Delayed RM7: MOPC/VMME and MIC to establish by decree energy efficiency standards for the three appliances that represent the largest share of household electricity consumption in line with international benchmarks by the International Organization for Standardization.	RM8: ANDE and MOPC/VMME to develop, publish, and gradually implement a plan for ANDE loss reduction with quantitative targets, to install 20,000 smart meters to reduce non-technical electricity losses. 8b. ANDE to implement progressively hourly/dynamic tariffs. 8c. ANDE to increase inspections against electricity theft by 10 percent above same period in 2023.	
Key Challenge 5: CO2 emissions from the transport and residential sectors			RM10: MOPC/VMME-VMT, MIC and MEF to enact regulation of the Electromobility Law 6925/2023 , and to adjust fiscal incentives in favor of electric vehicles. MIC, MOPC/VMT and ANDE to install additional electric public charging infrastructure . VMT to lead the selection of the operational model and develop regulations for electric public transportation in the metropolitan area of Asuncion and set targets for an increased share of electric buses in the metropolitan area of	RM9: MEF, in coordination with DNIT, to adopt an explicit carbon tax replacing existing excise taxes on liquid fuels.
Key Challenge 6: Conservation of forests		Met RM11: INFONA, MADES, MOPC/VMME, and MAG to replace the Decree 4056 of 2015 to create the registry of industrial biomass users and establish the prerequisites for the use of biomass . INFONA, MADES, National Police and SENAD will regulate and implement a decree to create joint intervention protocols for land use change using the National Forest Monitoring System . The institutions in charge of the protocol will coordinate with other institutions of the Estate, including the Attorney General, to ensure the interventions in the protocol.		
		Met RM12: INFONA to change its normative framework aiming at strengthening its institutional and financial capacities to protect native forests and respond to deforestation alerts . This includes the creation of a National Directorate for the National Forest Monitoring System.		
Key Challenge 7: Contain methane emissions				RM13: MIC to enact regulation of the law 7014/2022 that promotes the reuse, recycling, and use of plastic (polyethylene terephthalate) containers .

10. Risks to the outlook are balanced. Ongoing geopolitical conflicts remain the main risk to external stability and oil price behavior, with a deeper global growth slowdown negatively affecting external demand (Annex III). Domestically, aside from the positive risks highlighted above, Paraguay remains vulnerable to extreme weather events such as floods and droughts given its reliance on water for agriculture and livestock production, river transportation, and electricity generation. In the longer term, the sustainability of the state pension fund, *Caja Fiscal*, could put pressure on fiscal accounts if remained unaddressed.

Authorities' Views

11. There was agreement that macroeconomic conditions remain favorable. Further expansion of private consumption will be led by anchored inflation expectations and a strong labor market. The recent issuance of Global bonds in local currency and prospects for an eventual upgrade to investment grade credit rating might lead to increased investment, including from foreign investors. Main downside risks are external, such as the geopolitical tensions and their effect on oil prices, and from unexpected climate developments.

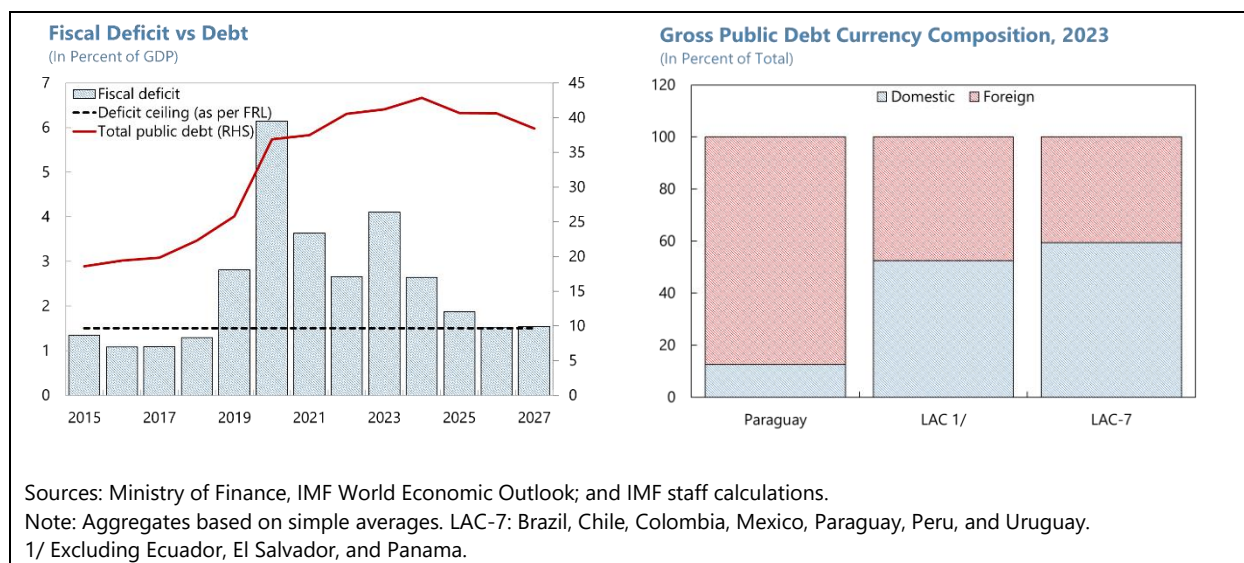
POLICY DISCUSSIONS

Policy discussions for the near-term focused on maintaining strong macroeconomic management and rebuilding policy buffers while the structural reform agenda over the medium term should aim to achieve more inclusive growth and build resilience to climate change. Given uncertainties around the external outlook, a data-driven approach to monetary policy setting serves Paraguay well, with the exchange rate continuing to absorb external shocks. The current fiscal-monetary policy mix seems appropriate and supportive of growth, but enhanced domestic revenue mobilization will be critical over the medium term to close development and infrastructure gaps and reduce vulnerability to shocks.

A. Fiscal Policy: Managing Difficult Trade-Offs by Rebuilding Buffers and Tackling Development Needs

Fiscal Path and Composition

12. Achieving a 1.5 percent of GDP deficit ceiling over the medium term is consistent with debt sustainability. As communicated in the previous staff report, the current government decided to delay convergence to the Fiscal Responsibility Law (FRL) deficit ceiling to 2026. The revised fiscal path seems realistic and would lead to a steady reduction of the debt-to-GDP ratio below 40 percent of GDP over the medium term. Paraguay's debt is assessed to be sustainable with a low overall risk of sovereign stress while long-term modules flag moderate risks (Annex IV). Given the risks from a relatively high share of public debt in foreign currency (close to 90 percent of total debt), the authorities are expanding the issuance of local currency bonds. On May 8, a preliminary agreement on Itaipú's electricity tariff was announced between the governments of Brazil and Paraguay but details of the agreement and its implications for Paraguay's infrastructure, security, and social spending remain to be seen.



13. Staff believes that fiscal consolidation should be driven by greater domestic revenue mobilization, especially given a very low level of tax collection in Paraguay. According to the National Directorate of Tax Revenue (DNIT), tax evasion is high at 26 percent but should fall thanks to the rollout of free electronic invoicing for taxpayers.² While tax productivity is high by regional standards, tax collections are among the lowest at 10 percent of GDP, with income and VAT tax rates set at 10 percent only. Personal income tax collections are low due to generous deductions and a high minimum income threshold. The authorities do not plan to raise statutory tax rates but expect to raise revenue by increasing tax collection efficiency, strengthening monitoring frameworks, reviewing special tax regimes, and further digitalizing tax payments.³ They are conducting an analysis of tax expenditures in special tax regimes (Annex V). In this context, a review of statutory tax rates should be considered, including on VAT, to better align them with regional peers.

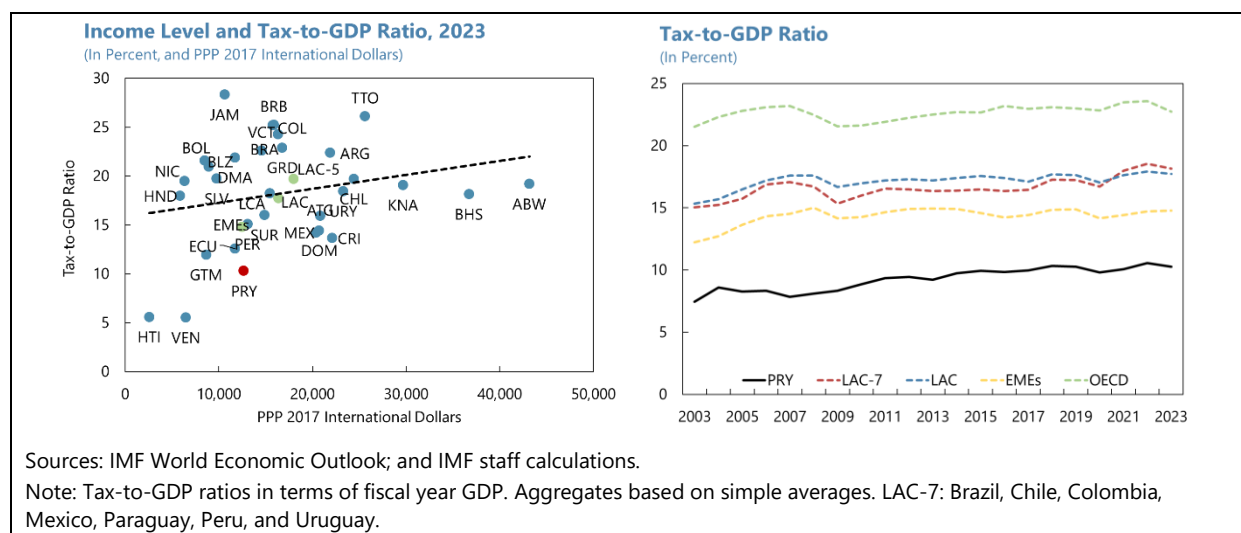
14. In the absence of significant tax revenue measures, the authorities' consolidation strategy would require a significant and sustained compression of public investment and spending on goods and services. A drastic reduction in public investment levels will harm plans for climate resilience and infrastructure, and cuts in spending on goods and services could affect the achievement of sustainable Development Goals (SDGs). Admittedly, spending efficiency is also low and could be improved through, for instance, better procurement systems and enhanced monitoring and evaluation.⁴ Efforts targeted at improving the Public Procurement (PP) system and recording and resolving unrecorded expenditure commitments are ongoing. The PP law was promulgated in late 2022, updating the legal provisions for the entire public procurement system.

² See [Staff Report \(2023\)](#) on the merger of the domestic revenue and customs agencies

³ Revenue losses from tax expenditures are relatively large (about 1.4 percent of GDP) relative to total tax collections because of a wide range of tax relief and exemptions for specific sectors with cumbersome administration and disputable economic benefits.

⁴ Applying regional estimates from a 2018 IADB (Inter-American Development Bank) study would suggest "waste" in Paraguay's public purchases of goods and services of about 1 to 1.3 percent of GDP. Also see [Staff Report \(2022\)](#) and [Staff Report \(2023\)](#).

This set of rules is designed to strengthen the transparency, efficiency, and effectiveness of the procedures for procurement of public works, consultancy, and services. The National Directorate for Public Procurement was appointed to regulate and supervise the preparation of the Annual Procurement Plan. The MEF is upgrading its capacity to capture line ministries' spending at the commitment, accrual, and payment order stages through the new integrated system for the management of goods and services (SIGEBYS) within the State Resource Management System (SIARE). It is being implemented in separate pilot projects for goods and services (proposed revised RTs for June and December 2024) with the aim of avoiding unrecorded liabilities like the ones recently settled with contractors to the ministries of Health and Public Works.

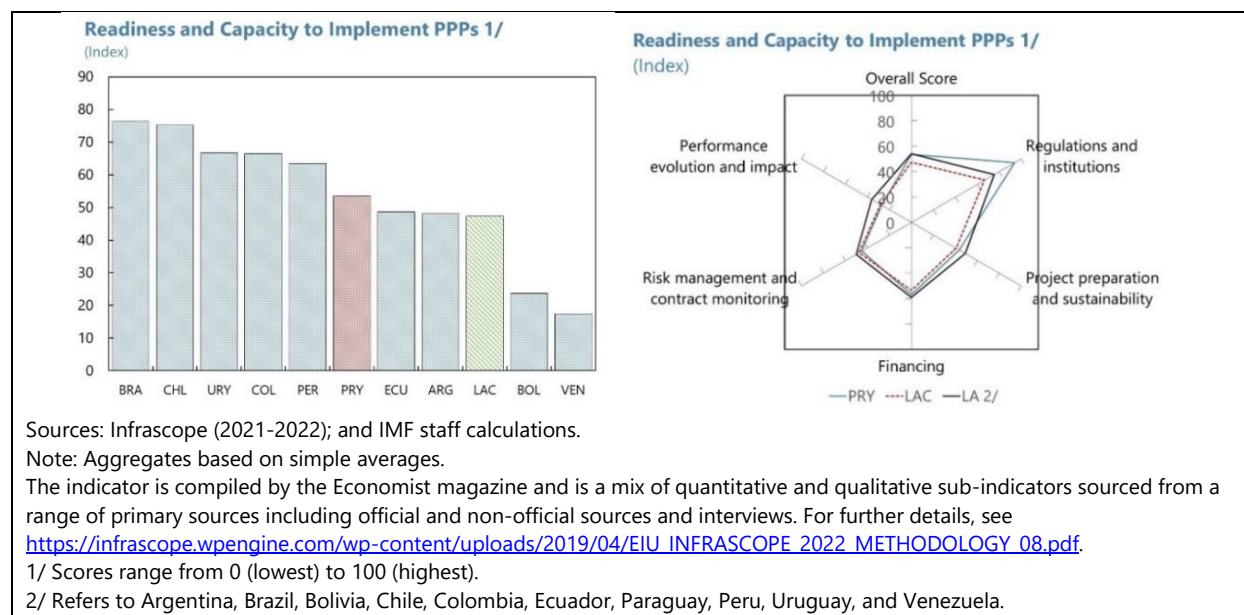


15. Given the planned compression of infrastructure spending, the authorities plan to increase reliance on PPPs, while being mindful of associated financial risks. These were highlighted in their first Fiscal Risk Report prepared following IMF CD project recommendations. The Law on PPPs is being revised to make it more attractive to the private sector while ensuring appropriate assessment and management of fiscal risks associated with PPPs. Elements that help create an enabling environment for PPPs include regulations and institutions; project preparation and sustainability; financing; risk management and contract monitoring; and performance evaluation and impact (OECD et al. (2023)). Paraguay is slightly above LAC average on overall readiness and capacity to implement PPPs, and stands out as having stronger institutions, however, still low compared to the highest score value. A strengthened and integrated legal framework for investments, as recommended by the Public Investment Management Assessment (PIMA), is also necessary in Paraguay.

Fiscal Structural Reforms

16. The authorities have made efforts to strengthen the effectiveness of institutional structures. To achieve greater efficiency in public policy planning, design, and implementation, the Ministry of Economy and Finance was established, incorporating functions previously assigned to the Ministry of Finance, the Technical Secretariat for Planning (STP), and the Secretariat of the Civil Service. The DNIT was also created through the merger of domestic revenue and customs agencies

to strengthen and optimize efforts in tax collection and management. This merger also facilitates the exchange of information and strengthens their efficacy and efficiency. A new law on the structure of the state has been passed that lays down more clear guiding rules and principles for the public administration in line with international best practices. A civil service reform bill was submitted to Congress featuring a series of changes to make the civil service modern and efficient based on meritocracy, with a single salary scale linked to professional development. To address contingent fiscal risks and administrative deficiencies, steps have been taken to improve the supervision and governance of the nine public enterprises.⁵ In December 2022, the dashboard system to measure public companies' performance towards a results-based management model was reestablished.



17. With the objective of increasing efficiency and transparency in the economy, significant progress was achieved in implementing electronic invoicing. Since the roll out of the e-kuatia in 2022 by the Undersecretariat of State of Taxation, the Integrated National Electronic Invoicing System (SIFEN) incorporated 4 thousand taxpayers. By October 2024, the goal is that 80 percent of national invoicing is carried out using electronic documents. The expansion and widespread adoption of the SIFEN will not only optimize the invoicing processes, but also strengthen the transparency, efficiency, and traceability of commercial transactions, thereby making a significant contribution to the modernization and digitalization of the economy.

18. Securing the sustainability of the pension funds, including through enhanced supervision, remains a priority. *Caja Fiscal*, the largest public employees' pension fund, increased its operational deficit to 0.4 percent of GDP in 2023, recording cumulative deficits of around 2 percent of GDP over the past 10 years. A consultative Council of Social Security under the Superintendency is being created. However, concrete parametric reforms to pension funds will require a long consultation process and changes to the existing law. Staff urged the authorities to

⁵ See [Staff Report \(2023\)](#).

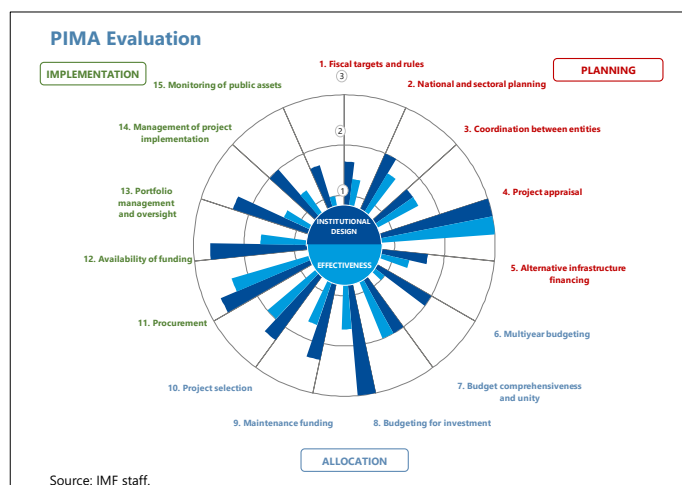
accelerate the creation of the Council and complete the analysis of the needed parametric changes to enhance the pension system's sustainability.

19. Important steps have been taken in improving administration and integration of social programs and now the focus should be on improving targeting. The Program for Senior Citizens was transferred from the Ministry of Finance to the Ministry of Social Development (MDS). The MDS now carries the responsibility for supervising and monitoring the implementation of the non-contributive minimum subsistence system for poor senior citizens. The Tekoporã program, which benefits 183,000 families, saw an increase of 25 percent in benefits for vulnerable families. The Pension Administration System (SIPEN) is being expanded to include social programs and improve their harmonization. The National Care Policy (PNCUPA) – 2030, led and coordinated by the Ministry for Women, is a flagship program in guaranteeing access to basic services and promoting a model of co-responsibility among families, government, private sector, and community. This integrated approach not only focuses on providing necessary support to those needing care, but also on safeguarding the employment rights of those, mostly women, who carry out caring roles within the family and social environment. The Action Plan for the PNCUPA is projected to be approved by the Interinstitutional Care Commission by year-end (proposed revised RT for end-December 2024). Targeting of benefits, as measured by beneficiary incidence, is weak, suggesting that a greater focus is needed on the bottom of the income distribution.

20. A recent PIMA identified key strengths and weaknesses of public investment management in Paraguay.

On average, public investment in Paraguay has declined since 2000, stabilizing at around 3 percent of GDP, half of the average annual public investment flows in LAC, and projected to decline further to around 1.5 percent of GDP. Capital stock and indicators of infrastructure access and quality also lag regional peers. The estimated efficiency gap is high, at 60 percent, and worse than LAC (37 percent).

Despite Paraguay's commitment to Climate Change (CC) adaptation and mitigation, the country is in an incipient state regarding the inclusion of these considerations in its investment system. This said, it is worth highlighting the congruence between the CC policy and the national development plan, the existence of guides for the preparation of adaptation plans, and the report on fiscal risks that incorporates risks associated with CC for public assets. Using that methodology and the CC module (C-PIMA), staff provided a set of recommendations aimed at enhancing public investment efficiency and integrating CC considerations into PIM (Box 1). The main risks to implementation are the lack of capacity and coordination among levels of government, including the two binational enterprises. Actions will be needed to ensure that funds are made available in a timely manner for the execution of investment projects through multi-year investment budgeting. Currently, the procedural manual



for the monitoring and evaluation unit of the National Directorate of Public Investment is being developed, which will be published and start to be implemented with a set of pilot investment projects before June 2025 (proposed new reform measure for June 2025).

Box 1. C-PIMA Findings and Recommendations

Overall, Paraguay scores better in institutional design than effectiveness. Public investment management (PIM) has some institutional strengths in procurement particularly in transparency, methodology for assessing the projects pipeline, and mechanisms to rule capital virements. However, the inclusion of Climate Change (CC) considerations into PIM is still incipient.

Main challenges:

- Often incomplete sectoral plans excluding investment projects, development objectives, and costs.
- Absence of control on multiannual expenditures hindering budget allocations to ongoing projects and creating incentives to underestimate total costs of new projects during budget allocation phase.
- Lack of centralized supervision for the portfolio of public investment projects and limited monitoring of individual projects.
- Fragmented public investment's information and technology systems.
- Limited capacity and resources of the environment ministry (MADES), including within the unit in charge of CC.
- Lack of identification of CC spending within budgetary documentation and ex-ante financial mechanisms to mitigate fiscal risks from natural disasters.
- Sector-level planning does not systematically incorporate CC mitigation and adaptation.
- The government does not have ex ante financing mechanisms focused on managing the exposure of public infrastructure to climate-related risks.

Key recommendations:

- Develop sectoral plans that include comprehensive information on infrastructure projects, allowing the formulation of consistent medium-term plans including CC considerations.
- Align multi-year commitments of investment projects and their disbursement schedule with multi-year ceilings, avoiding the incorporation of new projects into the annual budget if lacking fiscal space.
- Ensure that budget allocations of ongoing projects include their full cost and are consistent with their respective physical progress schedules to avoid cost overruns, execution delays, and arrears.

Improve the supervision and monitoring of public investment during the implementation stage, both at the level of individual projects and the projects portfolio, and implementing feedback mechanisms that allow for a continuous improvement of the National Public Investment System (SNIP).

Authorities' Views

21. The government is committed to fiscal consolidation and reducing the share of FX denominated debt. Its consolidation strategy is predicated on achieving efficiency gains in both revenue mobilization and public spending. In fact, the authorities believe that the recent merger of tax collection agencies is already a factor behind the record high collections in the first months of

this year. There was agreement that there is room for enhancing spending efficiency, which could also allow to free up resources for infrastructure and social spending. Another government priority is the achievement of a sustainable *Caja Fiscal*. Regarding a projected reduction in public investment, the authorities noted that is partly linked to the completion of large road projects and that they are engaging with the private sector to foster opportunities for PPPs. The authorities appreciate the Fund's technical assistance in several areas, including C-PIMA. They will be working to integrate its recommendations into their fiscal management.

B. Monetary and Exchange Rate Policies: Caution in an Uncertain External Environment

22. After a period of sustained reductions in its policy rate, the BCP is well placed to guide the monetary policy stance by incoming data. A conservative approach to the policy rate setting would be justified by the persistence of core inflation as well as considerations about the potential impact on the exchange rate of the narrowing of interest rate differentials vis-à-vis advanced countries. Given a recent change in signals from the U.S. Federal Reserve, the BCP stopped cutting its policy rate in April. With the monetary policy rate at 6 percent as of now, the monetary policy stance is now approaching its neutral stance, with a real policy rate of around 2 percent against a neutral real rate estimated in the range of 1–2 percent. The BCP's future rate decisions will be guided by inflation drivers and the feedback effects between actual inflation and inflation expectations, which have remained well-anchored around the BCP's target of 4 percent.

23. A well-functioning inflation targeting regime with a flexible exchange rate has served Paraguay well. The BCP maintains a strong reserve position and publishes information on its FX operations on its website. The BCP acts as the government's agent receiving its U.S. dollar-denominated revenues from royalties and compensation paid by the binational hydroelectric entities and (net) proceeds from foreign borrowing. It injects them into the domestic market on a gradual basis through so-called "compensatory interventions". The BCP intervenes occasionally in the market with "complementary interventions" to smooth the effects of undue fluctuations in the context of a thin FX market and highly seasonal FX flows, factors duly acknowledged by private sector agents.⁶ Staff continued to encourage the BCP to continue to limit FX interventions to address disorderly market conditions.

Authorities' Views

24. The authorities consider that both external and domestic risks to inflation are balanced in 2024. They noted that inflation figures during the first quarter of 2024, although higher than expected, were mainly linked to volatile components of the CPI basket, with a reversal of those

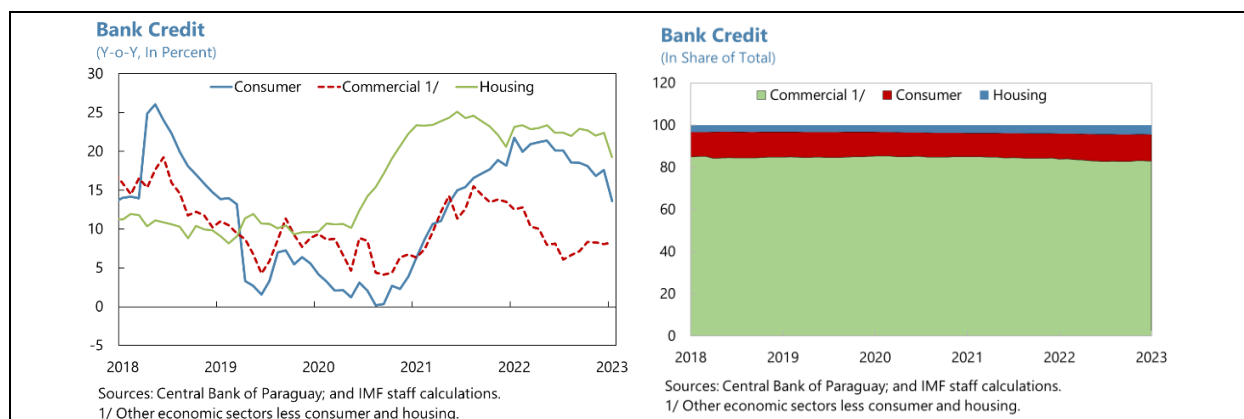
⁶ See [2022 Selected Issues Paper](#) on FX interventions. In 2022, following a sharp fall in agricultural exports due to a long drought, commercial banks and corporations relied on their foreign assets to help finance the large deterioration in the current account balance and the exchange rate depreciated only slightly. Banks hold about 50 percent of deposits in FX as they serve as intermediaries of FX revenue from exporting sectors, which constitute a large part of the economy.

trends being expected for the next few months of the year. Considering that inflation expectations are well-anchored and in the absence of new shocks, they remain confident that inflation will remain around its target of 4 percent. The monetary policy stance is now approaching its neutral stance and the BCP is committed to limit FX interventions to disorderly market conditions linked to very short-term exchange rate volatility not driven by market fundamentals.

C. Financial Sector Policies: Maintaining Macro-Financial Stability Through Improvements in Supervision

Performance and Access to Credit

25. Paraguay's banking sector had a remarkable year in 2023. Profitability and overall financial soundness indicators remained very strong. Growth of credit to households, while moderated from post-pandemic highs, was significant, although from a low base. Corporate credit growth is rebounding as interest rates are adjusting downwards, albeit with some lag. BCP's stress tests show that the banking system would remain solvent in the face of extreme shocks with a low probability of occurrence. Non-bank lending institutions are relatively small but important for poorer households and small businesses.⁷



26. The 2023 General Credit Situation Survey suggested positive prospects for credit growth though access to credit needs to improve further. The main reasons hindering credit provision are the client's (lack of) credit history, project quality, and poor collateral. Borrowers cited high interest rates and complex access requirements as the greatest impediments. Staff advocated for a multi-fold approach needed to improve conditions for borrowers and investors:

- **Access to credit:** In late 2022, the authorities submitted to Congress a new version of the draft law on collateral of movable assets, but it has not been approved. It would be important to adopt this law which aims at facilitating access to credit by micro, small, and medium-sized enterprises (MSMEs) through greater flexibility and scope in terms of assets used as collateral.

⁷ The sector is very concentrated with four banks holding 60 percent of deposits. Cooperatives' assets constitute about 10 percent of bank assets, while credit houses (*cajas de credito*) comprise about 3 percent.

- **Enhancing land property rights.** Ensuring accurate and up-to-date documentation and records of the land cadaster should also be an integral part of the reform agenda. Completion of this reform will not only provide legal certainty and transparency regarding land ownership but will also boost domestic and foreign investment by removing associated uncertainties and risks. A better property register will facilitate more efficient planning and land development, thereby contributing to sustainable growth. Currently, the authorities are developing a robust plan that improves the integrity of the public land cadaster (revised proposed December 2024 RT).
- **Reforming the legal framework for insolvencies.** Reforming the legal framework for insolvencies is part of a broader effort that includes the Law on Simplified Shares and the Law on Security Interests, forming a comprehensive set of reforms that will mutually boost their efficacy and impact. The government plans to prepare a comprehensive legislation addressing the raised concerns which will need additional time (revised proposed December 2024 RT).

Strengthening Institutional Frameworks

27. As other countries in the region, the BCP has rolled out a fast payment system and is exploring the merits of a Central Bank Digital Currency (CBDC). Paraguay's retail fast payment system (SPI, *Sistema de Pagos Instantáneos*, launched in 2022) enables instant availability of funds to the beneficiaries 24/7, 365 days a year, and without charging fees. It is deemed to have fostered financial inclusion as it has experienced a quick expansion⁸ and will be gradually extended to other financial institutions, particularly credit unions. The objectives and potential design of a CBDC is still being evaluated by the BCP. IMF TA on designing a roadmap for CBDC exploration was well received and the World Bank (WB) has now taken the lead in supporting Paraguay in these areas.

28. Work has continued in implementing the recommendations of the 2018 Financial Sector Stability Report but only gradually. The overarching objective is to continue to buttress banking and cooperatives supervision, including consolidated stress-testing, which would help disclose remaining pockets of solvency risks, including outside the banking system. Strengthening of institutional stress testing capability and coordination on related frameworks in and among regulatory bodies is ongoing.

29. Expanding risk-based supervision to the insurance sector is also imperative. Recent IMF CD recommended that the Insurance Superintendency develops a project plan to design and implement Risk Based Supervision Framework (RBSF) and improve the control on the quality of its databases. RBSF implementation requires the realization and transformation of multiple elements over an extended period, including development of supporting laws, supervisory and industry capacity building, promotion of cultural change towards risk-based management, regulatory development, and adaptation of information systems. It would also be useful to extend the recent regulation on Corporate Governance, Internal Control and Risk Management to all companies.

⁸ By December 2023, operations held during the weekends already represented 18 percent of the week's operations and those held between 6pm and 6am about 24 percent of the day's transactions.

30. Positive developments in the banking sector provide an opportunity to enhance the existing Deposit Guarantee Fund (DGF) and the banking resolution framework. IMF TA identified several gaps in the current resolution framework, including a lack of objectives for the Resolution Authority (RA). The RA should be operationally independent from the supervisory functions of the bank supervisor, the resolution toolkit should be strengthened, and the resolution regime could be complemented by additional legal safeguards. The DGF's legal mandate should clearly establish a set of powers and objectives. The framework for DGF operations (contributions and coverage) should be enhanced, and the DGF's institutional arrangements should be overhauled. Creating a deposit insurance for cooperatives is also recommended.

31. The functioning of the securities markets needs to be enhanced following a paced approach. In 2023, the Securities Commission was replaced by the newly created Superintendency of Securities now under the BCP. A recent CD report offered recommendations to improve the securities' legislation, the coordination between supervisory institutions, the standardization of accounting standards, the role of the Supervisor and its legal protection and enforcement powers, and investor protection standards.⁹ The differing objectives of core central banking activity and securities regulation should be clearly recognized and managed to avoid conflicting objectives and the risk of overshadowing securities regulation. Staff recommends to first undertake a deeper analysis of institutional arrangements before going ahead with the authorities' ambitious timelines for updating legislation in this area.

32. The financial investment landscape should evolve once changes to the regulation of pension fund portfolios are introduced. Pension funds have been subject to rigorous asset holding restrictions forcing them to hold mostly short-term deposits with private banks, which has undermined a deepening of domestic capital markets.¹⁰ Changes to regulations on investments should lead to increased institutional (and foreign) participation in the local capital markets but may also create potential liquidity needs in the banking sector through some withdrawal of pension funds' bank deposits. Therefore, an orderly implementation of new regulations to safeguard banks' liquidity positions should be ensured.

33. The identification and understanding of the risks associated with money laundering and terrorism financing (ML/TF) remains an important objective. The 2020 National Risk Assessment (NRA) revealed that Paraguay's financial system remains vulnerable to ML/TF threats associated with regional cross-border financial operations and proceeds-generating crimes in the tri-border area with Argentina and Brazil. The NRA also revealed that the main domestic ML threats are associated with drug trafficking, corruption, contraband, and tax evasion. Approval of an updated NRA has been delayed and now is expected by end-June 2024 (RT). Fund CD project remains in place to help strengthen Paraguay's AML/CFT regime. The project focuses on: (i) enhancing the legal and regulatory framework, (ii) strengthening risk-based supervision of financial institutions and designated businesses and professions, (iii) enhancing the financial intelligence

⁹ The latter is a recommendation from the last GAT.

¹⁰ See Box II: Importance of investment diversification of pension funds (Financial Stability Report, 2023).

unit's capabilities to conduct operational financial intelligence reports and strategic analyses; and (iv) addressing sanctions imposed for ML-related offenses. Implementation of the recommendations resulting from the *Grupo de Acción Financiera de Latinoamérica* (GAFILAT) assessment, which identified technical shortcomings and effectiveness issues in various areas of AML/CFT regime and in key stakeholders which should be addressed.

Authorities' Views

34. The authorities were thankful for the CD assistance being provided in several financial sector areas. They reiterated that progress was being made in establishing risk-based supervision and strengthening crisis preparedness frameworks. Efforts to gradually develop a risk-based regulatory framework for cooperatives and insurance companies are being made. Fund's CD in developing securities' markets has been timely and will help develop the strategy in area. Addressing the AML/CFT concerns is imperative. Important progress has been made in increasing financial inclusion and further actions will target greater access to credit by women, reduction of still high cost of services, and enhancing internet availability in rural areas. At the request of the authorities, the Financial Sector Assessment Program, last conducted in 2011, is now expected to commence in 2026.

D. Structural Reforms: Improving Social Conditions and Governance

35. An important milestone was the ten-year mark of the first National Financial Inclusion (FI) Strategy, and efforts should continue in this area. Paraguay has made considerable progress in financial inclusion in recent years, with increased adults' access to formal financial services (about 60 percent benefit from formal or commercial financial products). However, challenges such as limited financial literacy, high costs of financial services, and geographical barriers in rural areas still need to be addressed (Annex VI). A draft FI Law has been submitted to Congress to foster the use of digital payments in local currency (specifically to pay salaries into no-cost accounts in the banking system) and allow traceability of financial transactions.¹¹ The instant payment system aims to provide financial access to 100 percent of households by 2030. Staff advised that further progress in FI will benefit from a more coordinated supervisory framework.

36. Progress in reducing poverty and informality has been slow.¹² While poverty levels have declined in Paraguay, more efforts are needed to reach the Sustainable Development Goals (SDGs) and improve the quality of life of the most vulnerable.¹³ Paraguay, having the third-highest rate of informal employment in the region, has faced challenges in significantly lowering this rate. Staff analysis suggests that simply lowering taxes and social security contributions may not have a meaningful impact on reducing informality.¹⁴ This applies across various demographics, including

¹¹ Digitalization could play a mitigating role to reduce gender gaps in employment and job loss in the future (Staff Report, 2022).

¹² [Paraguay Selected Issues Paper, 2015](#).

¹³ See [Staff Report \(2022\)](#) for more analysis.

¹⁴ See Paraguay Selected Issues Paper, 2024.

gender and educational backgrounds, despite the significant variations in informality rates among these groups. Staff outlined alternative policy strategies that could enhance productivity and foster and sustain employment within the formal sector, improving healthcare benefits; simplifying paperwork and linking public procurement to formalizing employees while strengthening enforcement; and eliminating inefficient, complicated, and distorting regulations.

37. Trade and investment have been important drivers of growth and reduction in inequality, but some positive trends have recently reversed. Given the country's concentration across products, alongside an increasing concentration across markets, and its agricultural exports at an increasing risk from droughts, staff stressed the importance of greater diversification in both export products and markets.¹⁵ Furthermore, staff analysis indicates a significant shift in Paraguay's FDI patterns between 2017 and 2022, with a 20 percent decline in FDI relative to global GDP (Box 2). To revive external investment, staff advocated for a comprehensive strategy leveraging on the country's substantial natural resources and clean energy, improvements in investment environment, and a promotion of global partnerships.

38. The anti-corruption framework, governance, and transparency need to be improved further. Staff welcomes the [National Anti-Corruption Strategy](#) published in end-2023, which reflects the new government's approach of implementing more focused and feasible actions in specific areas. Several of them have been integrated into the PCI's reform matrix: (i) standardize and homogenize the inconsistent definitions of the Ministry of Health and the Social Security Institute (IPS) regarding purchases of medicine, which would allay concerns regarding the cost of their purchases (December 2024 RT), complemented by pilots of a new health information system that would ensure efficient stock management of medicines (proposed new June 2025 RT); (ii) create a system for reporting domestic abuse and of registration of abusers to ensure safety of women, and guard against corruption in cases of domestic abuse (proposed new March 2025 RT); (iii) launch of a pilot of an information exchange system to carry out cross-checking examinations of public officials' net worth information (proposed new June 2025 RT).

39. Closing gender gaps in opportunity, outcomes and representation should be a priority to promote resilient, inclusive, and sustainable development. Assessing indicators capturing individual dimensions of gender inequality, as well as understanding the nexus between gender inequality and economic growth, is imperative for formulating policy interventions that promote sustainable growth (Annex VII). For instance, reducing the gender gap in labor force could increase potential output by 2.1 percentage points. Efforts should concentrate, inter alia, on reducing gender-based violence, improving social protection, and enhancing educational opportunities.

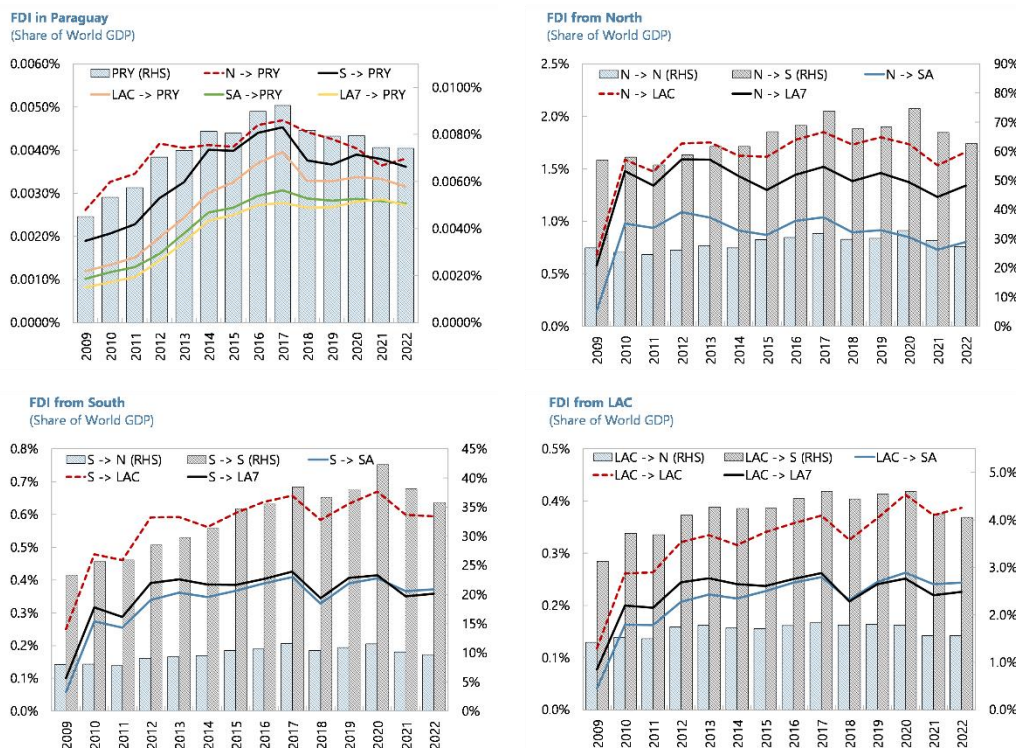
¹⁵ See Paraguay Selected Issues Paper, 2024. Staff analysis suggests that impediments to doing business are costly and lengthy export and import procedures and poor infrastructure that hampered trade facilitation.

Box 2. Trends and Patterns of FDI in Paraguay¹

While growing markedly since 2010, FDI to Paraguay underwent a transition from significantly positive to distinctly negative by the middle of the last decade. Specifically, between 2017 and 2022, Paraguay experienced a cumulative 20 percent decrease in the ratio of cross-border FDI positions to world GDP. This shift was notably propelled by investments originating from the North, South, and LAC regions. Interestingly, this pattern is distinct to Paraguay, as FDI from these regions to other destinations remained stable or even accelerated.

This disparity suggests a specific alteration in either the investment climate or the perception of Paraguay among international investors from those areas. It could be that being a small and landlocked country or weakly integrated with international financial markets conspired against the objective of attracting FDI flows. By contrast, it is worth noting that Paraguay has low tax rates and substantial tax incentives to attract FDI, factors that would not have rendered their desired outcomes. Therefore, a targeted exploration of the underlying factors influencing these region-specific FDI flows is warranted to facilitate informed policy and strategic decisions.

Box 2. Figure 1. Trends and Patterns of FDI in Paraguay



Source: CDIS; and IMF staff calculations

1/ Based on data from the IMF’s Coordinated Direct Investment Survey (CDIS). Values for global cross-border investments are adjusted to 2011 U.S. dollars for consistency. The dataset includes investments reported by investor and recipient countries, enhancing coverage but limited by unreported data. Following [Broner et al \(2023\)](#), countries are classified into North and South, South America, LAC, and LAC-7 group. By comparing investment sizes to world GDP, a detailed examination of investment trends consistent across different regions and groups is provided.

Authorities' Views

40. The new administration plans to build on progress made in recent years. Improvements to the functioning of health and education systems remain high on its agenda as well as expanding social programs and introducing a hotline for reports on gender-based violence. The government will also focus on improving inclusion, employment formalization, strengthening business climate, and making “Paraguay brand” more attractive to foreign investment. The approval of the Anti-Corruption Strategy has also been a milestone in the efforts to make the functioning of the state more transparent to citizens and foreign investors. Some of the reform measures formulated by the previous government, including on enhancements to the insolvency framework and the property cadaster, are being reformulated. The new government is also reassessing actions with respect to the formalization of labor.

E. Climate Policies: Reducing Vulnerability to Shocks

41. Paraguay's dependence on water resources for agriculture, electricity generation, and transportation makes it particularly vulnerable to climate change shocks. This vulnerability is acknowledged in the government's adaptation and mitigation plans as reflected in the 2017 Framework Law on Climate Change (CC) and the updated Nationally Determined Contribution (NDC) in 2021. While Paraguay is one of only six countries (Costa Rica, Denmark, Norway, Iceland, and Uruguay) that consumes 100 percent of its electricity from renewable sources (hydropower) per the recent Global State of Renewable Energy report,¹⁶ the government is focused on further developing fully sustainable electricity generation capacity, in addition to attracting green hydrogen and biofuels industries, and boosting the forestry sector. Strong international cooperation may be necessary for Paraguay to adapt to changing water flows. Methane emissions from cattle breeding and the use of industrial fertilizers are significant contributors to greenhouse gas emissions. Mitigation measures should focus on expanded reliance on renewable energy and implementing policies to reduce deforestation and the carbon footprint of agriculture and animal husbandry.

42. To enhance adaptation policies, in particular, Paraguay should aim to develop an integrated climate change and adaptation policy framework. This framework should consider various policy options, including fiscal and energy policies. It is important to assess the impact of adaptation and transition investment needs on public investment plans and incorporate them into a credible fiscal path, as discussed above. Additionally, Paraguay should explore ways to leverage its significant hydroelectric energy potential and engage private firms and households in achieving sustainable energy objectives. The government is making strides in these directions, and several important steps are now part of the RSF reform agenda.

¹⁶ See Annex I “Building Resilience to Natural Disasters and Climate Change” in [IMF, 2023](#) and [IMF, 2022](#) for coverage of climate change policies in Paraguay. Staff estimates suggest that annual losses for the agricultural sector due to climate change can range from US\$20 to US\$200 million per year by 2030.

Authorities' Views

43. The authorities are committed to enacting a series of adaptation and mitigation measures and further expanding the generation and exports of green energy. They appreciated the assistance from the international development partners in tackling the challenges posed by climate change. These reforms will not only strengthen Paraguay's resilience to climate change but will also play a catalytic role for green investments, boosting sustainable development and accelerating the country's economic diversification. The implementation of reform measures underscores the country's commitment to environmental sustainability and preservation and contributes to strengthening the perception of Paraguay as an ideal destination for environmentally friendly investments.

PROGRAMS MODALITIES, SAFEGUARDS' ASSESSMENT, AND CAPACITY DEVELOPMENT

44. Access and duration. The PCI and RSF (the latter approved for SDR 302.1 million or 150 percent of quota) are in place until November 2025. Both will continue to be monitored on a semi-annual basis through QTs, standard continuous targets, RTs for the PCI and RMs for the RSF (Tables 1, 2, 3 and 4), as defined in the Memorandum of Technical Understanding (TMU). New PCI's QTs and RTs are proposed for the last PCI review date of June 30, 2025. The end-June and end-December 2024 quantitative targets on the ceiling on current primary spending have been modified to accommodate the repayment of US\$125 million in previously unrecognized liabilities with contractors from the ministry of health.

45. Risks to program implementation are assessed to be low and Paraguay's capacity to repay the Fund is sound. There is no balance of payments' gap for the next 12 months, and there are good prospects that there will be adequate financing for the remaining program period. Paraguay does not have current credit with the Fund, and its outstanding credit is projected to rise to 150 percent of quota (or 0.9 percent of forecasted GDP) by 2025 once the RSF arrangement is completely disbursed (Table 9). Paraguay's ability to service this debt is assessed as robust. This assessment is anchored in steady debt ratios forecasted over the medium term, a favorable risk profile of external and total public debt, and the government's track record of implementing reforms and prudent macroeconomic management. Obligations to the Fund are expected to stay at or below 0.3 percent of exports of goods and services, 0.6 percent of government revenue, and 0.4 percent of gross international reserves throughout the repayment period.

46. Safeguards Assessment. The 2024 update safeguards assessment of the BCP is near completion. It found that the central bank maintains a sound system of operational controls and enhanced its transparency in financial reporting through adoption of International Financial Reporting Standards. However, legal reforms remain necessary to strengthen aspects of the BCP's autonomy and its governance arrangements. On the latter, vulnerabilities resulting from the lack of an independent oversight body persist and should be addressed through interim avenues pending

legal reform. Other key recommendations pertain to strengthening internal audit as an assurance function and align its practices with international standards.

47. CD support by the Fund remains closely aligned with the programs' priorities. It focuses, inter alia, on domestic revenue mobilization, follow-up support on fiscal risks and a recently completed C-PIMA, and financial stability and integrity, including the AML/CFT regime. The authorities are also committed to strengthening balance of payments and national accounts statistics (Annex VIII).

STAFF APPRAISAL

48. Paraguay experienced strong growth in 2023 and prospects going forward are positive. Growth in 2023 was led by the recovery in agricultural production and electricity generation from the severe drought in 2021/2022. Recent months have seen inflation stabilizing around or below the Central Bank of Paraguay (BCP)'s target of 4 percent, enabling the BCP to considerably lower its monetary policy rate. Amidst these favorable macroeconomic conditions and the implementation of prudent policies, the country's economic activities have remained strong, with potential upside risks from green investment projects partly compensated by geopolitical and climate-related risks. Since the inception of the new government, a series of key administrative reforms have been initiated, with further reforms anticipated, including those supported by two IMF programs.

49. Fiscal policies should be targeted towards a revenue-led consolidation and improved public financial management. After jumping to 4.1 percent of GDP in 2023, the fiscal deficit is projected to fall to 1.5 percent of GDP by 2026. The corresponding adjustment would be achieved through a reduction in investment spending and some improvement in revenue. Enhancing domestic revenue mobilization should be a key priority given a low tax-to-GDP ratio in Paraguay, sizable development and infrastructure gaps, and the need to rebuild fiscal buffers in the presence of recurrent shocks and fiscal risks. There is room to improve the efficiency of public spending, including through strengthening the effectiveness of institutional structures. There is also a need to better target social assistance programs to the most vulnerable beyond current efforts to improve their administration and monitoring. Increased reliance on well-designed projects through PPPs could partially compensate for the planned contraction in public investment while minimizing contingent liabilities.

50. Paraguay continues to benefit from a robust inflation targeting framework, complemented by a transparent and flexible exchange rate system. The BCP's assertive monetary policy measures have led to a swift decrease in inflation, paving the way for a gradual easing of policies starting from the third quarter of 2023. Currently, monetary policy is nearing a neutral position. It is imperative for the BCP to tailor its monetary policy strategy based on incoming data, especially concerning the factors driving inflation and the interplay between actual inflation and inflation expectations, which have remained closely aligned with the central bank's target. FX interventions should be limited to addressing disorderly market conditions.

51. The banking sector is well supervised and boasts strong capitalization and profitability levels. It is important to continue to enhance and broaden the scope of financial oversight, including in insurance and cooperative sectors, incorporating a risk-based approach. Significant progress has been achieved in increasing financial inclusion over the last ten years, yet there is a further need to move forward with the law on movable assets as collateral, boost financial literacy, upgrade internet access and connectivity, and reduce the costs, spearheaded by the recent successful rollout of a retail fast payment system. Additionally, addressing the risks associated with ML/TF in Paraguay remains a vital goal.

52. An effective strategy for inclusive growth should focus on minimizing informality, reducing gender gaps, improving governance, and enhancing global market integration. While the medium-term outlook for growth is optimistic, there is a pressing need for more diversity in export products and destinations, alongside fostering multilateral collaboration, and channeling investments into infrastructure to support trade and economic expansion. Addressing the still prevalent high levels of informality and gender gaps in labor markets is critical for significantly improving productivity and reducing poverty. A comprehensive strategy should aim to lower transaction costs through streamlined procedures, make formal employment more accessible, and boost the business climate and productivity by removing inefficient, overly complex, and distortionary regulations. To further unlock growth potential, measures should be taken to bolster the anti-corruption framework, governance combatting corruption, and transparency. Updating the frameworks governing insolvency and land ownership rights will mitigate business uncertainties and could enhance foreign investment attractiveness, including in eco-friendly projects.

53. Staff supports completion of the third review under the PCI and first review under the RSF arrangement. The authorities remain dedicated to bolstering macroeconomic stability, advancing their structural reform agenda, and sustaining a close policy dialogue with the IMF under the PCI. Notwithstanding non-observance of two quantitative targets under the PCI, the authorities do not expect further instances of unrecorded debt as this was a legacy of fiscal management weaknesses and extraordinary spending during the pandemic. Staff supports the modification of the end-June and end-December 2024 QTs on the ceiling on current primary spending, and the reformulation of RTs under the PCI linked to the insolvency framework, the public land cadaster, and the National Care Policy. Delivering on commitments to implement a comprehensive set of climate-related reforms, including under the RSF, will open investment opportunities and help build resilient and sustainable growth. Based on completion of RMs 4, 11 and 12, staff supports the authorities' request for disbursement of SDR 75.525 million under the RSF. The authorities remain dedicated to implementing the remaining RMs. Staff supports the additional time for consulting with the private sector before implementing RM7 on energy efficiency.

54. Staff recommends the next Article IV consultation with Paraguay to be held on the 24-month cycle.

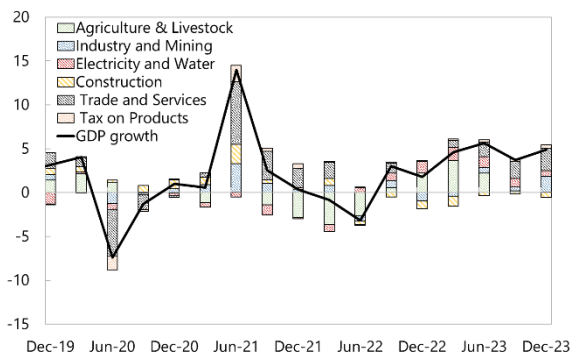
Figure 1. Paraguay: Recent Developments

The robust agricultural production and high electricity generation led to the economy's expansion in 2023.

Net exports and public spending bolstered aggregate demand, offsetting investment's adverse dynamics.

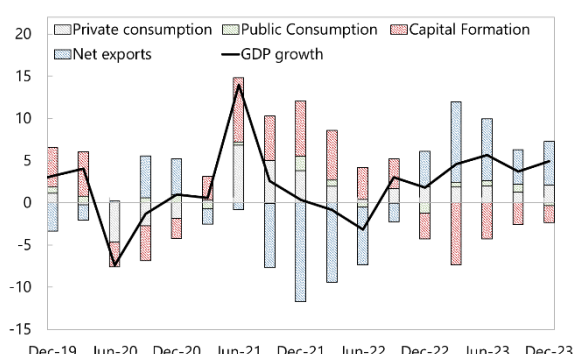
Aggregate Supply Growth Decomposition

(In Percent, Y/Y)



Aggregate Demand Growth Decomposition

(In Percent, Y/Y)

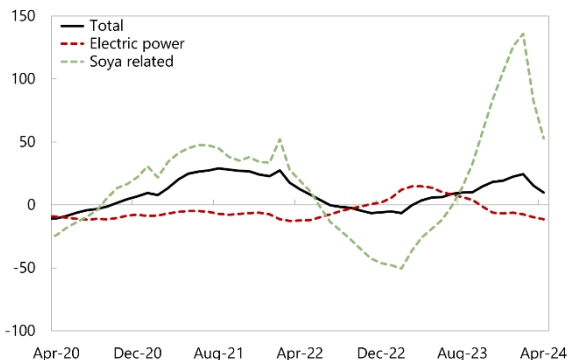


Total exports recovered after severe droughts.

Monthly economic indicators point to a robust economic expansion...

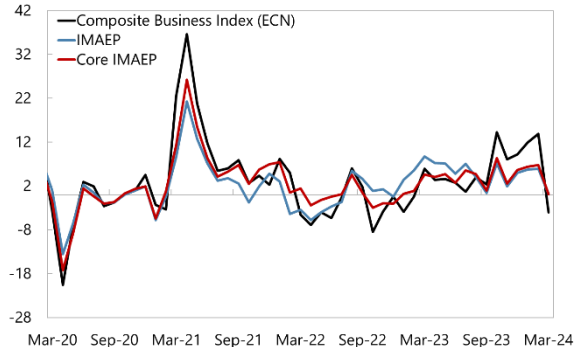
Exports of Goods

(Growth Rate in Percent, 12-Month Moving Average)



Monthly Economic Activity Indices

(In Percent, Y/Y)

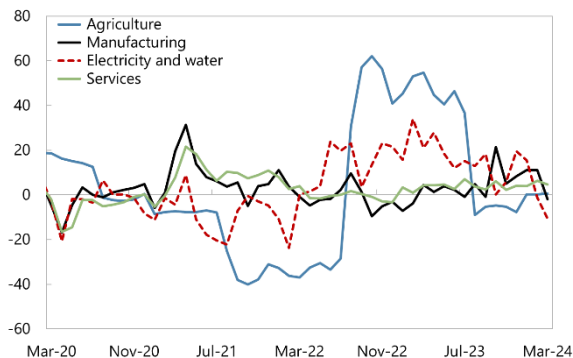


... despite the leveling-off of agricultural sector growth.

The unemployment rate is on a declining trend, while employment is still just below its pre-pandemic level.

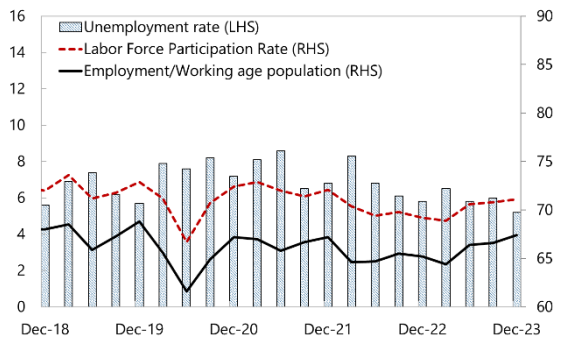
IMAEP by Sector

(In Percent, Y/Y)



Labor Market

(In Percent)



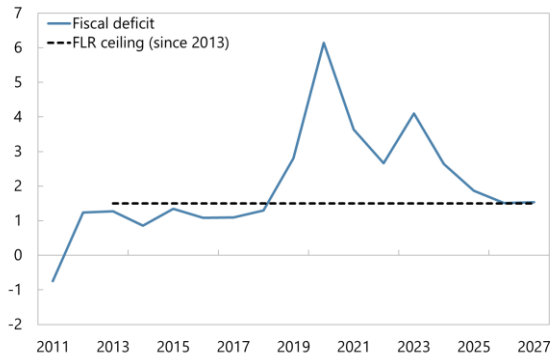
Sources: BCP; Ministry of Economy and Finance; and IMF staff calculations.

Figure 2. Paraguay: Fiscal Developments

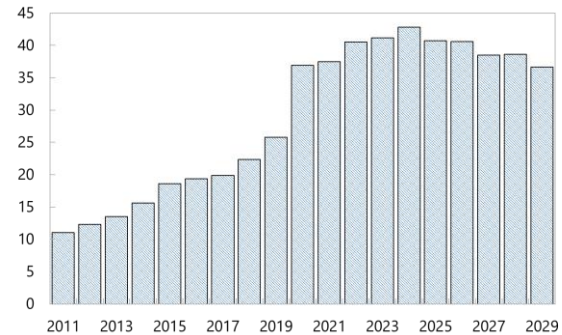
Paraguay aims to reach the FRL ceiling by 2026, with the 2023 deficit affected greatly by the settling of previously unrecorded claims.

Public debt increased substantially after the pandemic but is stabilizing...

Central Government Fiscal Deficit
(In Percent of GDP)



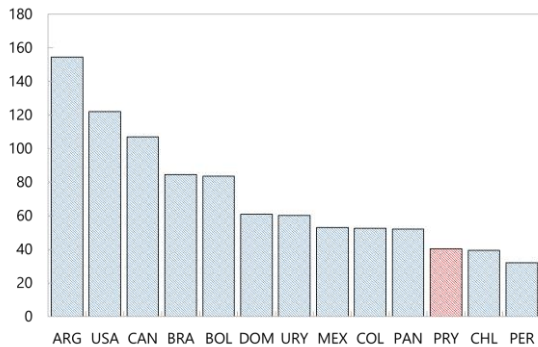
Public Debt
(In Percent of GDP)



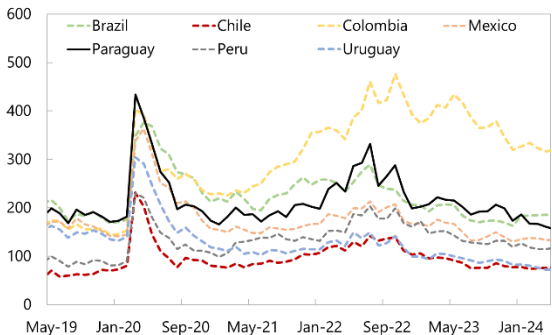
...and is still low compared to other countries in the region.

Paraguay's credit spreads have been converging towards those of investment grade countries.

Public Debt, 2023
(In Percent of GDP)



Sovereign Spreads
(In Basis Points)

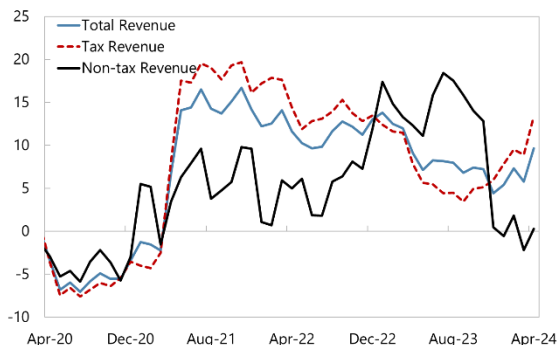


Sources: IMF's Sovereign Spread Monitor, and IMF staff calculations.

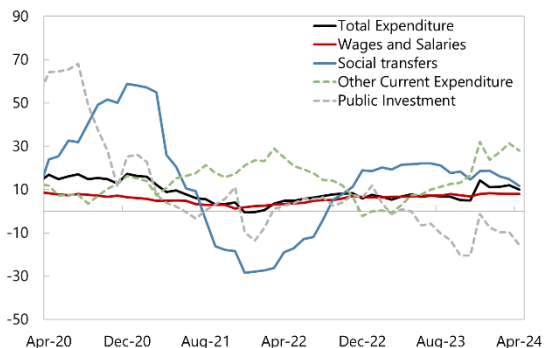
Supported by strong tax collections, total revenue has been sharply increasing in 2024.

Total expenditure growth is stable but at the sacrifice of public investment.

Central Government Revenue
(Growth of 12-Month Moving Cumulative Sum)



Central Government Expenditure
(Growth of 12-Month Moving Cumulative Sum)



Sources: Ministry of Economy and Finance; WEO; and IMF staff estimates.

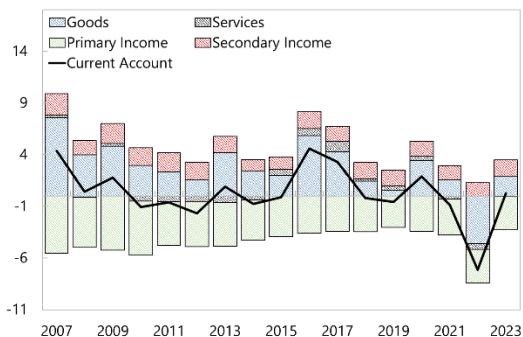
Figure 3. Paraguay: External Sector Developments

The current account notably improved in 2023, led by higher exports and reduced fuel costs.

Agricultural products are the primary sources of export revenue.

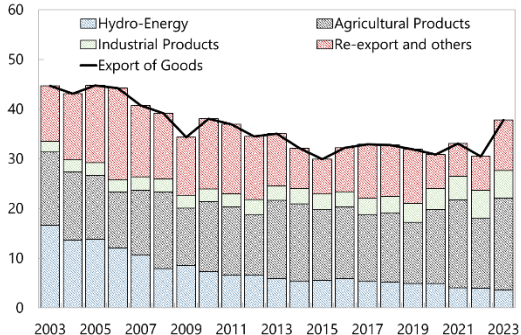
Current Account Balance

(In Percent of GDP)



Composition of Goods Export Revenues

(In Percent of GDP)

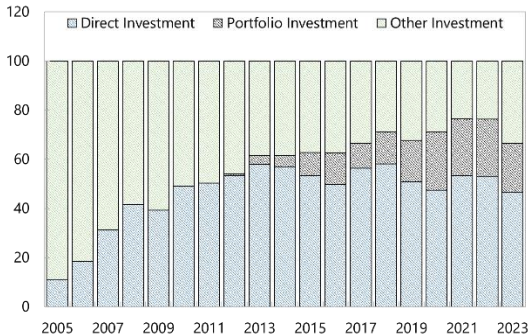


Debt is a major source of outward factor payments while direct investment has slightly declined.

The financial account has been volatile.

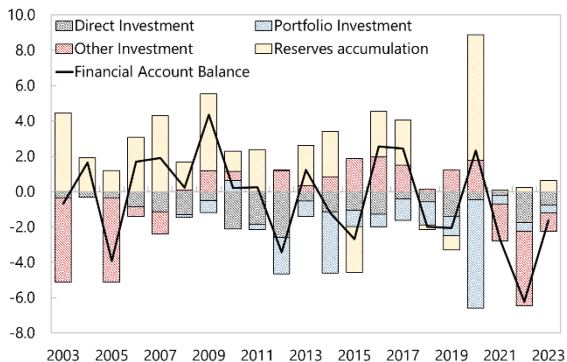
Composition of Outward Factor Payment

(In Percent of Total Outward Factor Income)



Composition of Financial Account

(In Percent of GDP)

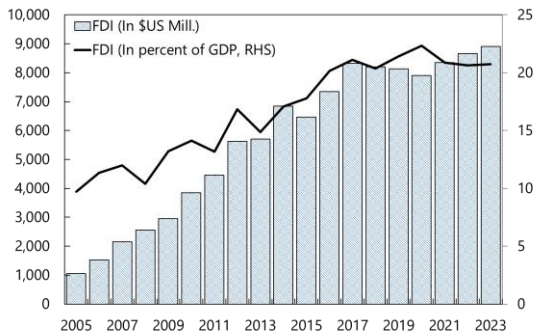


Foreign direct investment has been plateauing in the recent past.

The net international position has remained stable as both assets and binational debt have decreased.

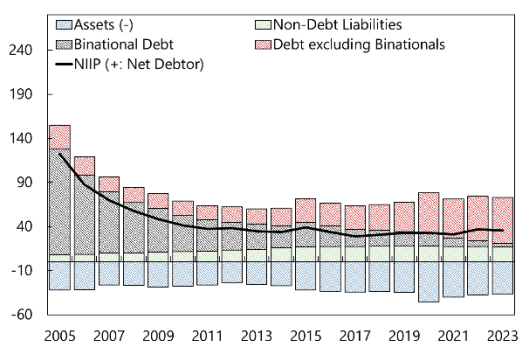
Foreign Direct Investment Stock

(In Millions of \$US Dollars, and in Percent of GDP)



Net International Investment Position

(In Percent of GDP)



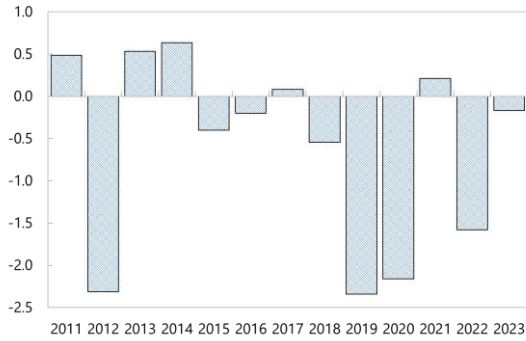
Sources: BCP; and IMF staff calculations.

Figure 4. Paraguay: Monetary Indicators

The economy was operating close to potential in 2023.

Output Gap

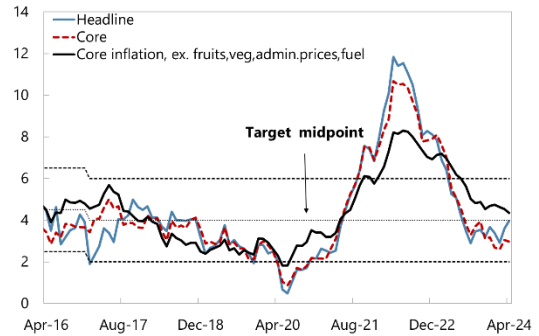
(In Percent of Potential GDP)



Inflation receded rapidly and is now well within the band....

CPI Inflation

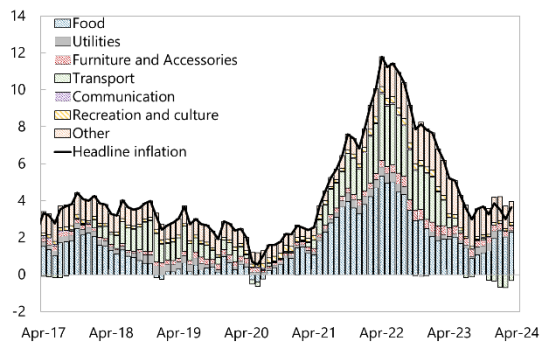
(In Percent, Y/Y)



...led by significantly lower food and fuel prices...

Contributions to Inflation

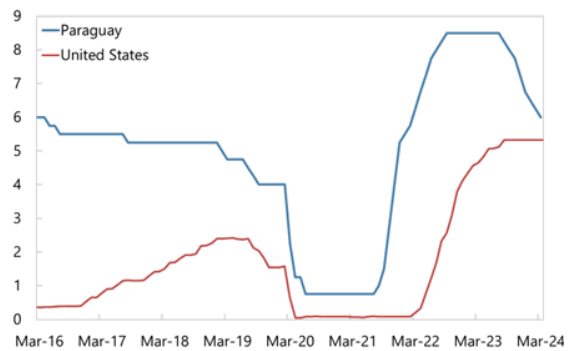
(In Percent, Y/Y)



Allowing the BCP to bring down the policy rate.

Monetary Policy Rate

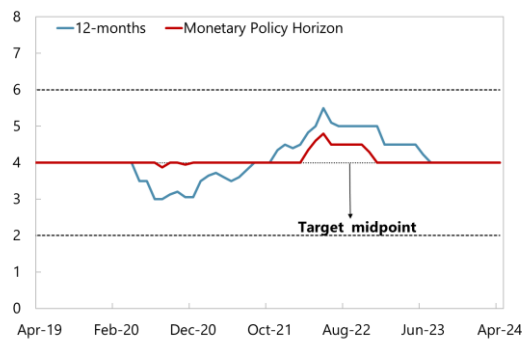
(In Percent)



Inflation expectations remain stable.

Inflation Expectations

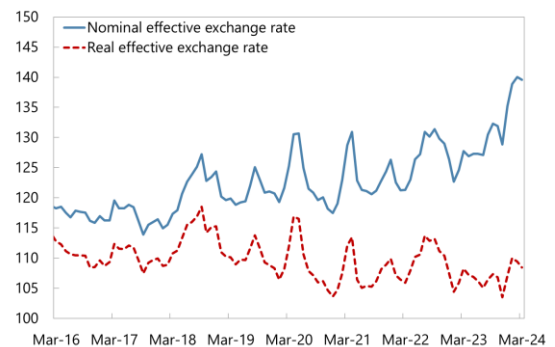
(In Percent, Y/Y)



Real exchange rates were relatively stable while nominal exchange rates somewhat depreciated.

Nominal and Real Effective Exchange Rate

(Index, 2010 = 100)

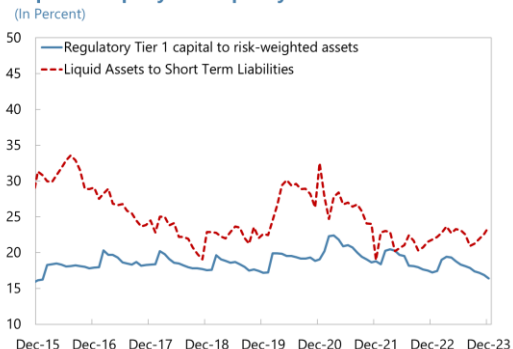


Sources: BCP; Ministry of Economy & Finance; and IMF staff calculations.

Figure 5. Paraguay: Financial Sector Developments

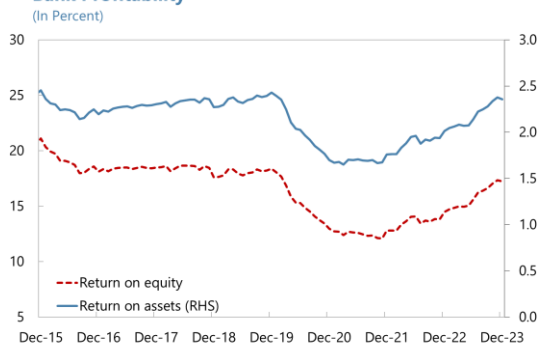
Banks are liquid and well-capitalized.

Capital Adequacy and Liquidity



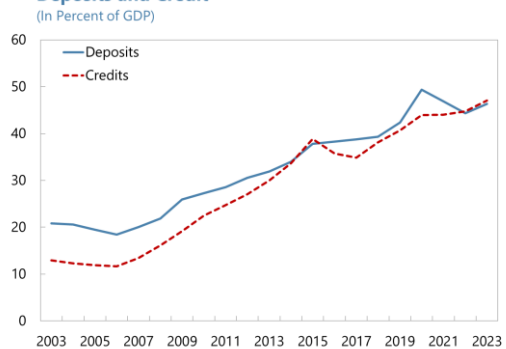
Bank profitability has been on the rise since the pandemic.

Bank Profitability



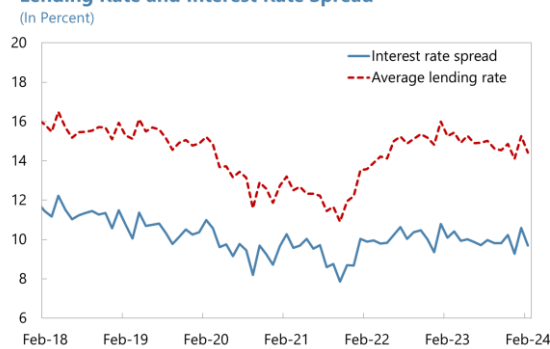
After a sustained increase, both deposits and credit remained stable as a percent of GDP.

Deposits and Credit



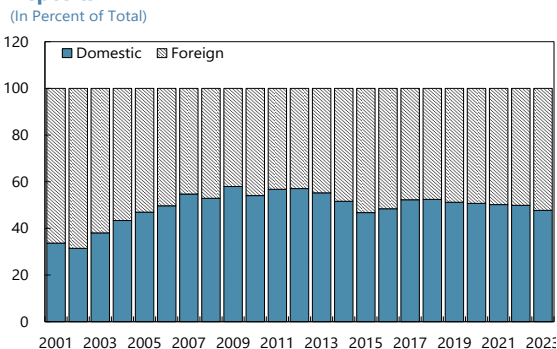
Lending rates started to come down following policy rate cuts, while the interest rate spread has remained stable.

Lending Rate and Interest Rate Spread



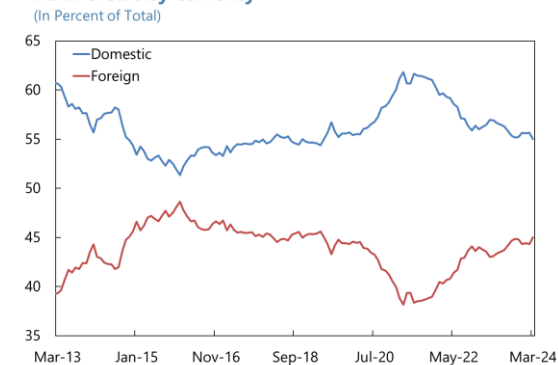
The level of dollarization of deposits and loans has been stable over the past decade...

Deposits



...and lending broadly mirrored the composition of deposits with deposits serving as natural hedges.

Bank Credit by Currency



Sources: BCP; and IMF staff calculations.

Table 2. Paraguay: Selected Economic and Social Indicators

Population 2022 (millions)	6.8				Gini index (2022)				45.1					
Unemployment rate (2023)	5.9				Life expectancy at birth (2021)				70					
(of which, female: 7.1; male: 4.6)					Adult literacy rate (2020)				94.5					
Percentage of population below the poverty line (2022)	24.7				(of which, female: 94.2; male: 94.9)									
Rank in UNDP development index (2022)	102 of 193				GDP per capita (US\$, 2022)				5,628					
	2019	2020	2021	2022	2023		2024		2025	2026	Proj.		2028	2029
					Act	CR 24/1	Proj.	CR 24/1			2027			
	(Annual percent change, unless otherwise indicated)													
Income and Prices														
Real GDP	-0.4	-0.8	4.0	0.2	4.7	4.5	3.8	3.8	3.8	3.5	3.5	3.5	3.5	3.5
Nominal GDP	2.6	1.4	12.8	8.2	6.9	9.8	6.7	7.5	7.5	7.5	7.5	7.5	7.5	7.5
Per capita GDP (US\$ thousands)	5.3	4.9	5.4	5.6	5.7	5.8	5.9	6.1	6.0	6.3	6.5	6.8	7.1	7.1
Consumption (contribution to growth)	1.7	-1.7	4.2	1.2	2.2	-6.5	2.3	0.7	2.3	2.4	2.5	2.7	2.8	2.8
Investment (contribution to growth)	-1.5	-1.0	5.5	2.5	-5.5	6.6	2.7	2.5	3.6	1.2	-0.9	0.8	0.8	0.8
Net exports (contribution to growth)	-0.6	1.9	-5.6	-3.6	6.5	4.3	0.1	0.6	-2.1	-0.1	1.9	0.0	-0.1	-0.1
Consumer prices (end of period)	2.8	2.2	6.8	8.1	3.7	4.1	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Nominal exchange rate (LC\$/US\$, eop)	6,453	6,917	6,879	7,331	7,274	...	...	...	...	...	...	...	...	...
Monetary Sector														
Credit to private sector 1/	9.9	7.7	10.0	11.6	9.9	7.0	9.2	10.4	8.5	8.5	8.2	8.1	8.0	8.0
Monetary policy rate, year-end	4.0	0.8	5.3	8.5	6.8	...	4.3	...	4.3	4.3	4.3	4.3	4.3	4.3
External Sector 2/														
Goods exports	-8.1	-9.6	20.7	-3.1	26.8	19.8	6.5	6.2	3.3	2.7	3.3	3.9	4.3	4.3
Goods imports	-5.5	-18.3	29.4	17.1	4.7	-4.5	4.7	4.8	9.2	2.7	-2.8	3.5	3.7	3.7
Terms of trade	-0.4	2.4	9.6	-6.8	0.0	5.7	0.3	-1.3	0.1	-0.1	-0.1	0.0	0.0	0.0
Real effective exchange rate 3/	-3.0	-1.3	-1.0	1.9	-3.2	...	...	...	...	...	...	...	...	...
	(In percent of GDP, unless otherwise indicated)													
Current account balance	-0.6	1.9	-0.9	-7.1	0.3	0.2	-0.5	0.5	-2.4	-2.3	-0.3	-0.2	-0.2	-0.2
Trade balance	1.0	3.8	1.3	-5.2	1.9	2.0	2.0	2.4	-0.1	-0.2	1.6	1.6	1.4	1.4
Exports	37.8	34.8	37.1	35.7	43.6	36.0	44.0	36.2	43.8	42.8	41.7	41.1	40.5	40.5
Of which: Electricity	5.0	4.9	4.1	4.0	3.6	4.6	3.3	4.9	3.0	2.8	2.5	2.3	2.1	2.1
Imports	36.8	31.0	35.8	40.9	41.7	-32.8	42.0	-32.5	43.8	42.9	40.1	39.5	39.1	39.1
Of which: Oil imports	3.8	3.0	3.8	5.5	4.4	-3.5	4.4	-3.6	4.1	3.8	3.6	3.5	3.3	3.3
Capital account (net)	0.4	0.5	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Financial account (net)	-1.2	-4.8	-2.8	-6.5	-2.2	-0.2	-0.8	0.3	-2.9	-2.9	-0.8	-0.7	-0.6	-0.6
Of which: Direct investment (net)	-1.4	-0.4	-0.2	-1.7	-0.8	4.0	-1.5	4.4	-2.2	-1.7	-1.7	-1.0	-0.8	-0.8
Gross international reserves (in US\$ millions)	7,496	10,014	10,051	10,154	10,431	10,304	10,781	10,854	11,231	11,731	12,231	12,731	13,231	13,231
In months of next-year imports of goods and services	8.2	8.4	7.0	6.8	6.6	7.5	6.3	7.6	6.4	6.8	6.8	6.7	6.7	6.7
Ratio to short-term external debt	2.7	3.5	3.5	2.9	2.6	3.4	3.2	3.9	2.9	2.6	3.0	2.7	2.8	2.8
Saving and Investment														
Gross domestic investment	21.7	20.0	24.0	27.7	21.9	28.2	22.9	29.5	25.4	25.7	24.1	24.1	24.1	24.1
Gross domestic saving	21.1	21.9	23.1	20.6	22.1	28.4	22.4	30.0	23.1	23.4	23.8	23.9	23.9	23.9
Central government finances														
Revenues	14.2	13.5	13.7	14.3	14.0	13.6	14.6	14.0	14.6	14.6	14.6	14.6	14.7	14.7
Of which: Tax revenues	10.0	9.5	9.8	10.2	10.1	9.9	10.5	10.0	10.6	10.7	10.7	10.8	11.0	11.0
Expenditures	17.0	19.7	17.3	17.0	18.1	17.7	17.2	16.6	16.5	16.1	16.1	16.1	16.2	16.2
Of which: Compensation of employees	6.9	7.3	6.6	6.5	6.6	6.5	6.6	6.5	6.5	6.4	6.4	6.4	6.4	6.4
Of which: Net acquisition of non financial assets	2.9	3.6	2.9	2.9	2.6	2.8	1.5	1.8	1.8	1.6	1.6	1.7	1.9	1.9
Net lending/borrowing	-2.8	-6.1	-3.6	-2.7	-4.1	-4.1	-2.6	-2.6	-1.9	-1.5	-1.5	-1.5	-1.5	-1.5
Primary balance	-2.0	-5.1	-2.5	-1.4	-2.4	-2.5	-0.6	-0.7	0.1	0.5	0.6	0.5	0.5	0.5
Public sector debt (excl. Central Bank bills)	25.8	36.9	37.5	40.5	41.2	40.4	42.8	42.8	42.5	41.8	41.1	40.3	39.6	39.6
Of which: Foreign currency	21.3	31.9	32.9	36.2	36.0	35.4	37.0	36.7	36.5	35.7	34.3	33.8	32.5	32.5
Of which: Domestic currency	4.4	5.0	4.6	4.3	5.2	5.0	5.8	6.1	6.0	6.1	6.8	6.6	7.1	7.1
Memorandum Items:														
GDP (billions of guaranies)	236,681	239,915	270,634	292,947	313,103	319,767	334,026	343,750	359,078	386,009	414,960	446,082	479,538	479,538
GDP (US\$ billions)	37.9	35.4	40.0	42.0	43.0	...	...	...	...	...	...	...	...	...

Sources: Central Bank of Paraguay; Ministry of Finance; World Bank; and IMF staff estimates and projections.

1/ Includes local currency credit and foreign currency credit.

2/ BOP is prepared under BPM6 since 3rd review of the PCI onwards.

3/ Average annual change; a positive change indicates an appreciation.

Table 3a. Paraguay: Operations of the Central Government
(GSFM2001 Presentation) (In billions of Guaranies)

	2019	2020	2021	2022	2023		2024		Proj.					
					Act.	CR 24/1	Proj.	CR 24/1	2025	2026	2027	2028	2029	
(In billions of Guaranies, unless otherwise indicated)														
Revenue	33,633	32,494	37,102	41,923	43,854	43,454	48,661	48,089	52,401	56,437	60,692	65,290	70,709	
Taxes	23,577	22,739	26,409	29,962	31,661	31,760	35,177	34,459	38,059	41,248	44,600	48,086	52,518	
Income taxes	6,013	5,970	6,934	8,753	8,165	8,593	10,893	9,513	10,689	11,651	13,574	14,693	16,071	
Excises	3,026	2,775	2,985	2,736	3,051	2,993	3,358	3,250	3,594	3,925	4,160	4,510	4,923	
Value added tax	11,690	11,686	13,631	15,151	16,963	16,609	18,654	17,955	20,921	22,519	23,787	25,588	27,940	
Import duties	2,421	2,000	2,423	2,858	2,980	3,066	3,122	3,207	3,769	4,135	4,135	4,429	4,804	
Other	427	309	437	463	502	498	-850	535	-914	-982	-1,056	-1,135	-1,220	
Social contributions	2,126	2,443	2,778	4,431	3,710	3,647	4,148	4,113	4,385	4,654	4,958	5,337	5,739	
Other revenue	7,929	7,312	7,915	7,530	8,483	8,048	9,336	9,518	9,957	10,535	11,134	11,867	12,452	
Grants	1,525	1,443	1,832	1,605	1,810	1,742	2,042	1,980	2,272	2,443	2,626	2,823	3,035	
Itaipu-Yacyreta	4,111	2,994	2,410	2,794	3,219	3,321	3,539	4,270	3,648	3,753	3,843	4,030	4,138	
Other nontax revenue	2,293	2,875	3,673	3,131	3,454	2,985	3,755	3,268	4,036	4,339	4,665	5,014	5,279	
Expenditure	40,284	47,223	46,929	49,716	56,770	56,719	57,303	57,195	59,215	62,201	66,913	71,939	77,885	
Expense	33,329	38,510	39,051	41,336	48,506	47,893	52,215	51,025	52,668	55,934	60,176	64,251	68,662	
Compensation of employees	16,432	17,512	17,841	19,021	20,524	20,643	22,130	22,305	23,391	24,825	26,448	28,471	30,617	
Purchases of goods and services	3,120	3,461	5,414	4,496	6,111	5,872	6,403	4,905	4,431	4,531	4,634	4,738	5,100	
Interest	1,962	2,554	2,962	3,614	5,217	5,370	6,777	6,671	7,180	7,588	8,680	9,097	9,353	
Grants	4,723	4,562	4,769	4,738	5,172	5,045	5,274	5,420	5,425	5,831	6,269	6,739	7,244	
Social benefits	5,718	9,083	6,496	7,721	9,162	9,110	9,774	9,834	10,244	11,013	11,839	12,727	13,681	
Other expense	1,375	1,338	1,568	1,746	2,321	1,853	1,857	1,890	1,996	2,146	2,307	2,480	2,666	
Gross Operating Balance	304	-6,016	-1,949	586	-4,652	-4,438	-3,553	-2,936	-267	502	516	1,038	2,047	
Net acquisition of nonfinancial assets	6,955	8,713	7,877	8,379	8,264	8,826	5,089	6,170	6,548	6,267	6,737	7,688	9,224	
Net Lending/Borrowing (Overall Balance)	-6,651	-14,729	-9,827	-7,793	-12,916	-13,264	-8,642	-9,106	-6,814	-5,764	-6,221	-6,649	-7,176	
Net Financial Transactions	6,651	14,729	9,827	7,793	12,916	13,264	8,642	9,106	6,814	5,764	6,221	6,649	7,176	
Net Acquisition of Financial Assets	-295	6,739	1,470	1,702	1,827	0	0	0	0	0	0	0	0	
Financial investments	-259	5,077	775	1,071	1,074	0	0	0	0	0	0	0	0	
Net lending	-35	1,662	695	631	753	0	0	0	0	0	0	0	0	
Net Incurrence of Liabilities	5,114	25,213	11,504	9,445	12,791	13,264	8,642	9,106	6,814	5,764	6,221	6,649	7,176	
Domestic	-215	4,978	608	1,159	3,291	5,190	2,224	2,592	878	553	3,357	242	3,726	
o/w: Debt securities	470	-324	803	-330	1,957	3,547	2,224	4,092	878	553	3,357	242	3,726	
Issuances of TB	1,396	1,321	1,628	59	2,503	5,305	2,248	5,841	1,647	661	3,571	2,274	6,172	
Amortizations	926	1,645	826	390	546	1,758	24	1,749	769	108	214	2,032	2,446	
Foreign	5,328	20,235	10,896	8,287	9,501	8,074	6,418	6,514	5,936	5,212	2,864	6,407	3,451	
Disbursements	6,429	21,482	12,055	11,319	10,863	12,236	9,668	9,428	8,869	10,176	10,770	10,974	11,593	
of which: RSF disbursement	0	0	0	0	0	0	0	1,993	3,111	0	0	0	0	
Amortizations	1,101	1,247	1,159	3,032	1,362	4,162	3,250	2,915	2,932	4,964	7,906	4,567	8,143	
Statistical Discrepancy 1/	1,243	-3,744	-208	50	1,952	0	0	0	0	0	0	0	0	
Memorandum items:														
Primary balance	-4,689	-12,175	-6,864	-4,180	-7,699	-7,894	-1,865	-2,435	366	1,823	2,459	2,448	2,176	
Current primary expenditure	28,853	34,125	33,599	35,075	40,234	39,733	42,476	41,345	42,548	45,187	48,099	51,502	55,383	

Sources: Ministry of Finance; Central Bank of Paraguay; and Fund staff estimates and projections.

1/ Captures the discrepancy between above-the-line calculations and financial accounts.

Table 3b. Paraguay: Operations of the Central Government
(In percent of GDP, unless otherwise indicated)

	2019	2020	2021	2022	2023		2024		Proj.				
					Act.	CR 24/1	Proj.	CR 24/1	2025	2026	2027	2028	2029
(In percent of GDP, unless specified otherwise)													
Revenue	14.2	13.5	13.7	14.3	14.0	14.0	14.6	14.5	14.6	14.6	14.6	14.6	14.7
Taxes	10.0	9.5	9.8	10.2	10.1	10.1	10.5	10.5	10.6	10.7	10.7	10.8	11.0
Income taxes	2.5	2.5	2.6	3.0	2.6	2.5	3.3	3.1	3.0	3.0	3.3	3.3	3.4
Excises	1.3	1.2	1.1	0.9	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Value added tax	4.9	4.9	5.0	5.2	5.4	5.1	5.6	5.3	5.8	5.8	5.7	5.7	5.8
Import duties	1.0	0.8	0.9	1.0	1.0	1.0	0.9	0.9	1.0	1.1	1.0	1.0	1.0
Other	0.2	0.1	0.2	0.2	0.2	0.6	-0.3	0.2	-0.3	-0.3	-0.3	-0.3	-0.3
Social contributions	0.9	1.0	1.0	1.5	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Other revenue	3.4	3.0	2.9	2.6	2.7	2.7	2.8	2.8	2.8	2.7	2.7	2.7	2.6
Grants	0.6	0.6	0.7	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Itaipu-Yacireta hydroelectric plants	1.7	1.2	0.9	1.0	1.0	1.0	1.1	1.1	1.0	1.0	0.9	0.9	0.9
Other nontax revenue	1.0	1.2	1.4	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Expenditure	17.0	19.7	17.3	17.0	18.1	18.1	17.2	17.2	16.5	16.1	16.1	16.1	16.2
Expense	14.1	16.1	14.4	14.1	15.5	15.5	15.6	15.7	14.7	14.5	14.5	14.4	14.3
Compensation of employees	6.9	7.3	6.6	6.5	6.6	6.6	6.6	6.6	6.5	6.4	6.4	6.4	6.4
Purchases of goods and services	1.3	1.4	2.0	1.5	2.0	2.0	1.9	1.9	1.2	1.2	1.1	1.1	1.1
Interest	0.8	1.1	1.1	1.2	1.7	1.7	2.0	2.0	2.0	2.0	2.1	2.0	2.0
Grants	2.0	1.9	1.8	1.6	1.7	1.7	1.6	1.6	1.5	1.5	1.5	1.5	1.5
Social benefits	2.4	3.8	2.4	2.6	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9
Other expense	0.6	0.6	0.6	0.6	0.7	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Gross Operating Balance	0.1	-2.5	-0.7	0.2	-1.5	-1.5	-1.1	-1.1	-0.1	0.1	0.1	0.2	0.4
Net acquisition of nonfinancial assets	2.9	3.6	2.9	2.9	2.6	2.6	1.5	1.5	1.8	1.6	1.6	1.7	1.9
Net Lending/Borrowing (Overall Balance)	-2.8	-6.1	-3.6	-2.7	-4.1	-4.1	-2.6	-2.6	-1.9	-1.5	-1.5	-1.5	-1.5
Net Financial Transactions	2.8	6.1	3.6	2.7	4.1	4.1	2.6	2.6	1.9	1.5	1.5	1.5	1.5
Net acquisition of financial assets	-0.1	2.8	0.5	0.6	0.6	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial investments	-0.1	2.1	0.3	0.4	0.3	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net lending	0.0	0.7	0.3	0.2	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Incurrence of Liabilities	2.2	10.5	4.3	3.2	4.1	3.8	2.6	2.6	1.9	1.5	1.5	1.5	1.5
Domestic	-0.1	2.1	0.2	0.4	1.1	0.8	0.7	1.0	0.2	0.1	0.8	0.1	0.8
o/w: Debt securities	0.2	-0.1	0.3	-0.1	0.6	0.6	0.7	1.0	0.2	0.1	0.8	0.1	0.8
Issuances of TB	0.6	0.6	0.6	0.0	0.8	0.8	0.7	1.0	0.5	0.2	0.9	0.5	1.3
Amortizations	-0.4	-0.7	-0.3	-0.1	-0.2	-0.2	0.0	0.0	-0.2	0.0	-0.1	-0.5	-0.5
Foreign	2.3	8.4	4.0	2.8	3.0	3.0	1.9	1.7	1.7	1.4	0.7	1.4	0.7
Disbursements	2.7	9.0	4.5	3.9	3.5	3.5	2.9	2.9	2.5	2.6	2.6	2.5	2.4
of which: RSF disbursement	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.9	0.0	0.0	0.0	0.0
Amortizations	-0.5	-0.5	-0.4	-1.0	-0.4	-0.4	-1.0	-1.3	-0.8	-1.3	-1.9	-1.0	-1.7
Statistical Discrepancy 1/	0.5	-1.6	-0.1	0.0	0.6	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum Items:													
Primary balance	-2.0	-5.1	-2.5	-1.4	-2.5	-2.4	-0.6	-0.6	0.1	0.5	0.6	0.5	0.5
Output gap 2/	-2.3	-2.2	0.2	-1.6	-0.2	-0.2	0.3	0.3	0.6	0.6	0.6	0.6	0.6
Cyclically adjusted primary balance 2/	-1.6	-4.7	-2.6	-1.2	-2.5	-2.4	-0.6	-0.7	0.0	0.4	0.5	0.4	0.3
Fiscal Impulse (-Δ Cyclically adjusted primary balance)	1.1	3.1	-2.1	-1.4	1.3	1.3	-1.8	-1.8	-0.6	-0.4	-0.1	0.0	0.1
Central government gross debt	20.8	31.0	31.5	34.3	34.9	34.9	36.8	37.5	36.6	36.1	35.6	35.1	34.5
Nominal GDP (in billions of Guaranies)	236,681	239,915	270,634	292,947	313,103	313,103	334,026	334,026	359,078	386,009	414,960	446,082	479,538

Sources: Ministry of Finance; Central Bank of Paraguay; and IMF staff estimates and projections.

1/ Captures the discrepancy between above-the-line calculations and financial accounts.

2/ In percent of potential GDP.

Table 4. Paraguay: Balance of Payments¹
(In millions of U.S. dollars)

	2019	2020	2021	2022	2023	Proj.					
						2024	2025	2026	2027	2028	2029
	(In millions of U.S. dollars, unless otherwise indicated)										
Current account balance	-216	669	-347	-2,993	110	-217	-1,110	-1,142	-166	-116	-116
Goods and services	365	1,357	505	-2,171	805	914	-26	-86	844	856	818
Goods balance	203	1,226	629	-1,929	825	1,146	236	255	1,361	1,491	1,669
Credit	12,116	10,955	13,223	12,815	16,256	17,309	17,883	18,373	18,974	19,721	20,574
Hydroelectricity	1,884	1,736	1,629	1,662	1,549	1,499	1,426	1,370	1,311	1,285	1,233
Agricultural products	4,646	5,295	7,057	5,951	7,955	7,676	7,856	7,917	8,066	8,301	8,643
Industrial products and others	1,438	1,488	1,885	2,335	2,365	2,446	2,530	2,613	2,709	2,818	2,936
Unregistered	1,148	907	757	810	1,043	1,095	1,169	1,246	1,326	1,408	1,494
Re-exports	3,586	2,070	2,762	3,108	4,377	4,593	4,903	5,227	5,562	5,909	6,267
Debit	11,913	9,729	12,594	14,744	15,431	16,163	17,647	18,118	17,612	18,231	18,905
Registered Imports	11,755	9,485	12,525	14,606	15,082	15,800	17,270	17,727	17,207	17,808	18,464
Consumption Goods	3,633	2,963	3,500	4,016	4,225	4,352	4,484	4,626	4,788	4,983	5,198
Intermediate Goods	3,670	3,087	4,412	5,643	4,788	4,892	4,990	5,096	5,216	5,362	5,522
Capital Goods	4,451	3,434	4,613	4,947	6,068	6,555	7,795	8,006	7,202	7,463	7,743
Unregistered Imports	158	245	69	138	349	363	377	391	406	423	441
Services (net)	161	131	-124	-242	-20	-232	-262	-341	-517	-635	-850
Credit	2,203	1,384	1,598	2,155	2,455	2,464	2,587	2,712	2,702	2,824	2,886
Debit	2,041	1,252	1,722	2,398	2,476	2,696	2,849	3,053	3,219	3,459	3,736
Primary income (net)	-1,158	-1,211	-1,386	-1,364	-1,371	-1,782	-1,762	-1,770	-1,764	-1,767	-1,773
Secondary income (net)	577	523	534	542	676	651	678	714	753	795	839
Capital account (net)	151	172	217	159	171	195	203	214	226	239	252
Financial account (net)	-469	-1,693	-1,112	-2,716	-964	-372	-1,356	-1,427	-440	-378	-364
Direct investment (net)	-534	-159	-89	-725	-327	-653	-1,036	-855	-877	-531	-455
Portfolio investment (net)	-409	-2,169	-181	-215	-192	-853	-256	-348	-56	-556	-222
Financial derivatives (net)	0	0	0	0	0	0	0	0	0	0	0
Other investment (net)	474	634	-842	-1,776	-445	1,134	-65	-224	493	709	313
Net errors and omissions	-708	-16	-946	221	-967	0	0	0	0	0	0
Gross official reserves	-304	2,518	37	103	277	350	450	500	500	500	500
	(In percent of GDP, unless otherwise indicated)										
Memorandum items:											
Current account balance 2/	-0.6	1.9	-0.9	-7.1	0.3	-0.5	-2.4	-2.3	-0.3	-0.2	-0.2
Exports of goods and services	37.8	34.8	37.1	35.7	43.6	44.0	43.8	42.8	41.7	41.1	40.5
Imports of goods and services	36.8	31.0	35.8	40.9	41.7	42.0	43.8	42.9	40.1	39.5	39.1
Gross Reserves (in US\$ Millions)	7,496	10,014	10,051	10,154	10,431	10,781	11,231	11,731	12,231	12,731	13,231
Gross official reserves (in percent imports of goods and services)	8.2	8.4	7.0	6.8	6.6	6.3	6.4	6.8	6.8	6.7	6.7
External public debt in percent of GDP 2/	21.3	31.9	32.9	36.2	36.0	37.1	36.6	35.8	34.3	33.6	32.2

Sources: Central Bank of Paraguay, and IMF Staff Calculations.

1/ BOP is prepared under BPM/6 since 3rd review of the PCI onwards.

2/ Based on average exchange rate valuation of GDP.

Table 5. Paraguay: Summary of Accounts of the Central Bank
(In billions of Guaranies; end-of-period)

	2019	2020	2021	2022	Act.	Proj.					
					2023	2024	2025	2026	2027	2028	2029
Currency Issued	14,349	17,113	18,070	18,526	19,549	20,832	22,200	23,658	25,211	26,866	28,630
Growth	4.3	19.3	5.6	2.5	5.5	6.6	6.6	6.6	6.6	6.6	6.6
Net International Reserves	48,022	63,883	66,132	69,438	71,604	77,481	82,519	88,072	93,772	99,641	105,669
Net Domestic Assets	-33,700	-46,798	-48,063	-50,912	-52,055	-56,648	-60,319	-64,415	-68,562	-72,775	-77,040
Net nonfinancial public sector	-7,160	-10,962	-11,351	-10,692	-8,862	-8,862	-8,862	-8,862	-8,862	-8,862	-8,862
Net credit to the central government	-7,159	-10,961	-11,350	-10,692	-8,862	-8,862	-8,862	-8,862	-8,862	-8,862	-8,862
Net credit to the banking system	-25,571	-31,972	-35,706	-36,718	-38,390	-46,102	-52,945	-59,838	-66,736	-75,610	-84,049
Reserve requirements	-12,513	-9,979	-16,828	-16,562	-19,073	-20,399	-21,706	-23,095	-24,574	-26,152	-27,835
Free reserves	-2,742	-6,508	-6,138	-4,971	-5,390	-5,623	-5,731	-5,838	-5,945	-6,052	-6,161
Monetary control instruments 1/	-11,742	-17,779	-14,528	-15,404	-14,432	-20,585	-26,014	-31,410	-36,723	-43,910	-50,558
Other	1,426	2,294	1,788	219	505	505	505	505	505	505	505
Other assets and liabilities (net)	-970	-3,865	-1,635	-4,131	-5,437	-1,684	1,489	4,285	7,037	11,697	15,871
Capital and reserves	24	-3,981	-2,344	-3,798	-4,990	-2,552	595	3,366	6,092	10,727	14,875
Other assets net 2/	-994	116	709	-333	-448	868	894	920	945	971	996
Memorandum Items:											
Total stock of LRMs outstanding 1/	12,919	18,029	14,761	16,340	15,693	20,585	26,014	31,410	36,723	43,910	50,558
Monetary base 3/	20,420	21,843	24,725	25,559	27,570	29,157	30,912	32,778	34,763	36,873	39,117
Monetary base, annual growth	3.4	7.0	13.2	3.4	7.9	5.8	6.0	6.0	6.1	6.1	6.1

Sources: Central Bank of Paraguay; and IMF staff estimates and projections.

1/ Includes overnight-deposit facility and central bank bills (LRM). A fraction of LRM is held by non-bank institutions.

2/ Includes LRM held by the non-banking sector.

3/ Monetary base comprises currency issued plus legal reserve requirement deposits in guarani held at the BCP.

Table 6. Paraguay: Summary Accounts of the Financial System ^{1/}
(In billions of Guaranies; end-of-period)

	2019	2020	2021	2022	Act.		Proj.				
					2023	2024	2025	2026	2027	2028	2029
I. Central Bank											
Net International Reserves	48,022	63,883	66,132	69,438	71,604	77,481	82,519	88,072	93,772	99,641	105,669
In millions of U.S. dollars	7,442	9,236	9,614	9,471	9,844	10,394	10,944	11,494	12,044	12,594	13,144
Net Domestic Assets	-33,700	-46,798	-48,063	-50,912	-52,055	-56,648	-60,319	-64,415	-68,562	-72,775	-77,040
Credit to public sector, net	-7,160	-10,962	-11,351	-10,692	-8,862	-8,862	-8,862	-8,862	-8,862	-8,862	-8,862
Credit to banking system, net ^{2/}	-13,828	-14,192	-21,178	-21,313	-23,958	-25,517	-26,931	-28,427	-30,013	-31,699	-33,490
Credit	1,426	2,294	1,788	219	505	505	505	505	505	505	505
Deposits	15,254	16,486	22,966	21,532	24,463	26,022	27,436	28,932	30,518	32,205	33,995
Central bank securities	-12,919	-18,029	-14,761	-16,340	-15,693	-20,585	-26,014	-31,410	-36,723	-43,910	-50,558
Other	-848,410	-948,704	-916,507	-931,505	-931,423	-1,684	1,489	4,285	7,037	11,697	15,871
Currency Issued	14,349	17,113	18,070	18,526	19,549	20,832	22,200	23,658	25,211	26,866	28,630
II. Monetary Survey											
Net Foreign Assets	43,889	69,287	67,125	64,473	65,450	71,056	76,057	81,587	87,275	93,192	99,286
In millions of U.S. dollars	6,801	10,017	9,758	8,794	8,998	9,349	9,811	10,324	10,838	11,358	11,880
Net Domestic Assets	121,054	116,018	129,718	146,694	170,294	176,741	184,444	192,336	200,854	210,010	219,894
Credit to the public sector	-16,234	-20,517	-18,752	-17,716	-15,696	-15,665	-15,643	-15,621	-15,599	-15,576	-15,554
Credit to the private sector	112,997	121,655	133,844	149,423	164,240	179,423	199,310	213,747	233,715	250,150	280,434
Other	24,291	14,879	14,626	14,986	21,751	12,983	777	-5,789	-17,263	-24,564	-44,986
Broad Liquidity (M4)	146,976	167,867	179,764	191,397	211,525	222,489	234,687	247,608	261,314	275,881	291,352
Bonds and issued securities	31,027	31,308	31,583	36,492	41,861	42,949	43,456	43,957	44,457	44,962	45,469
Other monetary liabilities	5,990	7,176	7,978	8,966	10,187	10,871	11,579	12,332	13,131	13,983	14,889
Central bank securities with private sector	1,177	249	233	936	1,261	0	0	0	0	0	0
Broad Liquidity (M3)	108,781	129,134	139,970	145,003	158,215	168,669	179,652	191,320	203,726	216,937	230,994
Foreign currency deposits	41,138	49,697	54,118	55,945	62,037	67,741	72,896	78,399	84,282	90,592	97,350
Money and Quasi-Money (M2)	67,644	79,437	85,851	89,057	96,178	100,928	106,756	112,922	119,444	126,344	133,644
Quasi-money	35,174	40,478	43,766	46,811	52,494	54,856	57,873	61,056	64,414	67,957	71,695
Money (M1)	32,469	38,959	42,085	42,246	43,684	46,071	48,883	51,865	55,030	58,387	61,949
(Annual percent change)											
M0 (Currency issued)	4.3	19.3	5.6	2.5	5.5	6.6	6.6	6.6	6.6	6.6	6.6
Credit to the private sector	9.9	7.7	10.0	11.6	9.9	9.2	8.5	8.5	8.2	8.1	8.0
M1	9.0	20.0	8.0	0.4	3.4	5.5	6.1	6.1	6.1	6.1	6.1
M2	7.4	17.4	8.1	3.7	8.0	4.9	5.8	5.8	5.8	5.8	5.8
M3	9.7	18.7	8.4	3.6	9.1	6.6	6.5	6.5	6.5	6.5	6.5
<i>Of which: Foreign currency deposits</i>	13.7	20.8	8.9	3.4	10.9	9.2	7.6	7.5	7.5	7.5	7.5
Memorandum Items:											
Ratio of foreign currency deposits to M3 (percent)	37.8	38.5	38.7	38.6	39.2	40.2	40.6	41.0	41.4	41.8	42.1
Ratio of foreign currency deposits to total private sector deposits (percent)	39.7	40.6	40.5	40.3	40.7	30.1	30.8	31.6	32.3	33.1	33.9

Sources: Central Bank of Paraguay; and IMF staff estimates and projections.

^{1/} Includes banks, finance companies, and the 20 largest cooperatives.

^{2/} Excludes LRM held by the banking sector.

Table 7. Paraguay: Gross External Financing Needs and Sources, 2021-25
(In millions of U.S. dollars, unless otherwise indicated)

	Prel.			Proj.	
	2021	2022	2023	2024	2025
Gross Financing Requirements	879	3,524	386	689	1,526
External current account deficit	347	2,993	-110	217	1,110
Debt amortization	531	531	495	472	416
Sources of Financing	879	3,524	386	689	1,526
Direct investment (net)	89	725	327	653	1,036
Medium- and long-term debt disbursements	1,769	2,024	1,628	1,300	1,155
Public sector	1,769	2,024	1,628	1,300	750
Official creditors (bi-and multilateral) 1/	944	1,524	1,128	300	45
External sovereign bond financing	826	501	500	1,000	300
IMF: RSF financing	0	0	0	0	405
Other capital flows (net), including E&Os	-943	878	-1,292	-913	-215
Change in gross international reserves	-37	-103	-277	-350	-450
Memorandum Items:					
Gross international reserves	10,051	10,154	10,431	10,781	11,231
In percent of ARA metric	195	191	198	...	...
Gross international reserves (excl'g RSF)	10,051	10,154	10,431	10,781	10,825

1/ Paraguay's main official creditors are CAF, IADB, and WB.

Table 8. Paraguay: Medium-Term Outlook
(In percent of GDP, unless otherwise indicated)

	2018	2019	2020	2021	2022	Act.	Proj.					
						2023	2024	2025	2026	2027	2028	2029
National Accounts and Prices												
Real GDP growth (in percent)	3.2	-0.4	-0.8	4.0	0.2	4.7	3.8	3.8	3.5	3.5	3.5	3.5
Output gap 1/	-0.5	-2.3	-2.2	0.2	-1.6	-0.2	0.3	0.6	0.6	0.6	0.6	0.6
Gross domestic investment	22.8	21.7	20.0	24.0	27.7	21.9	22.9	25.4	25.7	24.1	24.1	24.1
Gross domestic savings	22.6	21.1	21.9	23.1	20.6	22.1	22.4	23.1	23.4	23.8	23.9	23.9
Consumer prices (end of period; in percent)	3.2	2.8	2.2	6.8	8.1	3.7	4.0	4.0	4.0	4.0	4.0	4.0
Public Finances												
Central government primary balance	-0.6	-2.0	-5.1	-2.5	-1.4	-2.5	-0.6	0.1	0.5	0.6	0.5	0.5
Central government net lending/borrowing	-1.3	-2.8	-6.1	-3.6	-2.7	-4.1	-2.6	-1.9	-1.5	-1.5	-1.5	-1.5
Central government debt	17.9	20.8	31.0	31.5	34.3	34.9	36.8	36.6	36.1	35.6	35.1	34.5
Public sector debt	22.3	25.8	36.9	37.5	40.5	41.2	42.8	42.5	41.8	41.1	40.3	39.6
External sector												
Terms of trade (annual percent change)	-2.0	-0.4	2.4	9.6	-6.8	0.0	0.3	0.1	-0.1	-0.1	0.0	0.0
Current account balance	-0.2	-0.6	1.9	-0.9	-7.1	0.3	-0.5	-2.4	-2.3	-0.3	-0.2	-0.2
Foreign direct investment (- : inflow)	-0.6	-1.4	-0.4	-0.2	-1.7	-0.8	-1.5	-2.2	-1.7	-1.7	-1.0	-0.8
Gross international reserves (in US\$ billion)	7.8	7.5	10.0	10.1	10.2	10.4	10.8	11.2	11.7	12.2	12.7	13.2

Sources: Central Bank of Paraguay; Ministry of Finance; and IMF staff estimates and projections.

1/ In percent of potential GDP

Table 9. Paraguay: Financial Soundness Indicators

	2015	2016	2017	2018	2019	2020	2021	2022	2023
(In Percent)									
Basic Indicators									
Capital adequacy									
Regulatory capital/risk-weighted assets	16.1	17.9	18.3	17.5	17.2	19.1	18.8	17.3	16.4
Tier 1 capital/risk-weighted assets	11.7	13.4	13.8	13.4	13.5	14.8	15.2	14.0	13.3
NPLs net of provisions/equity	3.7	3.1	2.5	3.1	1.1	0.2	0.9	2.6	4.3
Asset quality									
NPLs/total loans	2.6	2.9	2.8	2.5	2.6	2.4	2.3	2.9	3.0
Profitability									
Return on assets	2.5	2.2	2.3	2.3	2.4	1.7	1.8	2.0	2.4
Return on equity	21.1	18.1	18.5	17.6	18.4	13.0	12.8	14.5	17.2
Interest Margin/ gross income	7.4	8.0	9.8	12.2	8.1	9.8	9.6	10.1	
Admin. expenses/operating margin	51.2	52.0	53.0	51.9	49.4	52.7	54.2	49.4	49.9
Liquidity									
Liquid assets/total assets	31.3	29.1	24.5	22.9	22.6	32.5	19.0	21.8	23.6
Liquid assets/sight deposits	12.2	11.8	10.7	9.7	9.1	14.9	8.7	9.3	9.5
Market risk									
FX position/equity	9.1	8.5	9.6	17.3	15.8	13.9	9.3	9.6	13.3
(In Percent)									
Recommended Indicators									
Capital/assets									
Capital/assets	7.2	7.9	8.2	8.4	8.7	8.5	9.4	8.9	8.6
Personnel expenses/admin. expenses	42.5	42.4	40.3	40.8	40.5	39.9	37.8	36.3	32.9
FX loans/total loans	50.0	48.1	46.7	47.2	46.1	42.2	42.1	45.9	46.4

Source: Banco Central del Paraguay and IMF, Financial Soundness Indicators.

Table 10. Paraguay: Capacity to Repay Indicators, 2024-45^{1/2/}
(In millions of SDR unless otherwise indicated)

	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045
Fund obligations based on existing credit																						
(in millions of SDR)	7.8	7.8	7.8	7.8	7.8	7.8	7.8	7.8	7.8	7.8	7.8	7.8	7.8	7.8	7.8	7.8	7.8	7.8	7.8	7.8	7.8	7.8
Principal	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Charges and interest	7.8	7.8	7.8	7.8	7.8	7.8	7.8	7.8	7.8	7.8	7.8	7.8	7.8	7.8	7.8	7.8	7.8	7.8	7.8	7.8	7.8	7.8
Fund obligations based on existing and prospective credit																						
In millions of SDR	10.4	20.7	23.0	23.0	23.0	23.0	23.0	23.0	23.0	23.0	26.8	47.8	51.5	49.9	48.4	46.9	45.4	43.8	42.3	40.8	35.5	13.0
Principal	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.8	25.2	30.2	30.2	30.2	30.2	30.2	30.2	30.2	30.2	26.4	5.0
Charges and interest	10.4	20.7	23.0	23.0	23.0	23.0	23.0	23.0	23.0	23.0	23.0	22.6	21.2	19.7	18.2	16.7	15.2	13.6	12.1	10.6	9.0	7.9
Total obligations based on existing and prospective credit																						
In millions of SDR	10.4	20.7	23.0	23.0	23.0	23.0	23.0	23.0	23.0	23.0	26.8	47.8	51.5	49.9	48.4	46.9	45.4	43.8	42.3	40.8	43.3	20.7
In millions of US dollars	14.0	27.9	31.2	31.2	31.3	31.3	31.3	31.3	31.3	31.3	36.5	65.0	70.0	67.9	65.8	63.8	61.7	59.6	57.5	55.5	58.9	28.2
In percent of gross international reserves	0.1	0.2	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.4	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.1
In percent of exports of goods and services	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1
In percent of debt service	0.1	0.2	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.4	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.1
In percent of government revenue	0.2	0.4	0.4	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.6	0.6	0.5	0.5	0.4	0.4	0.4	0.3	0.3	0.3	0.1
In percent of GDP	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0
In percent of quota	5.2	10.3	11.4	11.4	11.4	11.4	11.4	11.4	11.4	11.4	13.3	23.7	25.6	24.8	24.0	23.3	22.5	21.8	21.0	20.2	21.5	10.3
Outstanding Fund credit																						
In millions of SDR	201.4	302.1	302.1	302.1	302.1	302.1	302.1	302.1	302.1	302.1	298.3	273.1	242.9	212.7	182.5	152.3	122.1	91.9	61.7	31.5	5.0	0.0
In millions of US dollars	270.0	407.1	408.8	409.5	410.9	410.9	410.9	410.9	410.9	410.9	405.8	371.5	330.4	289.4	248.3	207.2	166.1	125.0	83.9	42.8	6.8	0.0
In percent of gross international reserves	2.5	3.6	3.5	3.3	3.2	3.1	3.0	2.9	2.8	2.7	2.6	2.3	2.0	1.7	1.4	1.1	0.9	0.6	0.4	0.2	0.0	0.0
In percent of exports of goods and services	1.4	2.0	1.9	1.9	1.8	1.8	1.7	1.6	1.5	1.5	1.4	1.2	1.0	0.9	0.7	0.6	0.4	0.3	0.2	0.1	0.0	0.0
In percent of debt service	22.2	34.1	27.7	20.9	26.5	20.7	20.3	14.1	17.8	16.8	15.7	14.3	12.7	11.1	9.5	8.0	6.5	4.7	3.2	1.7	0.3	0.0
In percent of government revenue	4.1	6.0	5.7	5.4	5.1	4.8	4.6	4.3	4.1	3.9	3.7	3.2	2.7	2.2	1.8	1.5	1.1	0.8	0.5	0.2	0.0	0.0
In percent of GDP	0.6	0.9	0.8	0.8	0.7	0.7	0.7	0.6	0.6	0.6	0.5	0.5	0.4	0.3	0.3	0.2	0.2	0.1	0.1	0.0	0.0	0.0
In percent of quota	100.0	150.0	150.0	150.0	150.0	150.0	150.0	150.0	150.0	150.0	148.1	135.6	120.6	105.6	90.6	75.6	60.6	45.6	30.6	15.6	2.5	0.0
Net use of Fund credit (in millions of SDR)	201.4	100.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-3.8	-25.2	-30.2	-30.2	-30.2	-30.2	-30.2	-30.2	-30.2	-30.2	-26.4	-5.0
Disbursements	201.4	100.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and Repurchases	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.8	25.2	30.2	30.2	30.2	30.2	30.2	30.2	30.2	30.2	26.4	5.0
Memorandum items																						
Nominal GDP (in millions of US dollars)	44,914	46,777	49,314	52,013	54,876	57,909	61,074	64,367	67,838	71,496	75,351	79,414	83,696	88,209	92,966	97,978	103,262	113,269	119,376	125,813	132,597	139,747
Exports of goods and services (in millions of US dollars)	19,773	20,470	21,085	21,676	22,545	23,459	24,487	25,564	26,693	27,877	29,118	30,420	31,787	33,220	34,724	36,303	37,960	39,699	41,526	43,437	45,436	47,527
Imports of goods and services (in millions of US dollars)	18,859	20,496	21,171	20,832	21,690	22,641	23,545	24,486	25,466	26,486	27,549	28,656	29,809	31,010	32,261	33,566	34,925	39,353	38,571	37,804	37,053	36,317
Gross International Reserves (in millions of US dollars)	10,781	11,231	11,731	12,231	12,731	13,231	13,731	14,231	14,731	15,231	15,731	16,231	16,731	17,231	17,731	18,231	18,731	19,231	19,731	20,231	20,731	21,231
External Government Debt service (in millions of US dollars)	1,218	1,192	1,477	1,961	1,549	1,985	2,023	2,914	2,309	2,452	2,577	2,593	2,604	2,608	2,605	2,594	2,574	2,648	2,606	2,552	2,485	2,403
Government revenue (in millions of US dollars)	6,543	6,826	7,210	7,607	8,032	8,538	9,019	9,528	10,017	10,540	11,080	11,647	12,244	12,871	13,530	14,223	14,952	15,718	16,523	17,369	18,259	19,194
Quota (in millions of SDRs)	201.4	201.4	201.4	201.4	201.4	201.4	201.4	201.4	201.4	201.4	201.4	201.4	201.4	201.4	201.4	201.4	201.4	201.4	201.4	201.4	201.4	201.4

Source: IMF staff estimates and projections

^{1/} Based on a drawing scenario under the RSF (Resilience and Sustainability Facility).^{2/} Paraguay belongs to the RST interest Group C. Interest based on the RST rate of interest of 5.045 percent as of May 23, 2024.

Annex I. Status of Past Article IV Recommendations

Fund Recommendation	Progress
Fiscal Policy	
Return the fiscal deficit to the FRL ceiling of 1.5 percent of GDP by 2024.	Delayed. Due to droughts and the repayment of previously unregistered claims in 2023, the achievement of the deficit ceiling of 1.5 percent of GDP in 2024 was not possible so the current objective is to reach it by 2026.
Tax revenue needs to be raised and efficiency of spending could also be enhanced. While further curbing tax evasion would help create additional resources, the near-term scope is likely to be modest.	Ongoing. Steady improvements are being made in tax and customs administration, and the merge of the two agencies should also increase tax efficiency and collection. The study on tax losses due to inefficiencies in the laws of special tax regimes will help address weaknesses. Improving efficiency of spending would be helped by the changes to be made to SIARE, state financial management system.
The pension system requires supervision and needs to be reformed. Introducing a pension fund supervisor would help safeguard the public's long-term savings. In the medium term, the pension systems for both private and public employees require parametric adjustments.	Ongoing. Law on the creation of the Pension Funds Supervision has been approved. The government sent to congress a law to create a National Commission to devise and propose measures for a fundamental reform of the Caja Fiscal.
Monetary Policy	
Further tightening should inflationary pressures persist.	Implemented. The BCP has proactively managed the monetary policy rate in response to increased inflation, having substantially increased the monetary policy rate since mid-2021.
Foreign exchange interventions should continue to be limited to exceptional circumstances such as disorderly market conditions. Exchange rate should act as a shock absorber.	Implemented. Quantitative evidence suggests that BCP FX interventions contributed to reducing the short-term volatility of the exchange rate.
Financial Sector	
Continued monitoring and data collection of the banking system are needed to better assess the crisis' impact.	Ongoing. Financial soundness indicators continue to suggest that the banking system remains well capitalized and profitable. Some steps have been taken to improve supervision.

Fund Recommendation	Progress
Structural Reforms	
Continue addressing Paraguay's governance weaknesses and tackle corruption, including plans to reform civil service and public procurement process.	Ongoing. The authorities published the governance diagnostic report prepared by the IMF and IADB. The government has prepared legislation on anti-corruption, public procurement, fiscal responsibility, civil service reform, pension reform and supervision, and a reform of the structure of the state. Some are still to be approved by Congress. The National Risk Assessment has not been updated yet.
Improve business climate, and human capital policies to foster growth.	Ongoing. Health and education reforms remain on the agenda, as well as continued public investment in transport infrastructure. Effective social assistance programs were implemented to protect the vulnerable population during the pandemic.

Annex II. External Stability Assessment

Overall Assessment: The external position of Paraguay in 2023 was stronger than the level implied by fundamentals and desirable policies. The EBA-Lite current account (CA) model points to a 2.9 percent gap, somewhat lower than the 2022 assessment's gap. External stability risks are contained given Paraguay's sizable reserve buffers and the long-term maturity profile of its external debt.

Potential Policy Responses: Recommended macro and structural policy actions to continue safeguarding external sustainability include improving governance and the business climate, including by reducing vulnerabilities to corruption; diversifying the energy mix; and formalizing the economy. Together, these policies will enhance Paraguay's attractiveness for FDI and capital inflows.

Foreign Assets and Liabilities: Position and Trajectory

Background. The net international investment position (NIIP) worsened to -36 percent of GDP in 2023 from -29 percent of GDP in 2020. The NIIP increased by 4 percent in absolute value, largely attributable to an increase in gross liabilities. Gross liabilities increased by 5 percent, primarily driven by an increase in debt securities under other investment (general government). On the other hand, a 7 percent increase in gross assets partly offset to the overall deterioration of the NIIP. External debt fell to 36.0 percent of GDP in 2023 from 36.2 percent of GDP in 2022, reversing the trend after a 3-year ramp-up in borrowings due to pandemic-related spending.

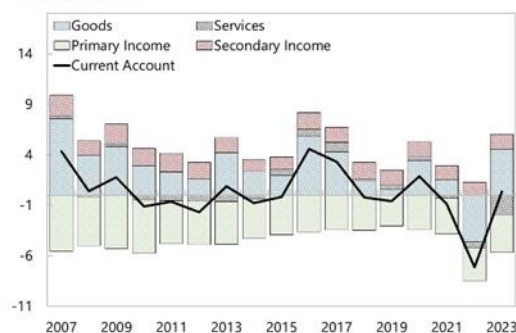
Assessment. External debt is expected to decline in the medium term, despite another projected uptick in 2024 with new disbursements coming on stream. Nonetheless, the authorities are committed to reduce debt and rebuild buffers. The external position remains sustainable, though with some risks, under a range of adverse shocks with the gross international reserves coverage ratio expected to be comfortably within the recommended range of the ARA metric.

2023 (% GDP)	NIIP: -36	Gross Assets: 37	Debt Assets: 13	Gross Liab.: 73	Debt Liab.: 55
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Current Account

Background. Paraguay's current account (CA) has averaged -1.3 percent of GDP per year for the last five years (2019-2023), following a period of surpluses or low deficits. In 2022, the deficit was 7.1 percent of GDP, the largest on record (since 1996), reflecting a prolonged drought, higher import volumes and higher commodity prices. The CA position is estimated to have turned 0.3 percent of GDP in 2023, buoyed by growth in key export sectors. Over the medium term, assuming no mega projects, the CA is expected to be in balance, reflecting the rebound in soybean production, stabilization of international oil prices, and the phase-out in interest payments linked to a binational loan. If the Atome, Omega and Paracel projects come on stream as planned, the CA will have a modest (2.5 percent of GDP) deficit in 2025 and 2026 before reverting to the expected long-run trend.

Current Account Balance
(In Percent of GDP)



Assessment. The CA model suggests that the external position was stronger than the level implied by fundamentals and desired policies. The estimated CA gap fell to 2.9 percent of GDP, down from 4.4 percent of GDP in 2021 assessed at the time of the PCI request in 2022, and within the threshold (2-4 percent of GDP) for the same classification of the overall assessment. The estimated CA gap consists of the CA norm (-3.1 percent of GDP) and the adjusted CA (-0.1 percent of GDP).¹ However, staff's preferred approach is to assess the CA position based on the balance that nets out amortization to binationals. Paraguay borrowed heavily in the past to build the binational hydro-electric plant (which showed as a large current account deficit in the 1980s). It uses less than the half of its Itaipú's electricity production entitlement and exports the remainder to Brazil. Paraguay also needed to service its part of the debt of Itaipú up to 2023. These transactions generate a positive CA item, and an offsetting capital outflow, with no impact on the rest of the economy.² A qualified adjustment to the model estimates leads to a lower CA gap (1.1 percent of GDP). The REER model finds a CA gap of 3.2 percent of GDP, reflecting a REER undervaluation of 11.9 percent.

Paraguay: Model Estimates for 2023 (in percent of GDP)

	CA model 1/ ----- (in percent of GDP)	CA minus amortization to binationals ----- (in percent of GDP)	REER model 1/ ----- (in percent of GDP)
CA-Actual	0.3	-1.5	
Cyclical contributions (from model) (-)	0.5	0.5	
Natural disasters and conflicts (-)	-0.1	-0.1	
Adjusted CA	-0.1	-1.9	
CA Norm (from model) 2/	-3.1	-3.1	
Adjustments to the norm (+)	0.0	0.0	
Adjusted CA Norm	-3.1	-3.1	
CA Gap	2.9	1.1	3.2
o/w Relative policy gap	0.8	-1.0	
Elasticity	-0.3	-0.27	
REER Gap (in percent)	-11.0	-4.2	-11.9

1/ Based on the EBA-lite 3.0 methodology

2/ Cyclically adjusted, including multilateral consistency adjustments.

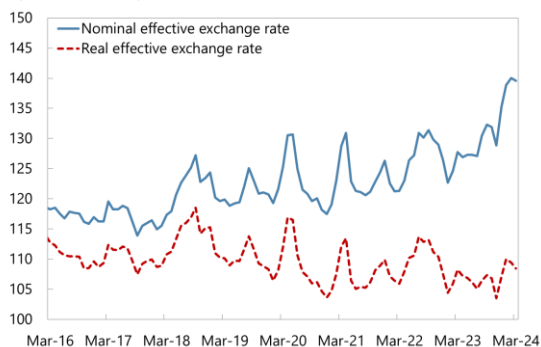
Real Exchange Rate

Background. In 2023, the real effective exchange rate (REER) appreciated by 3.5 percent, largely driven by differences in inflation.

Assessment. The REER gap, derived from the EBA-Lite CA model and an estimated elasticity of -0.25, resulted in -11 percent. Meanwhile, the qualified adjustment to the model estimates and the EBA-Lite REER model suggests REER gaps of -11.9 percent and -4.2 percent, respectively. Among key trading partners, the real exchange rate depreciated vis-à-vis both Argentina (75 percent) and Brazil (8 percent).

Nominal and Real Effective Exchange Rate

(Index, 2010 = 100)



Capital and Financial Accounts: Flows and Policy Measures

Background. Sovereign bond issuances and Foreign Direct Investment (FDI) have been major sources of capital inflows in last few years. Since 2013, the government has tapped the international capital markets every year except 2015. The total amount of issuances so far is around US\$ 8 billion. In 2024, the authorities have issued US\$ 500 million equivalent Guarani-denominated Eurobonds for the first time, along with US\$ 500 million USD-denominated ones (see the DSA annex for details). The outstanding stock of Eurobonds stood at US\$ 7 billion as of end of May 2024. In addition, FDI inflows have been relatively stable at about 0.8 percent of GDP in 2023. FDI is projected to pick up in the near term to over 2 percent of GDP during 2024-2026, owing to significant private investment from Paracel (paper pulp from eucalyptus foresting) and Omega Green (biofuels).

Assessment. Paraguay has a fully open capital and financial account, but still shallow financial markets. Vulnerabilities to the financial flows remain contained as the major sources of capital are government’s external borrowing against a low level of public debt and good prospects for FDI.

FX Intervention and Reserves Level

Background. Gross international reserves have increased steadily overtime from roughly \$4 billion in 2010 to about \$10 billion at end-2023. **Assessment.** Reserve coverage has declined to 6.6 months of prospective imports in 2023 but is still very high. The reserves level for 2023 is comfortably above the Fund’s metrics for a small open economy. The flexible exchange rate continues to be the first line of defense, allowing the economy to absorb external shocks. Staff’s recommendation is to limit discretionary interventions to exceptional situations of disorderly market conditions.

¹ The policy gap is mainly the result of the low level of public health expenditure in 2021 and the gap between Paraguay’s productivity growth and the world (measured by relative GDP, in PPP terms, per worker). Closing the productivity gap requires structural reforms, see Bakker et al (2020) for details.

² As the construction of the binationals finished and Paraguay started to pay off the debt, the CA position started to strengthen. Such strengthening, however, is not a consequence of undervalued real exchange rate.

Table 1. Paraguay: Classification of the Overall Assessments ^{1/}

CA gap	Description in overall assessment
> 4%	... substantially stronger...
[2%, 4%]	... stronger...
[1%, 2%]	... moderately stronger...
[-1%, 1%]	The external position is broadly in line with the level implied by fundamentals and desirable policies
[-2%, -1%]	... moderately weaker...
[-4%, -2%]	... weaker...
< -4%	... substantially weaker...

^{1/} The qualitative assessment of the external position is primarily based on the CA gap. Due to different elasticities, the same CA gap could be associated with different REER gaps for different economies.

Annex III. Risk Assessment Matrix¹

Source/nature of risk (Likelihood / Time horizon)	Expected Impact and Recommended Response
External Risks	
<p>Intensification of regional conflict(s). Escalation or spread of the conflict in Gaza and Israel, Russia's war in Ukraine, and/or other regional conflicts or terrorism disrupt trade (e.g., energy, food, tourism, supply chains), remittances, FDI and financial flows, payment systems, and increase refugee flows. (High / ST)</p>	<p>High. Markets of grains and meat might see unexpected volatility. In addition, the war affected the availability and prices of imported fertilizers, key for soy production. The government should continue facilitating access to alternative meat and fertilizer markets.</p>
<p>Deepening geoeconomic fragmentation. Broader conflicts, inward-oriented policies, and weakened international cooperation result in a less efficient configuration of trade and FDI, supply disruptions, protectionism, policy uncertainty, technological and payments systems fragmentation, rising shipping and input costs, financial instability, a fracturing of international monetary system, and lower growth. (High/ST)</p>	<p>High. Markets of grains and meat might see unexpected volatility. In addition, fragmentation affects the availability and prices of imported goods which are inputs for exports. The government should continue facilitating access to alternative meat and fertilizer markets.</p>
<p>Commodity price volatility. A succession of supply disruptions (e.g., due to conflicts, export restrictions, and OPEC+ decisions) and demand fluctuations causes recurrent commodity price volatility, external and fiscal pressures in EMDEs, cross-border spillovers, and social and economic instability. (High / ST)</p>	<p>High. Higher commodity prices would benefit fiscal revenues and trade balance, but supply disruptions could lead to production stoppages. Monetary policy should be calibrated to face scenarios with lower growth and volatile prices.</p>
<p>Abrupt global slowdown or recession. Global and idiosyncratic risk factors cause a synchronized sharp growth downturn, with recessions in some countries, adverse spillovers through trade and financial channels, and market fragmentation triggering sudden stops in EMDEs. (Medium / ST)</p>	<p>Medium. Global financial tightening, possibly combined with volatile commodity prices, could lead to spiking risk premia, widening external imbalances, and fiscal pressures. It may dampen external demand, foreign inflows, and border trades. Monetary policy should balance the impact of lower activity with volatile prices.</p>
<p>Monetary policy miscalibration. Amid high economic uncertainty, major central banks loosen policy stance prematurely, hindering disinflation, or keep it tight for longer than warranted, causing abrupt adjustments in financial markets and weakening the credibility of central banks. (Medium / ST)</p>	<p>Medium. The government should continue to implement a successful data-driven inflation-targeting framework and continue to allow the exchange rate to work as an important shock absorber.</p>

¹ As of February 7, 2024. The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

Source/nature of risk (Likelihood / Time horizon)	Expected Impact and Recommended Response
External Risks	
<p>Systemic financial instability. High interest rates and risk premia and asset repricing amid economic slowdowns and political uncertainty (e.g., from elections) trigger market dislocations, with cross-border spillovers and an adverse macro-financial feedback loop affecting weak banks and NBFIs. (Medium / ST)</p>	<p>Medium. Adverse financial conditions may trigger insolvencies in weak banks or non-bank financial institutions, causing market dislocations. The government should continue enhancing financial system supervision and the AML/CFT framework. Monetary policy should continue to allow the exchange rate to work as an important shock absorber.</p>
<p>Social discontent. Supply shocks, high inflation, real wage drops, and spillovers from crises in other countries worsen inequality and trigger social unrest. (High / ST, MT)</p>	<p>Medium. Social unrest may exacerbate imbalances, slow growth, and trigger market repricing. Social policies need to continue supporting the most vulnerable population. Governance and anti-corruption reforms need to move forward to strengthen the transparency of public sector operations.</p>
<p>Extreme climate events. Extreme climate events driven by rising temperatures cause loss of human lives, severe damage to infrastructure, supply disruptions, lower growth, and financial instability. (Medium / ST)</p>	<p>High. This may amplify supply chain disruptions and inflationary pressures, causing water and food shortages and reducing growth. Exchange rate depreciation would serve as a short-term buffer. In the medium term, reducing export concentration, diversifying the mix of clean power generation, and facilitating adaptation in agriculture would be important.</p>
Domestic Risks	
<p>Weather-related shocks (Medium to High / ST): The agriculture, construction and energy sector may be adversely impacted by weather. Delayed rains and heat waves during the planting season may affect output and inflation.</p>	<p>Medium to High. Shocks to the agriculture sector and construction affect GDP growth, export performance and exchange rate, and the financial sector due to banks' agricultural lending. Shocks to the energy sector would lessen government revenue. The exchange rate could absorb some of the shocks.</p>
<p>Fiscal sustainability (Medium / ST, MT): After a series of continued large deficits due to the pandemic and unrecorded claims, and given numerous downside risks to the economy, including the perilous position of the Caja Fiscal, returning to the proposed path of the FRL stipulated deficit ceiling in the upcoming years could take longer than planned.</p>	<p>Medium to High. Fiscal stability is the cornerstone of macroeconomic stability in Paraguay, thus deviating from the path longer than planned could significantly impact investor confidence, raise financing costs, and affect growth performance. The government needs to strengthen its ability to raise revenues and control expenditure. There is a need for reforming civil services, public procurement processes, and address serious pension system imbalances.</p>

Annex IV. Sovereign Risk and Debt Sustainability Analysis

Paraguay's debt is assessed to be sustainable with a low overall risk of sovereign stress. After a series of external shocks in the past five years, Paraguay is determined to embark on fiscal consolidation that will stabilize and gradually decrease public debt. Debt is assessed to gradually come down below 40 percent of GDP under the baseline where no major realism concerns are flagged. While the medium-term risk is assessed to be low, the long-term modules flag moderate risks from demographics and climate-related investment costs.

1. Paraguay's public debt is stabilizing under the baseline scenario. While a worsening in the fiscal projections for 2023 and 2024 led to a temporarily higher debt level (above 40 percent of GDP) than projected in previous DSAs, it will steadily decrease to 39 percent in 2029 and 36 percent in 2033 under the baseline scenario. The authorities are committed to reduce the fiscal deficit from 4.1 percent of GDP in 2023 to 1.5 percent of GDP by 2026 compliant with the fiscal deficit ceiling required under the Fiscal Responsibility Law (figure 2). The authorities are determined to further strengthen macroeconomic stability to upgrade Paraguay's sovereign risk rating to an investment grade (currently one notch below the investment grade¹).

2. The coverage of public debt under IMF methodology is broader than that used by the authorities. The authorities' debt definition includes all debt endorsed by Congress and legally guaranteed by the Paraguayan State. These debt liabilities are recorded under Paraguay's Debt Management and Analysis System (SIGADE). The IMF definition adds some more liabilities *not* covered under the SIGADE, such as those of the central bank with ALADI (the Latin American Integration Association); pending commercial debt by the national public petroleum company (PETROPAR) with Venezuela; and a few other items (Table 1), given these debts would most likely incur contingent liability for the authorities when defaulted. Paraguay's use of the 2021 SDR allocation is also added onto them. These liabilities are unlikely to increase repayment risks, and sinking funds created to address such contingencies would further mitigate potential pressure on the central government.

Table 1. Paraguay: DSA Debt Coverage (2023)

Measured public debt aggregates	Gs. bn	U.S.\$ mn	% of GDP
I. Public debt under SIGADE	120,494	16,566	38.5
II. DSA debt	129,056	17,743	41.2
<i>Additional Items not covered by SIGADE:</i>	8,563	1,177.2	2.7
BCP	3,050	419	1.0
ANDE	1,024	141	0.3
PETROPAR	2,594	357	0.8
Use of 2021 SDR allocation	1,895	260	0.6
<i>Memo item: Central bank net international reserves</i>	71,604	9,844	22.9

Sources: Ministry of Economy and Finance, Central Bank of Paraguay, and IMF staff calculations

3. Paraguay's debt is predominantly denominated in foreign currency at long maturities, and the authorities are engaging in proactive debt management to reduce risks (Figure 3). Foreign currency-denominated debt accounts for around 90 percent of total public debt. On top of traditional external debt provided by official multi- and bilateral creditors (45 percent of total debt), Paraguay has constantly issued Eurobonds at international capital markets since 2013, now

¹ Paraguay's credit ratings are BB+ (S&P) / Ba1 (Moody's) / BB+ (Fitch) with the recent upgrading by S&P.

accounting for the second largest share (35 percent of total debt). The maturities of these eubonds ranges from 10 to 30 years, extending the average maturity of external debt. The share of bond financing in domestic currency is expected to increase gradually, as the authorities are taking measures to deepen the domestic capital market. The authorities issued in February 2024 guaraní-denominated Eurobonds for the first time along with standard US dollar-denominated ones.²

4. The outcome of the realism analysis (Figure 4) shows mixed results, but they are mostly explained by country-specific factors and Paraguay’s difficult economic circumstances in the past five years.

- The forecast track record shows a balanced distribution of weakly pessimistic and optimistic parameters, except for the primary deficit where the forecast had been overly pessimistic over the 5-year horizon when compared to the peer group.
- Comparison of debt-creating flows between the past and the next five years reveals a stark difference, giving rise to a potential realism concern. However, Paraguay’s economic conditions in the past five years were abnormally hit by multiple large external shocks (droughts in 2019 and 2022, and the COVID pandemic), which led to low real growth, higher fiscal deficits (due to countercyclical policies), and exchange rate depreciation. With a freshly committed fiscal consolidation, along with auspicious prospects for private investment and growth, the outlook for the next five years should be much more akin to normal years and seems to be reasonable.
- The bond issuances tool does not flag realism issues, although it shows a gradual decline in the country spread over 10-year U.S. Treasuries reflecting the authorities’ commitments to an upgrade to investment grade as well as the recent compression in the country spread. The spreads are among the lowest in the region, steadily declining to around 150 bps.
- The path of real GDP growth raises no realism concern, although the proposed fiscal adjustment path could generate some negative impacts on economic growth. However, the fiscal multiplier in Paraguay is estimated to be low, given the relatively small share of the public sector in the economy.

5. The overall risk of sovereign stress is assessed to be low. While some mechanical signals suggest moderate risks rather than low risks, on balance, staff considers overall risks to be low when accounting for factors not included in the analytical modules, mitigating factors, and the authorities’ commitment to strengthen fiscal sustainability.

- **Several factors mitigate the near-term.** Paraguay’s debt repayment profile is favorable and short-term refinancing risks are limited with no sovereign bond repayment coming due until

² Paraguay has issued US\$1 billion-equivalent global bonds (in Luxembourg), which are equally split in local currency bonds (US\$500mn equivalent (payable in US dollars) / tenor: 7 years / coupon: 7.9 percent), and US\$ bonds (US\$500mn / tenor: 12 years / coupon: 6 percent).

2026, and the country's prospective receipts of foreign exchange (agricultural exports and revenue from the binational Itaipú hydroelectric dam) are strong.

- **Paraguay's medium-term risk is assessed to be low consistent with the mechanical signal (Figure 5).** The fan chart module signals a moderate risk as the risk index of 1.6 falls between the low-risk (1.1) and the high-risk thresholds (2.1). Main contributors to the fan chart results are the high volatility of economic indicators including during the COVID-19 pandemic and a relatively low score of institutional quality. With the gross financing needs module (GFN) yielding a low-risk signal, reflecting low levels of gross financing needs (around 4 percent of GDP), the combined medium-term risk index is classified as low. Overall, the mechanical signal is assessed to be low.
- **Long-term risks are assessed to be moderate given that the modules suggest potential contingent fiscal risks.**
 - a. **Paraguay's pension and health systems face long-term challenges and risks.** As in many other countries, long-term demographic projections³ reveal that Paraguay's pension financing needs will grow substantially over the next 30 years, potentially leading to an explosion in public debt in 30 years (Figure 6a). Rising healthcare costs with an aging population also poses a long-term fiscal risk. This effect would be compounded when assuming that costs of medical treatment grow excessively (Figure 6b).
 - b. **Long-term amortization and climate risks.** The long-term module for large amortization flashes risk signals (Figure 7). As expected, the climate modules also reveal that both adaptation and mitigation investment would have a significant impact on the level of debt (Figures 8a and 8b).

6. Staff assesses Paraguay's debt as sustainable with high probability (Figure 4). The baseline debt trajectory shows a stabilizing trend, backed by auspicious economic fundamentals and country authorities' commitment to bring the fiscal deficit back to deficit ceiling of 1.5 percent of GDP, compliant with the Fiscal Responsibility Law. Furthermore, Paraguay's large international reserves along with active debt management would provide a high level of protection. This said, as suggested by the long-term modules, demographic change and the current pension system would result in a rapid increase in expenditure and public debt, which confirms the imminent need to reform the pension funds and restore their long-term financial sustainability.

³ The long-term projections on demographic changes are complicated by the recent release of the preliminary results of the 2022 population census. It found that Paraguay's 2022 population number is 6.1 million, which is much smaller than the previously estimated 7.4 million inhabitants based on the 2002 census. Also, the age structure is found to be more mature and less favorable than previously thought. The long-run model therefore uses data from the ECLAC's Latin American Demographic Center, whose estimates and projections are much closer to the 2022 preliminary results than the outdated national estimate.

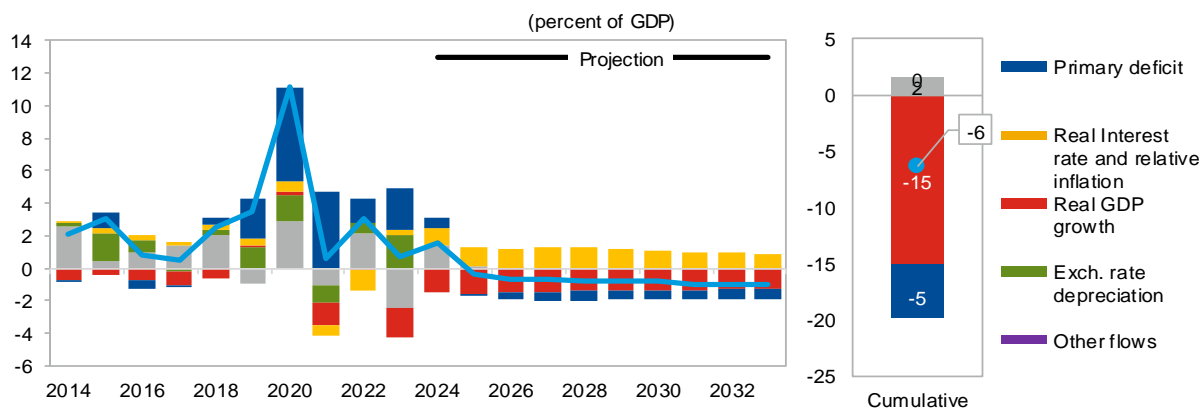
Figure 1. Paraguay: Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	...	Low	Paraguay's overall risk of sovereign stress is assessed as "low". The baseline debt trajectory shows a stabilizing trend. While the medium-term risk is assessed to be low, the long-term modules flag moderate risks from demographics and potential climate adaptation and mitigation costs.
Near term 1/	n.a.	n.a.	Not applicable
Medium term	Low	Low	The medium-term risk is "moderate" consistent with the mechanical signal. The mechanical signal for the fan chart module is moderate due to large volatility of key economic indicators due to external shocks in the past five years, including the COVID pandemic shock, flooding, and droughts.
Fanchart	Moderate	Moderate	
GFN	Low	Low	
Stress test	Comm. Prices	Low	
Long term	...	Moderate	The long-term risk is assessed to be "moderate" given the modules reveal risks to public debt from expected demographic developments, affecting both pension and health costs. The climate-related investment to address adaptation and mitigation could also have significant impacts, but the results are highly sensitive to underlying assumptions.
Sustainability assessment 2/	...	Sustainable	Staff assesses Paraguay's debt as sustainable.
Debt stabilization in the baseline			Yes
DSA summary assessment			
<p>Staff assesses Paraguay's debt as sustainable with high probability, and the overall risk of sovereign stress as low. The baseline debt trajectory exhibits a stabilizing trend, backed by the authorities' commitment to converge to the deficit ceiling of 1.5 percent of GDP compliant with the Fiscal Responsibility Law as well as auspicious economic fundamentals. While the medium-term risk is assessed to be low, the long-term modules flag moderate risks from demographics and potential climate-related costs. This confirms the needs to increase pension sustainability and strengthen their efforts to mobilize domestic revenue.</p>			
<p>Source: Fund staff.</p> <p>Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.</p> <p>1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.</p> <p>2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.</p>			

Figure 2. Paraguay: Public Sector Debt Sustainability Analysis—Baseline Scenario
(Percent of GDP unless indicated otherwise)

	Actual	Medium-term projection						Extended projection				
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	
Public debt	41.2	42.8	42.5	41.8	41.1	40.3	39.6	38.8	37.8	36.8	35.9	
Change in public debt	0.7	1.6	-0.3	-0.7	-0.7	-0.8	-0.8	-0.8	-0.9	-1.0	-1.0	
Contribution of identified flows	3.1	0.2	-0.5	-0.7	-0.7	-0.7	-0.7	-0.8	-1.0	-1.0	-1.0	
Primary deficit	2.6	0.6	0.0	-0.4	-0.6	-0.6	-0.6	-0.6	-0.6	-0.7	-0.7	
Noninterest revenues	20.0	20.7	20.7	20.8	20.9	20.9	21.0	21.3	21.5	21.5	21.5	
Noninterest expenditures	22.6	21.3	20.7	20.4	20.3	20.3	20.5	20.8	20.9	20.9	20.9	
Automatic debt dynamics	0.6	-0.4	-0.5	-0.3	-0.1	-0.1	-0.2	-0.3	-0.3	-0.3	-0.3	
Real interest rate and relative inflation	0.4	1.1	1.1	1.1	1.3	1.3	1.2	1.1	1.0	0.9	0.9	
Real interest rate	0.9	0.9	0.6	0.5	0.6	0.6	0.6	0.5	0.4	0.4	0.4	
Relative inflation	-0.5	0.2	0.5	0.6	0.7	0.6	0.6	0.6	0.6	0.5	0.5	
Real growth rate	-1.8	-1.5	-1.6	-1.4	-1.4	-1.4	-1.4	-1.3	-1.3	-1.3	-1.2	
Real exchange rate	2.0	...	...	...	...	...	...	...	...	...	...
Other identified flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
(minus) Interest Revenues	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other transactions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contribution of residual	-2.4	1.4	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Gross financing needs	5.8	3.9	3.3	3.2	3.8	3.2	4.2	4.2	4.9	4.1	3.8	
of which: debt service	3.2	3.3	3.3	3.6	4.4	3.8	4.7	4.7	5.5	4.7	4.5	
Local currency	0.6	0.5	0.6	0.5	0.4	0.9	1.2	1.3	0.9	1.3	1.0	
Foreign currency	2.7	2.9	2.7	3.2	3.9	3.0	3.6	3.4	4.6	3.5	3.5	
Memo:												
Real GDP growth (percent)	4.7	3.8	3.8	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	
Inflation (GDP deflator; percent)	2.1	2.8	3.6	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9	
Nominal GDP growth (percent)	6.9	6.7	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	
Effective interest rate (percent)	4.4	5.2	5.0	5.1	5.5	5.5	5.4	5.2	5.0	5.1	5.1	

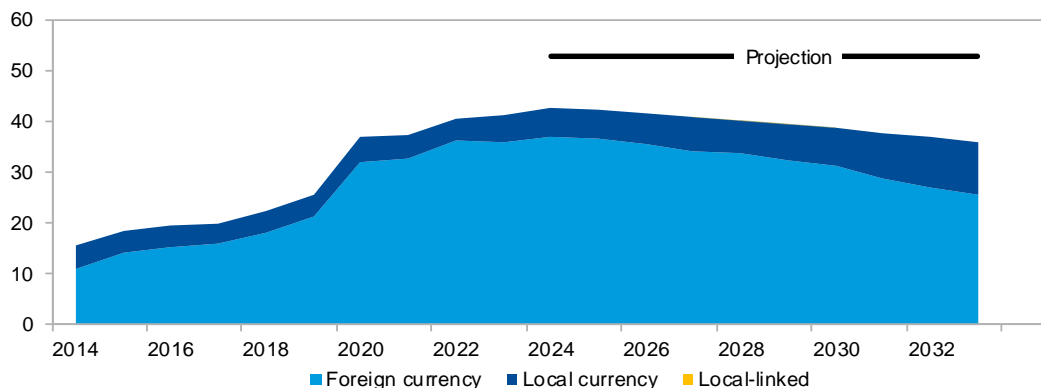
Contribution to change in public debt



Public debt is expected to reach its peak in 2024 due to a series of external shocks. It is thereafter expected to decrease continuously, reflecting expectations of an improvement in the primary balance consistent with the overall fiscal deficit ceiling stipulated under the Fiscal Responsibility Law, along with robust economic growth at the potential rate.

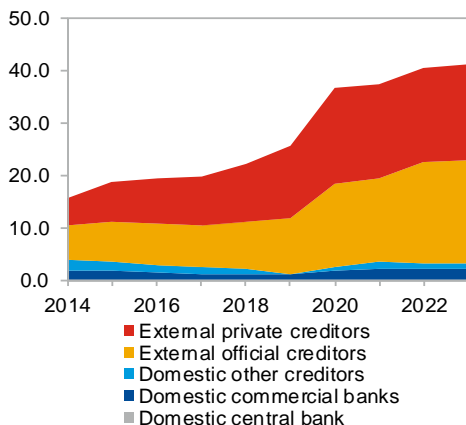
Figure 3. Paraguay: Public Debt Structure Indicators

Debt by currency (percent of GDP)



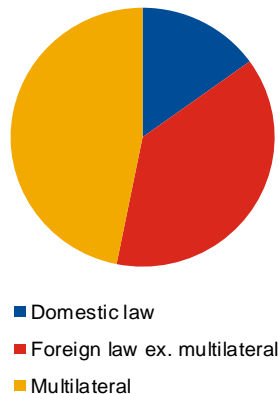
Note: The perimeter shown is consolidated public sector.

Public debt by holder (percent of GDP)



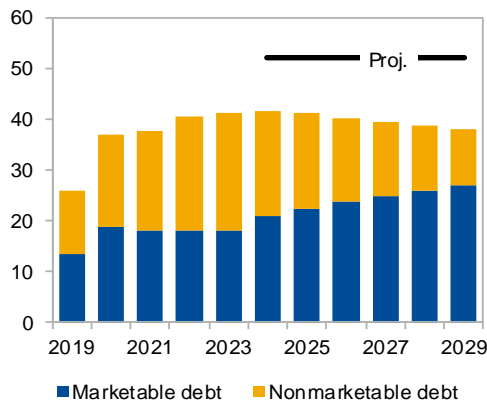
Note: The perimeter shown is general government.

Public debt by governing law, 2023 (percent)



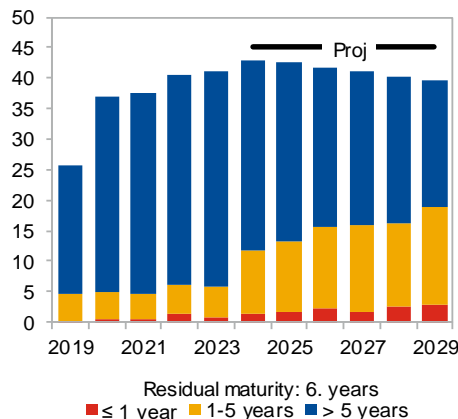
Note: The perimeter shown is general government.

Debt by instruments (percent of GDP)



Note: The perimeter shown is general government.

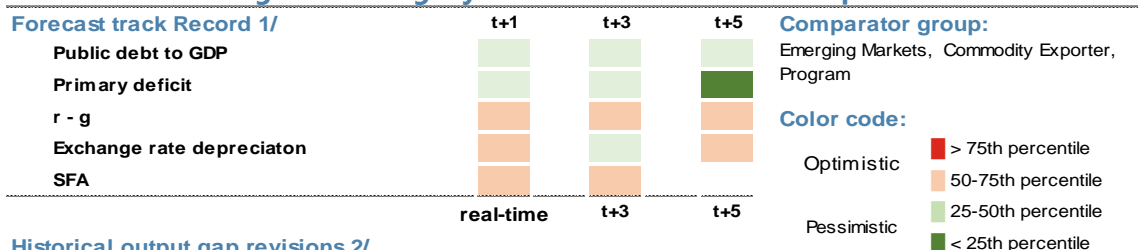
Public debt by maturity (percent of GDP)



Note: The perimeter shown is general government.

Paraguay's debt is predominantly denominated in foreign currency at long maturities. On top of traditional debt provided by official lenders, sovereign bonds make up a large share of total debt stock. That of domestic-currency financing is expected to rise gradually.

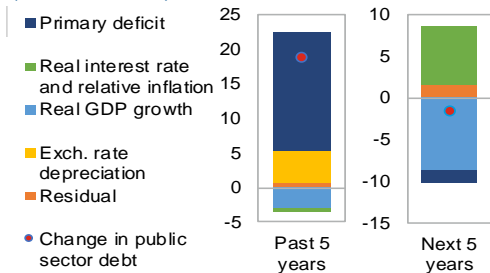
Figure 4. Paraguay: Realism of Baseline Assumptions



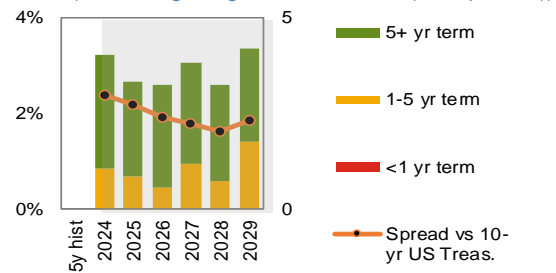
Historical output gap revisions 2/

Public Debt Creating Flows

(Percent of GDP)

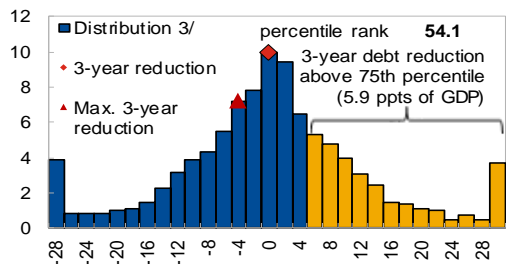


Bond Issuances (bars, debt issuances (RHS, %GDP); lines, avg marginal interest rates (LHS, percent))



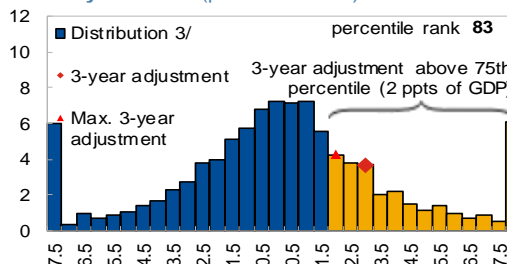
3-Year Debt Reduction

(Percent of GDP)



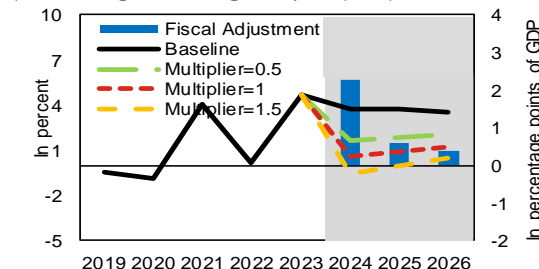
3-Year Adjustment in Cyclically-Adjusted

Primary Balance (percent of GDP)

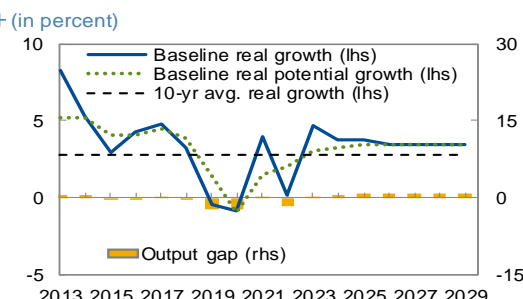


Fiscal Adjustment and Possible Growth Paths

(lines, real growth using multiplier (LHS); bars, fiscal adj. (Rt) (in percent))



Real GDP Growth



Paraguay's economy has suffered from serious external shocks in the past five years, showing debt creating flows quite different from normal years. As the impacts of these shocks are receding, economic prospects for the next five years are good, and the factors affecting the debt dynamis are more akin to normal years. Otherwise, realism analyses do not point to major concerns: past forecast errors do not exhibit any systematic biases, and financing is favorably structured toward medium- to long-term debt.

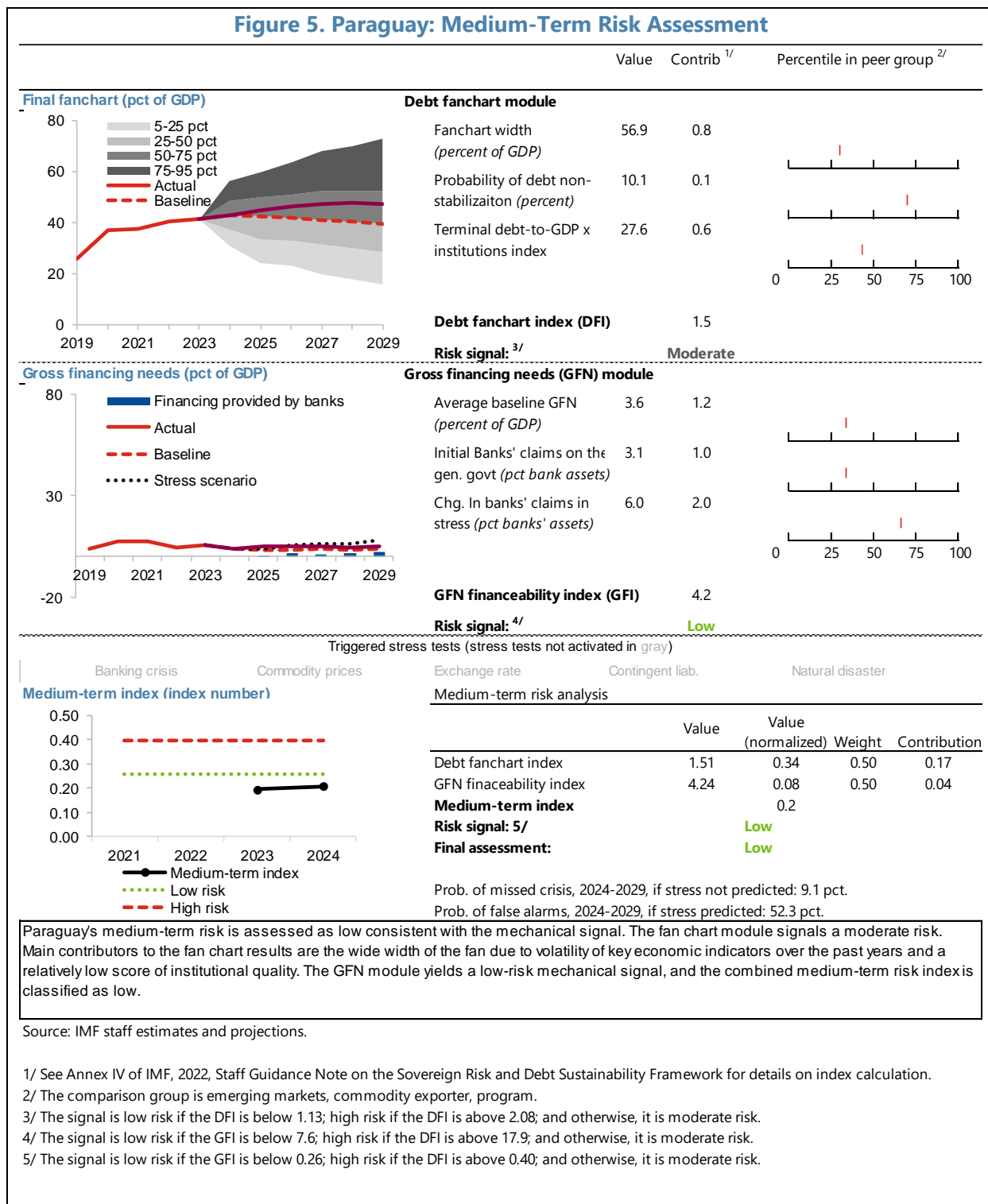
Source : IMF Staff.

1/ Projections made in the October and April WEO vintage. Program status not used in creating comparator group due to lack of data.

2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates).

3/ Data cover annual observations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

Figure 5. Paraguay: Medium-Term Risk Assessment



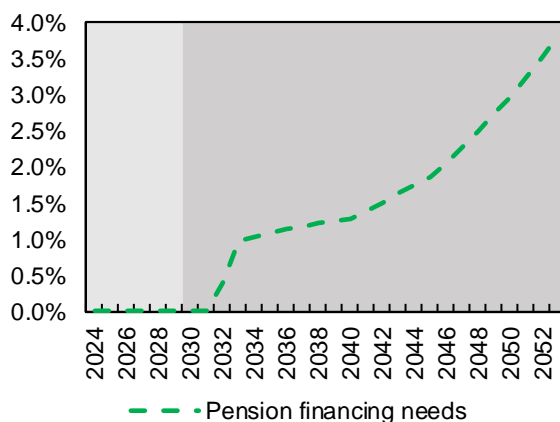
Source: IMF staff estimates and projections.

1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.
 2/ The comparison group is emerging markets, commodity exporter, program.
 3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.
 4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.
 5/ The signal is low risk if the GFI is below 0.26; high risk if the DFI is above 0.40; and otherwise, it is moderate risk.

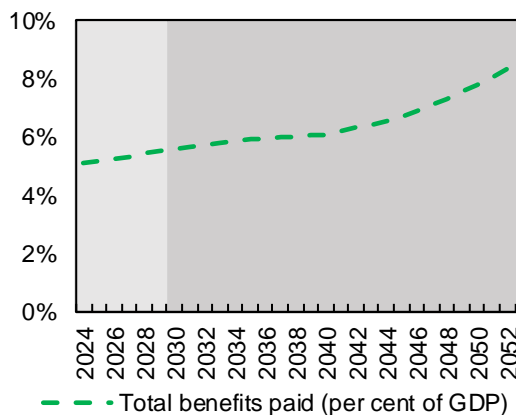
Figure 6a. Paraguay: Demographics—Pensions

Permanent adjustment needed in the pension system to keep pension assets positive for:	30 years	50 years	Until 2100
(pp of GDP per year)	1.4%	3.9%	7.2%

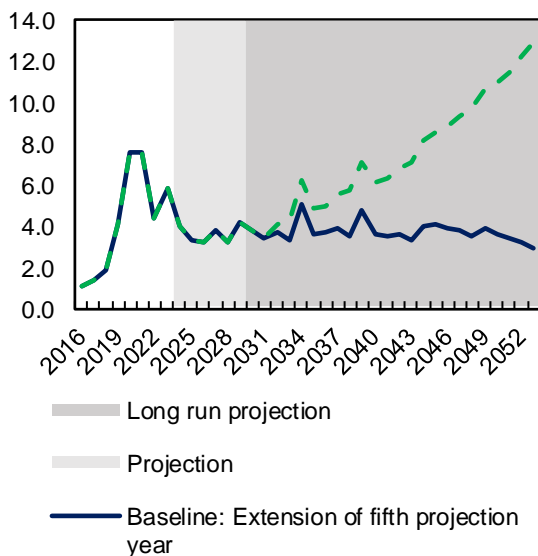
Pension Financing Needs



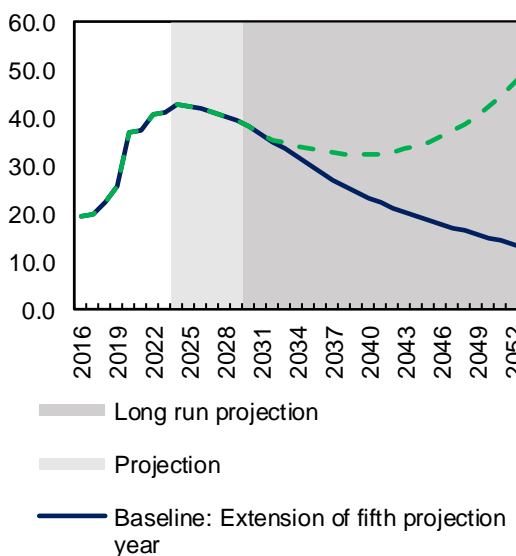
Total benefits paid



GFN-to-GDP ratio

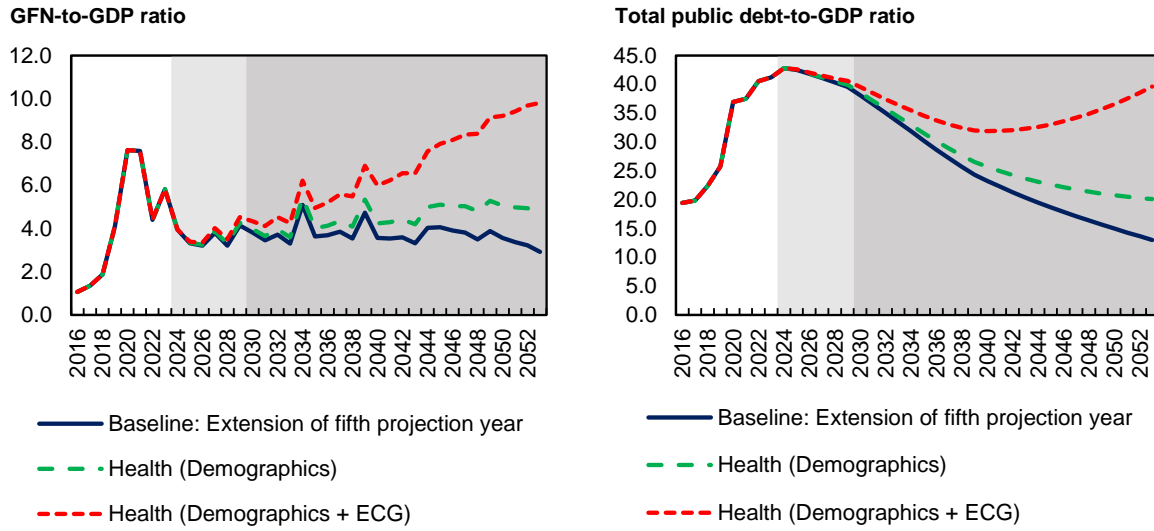


Total public debt-to-GDP ratio



Long-term demographic projections reveal that Paraguay's pension financing needs will grow substantially over the next 30 years. If this issue is not addressed, public debt could increase to about 70 percent of GDP in 30 years.

Figure 6b. Paraguay: Demographics—Health



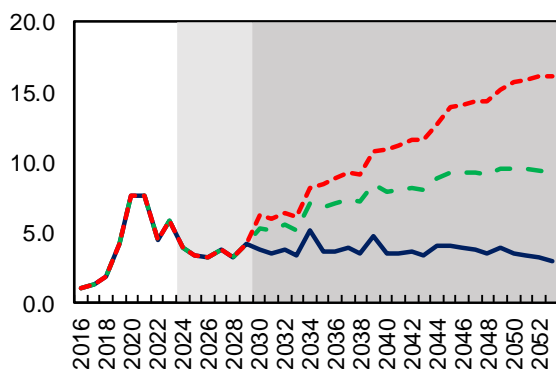
Rising healthcare costs with an aging population also poses a long-term fiscal risk. This effect would be compounded when assuming that costs of medical treatment grow excessively (ECG).

Figure 7. Paraguay: Long-Term Risk Assessment—Large Amortization

Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio	█
	Amortization-to-GDP ratio	█
	Amortization	█
Medium-term extrapolation with debt stabilizing primary balance	GFN-to-GDP ratio	█
	Amortization-to-GDP ratio	█
	Amortization	█
Historical average assumptions	GFN-to-GDP ratio	█
	Amortization-to-GDP ratio	█
	Amortization	█
Overall Risk Indication		█

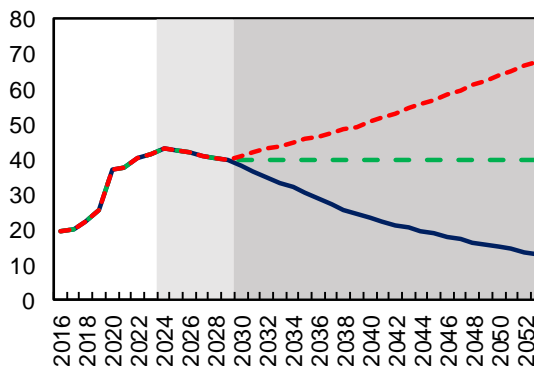
Variable	2029	2033 to 2037 average
Real GDP growth	3.5%	3.5%
Primary Balance-to-GDP ratio	0.6%	0.6%
Real depreciation	-1.9%	-1.8%
Inflation (GDP deflator)	3.9%	3.9%

GFN-to-GDP ratio



Long run projection
 Projection
 Baseline with t+5
 Baseline with t+5 and DSPB
 Historical 10-year average

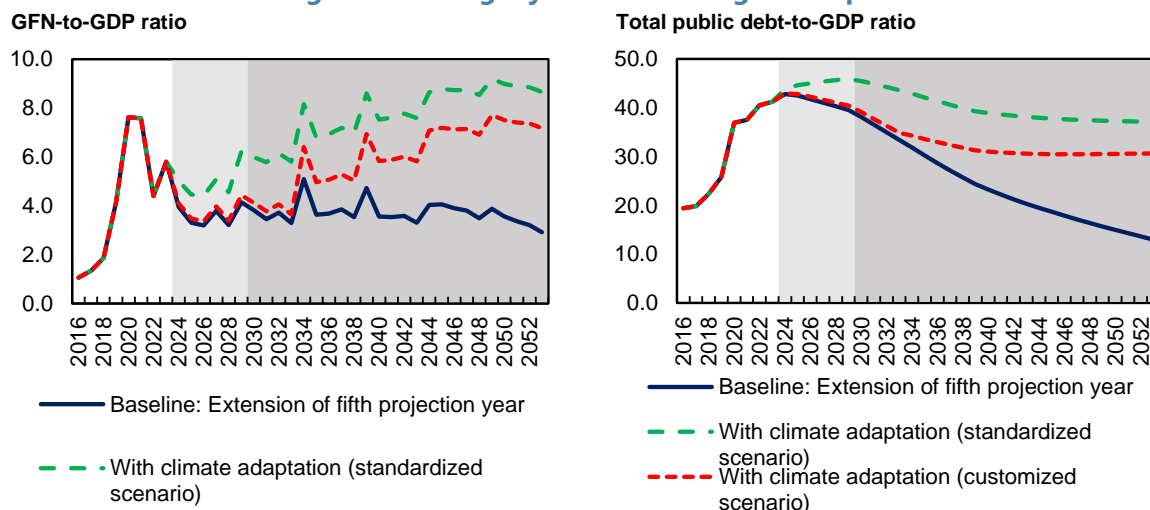
Total public debt-to-GDP ratio



Long run projection
 Projection
 Baseline with t+5
 Baseline with t+5 and DSPB
 Historical 10-year average

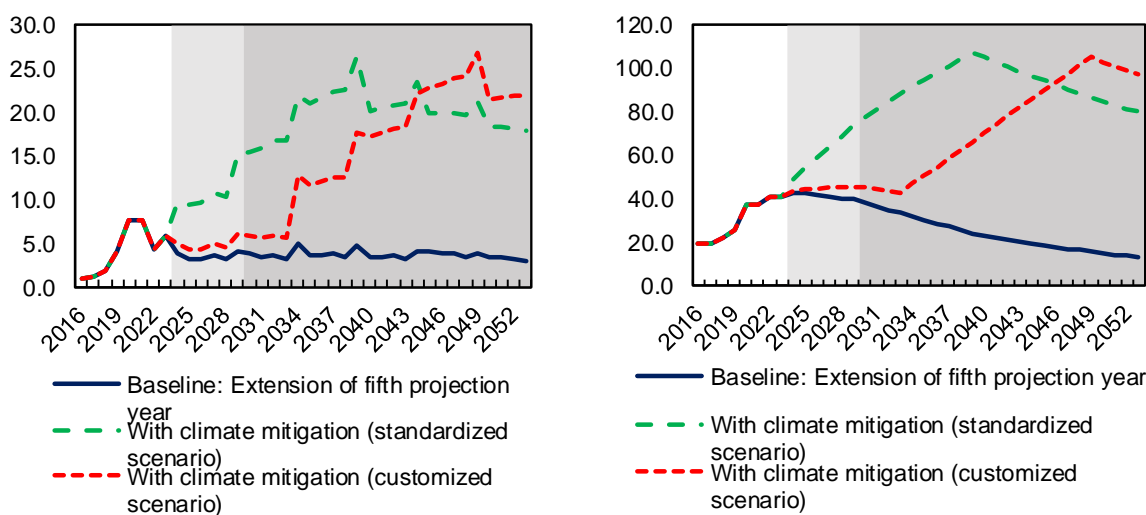
The long-term module for large amortization triggers multiple risk signals, but it is not clear what is driving the process. Data for long-term amortization schedules are not available, so the module uses internal amortization and refinancing assumptions.

Figure 8a. Paraguay: Climate Change—Adaptation



The standardized scenario envisages additional annual investment of about 1 percent of GDP, whereas the customized scenario keeps them lower at 0.2 percent through the next 10 years. Afterwards the customized scenario uses the parameters set by the standardized model.

Figure 8b. Paraguay: Climate Change—Mitigation



The standardized scenario assumes an average investment of 5.7 percent of GDP. The customized approach assumes annual investment of 1.0 percent of GDP for the ten-year projection period, and then adopts the standardized parameters for the remainder of the projection period. Under the standardized scenario, the net zero emission steady-state is reached by 2039, whereas the customized approach postpones this objective by ten years.

Annex V. Domestic Revenue Mobilization¹

1. The Fiscal Responsibility Law (FRL) deficit ceiling of 1.5 percent of GDP may not be sustained over the long-term without significant revenue mobilization or by reducing investment and social spending. While the authorities are committed to revert to the FRL ceiling by 2026, staff projections suggest that it would impose significant constraints on investment and social spending to address climate change shocks and meet its SDG goals.² Those challenges could be complicated further by expected reduction in non-tax revenue (e.g., gradual decline in electricity exports to Brazil), potential increases in pension and social outlays linked to upcoming demographic changes, and potential external shocks impacting fiscal revenue and expenditure.

2. Paraguay's tax collections are low due to low tax rates and a wide range of exemptions.³ Paraguay's tax to GDP ratio of around 10 percent of GDP is very low compared to regional peers and other emerging economies, which average around 18.6 and 19 percent of GDP, respectively (Figure 1). That ratio is even lower than the estimated revenue threshold (of 13 percent of GDP) beyond which the likelihood of economic growth accelerating would increase significantly according to Gaspar et al. (2016). While low tax collections are partly attributable to relatively low tax rates set at 10 percent for income taxes and VAT, significant tax exemptions and deductions and a complex tax structure have played a role.

3. Despite low levels of overall tax collections, Paraguay's tax productivity is above the regional average, except for the PIT. Tax productivity of CIT and the c-efficiency of the VAT⁴ are assessed at 25 and 64 percent in 2020, respectively (Figures 2 and 3). This would confirm a relatively high tax collection capacity by Paraguay's revenue and custom agencies, while there is room to further improve tax efficiency including through their recent merger. On the other hand, the PIT yields only 0.1 percent of GDP mainly due to very generous deductions as well as a high minimum income threshold. Paraguay's PIT can be rather seen as a "tax on savings" where many kinds of living expenditures (food, housing, education, health, etc.) can be deducted from gross income. Tax reform measures introduced in 2019,⁵ including on the PIT, would not have increased tax collections over the last 4 years.

¹ Prepared by K. Nakatani (WHD).

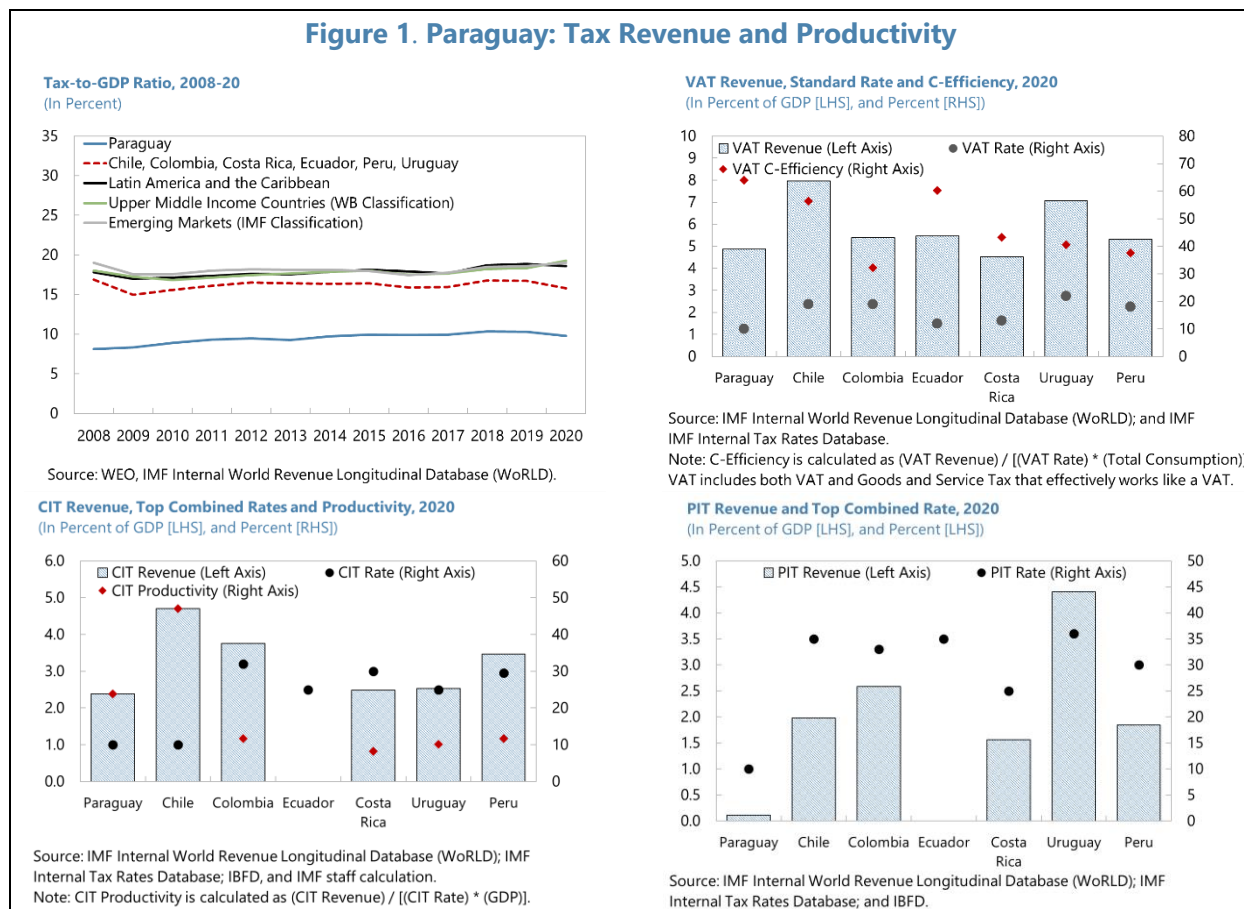
² Annex V of the 2022 Article IV estimated that public investment needed to achieve health, education, and roads, water, sanitation infrastructure SDGs would amount up to 7 percent of GDP per year.

³ This analysis is based on IMF's assessment of Revenue Tool (ART) using its internal World Revenue Longitudinal Database (WoRLD) and International Tax Rates Database.

⁴ CIT productivity is defined as $(\text{CIT revenue}) / [(\text{CIT rate}) * (\text{GDP})]$, while VAT productivity is measured by C-efficiency defined as $(\text{VAT revenue}) / [(\text{VAT rate}) * (\text{Total consumption})]$.

⁵ The basic tax rate of 10 percent was kept. The minimum gross income threshold for PIT was reduced to 36 annual minimum wages, with a reduced rate of 8 percent up to 120 minimum wages. Deductions for some spending categories, such as luxury goods, vehicles and real estate not for personal use were eliminated. Tax treatments for agricultural and other activities were unified under the corporate income tax (IRE). Tax on dividends and profits (IDU) was created for resident individuals and legal entities (8 percent) and for non-residents (15 percent).

Figure 1. Paraguay: Tax Revenue and Productivity



4. Tax expenditures are estimated to be relatively large given the low level of tax collections. In addition of preferential tax rates or exemptions applicable to specific items, Paraguay has several special tax regimes which allow many economic activities to be partially or fully exempt from taxes, mainly VAT and imports taxes. Those special regimes include, but are not limited, to investment and imports of capital goods, transactions by cooperative members, imports by special economic zones for export purposes, maquila exports, and imports for the purpose of selling to non-residents (Tourists Tax Regime). These special regimes imply large tax expenditures (estimated at around 1.4 percent of GDP in 2020) and higher administrative costs, governance burden, and tax evasion risks.

5. Paraguay’s tax potential is estimated to be about 14.4 percent of GDP. Using Stochastic Frontier Analysis (SFA) modeling, IMF (2022)⁶ estimated the tax potential and tax efforts (tax gap) for 157 countries. In that exercise, Paraguay’s tax gap was estimated at 4.6 percent of GDP indicating that the tax potential would have been 14.4 percent of GDP in 2020. This is relatively low compared with EME peers’, an average of which was estimated at 22.5 percent of GDP, mainly due to

⁶ See for detail “Building Tax Capacity in Developing Countries”, Benitez et al. (2023), IMF Staff Discussion Note. Dependent variables are GDP per capita in constant USD, GDP per capita squared, the size of the agriculture sector in percent of GDP, trade opener, government effectiveness, and the score of the perception of corruption in the public sector. Tax rates are not taken into account in this analysis.

Paraguay's large agriculture sector, weak governance, and high perception of corruption relative to peers.

6. While the current government announced its intention to keep existing tax rates, the authorities should find alternative ways to increase revenue. Efforts could focus on enhancing tax collection capacity and broadening the tax base. Specifically, Paraguay should:

- **Increase capacity of the DNIT.** Tax collection efficiency should be further increased by stronger coordination between revenue and custom sections through enhanced information sharing, tighter border controls, and increased compliance by taxpayers through the implementing a comprehensive Compliance Risk Management (CRM) framework.
- **Strictly monitor special tax regimes.** Currently there is not a strong enough monitoring framework to ensure that tax exemptions are meeting their intended purposes. Reduced VAT rates applicable to imports by special economic zones and non-resident tourists could result in significant tax evasion without closely tracking and monitoring the final destination of imported goods. Also, it would be useful to clearly define and make concerned taxpayers widely aware of exemption items and circumstances where exemptions are applicable.
- **Enhance the digitalization of tax payments.** The authorities have made good progress in incorporating large- and medium-sized taxpayers into the Integrated National Electronic Invoicing System (SIFEN). They should continue advancing the digitalization to increase efficiency and transparency of tax collections.
- **Ensure specific inflation-linked tax rates over time** to avoid erosion of the tax base through inflation (e.g., some fuel excises).

7. It will be important to revisit tax policies over the medium- and long-terms. The authorities' priority is to increase tax collection efficiency and spending efficiency to increase government policies' credibility. As more efficiency gains are attained, revisiting the tax system should be actively considered to meet long-term spending needs stemming from demographic changes, development goals, and climate change while maintaining fiscal sustainability. Given that tax reforms require intensive public consultations, the authorities should start overhauling the current tax system including special tax regimes. Their ongoing assessment should help determine their current level and their costs and benefits. Having a credible, efficient, and fair tax system would increase trust in government and the willingness to pay taxes, thereby reducing informality and eventually bolstering investment and economic growth.

Annex VI. Financial Inclusion (FI): Marking 10 Years of Progress¹

A. Reform Effort

1. In 2013, the government incorporated FI at the core of Paraguay's poverty reduction strategy. FI, later in the form of a National Financial Inclusion Strategy (NFIS), also became one of the pillars of its National Development Plan, pursuing broader goals like financial education and wider access to financial services. Several regulatory initiatives were introduced by the BCP, including the regulation of non-banking correspondents in 2011; the creation of a basic savings account in 2013 with reduced requirements and lower fees; and the regulation of e-money accounts in 2014, establishing requirements that must be met by entities providing non-bank transfers and electronic money using telecommunication services.² In 2017, the BCP started the publication of gender-disaggregated information of accounts and credits provided by banks and financial companies to better understand the gap. In 2022, an NFIS working group for the promotion of women's financial inclusion was created with coordination between the Ministry for Women and the Finance Ministry (IMF, 2022). The BCP also launched the "Financial Education for All" initiative that focuses on providing financial education to vulnerable populations, including low-income individuals, women, and rural communities. Formalization of business and financial practices is also one of the principal next steps identified in the recently approved Law on Financial Inclusion and Transparency. In 2022, an instant 24/7 payment system (SPI) was launched aimed at reducing intermediation costs as per staff recommendations (IMF, 2015). The number of transactions exceeded expectations, dwarfing transactions through other payments venues (BCP, 2023).

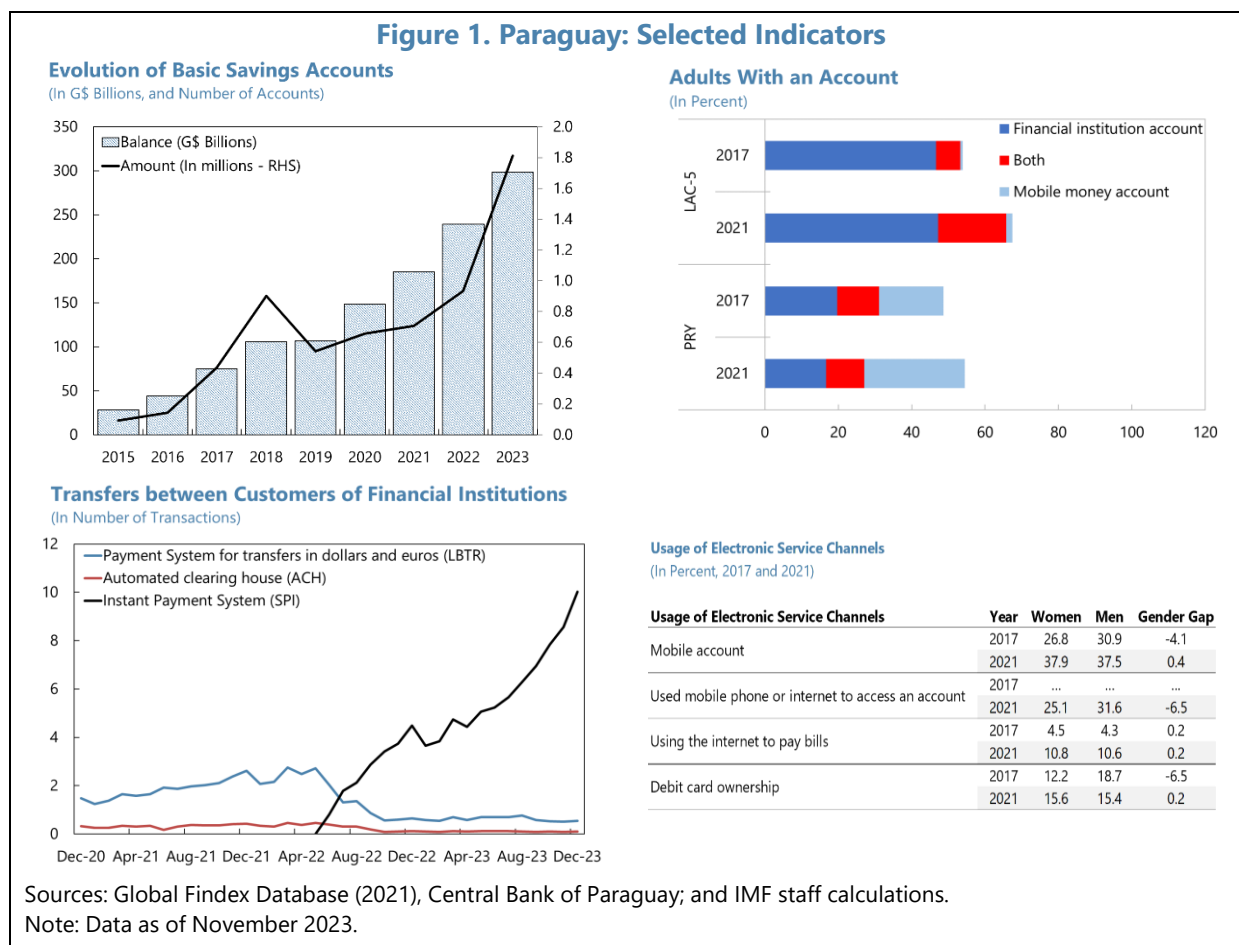
B. Progress in Numbers

2. During 2010-21, the number of adults that had an account at a formal financial institution increased from 30 to 55 percent against the NFIS's 2018 objective of 50 percent (Afi, 2023). According to latest BCP data, almost 28 in 100 adults have access to credit in the formal financial system. Women hold about 47 percent of individual deposit accounts, most of which are savings accounts (BCP, 2023). A digital gender divide also has been narrowed (Table). In South America, Paraguay pioneered experience with digital financial inclusion starting in 2008, when digital financial services were launched through domestic remittances and electronic payments performed via mobile phones. Paraguay's successful growth of mobile wallets had been shaped by an initial phase of exploration and learning (2008-2014) as *Tigo* and *Personal* were allowed to operate without dedicated regulation but in close exchange with authorities. Digital accounts (bank deposit and mobile money accounts), and state temporary support (programs such as *Pytyvõ*, *Ñangareko*,

¹ Prepared by S. Vtyurina (WHD). This analysis only covers individuals' access to financial services.

² Refer to [BCP, 2023](#) on the progress in establishing basic savings accounts.

Border Subsidy) started to be done also largely in an electronic format due to the pandemic.³ Paraguay is the only country in the LAC region where the share of fintech users (measured by the proportion of adults making/receiving digital payments) exceeds the proportion of traditional account holders (IMF, 2021). Microfinance institutions also play a crucial role in promoting financial inclusion as providers of financial services, such as microloans and savings accounts, to low-income individuals (Findevgetaway).



C. Remaining Challenges

3. It is vital to build on these encouraging trends. Expanding access to finance, reducing the cost of transactions, and further promoting wage and social transfer payments through accounts and digital means is critically important. Two access barriers are particularly relevant for Paraguay: cost of bank services and internet access.

³ The payment from the Food Pension Program for Seniors is now exclusively via debit card. Between March and September 2020, 1.3 million new mobile wallets were opened, growing 78 percent, not least due to the already established infrastructure.

- **Costs:** Worldwide, 36 percent of unbanked adults consider that financial services are too expensive ([World Bank, 2021](#)). In Paraguay, more than 60 percent of unbanked adults cited cost as an impediment. Besides the creation of basic savings accounts, the BCP is now looking to establish standard guidelines for obligatory payroll accounts free of charges for opening, maintenance, and debit card use, and without having to have a minimum account balance. Increasing competition among banks, upgrading the regulatory framework, expanding more cost-effective mobile services, and encouraging partnerships between banks and micro-finance institutions would all help reduce the cost of holding a bank account.
- **Internet access:** Ubiquitous and affordable internet access is a prerequisite to further progress in FI. Paraguay has experienced significant growth in internet access in recent years. Despite these positive developments, Paraguay still faces several challenges in this area. One of the main obstacles is the digital divide between urban and rural areas. At the start of 2022, roughly 37 percent of Paraguay's population lived in rural areas. While internet penetration in the capital city of Asunción and other major urban centers is relatively high, many rural communities still lack access to basic telecommunications services. To address this, the government has launched several initiatives to expand rural connectivity, such as the Rural Telecommunications Project, which seeks to provide internet access to more than 1,000 rural schools and health centers. Another challenge is the relatively high cost of internet access, where Paraguay ranks among the most expensive countries in the region in terms of fixed broadband prices ([TEDIC; ECLAC, 2017](#)). To tackle this, the government has introduced measures to promote competition in the telecommunications market, such as the auction of 4G spectrum, which is expected to result in lower prices and better quality of service. There is a need for increased investment in the internet infrastructure and greater competition among internet service providers (ISPs). This could be achieved through a combination of government initiatives, such as the expansion of public Wi-Fi networks and the promotion of PPPs to develop broadband infrastructure, as well as regulatory reforms aimed at encouraging new market entrants and fostering competition among ISPs.

Annex VII. Capacity Development Strategy for FY23/24

Paraguay's institutional capacity (particularly at the Central Bank and the Ministry of Economy and Finance) has benefited significantly from CD support by the Fund. The CD agenda going forward will focus on fiscal sustainability, financial integrity, financial sector supervision, and data reporting.

Background

1. **Over the past 15 years the Fund provided advice in the areas of tax reform, revenue administration, establishing a fiscal rule, transitioning to inflation targeting, and development of the statistical system.** In 2017, Paraguay undertook an FSSR, which informed MCM's CD measures in the areas of banking supervision, stress testing, and insurance regulation and oversight. Paraguay has a strong track record of absorbing CD, and during the past two decades, the Central Bank and the Ministry of Economy and Finance (main recipients of Fund TA) have upgraded their institutional and operational capacity. Recently, there was an agreement to provide C-PIMA follow-up advice and conduct a carbon tax desk review.
2. **Collaboration with other partners has also been strong**, particularly with the World Bank and the IADB (e.g., in the 2020 governance diagnostic assessment mission).

CD Priorities Going Forward

3. **The CD program prioritizes four areas:**
 - *Re-enforcing fiscal sustainability will require stronger institutions, rules, and procedures.* This will require a multi-pronged approach encompassing an improved FRL, increasing domestic revenue collection (both in tax policy and revenue administration), improving the management of fiscal risks and contingent liabilities, and civil service and pension reform (including its health pillar).
 - *Continuing to strengthen Paraguay's overall AML/CFT regime.* A comprehensive CD project, financed by the Thematic Trust Fund, was recently established to further strengthen technical aspects and overall effectiveness of Paraguay's legal, regulatory, and supervisory regimes. Additional CD will be needed to further strengthen the anti-corruption framework in line with the recommendations resulting from the 2020 Governance Diagnostic Assessment report.
 - *Further enhancing financial sector supervision.* The ongoing work program to enhance risk-based supervision at the Superintendence of Banks should continue, as well as CD measures to strengthen the supervision of financial cooperatives, insurance companies, and shadow banking activity. Another area identified in the FSSR is the need for strengthening systemic risk monitoring and macroprudential policy formulation. CD support has been provided already for enhancing the bank resolution framework and strengthening the deposit guarantee fund, and continued technical assistance is needed in the area of cybersecurity.

- *Strengthening the statistical reporting framework.* Graduating from the e-GDDS towards the Special Data Dissemination Standard (SDDS) has the potential to alleviate financing costs. For Paraguay, this would require improvements to select data, including on the granularity and timeliness of some of the data disseminated in the National Summary Data Page. IMF staff shared with the authorities the list of data missing to move to SDDS, including general government data and monetary and financial statistics.

Consultation with the Authorities

4. Staff and the authorities agree on the CD priorities. The proposed workstreams represent areas where strong overlaps between the authorities' and the surveillance priorities have been identified.

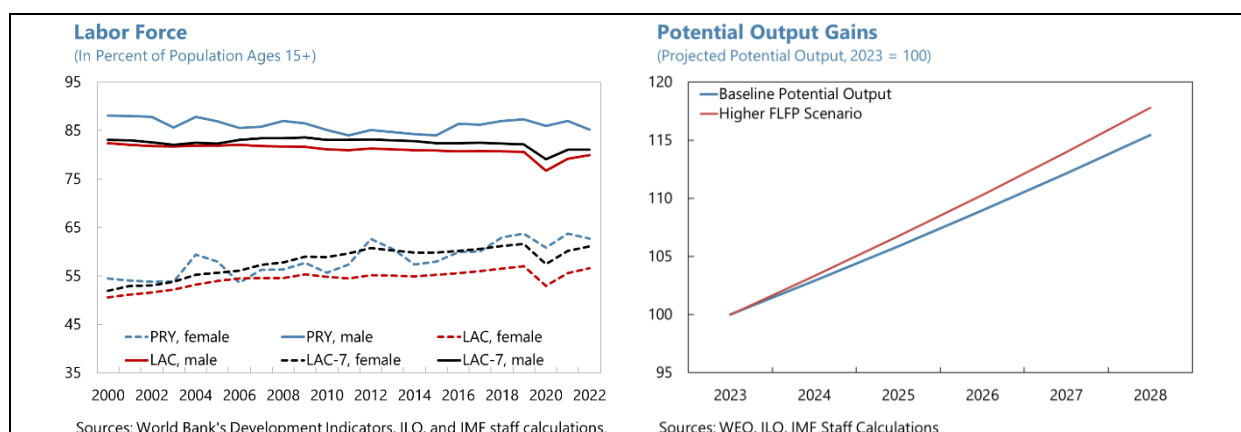
Political Appetite for Reforms

5. The government is committed to a structural reform agenda that will enhance the efficiency of the state and of public spending. Growing public awareness of the need for governance reforms provides a window of opportunity to implement these reforms, supported by CD delivery.

Annex VII. Surveying the Gender Landscape in Paraguay¹

1. Gender gaps in labor force participation (LFP) can hamper productivity, innovation, and economic growth.² When significant segments of the population, particularly women, are underutilized or excluded from the labor market due to discriminatory practices or structural barriers, economies fail to reach their full potential. This can exacerbate income inequality and impede poverty reduction efforts, undermining social cohesion and stability.³

2. Closing the gender gaps in Paraguay could bring some gains in increasing potential output in the medium term. Over the last decade, the gender gap in the LFP rate has declined to 22.5 percent in 2022. The decline was driven by both the upward trend in female (F)LFP since 2000 (Table 1) and the slight decline in male (M)LFP compared to 2000. Both the FLFP and MLFP rates are above the average for the Latin America and Caribbean (LAC) region and LAC-7, but the overall gender gaps for Paraguay and LAC are close to equal (22.5 percent vs. 23.3 percent). Reducing the gender gap in LFP by increasing FLFP from 63.5 percent in 2023 to 80 percent by 2028 (by way of comparison: MLFP is 86.8 percent), could increase potential output by 2.1 percentage points.



3. Efforts should be made in reducing gender-based violence (GBV), which not only has a direct human cost but also leads to human capital losses negatively impacting growth.⁴

Estimates from the [Ministry of Women](#) indicate that approximately eight out of ten Paraguayan women have been victims of some form of GBV during their lives. Creating a system for reporting domestic abuse and of registration of abusers to ensure safety of women, and guard against corruption in cases of domestic abuse (a reform target under the PCI) will help disseminate information and possibly reduce instances.

¹ Prepared by Jehann Jack and Lisa Kolovich (both SPR).

² See [Interim Guidance Note on Mainstreaming Gender at The IMF](#) (¶18, including footnotes).

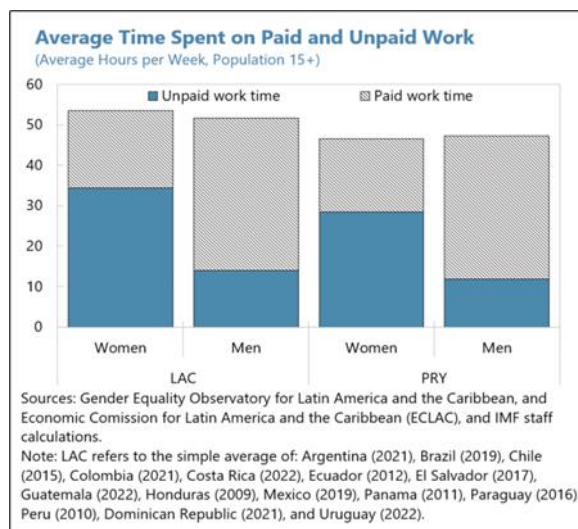
³ [Gonzales and others](#) (2015b); [Demery and Gaddis](#) (2009); [Čihák and Sahay](#) (2020).

⁴ [Quedraogo and Stenzel](#) (2021).

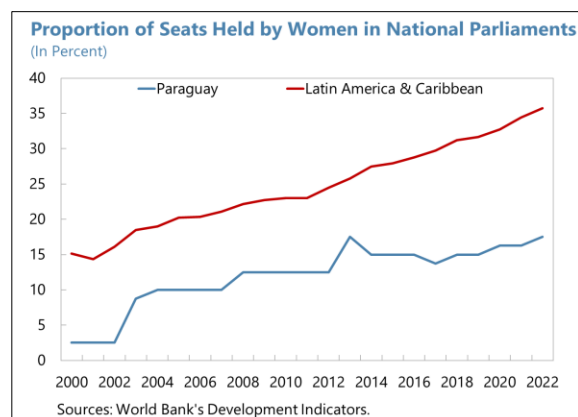
4. Child marriage also has significant and far-reaching macroeconomic impacts, negatively affecting economic development and social outcomes. In Paraguay, four percent of girls below the age of 15 and 22 percent of girls below the age of 18 are married ([UNICEF](#)). An IMF toolkit on the economic impacts of child marriage, which draws upon work by [Mitra and others](#) (2020), estimates that if child marriage in Paraguay were eliminated, the impact on long-term annual per capita real GDP growth could be 0.88 percentage points.

5. Strengthening social protection systems to address the specific needs of women and vulnerable groups is also necessary.

The burden of unpaid care work disproportionately falls on women, constraining their ability to engage in paid employment, pursue education, or participate in public life. [World Bank](#) estimates that Paraguayan women spend three times more than men on unpaid care work. Despite a national care policy, insufficient support mechanisms exacerbate this issue.⁵ It would be imperative to continue improving access to healthcare, childcare services, and social assistance programs and implementing policies to recognize and value unpaid care work, such as parental leave provisions and support for caregiving responsibilities, with the latter initiative being championed currently by the Ministry of Women.



6. Promoting gender equality in political leadership, governance, and business leads to more comprehensive and effective policymaking and entrepreneurship. Since 2000, in Paraguay, the share of women in parliament has increased seven-fold to 17.5 percent in 2022. However, despite constitutional provisions promoting gender equality, women's representation in political leadership positions remains well below parity and well below the regional average.



7. While gender equality in the legal framework stands well above regional and global peers, law enforcement may be weak. Figure 2 shows that Paraguay's score of 94 indicates that the country has few gender-based discriminatory legal barriers. However, while, de jure, the legal framework is supportive of gender equality, de facto, this situation is quite different. For example,

⁵ The National Care Policy – 2030, led and coordinated by the Ministry of Women, guarantees access to basic services, and promotes a model of co-responsibility among families, government, private sector, and community, but the associated action plan by the Interinstitutional Care Commission is yet to be approved.

Paraguay has laws against GBV, yet an index capturing the opinions of experts shows that 64 percent of these experts think that “almost no women” are free from experiencing GBV while 36 percent think that “only some women” are free from experiencing GBV. These findings suggest that while there are laws against GBV, stricter enforcement is needed. The legal framework should also consider addressing sexual harassment and human trafficking.

8. Finally, promoting education opportunities remains key to boosting human capital, fostering innovation and entrepreneurship, and improving health outcomes. In Paraguay, the male rate of enrollment in secondary education is lower than the female rate, and for both genders, the rates are well below the average for LAC countries. The boys’ rate is more than six percentage points lower than the girls’ rate in Paraguay (Figure 1). Enrollment at the National University of Asunción also shows a large gender gap, with women representing 56 percent of enrollees compared to 44 percent for men (Marinova et al, 2022). However, women are far less likely to pursue and remain in Science, Technology, Engineering, and Mathematics (STEM) careers. Data on youth not in education, employment, or training (NEET) are only available through 2017 for Paraguay but point to a large gender gap. This suggests the need to prioritize investments in youth education and vocational training programs to enhance their access to quality education and equip them with the skills needed to thrive in the labor market. The authorities should also promote initiatives to challenge gender stereotypes and encourage girls' participation in STEM fields and non-traditional sectors.

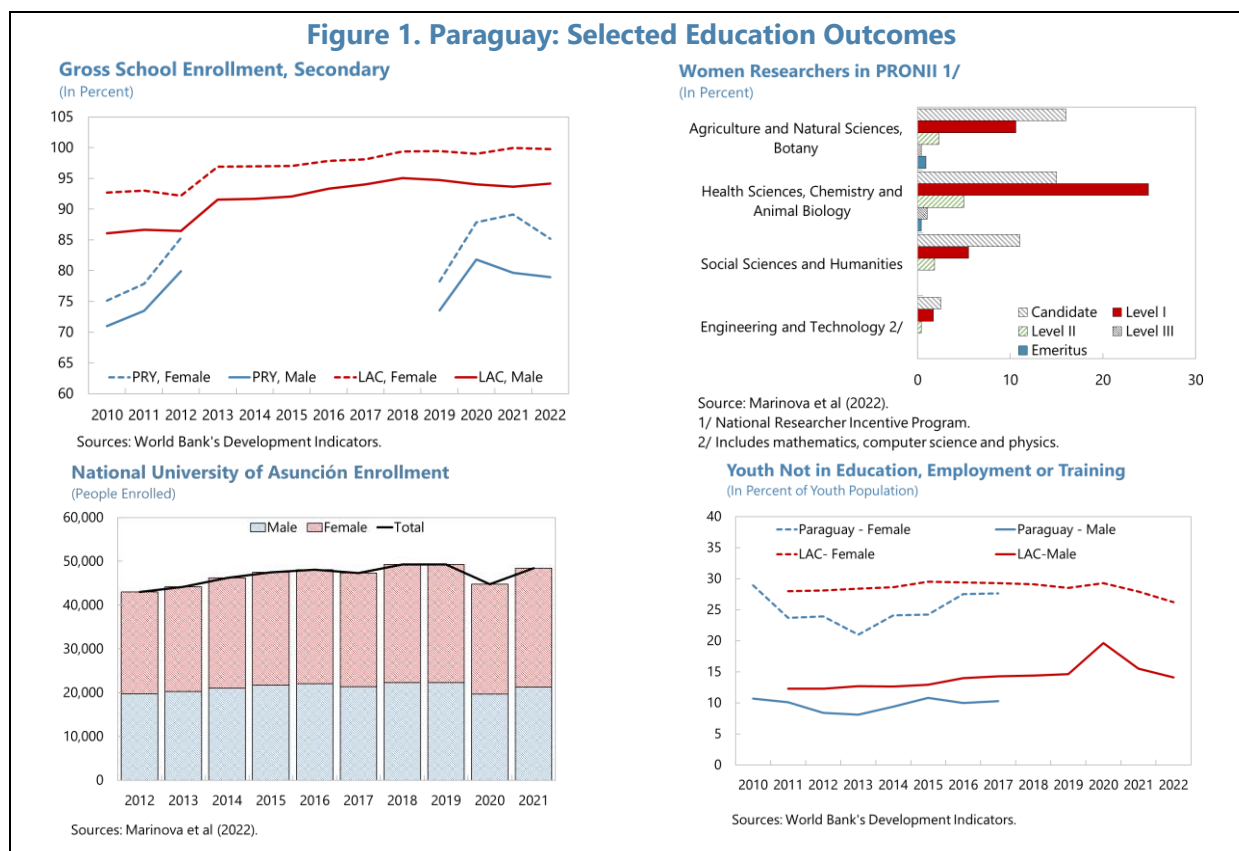
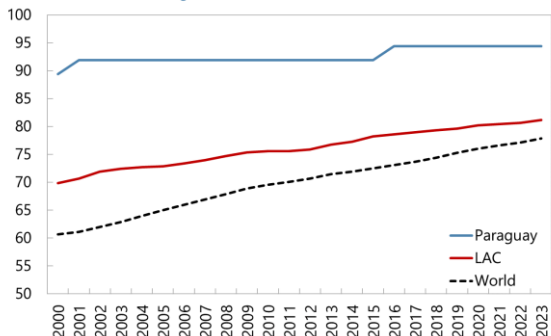


Figure 2. Paraguay: Scores on World Bank Women, Business, and the Law Index

Paraguay: Overall Score, 2000-23

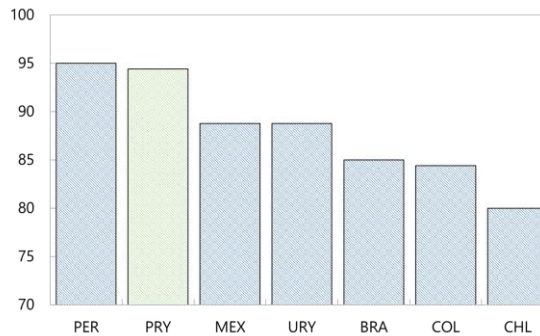
(Score, 0 [Lower] to 100 [Higher])



Sources: World Bank's Women, Business, and the Law (WBL) indicators.

LAC 7: Overall Score (2023)

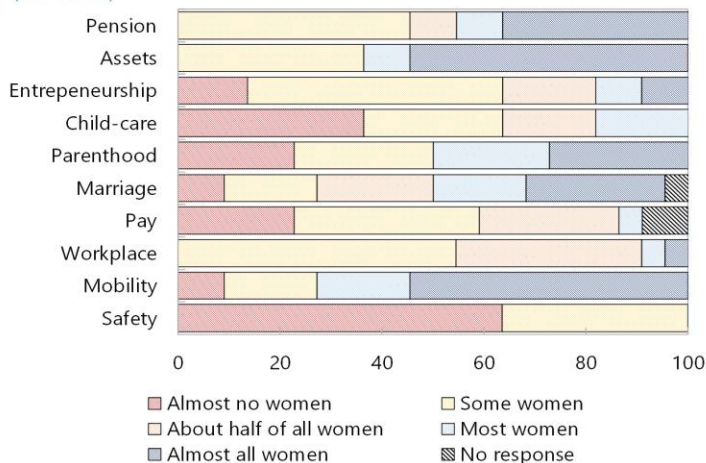
(Score, 0 [Lower] to 100 [Higher])



Sources: World Bank's Women, Business, and the Law (WBL) indicators.

Share of Expert Opinions on Barriers to Equity 1/ 2/

(In Percent)



Sources: World Bank Women Business and the Law 2024 version 2.0.

1/ The average score of expert opinions across the 15 questions is calculated as follows: "To calculate expert opinion scores, *Women, Business and the Law* has assigned a value to each expert opinion question response from 0 to 4 based on a 5-point scale from strongly disagree to strongly agree (strongly disagree = 0, strongly agree = 4). The median of response values received for each country is then scaled to 100. Data is only reported where at least two responses were received. Indicator level scores are then obtained by calculating the simple average of the four or five expert opinion questions within that indicator. An overall expert opinion score is then calculated as the simple average of eight indicator level scores." (World Bank, 2023)

2/ The categories shown in this chart show the value or, in the cases of more than one question per category, the simple average, of the share of experts who responded that "Almost no women," "Some women," "About half of all women," "Most women," "Almost all women," or "No response" have equality or do not face barriers in the relevant category.

Table 1. Paraguay: Selected Macro-Critical Gender-Related Indicators, 2017-22

	2017	2018	2019	2020	2021	2022	WHD Countries 1 /				
							Latest year available	25th Percentile	Median	Average	
Composite Gender Indices											
Female Human Capital Index (HCI) 2/	0.5	0.5	...	0.5	...	...	2020	0.5	0.6	0.6	0.6
Gender Development Index (GDI) 2/	1.0	1.0	1.0	1.0	1.0	1.0	2022	1.0	1.0	1.0	1.0
Gender Inequality Index (GII) 3/	0.4	0.4	0.4	0.4	0.4	0.4	2022	0.3	0.4	0.4	0.4
Global Gender Gap Index 2/	0.7	0.7	...	0.7	0.7	0.7	2022	0.7	0.8	0.7	0.7
Women Business and the Law Index (WBL) 4/	94.4	94.4	94.4	94.4	94.4	94.4	2022	75.0	88.8	82.5	81.4
Labor and Income											
Female Employment-to-Population Ratio, Modeled ILO Estimate (15-64 yrs) (as share of the female population)	52.4	55.0	55.3	51.4	54.1	54.1	2022	44.2	54.0	46.2	49.5
Gender Wage Gap 5/	-0.8	-1.7	-7.2	...	-12.1	-4.4	...	...	...	...	...
Female Informal Employment Rate	71.3	72.1	70.0	...	70.3	69.7	...	...	...	...	...
Female Labor Force Participation Rate, Modeled ILO Estimate (15-64 yrs)	56.8	59.4	60.3	57.1	59.8	59.0	2022	49.1	58.6	50.7	53.1
Female Unemployment Rate, Modeled ILO Estimate (15-64 yrs)	7.8	7.5	8.3	10.0	9.6	8.2	2022	4.7	11.5	8.5	6.6
Female Gross Pension Replacement Rate (as share of average worker earnings)	...	...	...	...	...	...	...	...	...	...	...
Leadership and Social											
Proportion of Seats Held By Women in National Parliaments	13.8	15.0	15.0	16.3	16.3	17.5	2022	21.0	35.4	28.6	29.4
Proportion of Women in Managerial Positions	...	...	...	...	...	...	...	...	...	...	...
Prevalence of Intimate Partner Violence among Ever-partnered Women (in percent)	...	18.0	...	...	...	...	2018	21.0	28.0	24.0	25.2
Access to Finance											
Number of Household Loan Accounts with Commercial Banks, Females' Accounts per 1,000 Female Adults	...	...	536.1	457.1	493.9	525.1	...	...	...	...	...
Number of Household Deposit Accounts with Commercial Banks, Females' Accounts per 1,000 Female Adults	...	...	802.5	847.6	940.9	1077.3	...	...	...	...	...
Share of Female Adults (in Total Female Adults) Who Borrowed From a Financial Institution (in percent)	12.9	...	...	...	13.3	...	2021	10.8	25.4	14.5	44.2
Share of Female Adults (in Total Female Adults) Who Own a Financial Institution Account (in percent)	29.2	...	...	...	29.5	...	2021	43.1	79.5	61.1	81.4
Share of Female Adults (in Total Female Adults) with Mobile Money Account (in percent)	26.8	...	...	...	37.9	...	...	...	...	...	...
Share of Female Adults (in Total Female Adults) Who Made or Received Digital Payments in the Past Year (in percent)	42.5	...	...	...	50.5	...	2021	37.0	72.6	48.4	77.3
Education											
Female Adult Literacy Rate	...	93.5	92.7	94.2	...	...	...	...	...	...	...
Female Mean Years of Schooling	8.5	8.6	8.8	8.9	8.9	8.9	...	...	...	...	...
Female Primary Gross Enrollment Rate 6/	...	...	88.7	91.2	92.1	92.7	2021	95.6	105.4	100.2	101.1
Female Secondary Gross Enrollment Rate 6/	...	...	78.3	87.9	89.1	85.2	2021	88.1	109.2	101.3	103.5
Female Tertiary Gross Enrollment Rate 6/	...	...	...	...	...	...	...	...	...	...	...
Health											
Female Adult Mortality Rate per 1,000 Adults 7/	110.5	111.2	109.9	118.0	140.2	...	2021	95.5	144.0	115.5	122.1
Female Life Expectancy at Birth	76.5	76.3	76.4	76.2	73.4	...	2021	73.6	78.6	76.0	75.8
Maternal Mortality Ratio per 100,000 Live Births, Modeled Estimate (15-49 yrs)	69.0	70.0	70.0	71.0	...	...	2020	33.0	96.0	70.0	78.7
Total Fertility Rate (Births Per Woman)	2.6	2.6	2.5	2.5	2.5	...	2021	1.5	2.3	1.8	1.8

Source: GenderDataHub /8

1/ Group aggregates are calculated where data are available for at least 50 percent of countries for a given indicator, and for weighted averages, where the relevant weights are also available. Data are reported for the latest

2/ This index is scored on a scale of 0-1, with a higher score corresponding to better outcomes for women.

3/ The Gender Inequality Index is scored on a scale of 0-1, where a higher score indicates higher inequality.

4/ The Women, Business, and the Law Index is reported on a scale of 0-100, with a higher score corresponding to better outcomes for women.

5/ The Gender Wage Gap is the difference between average earnings of men and average earnings of women expressed as a percentage of average earnings of men (as calculated by the International Labor Organization). The

6/ Gross enrollment rates can exceed 100% due to the inclusion of over-aged and under-aged pupils/students because of early or late entrants, and grade repetition.

7/ The adult mortality rate refers to the probability that those who have reached age 15 will die before reaching age 60 (shown per 1,000 persons). In other words, a value of 150 means that out of 1,000 persons who have

8/ See Gender Data Hub metadata for original data sources and definitions.

Annex VIII. Data Issues Annex

Table 1. Paraguay: Data Adequacy Assessment for Surveillance

Data Adequacy Assessment Rating 1/							
B							
Questionnaire Results 2/							
Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	B	B	B	B	B	B	B
Detailed Questionnaire Results							
Data Quality Characteristics							
Coverage	A	B	B	A	B		
Granularity 3/	B		B	B	B		
			A		B		
Consistency			B	B		B	
Frequency and Timeliness	B	A	A	B	A		
<p>Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.</p> <p>1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.</p> <p>2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF <i>Review of the Framework for Data Adequacy Assessment for Surveillance</i>, January 2024, Appendix I).</p> <p>3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.</p>							
A	The data provided to the Fund is adequate for surveillance.						
B	The data provided to the Fund has some shortcomings but is broadly adequate for surveillance.						
C	The data provided to the Fund has some shortcomings that somewhat hamper surveillance.						
D	The data provided to the Fund has serious shortcomings that significantly hamper surveillance.						
<p>Rationale for staff assessment. Paraguay has made significant improvements in the compilation and dissemination of macroeconomic statistics, but some shortcomings persist.</p>							
<p>Changes since the last Article IV consultation. Quarterly balance of payments (BOP) and international investment position (IIP) data are now published, following the recommendations of the 6th Edition of the Balance of Payments Manual (BPM6). A new Forests and Land Uses Portal provides statistical historical and current information on forest coverage and land use change by region, department, and district.</p>							
<p>Corrective actions and capacity development priorities. Shortcomings remain in recording short-term supplier and commercial credit of the public sector. According to metadata published on the CBP website, PPI coverage includes imported items; however, imported items are out of scope for a PPI and a review and confirmation of compilation methods will be useful. The BCP needs to improve the compilation methods of some financial account components such as transactions related to intercompany lending within direct investment in the reporting economy, external deposits of the non-financial private sector, and external debt liabilities of banks as recommended by the last TA mission on ESS conducted in May 2017.</p>							
<p>Use of data and/or estimates different from official statistics in the Article IV consultation. Staff do not use data and/or estimates different from official statistics.</p>							
<p>Other data gaps. Coverage and timeliness of labor market statistics and statistics of the informal sector could be improved. Access to reliable information on emissions is limited, despite improvements in greenhouse gas inventories, due to data mismatches with credible international</p>							

Table 2. Paraguay: Data Standards Initiatives

Paraguay participates in the Enhanced General Data Dissemination System (e-GDDS) and publishes the data on its National Summary Data Page since March 2017, with timeliness and periodicity inline or even exceeding the e-GDDS recommendations.

Table 3. Paraguay: Table of Common Indicators Required for Surveillance

As of April 30, 2024

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data ⁶	Frequency of Reporting ⁶	Expected Frequency ^{6,7}	Paraguay ⁸	Expected Timeliness ^{6,7}	Paraguay ⁸
Exchange Rates	Apr-24	Apr-24	M	M	D	D	...	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	Mar-24	Apr-24	M	M	M	M	1M	1W
Reserve/Base Money	Mar-24	Apr-24	M	M	M	M	2M	25D
Broad Money	Mar-24	Apr-24	M	M	M	M	1Q	25D
Central Bank Balance Sheet	Mar-24	Apr-24	M	M	M	M	2M	25D
Consolidated Balance Sheet of the Banking System	Mar-24	Apr-24	M	M	M	M	1Q	25D
Interest Rates ²	Mar-24	Apr-24	M	M	M	M	...	45D
Consumer Price Index	Mar-24	Apr-24	M	M	M	M	2M	6D
Revenue, Expenditure, Balance and Composition of Financing ³ —General Government ⁴	Dec-23	Apr-24	M	M	A	A	3Q	3M
Revenue, Expenditure, Balance and Composition of Financing ³ —Central Government	Mar-24	Apr-24	A	A	Q	M	1Q	1M
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	Dec-23	Mar-24	M	M	Q	M	2Q	1M
External Current Account Balance	Dec-23	Apr-24	Q	Q	Q	Q	1Q	3M
Exports and Imports of Goods and Services	Mar-24	Apr-24	M	M	M	M	12W	30D
GDP/GNP	Dec-23	Apr-24	Q	Q	Q	Q	1Q	90D
Gross External Debt	Dec-23	Apr-24	Q	Q	Q	Q	2Q	1Q
International Investment Position	Dec-23	Mar-24	Q	Q	A	Q	3Q	3M

¹ Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.

² Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

³ Foreign, domestic bank, and domestic nonbank financing.

⁴ The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

⁵ Including currency and maturity composition.

⁶ Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than;

⁷ Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.

⁸ Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (<https://dsbb.imf.org/>). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "..."

Appendix I. Program Statement

Asunción, June 7, 2024

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, D.C. 20431
U.S.A.

Dear Ms. Georgieva:

Paraguay recorded strong growth in 2023, with real GDP increasing by 4.7 percent, driven by agricultural production, electricity generation, services, and manufacturing. The effective management of monetary policy by the Central Bank of Paraguay (BCP) led to a sharp decline in inflation rate to 3.7 percent by the end of the year. Starting in August 2023, the BCP began cautiously reducing the monetary policy rate and set it at 6 percent in March 2024. The exchange rate policy continued to be based on the flexibility of the guaraní, and international reserves remain at adequate levels. As anticipated, the budget deficit of the Central Administration for 2023 was equal to 4.1 percent of GDP.

Most of the targets of the third review under the Policy Coordination Instrument (PCI) have been met. The current primary expenditure and the net change in the amount of floating debt exceeded the targets due to exceptional payments for the settlement of outstanding commitments with suppliers of the Ministries of Public Works and Communications (MOPC) and Public Health and Social Welfare (MSPBS). We have made firm progress on the structural reform agenda, where a very significant milestone deserves attention: the promulgation of the law that creates the Superintendency of Pensions, a reform that had been postponed for more than thirty years. Furthermore, the guidelines contained in the decree on the Pension Information System (SIPEN) have been implemented for the beneficiaries of the Coordination of Various State Obligations (CODE) (March 2024). Moreover, the regulations of the Law on the Creation of the National Council of State-Owned Enterprises were revised to clarify and strengthen the role of the Supervisory Council of State-Owned Enterprises (December 2023 reform target). The reform target of advancing the formal recognition of workers in micro, small, and medium-sized enterprises (MSMEs) and the self-employed is being re-evaluated by the new government, which will formulate an alternative measure during the next review.

The promotion of a more sustainable and resilient economy to climate change constitutes a fundamental pillar of our long-term development strategy. Reforms under the IMF's Resilience and Sustainability Facility (RSF) are proceeding smoothly. Three of the measures planned for the current review have been completed: (i) enactment of the regulations of Law 6977/2023 on non-conventional renewable energies in Decree 1168; (ii) enactment of Decree 1788, which raises to the rank of presidential decree the registry of industrial users of biomass and the requirements for the

use of biomass, and Decree 1746, which establishes the joint intervention protocol for land use changes based on the National Forest Monitoring System; (iii) enactment of Decree 1745, which strengthens the institutional and financial capacity of the National Forestry Institute (INFONA) following approval of the Law on the Administrative Organization of the State. The establishment of energy efficiency standards, along a detailed implementation timeline, by decree, including initial steps, will require a more extensive consultation process with the private sector than initially anticipated. Following the completion of these consultations, we intend to implement this measure by November 2024. Therefore, due to the implementation of the three reform measures under the RSF, we are requesting to purchase SDR 75.525 million.

The Program Statement attached to this letter details the economic policies and reform measures that the government will continue to implement to achieve the objectives of the IMF-supported programs. This includes policies to further strengthen our economy under the three pillars of the PCI: (i) ensuring macroeconomic stability and resilience; (ii) improving productivity and fostering economic growth; and (iii) strengthening social protection and inclusion. In addition, a matrix of specific reforms under the RSF complements the climate change adaptation and mitigation policies of the Government.

The implementation of the PCI program will continue to be monitored through modified quantitative targets, continuous standards, and modified reform targets, while funding under the RSF will be available once the proposed reform measures are implemented as outlined in the attached Program Statement and Technical Memorandum of Understanding (TMU). Reviews will continue to take place every six months. We will consult with the IMF on the adoption of new measures and in advance of any revision of the policies included in this letter and the accompanying Program Statement, in accordance with the IMF's policies on consultations. Furthermore, timely information needed to monitor the economic situation and the implementation of policies relevant to the programs will be provided.

In keeping with our commitment to transparency, we wish to make this letter publicly available, together with the Program Statement and the Technical Memorandum of Understanding, as well as the IMF staff report on the third review of the PCI-supported program and the first review of the arrangement under the RSF, subject to approval by your Board. These documents will also be published on the website of the government of Paraguay.

Sincerely yours,

/s/
 Carlos Carvallo Spalding
 President
 Central Bank of Paraguay

/s/
 Carlos Fernández Valdovinos
 Minister
 Ministry of Economy and Finance

Attachments: Program Statement
 Technical Memorandum of Understanding

Attachment I. Program Statement May 2024–November 2025

This Program Statement outlines recent economic developments and the policy objectives and priorities under the Policy Coordination Instrument (PCI) and the Resilience and Sustainability Facility (RSF).

RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

- 1. For 2024, positive economic growth and low inflation are expected. Growth of 3.8 percent is anticipated, driven mainly by services and manufacturing, while the primary sector is expected to have a smaller positive contribution.** On the expenditure side, growth is expected to be due mainly to the recovery in domestic demand. Annual inflation declined rapidly in 2023, coming in below the 4 percent target. During 2024, inflation has been moderate and inflation expectations remained well-anchored. By the end of the year, inflation is expected to remain around 4 percent. In this context, the BCP's Monetary Policy Committee (MPC) reduced the monetary policy interest rate to 6 percent in March 2024.
- 2. We are firmly committed to ensuring the transparency of fiscal accounts and fiscal consolidation.** At the end of 2023, the annualized budget deficit of the Central Administration was 4.1 percent of GDP. This deficit was larger than expected due to the decision to regularize outstanding obligations with suppliers of the MOPC and the MSPBS. For 2024, a budget has been approved that is aligned with fiscal consolidation. Over the year, there has been positive progress with this process, supported by robust tax revenues.
- 3. The external current account balance has improved significantly in 2023.** The current account balance showed a surplus of 0.3 percent of GDP due to the robust recovery in agricultural exports after the drought and lower global fuel prices. The nominal exchange rate remained relatively stable in 2023 and is continuing this trend in 2024. By the end of 2023, net international reserves had increased by US\$372 million, remaining above 6 months of import coverage.
- 4. Although Paraguay's outlook is favorable, certain risk factors stand out.** Lower external demand due to a larger-than-expected global slowdown and uncertainty around oil prices due to the current geopolitical tensions remain the most relevant threats. The effects of adverse weather conditions and geopolitical instability continue to generate upside risks to international food prices, while a global slowdown could help keep agricultural and energy commodity prices stable or lower. Nevertheless, the outlook for agriculture, and in particular for soybean production, remains positive.

STRATEGIC OBJECTIVES OF THE REFORM PROGRAM UNDER THE PCI

Pillar I: Ensuring Macroeconomic Stability and Resilience

Fiscal Policies

5. We reiterate our firm commitment to prudent fiscal management. The National General Budget for fiscal year 2024 authorizes a deficit of up to 2.6 percent of GDP. As a precautionary measure, more resources have been allocated for the purchase of goods and services above 2023 budget, and the forecast for interest payments has been revised upwards (by 0.3 percent of GDP and 0.5 percent of GDP, respectively). Furthermore, an additional allocation of US\$130 million has also been included for the payment of additional outstanding obligations that have been identified and validated with suppliers of the MSPBS. This additional allocation will be offset by higher tax revenues than initially anticipated. By 2025, a deficit of 1.9 percent is forecast and by 2026, it is expected to converge to the fiscal rule's deficit ceiling, which is 1.5 percent of GDP. Regarding expenditures, we are committed to maintaining prioritization in the allocation of resources in strategic areas such as health and education. The fiscal rule's deficit of the Central Administration ceiling of 1.5 percent of GDP is consistent with restoring fiscal buffers by reducing the ratio of public debt to GDP over the medium term. We are also committed to maintaining low levels of net change in the amount of floating debt at the end of each financial year. The quantitative targets for the fiscal deficit, primary current expenditure, and net changes in floating debt are shown in Table 1a.

Structural Fiscal Policies

Reform of the Public Sector Retirement System (Caja Fiscal)

6. A major reform has been approved to create the Pension Fund Supervisory Authority and work is underway to ensure the sustainability of the Public Sector Retirement and Pension System. Contributions to the system are insufficient and result in recurring deficits that must be covered by the budget (and pensions in other sectors with a surplus); in addition, the system is fragmented and unequal. In July 2023, the previous government presented a draft law for the creation of the National Commission, made up of representatives of the three branches of government, the civilian and non-civilian contributing sectors, academia, and the general public, that has not prospered. Currently, we are focusing our effort to finalize the technical study of the Comprehensive Reform of the Public Sector Retirement and Pension System with the aim of formulating a proposal of parametric reforms that will be presented to the National Congress this year.

Improvement of the Tax System

7. We are pleased with the significant progress made in the implementation of e-invoicing. Since the launch of e-kuatia in 2022, the National Integrated Electronic Invoicing System

(SIFEN) has added 3,000 taxpayers. By October 2024, we expect 80 percent of the national invoicing to be done through electronic documents. The expansion and widespread adoption of SIFEN will not only optimize invoicing processes, but will also strengthen the transparency, efficiency, and traceability of commercial transactions, thus contributing significantly to the modernization and digitalization of our economy.

8. We are optimizing and modernizing the existing tax framework. A study of tax expenditures focused on VAT was completed. We are in the process of conducting a review and critical evaluation of special tax regimes, including Law 60/90, to improve the alignment of tax incentives with Paraguay's sustainable growth and inclusive development priorities. This review exercise will be based on a participatory approach, involving all stakeholders to ensure that the revision of the law reflects the changing needs of our economy and society, and is in line with international best practices **(reform target for June 2024)**.

Consolidation of the Supervision and Management Of State-Owned Enterprises

9. To address contingent fiscal risks, improve public sector efficiency, and refine the strategic approach, we are continuing to improve the supervision and governance of the nine state-owned enterprises. Within the framework of the PCI, first, we have reinstated the dashboard system for measuring the performance of companies in moving toward a results-based management model, which is in the process of strengthening in order to contribute to the transparency of the management of State-Owned Enterprises (SOEs) for citizens, competitiveness and efficiency through data analysis and visualization tools that can provide information for decision-making regarding the management of these companies for the General Directorate of SOEs (DGEP) and the National Council of SOEs (CNEP). In addition, and to improve the supervision of state-owned enterprises with the implementation of reforms in the Regulations of Law 5058/13 on Creation of the National Council of SOEs, we have issued a new regulatory decree that clarifies and reinforces the role of the Council, in addition to improving the regulatory framework and operating rules of SOEs (reform target for December 2023).

Consolidation of Supplier Payment Processes and Recording of Public Investment

10. We have made progress in the recording of accrued expenditure commitments. We are working to strengthen the administration of the credits of state agencies and entities, ensuring an adequate flow of information and resources for the fulfillment of contracts, without compromising the contractual relationship and aligned with the real capacity of the Public Treasury. As a first step, Decree 9537/23 was issued, which strengthens the control of the Economic Team over debt assignment operations. To avoid similar situations in the future, we are working to further improve the management of public resources, including the recording of committed, accrued, and obligated expenditures in the new Integrated Goods and Services Management System (SIGEBYS) **(reform targets from June to December 2024)**. We intend to revise these targets to reflect progress with our new public financial management model developed in consultation with experts from the Inter-American Development Bank (IDB). SIGEBYS seeks to ensure the control of the Ministry of Economy and Finance (MEF) over all steps involved in the procurement of goods and services by the

government in order to avoid the existence of outstanding unrecorded claims such as those accumulated during the pandemic with construction companies and pharmaceutical suppliers that were completely canceled by our government recently.

11. We will strengthen the monitoring and evaluation of public investment projects. The MEF received a Public Investment Management Assessment/Climate Public Investment Management Assessment (PIMA/C-PIMA) mission at the end of 2023, and we are working to implement its recommendations to improve the management of public investment. In particular, we are developing the procedural manual for the monitoring and evaluation unit of the National Directorate of Public Investment, which we intend to publish and begin implementing with a set of pilot investment projects before June 2025 (**new proposed reform target for June 2025**).

Monetary and Exchange Rate Policy

12. We have successfully controlled inflation, which is now within the inflation consultation band set for this review (Annex II). Proactive management of the monetary policy rate proved crucial in order to mitigate inflationary pressures. Current inflation and medium-term inflation expectations remain in line with our 4 percent target. We will continue to closely monitor economic indicators to ensure price stability and keep inflation within the required parameters.

13. We will remain committed to the flexible exchange rate system. Although exchange rate flexibility has been beneficial to the Paraguayan economy, we are aware of our currency's susceptibility to real and financial shocks. We limit our interventions in the foreign exchange market to preserving financial stability without compromising the flexibility inherent in our inflation-targeting regime. We ensure full transparency of these interventions by disseminating the relevant information on the BCP website.

Pillar II: Improving Productivity and Fostering Economic Growth

Reorganizing the Structure of the Government

14. We are committed to transforming and optimizing public administration, while ensuring the efficient use of resources and improving the quality of services offered to the Paraguayan people. A draft law regulating the administrative organization of the government has been adopted. The draft law is a key element in a series of legislative initiatives that aim to revitalize and modernize various institutional spheres. Its objective is to establish clear standards and principles to guide the efficiency and effectiveness of public administration, in line with international standards and best practices. It introduces important innovations, such as the establishment of legal instruments for the creation and modification of governmental organizations, the classification of organizational functions, and the regulation of ministerial responsibilities with regard to sectoral coordination.

Improving Governance and Reducing Vulnerability to Corruption

15. We will continue to strengthen our anti-corruption framework. As part of our ongoing commitment to transparency and integrity in public administration, we are proposing important initiatives to intensify the fight against corruption based on the National Strategy to Combat Corruption (ENCC), which was published on November 23, 2023. This step reflects our determination to carry out deep and effective reforms that not only meet international standards but are also in line with the expectations of our people for honest and efficient public administration. We are committed to standardizing and harmonizing the inconsistent definitions of the Ministry of Health and the Social Security Institute regarding the procurement of medicines: the harmonization of rules regarding essential medicines is expected to dispel serious concerns regarding the cost of their acquisition (**reform target for December 2024**). The ENCC also promotes the implementation of the Health Information System (HIS), which will allow for the efficient administration of pharmaceutical inventories in the Paraguayan health system. The Ministries of Health and Information and Communication Technologies commit to completing pilot programs at two public hospitals in the Asunción area by June 2025 (**new proposed reform target for June 2025**). These pilot programs will be of vital importance for implementation of the system throughout the public health network that the ENCC projects for the beginning of 2026.

16. Strengthening public accountability and integrity. The Office of the Comptroller General of the Republic and the Ministry of Information and Communication Technologies will create an information-sharing system for the performance of reviews to verify the consistency of information on the wealth of public officials in order to efficiently combat illicit enrichment, which is a legal category in force in Paraguay which will be operational in 2026. An initial pilot of this information exchange system for carrying out cross-checking examinations of the asset information of public officials will be implemented by August 2025 (**new proposed reform target for August 2025**).

17. We will continue to strengthen the anti-money laundering and combating the financing of terrorism (ML/TF) framework. We have made good progress in the process of finalizing the update of the National Risk Assessment (reform target for June 2024). Identifying and understanding ML/TF risks in Paraguay is crucial, as this will lay a solid foundation for financial and non-financial institutions to review and update their risk assessment frameworks and models/matrices. We remain firmly committed to making progress in this vital area and ensuring that robust measures are in place to mitigate ML/TF risks.

Strengthening the Business Climate

18. We also intend to renew the initiative to reform the legal framework for bankruptcies. We remain focused on the ongoing task of reforming the legal framework for bankruptcies. This objective is part of a broader effort that includes the law on simplified proceedings and the law on movable collateral, forming a comprehensive set of reforms that, taken together, will enhance the effectiveness and impact of each. Despite the fact that a previous attempt to modernize the bankruptcy law was not approved by Congress, we are committed to resuming and revitalizing this essential initiative. We are working diligently to present a revised and improved draft law to

Congress by December 2024, rather than June as initially planned, as we need to substantially refine legal and technical issues in the existing draft (**new reform target proposed date of December 2024**).

19. Ongoing commitment to improving and optimizing infrastructure and public services.

In this area, we are preparing a significant revision of the Law on Public-Private Partnerships. We recognize the need to make this law more attractive to the private sector, thus facilitating more effective collaboration that drives innovation, efficiency, and investment in projects critical to national development. We are preparing specific amendments to the law, with the intention of sending them to Congress soon (**reform target for June 2024**). We are confident that these modifications will not only strengthen the confidence and participation of the private sector, but will also accelerate the implementation of essential projects, creating jobs, fostering innovation, and contributing significantly to Paraguay's sustainable economic growth.

20. We propose a comprehensive reform in the regulatory framework that governs the processes of the General Directorate of the National Cadastre Service to ensure more expeditious internal procedures.

As a reform target, by December 2024, we have set out to achieve the review of at least 30 percent of the regulatory rules currently in force of the Directorate, dependent on the General Management, and which are the responsibility of the MEF (modified reform target for December 2024). In addition, we propose to carry out the necessary steps to renew the current technological infrastructure to allow the processing time of all institutional processes to be reduced by at least 20 percent in order to comply with the deadlines established for each type of procedure. These initiatives will not only provide legal certainty and transparency in the processing of procedures, but will also encourage investment, both domestic and international, by eliminating uncertainties and reducing associated waiting times and risks.

Pillar III: Improving Social Protection and Inclusion

Social Program Administration System

21. The integration and optimization of social programs is an ongoing priority for the government. In this regard, we are successfully implementing the Pension System (SIPEN), a technological tool designed to harmonize the administration of social programs. Specifically, we have extended it to the Coordination of Various State Obligations (CODE) unit under the Ministry of Economy and Finance (**reform target for March 2024**) and we intend to cover the Ministry of Children and Adolescents (MINNA) (**reform target for June 2024**). These advances reflect our firm commitment to improving the efficiency, transparency, and effectiveness of our social programs for the benefit of all Paraguayans.

Strengthening Social Inclusion

22. The social protection policy is a fundamental pillar for progress toward guaranteeing the fulfillment of economic and social rights. As part of our ongoing initiatives to strengthen social protection and inclusion in Paraguay, we are committed to implementing robust measures to

ensure the well-being and development of dependent persons and their caregivers. The National Care Policy (PNCUPA) – 2030, led and coordinated by the Ministry of Women’s Affairs, is a testament to our dedication to guaranteeing access to essential services and promoting a model of shared responsibility among families, the government, the private sector, and the community. This comprehensive approach focuses not only on providing necessary support to people in need of care, but also on ensuring the labor rights of those, mostly women, who assume caregiving roles in the family and social sphere. We propose that the Inter-institutional Commission on Caregiving approve the Action Plan for the national caregiving policy before the end of the year, postponing the completion of this measure because we need more time to carry out the various thematic roundtables for consultation with the various stakeholders involved (**new proposed reform target date for December 2024**).

23. The protection of women from violence is a central part of our social policy. Within the framework of the ENCC, the Ministry of Women’s Affairs will implement a system for receiving complaints of violence against women and will establish a single registry of these complaints by March 2025 (**new proposed reform target for March 2025**).

Formalizing Employment

24. We are committed to continuing to work to reduce the informal labor market in Paraguay. Given the potential negative impact on the sustainability of social security of the reform target of advancing the formal recognition of workers in micro, small, and medium-sized enterprises and the self-employed, the targeting of this measure is being reconsidered by the new government. We are also working on the implementation of financial inclusion projects for MSMEs in collaboration with the National Development Bank, the Development Finance Agency, and the Ministry of Industry and Commerce (MIC). After completing our assessment of the policies, we consider necessary for achieving formal status for self-employed workers and MSMEs, we are committed to proposing an alternative reform target during the next PCI review.

Building Climate Change Resilience

25. Paraguay faces challenges related to climate change. Due to climate change, climate disturbances are expected to recur with greater frequency and intensity. These disturbances could include whether events like droughts and floods that have negative impacts on the economy of Paraguay through agriculture; the generation of clean and renewable hydroelectric energy from the dams shared with Brazil and Argentina; and the navigability of rivers, that are the main gateway for international trade to our landlocked country.

26. We are implementing a number of adaptation and mitigation measures under the RSF. These reforms will not only improve Paraguay’s resilience to climate change but will also consolidate our position as leaders in the production and export of clean and renewable energy in the region, contributing to global efforts to combat climate change. In line with these objectives, we have made progress with the following set of reforms (details in Table 4):

Sustainable Management of Public Investment

27. We are working towards a public investment approach focused on economically and environmentally sustainable projects (reform measure (RM)1). To this end, the MEF received a C-PIMA mission at the end of 2023 and plans to continue consulting with the IMF about the incorporation of climate-related aspects in the design, selection, and evaluation of public investment projects with the revision of the Decree 4436/20. These guidelines will be published on the MEF's website in November 2024 (reform measure).

Resilient Financial Sector and Mobilizing Financial Resources for Climate Action

28. Green taxonomy (RM2). The MEF and BCP, with the support of the Inter-American Development Bank (IDB), are working to implement a green taxonomy that will be aligned with the Nationally Determined Contributions (NDCs) of Paraguay by November 2024 (**reform measure**). The taxonomy allows to identify and classify, clearly and following criteria supported by scientific evidence, economic activities, assets and income segments that are aligned with environmental targets. To date, the governance structure of this project has been established between MEF and BCP. Furthermore, an inter-institutional technical committee is being set up and will include the National Forest Institute (INFONA) and the Ministry of the Environment and Sustainable Development (MADES), the sectors that will be covered in the first phase of the taxonomy have been determined and a timeline for the incorporation of the remaining sectors has been established.

29. Incorporation of climate-related risks into the financial sector risk assessment framework (RM3). The Superintendency of Banks is currently working with the World Bank to include climate-related risks in the financial sector risk assessment framework with the aim of building capacity of the banking sector to perform financial stress tests for future climate-related shocks. To achieve this, the BCP will adopt a climate-related financial risk monitoring and assessment framework for the banking sector, which will include reporting requirements and a data repository for the significant climate-related financial risks of these institutions. The BCP will also issue supervisory guidelines by May 2025 for banks to incorporate climate-related risks into their risk management frameworks, along with timelines for their adoption (**reform measure**).

Policies for a Sustainable Energy Sector

30. Non-conventional renewable energy (RM4). To ensure that Paraguay maintains its status as a producer and exporter of clean and renewable energy, in February 2024 the MOPC by the Vice Ministry of Mines and Energy (VMME) enacted the regulations of Law 6977/2023 on non-conventional renewable energies by Decree 1168/2024. This decree establishes the regulatory framework for including alternative sources of renewable energy in the national electric system, incorporating interconnection rules for different types of operators (generators, co-generators, self-generators, and exporters), giving the application authority the power to define the reference rate for Non-Conventional Non-Hydraulic Renewable Energy (ERNC) as the average generation cost component for the corresponding connection voltage level to the National Interconnected System (SIN) that is fed to this system, establishing tax exemptions for key inputs necessary for the

installation of solar plants and wind farms, and specifying the permits that will govern the relationship between generators and the state-owned enterprise in the electricity sector (ANDE) **(reform measure)**. Furthermore, we are elaborating, in collaboration with the World Bank, specifications for the tender for the first photovoltaic power plant in the Chaco region.

31. Independent audit for ANDE, technical study to establish cost efficiency (RM5), and a rate adjustment mechanism (RM6). Recently, the selection process of an internationally recognized firm began, which will be carried out under strict, transparent, and responsible criteria, to audit ANDE's financial statements before November 2024 **(reform measure)**. On the other hand, the IDB with a group of internationally recognized consultants will prepare a study to establish ANDE's costs by business segment, taking into consideration similar companies. However, it is worth highlighting that the complexity of this process could require more time than originally anticipated. Based on this audit and study and the results of RM8, ANDE will develop, publish, and phase in specific and transparent methodologies to adjust electricity rates by May 2025 **(reform measure)**, in consultation with the VMME and the National Council of State-Owned Enterprises. In the long term, governance reforms should be aimed at the separation of generation, transmission, and distribution activities, and at establishing a transmission system operator capable of setting transparent transmission rates for private generators. In addition, ANDE should be able to access capital markets without the need for a sovereign guarantee.

32. Energy efficiency (RM7). RM7 aims to increase energy efficiency by announcing and phasing in, but with immediate actions, efficiency standards for appliances such as lighting fixtures, cooking appliances, and refrigerators that are among the highest energy consumers.¹ Efficiency standards will be established by decree by the VMME and the Ministry of Industry and Commerce (MIC) on the basis of joint efforts by the National Institute of Technology, Standardization, and Methodology, importers, retailers, and producers to create efficiency standards based on international best practices established by the International Organization for Standardization. Due to the need to extend consultations with the private sector for the effective design and implementation of this policy, we are forced to delay issuing the decree with the efficiency standards until later in the year **(reform measure)**.

33. Loss reduction and dynamic electricity rates (RM8). To manage demand and reduce peak costs, ANDE can use price signals to spread demand over different time periods. The aim of RM8 is to develop, publish, and phase in a plan for ANDE's technical and non-technical loss reduction by November 2024 **(reform measure)**. This work, in collaboration with the World Bank, has progressed significantly. Furthermore, this measure requires the installation of at least 20,000 smart meters that, on the one hand, will reduce non-technical distribution losses, and on the other hand, will allow the establishment of hourly rates. To date, a pilot project with 5,000 smart meters has been implemented, the results of which suggest that it will take longer than originally planned for the installation of the remaining 15,000 meters. It is worth noting that priority will be given to the

¹ Paraguay Savings Policy Assessment, United for Energy (U4E), UN Environment Programme (UNEP), 2019, <https://united4efficiency.org/country-assessments/paraguay/>.

installation for those consumers representing a high percentage of revenue. In addition, ANDE is increasing its inspections by around 10 percent compared to 2023 to reduce electricity theft and is working with government authorities to strengthen penalties for electricity theft.

Reducing Emissions from The Transport and Residential Sector

34. Carbon tax on liquid fuels (RM9). To tackle emissions from the transport sector, RM9 aims to introduce an explicit carbon tax (changing the tax base from liters to carbon content, per ton of CO₂ equivalent) on liquid fuels by May 2025 (**reform measure**). Through RM9, it will be established a carbon tax equivalent to the level of current diesel taxes, which will also apply to gasoline and liquefied petroleum gas (LPG). Selective taxes on the consumption of gasoline and LPG will be reduced so that the total effective tax rate imposed on each one does not change. The carbon tax rate will be reviewed and adjusted according to the result of a technical analysis published by the MEF and BCP. This analysis will be conducted periodically to assess changes in the tax, conditional on the state of macroeconomic variables and the initial carbon price when the policy was originally implemented. The tax will be set in consultation with IMF staff.

35. Electrification of private transport and public electric buses (RM10). RM10 aims to restrict the exemption to electric vehicles through the Law on Electromobility, which also exempts hybrid vehicles. 30 rapid charging units have been acquired that will be installed in the coming months throughout the country to facilitate the use of electric vehicles. In addition, as part of public transportation planning in Asunción, regulations to define the operating model for electric public transport, taking into consideration international experiences, will be developed by November 2024; this work is being carried out by the Vice-Ministry of Transport (VMT) and the Electromobility Working Group (**reform measure**).

Forest conservation and Methane Emissions Capture

36. Industrial biomass user registry and joint intervention protocols (RM11). To collect information on biomass consumers, RM11 replaced Decree 4056 of 2015 with Decree 1788, approved in May 2024, elevating the registry of industrial biomass users to the rank of a presidential decree and establishing the requirements for the use of it (**reform measure**). We commit to gradual implementation, including coverage of large biomass users who account for the majority of consumption in Paraguay following the establishment of the necessary control systems. We commit to prioritizing resources for the implementation of the platform that will be used for the implementation of the biomass certification process, to be used from 2026. Furthermore, Article 4 of decree 6797/2022 will be regulated and formalized, through an inter-institutional operating regulation for the procedure for the use of firewood from land use plans in the scheme of the National Biomass Program, which is used as a complement of certified biomass. In addition, the INFONA, the MADES, the National Police, and the National Anti-Drug Secretariat (SENAD) have agreed on a joint intervention protocol for land use change based on the National Forest Monitoring System established by Decree 1746 in May 2024. This allows for greater coordination among the different public agencies to ensure more effective response to illegal land use change, including coordination with the Public Prosecutor's Office.

37. Institutional reform to strengthen INFONA (RM12). In recent years, the INFONA has led the protection of native forests, with data processing, and the development of a system that generates early warnings of deforestation. In March, INFONA launched the Forest and Land Use Portal, a platform that allows the public to access geospatial data on changes in land use, including native forests, agricultural crops, and various plantations. The Decree 1745, approved in May, strengthens INFONA's institutional and financial capacity to continue protecting native forests and responding to deforestation alerts with the creation of the Directorate of the National Forest Monitoring System (**reform measure**). The new directorate will contribute to the continued adoption of the measurement, reporting, and verification of emissions system in accordance with the standards of the United Nations Framework Convention on Climate Change (UNFCCC) in order to increase transparency in emissions accounting, including independent third-party verification, and thus continue to generate high-quality information on land use changes in Paraguay for use by the local and international community and to support adequate protection of the forests, which are one of our country's most important natural resources.

38. Capture of methane emissions. It seeks to strengthen efforts to promote the reuse, recycling, and reclamation of plastic packaging (polyethylene terephthalate) once Law 7014/2022 comes into force. To facilitate the achievement of this purpose, contribute to better waste management, and also to contain methane emissions in line with our National Plan for Comprehensive Urban Solid Waste Management and the NDCs, the MIC will enact the regulations of Law 7014/2022 by May 2025 (**reform measure**). These regulations will establish a legal framework to support the implementation of the Circular Economy Packaging Roadmap.

PROGRAM MONITORING

39. Quantitative targets, continuous targets, and reform targets will continue to be used to monitor progress in the implementation of policies in the context of this program. The following quantitative targets have been set for end-June 2024, end-December 2024, and end-June 2025, along with targets to be monitored on an ongoing basis (Tables 1a and 1b of this Program Statement). The fourth review is scheduled to be completed on November 1, 2024, the fifth in May 2025, and the sixth in November 2025. The definitions are provided in the attached Technical Memorandum of Understanding (Annex III).

Table 1a. Paraguay: Quantitative Targets for the PCI, 2023-2025 1/

	2023						2024				2025
	end-Jun			end-Dec			end-Jun		end-Dec		end-Jun
	Prog. QT	Actual	Status	Prog. QT	Actual	Status	Prog. QT	Proposed QT	Prog. QT	Proposed QT	Proposed QT
I. Quantitative Targets (QT)											
1 Ceiling on the central government fiscal deficit (in billions of guaraníes) 2/ 3/	-4,280	-4,300	Not met	-13,264	-12,828	Met	-3,249	-3,249	-9,106	-9,106	-2,322
2 Ceiling on current primary expenditure of the central government (in billions of guaraníes) 2/	17,849	17,964	Not met	39,733	40,234	Not met	18,896	19,945	41,345	42,398	19,999
3 Ceiling on the net incurrence of floating debt by the central government 4/	-1,617	-1,614	Not met	1,643	2,289	Not met	-1,800	-1,800	-1,500	0	-1,800
II. Continuous Targets											
4 Ceiling on accumulation of external debt payment arrears by the central administration (in millions of U.S. dollar)	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	0.0	0.0	0.0
III. Inflation Consultation Band 5/											
Upper band limit (2 percent above center point)	8.5	...		6.1	...		6.1	6.1	6.0	6.0	6.0
End of period inflation, center point 6/	6.5	4.2	Actual is below band	4.1	3.7	Met	4.1	4.1	4.0	4.0	4.0
Lower band limit (2 percent below center point)	4.5	...		2.1	...		2.1	2.1	2.0	2.0	2.0
IV. Memorandum Items											
Social assistance benefits 2/	1,434	1,466	Met	3,376	3,464	Met	1,817	1,590	3,975	3,742	1,689

1/ As defined in the Program Statement and the Technical Memorandum of Understanding.

2/ Cumulative since the beginning of a calendar year.

3/ Refers to the negative of net lending/borrowing (overall balance) as per the GFSM 2001 definition.

4/ Cumulative change since the start of each year.

5/ Board consultation is required upon breach of the band limits.

6/ Defined as the change over 12 months of the end-of-period consumer price index, as measured and published by the Central Bank of Paraguay.

Table 1b. Paraguay: Standard Continuous Targets

- Not to impose or intensify restrictions on the making of payments and transfers for current international transactions.
- Not to introduce or modify multiple currency practices.
- Not to conclude bilateral payments agreements which are inconsistent with Article VIII.
- Not to impose or intensify import restrictions for balance of payments reasons.
- Not to accumulate external payments arrears.

Table 2. Paraguay: Reform of Targets for 2022-24

Policy Objective	Reform Targets	Target Date	Status
Pillar I: Ensure Macroeconomic Stability and Protect the Fiscal Policy Framework			
1 Strengthen the oversight and strategic management of Public Enterprises	Revise per decree the regulations of 'Law 5058/13 Creating the National Council of Public Companies' to clarify and strengthen the role of the supervisory Council of Public Companies.	End-December 2023	Not met (measure completed in May 2024)
2 Strengthen financial supervision	Send a new version of the pension fund supervision law, which will create a new supervisory agency, to one of the two chambers of Congress.	End-December 2023	Met
3 Mobilize additional revenue by reducing tax expenditure	Prepare an analysis of tax losses due to inefficiencies in the laws of special tax regimes and draft a proposal to minimize these inefficiencies.	End-June 2024	In progress
4 Improve public expenditure control	Implement and put into operation the SAByS submodule of the new Integrated State Resource Management System (SIARE) of the Ministry of Economy and Finance, with coverage of expenses for goods and services in their commitment stage.	End-June 2024	Reform target rescinded
4a Improve public expenditure control	Implementation of the Goods and Services Management System (SIGEBYS) submodule of the SIARE system in pilot entities for expenditure on goods in the commitment, accrual, and payment order stages.	End-June 2024	Proposed new target
5 Improve public expenditure control	Integrate coverage of public works expenses in your commitment statement to the SAByS submodule of the SIARE system.	End-December 2024	Reform target rescinded
5a Improve public expenditure control	Extend the implementation of the Goods and Services Management System (SIGEBYS) submodule of the SIARE system for expenditure on goods in the commitment, accrual, and payment order stages to all entities dependent on the Executive Branch. Development of SIGEBYS for services for pilot entities.	End-December 2024	Proposed new target
6 Improve public expenditure control	Preparation and publication of the procedures manual for the monitoring and evaluation unit of the National Directorate of Public Investment and implementation for a set of pilot investment projects.	End-June 2025	Proposed new reform target
Pillar II: Enhance Productivity and Foster Economic Growth			
7 Strengthen the AML/CFT regime	Complete and approve the updated version of the National Risk Assessment.	End-June 2024	In progress
8 Improve the business climate	Complete work on the new version of the Insolvency Law and submit the draft to one of the two chambers of Congress.	End-December 2024	Revised target date, In progress
9 Enhance private sector participation in infrastructure investment	Modify the Law on Public Private Partnerships (PPP) to make it more attractive to the private sector and send the amended version to one of the two chambers of Congress.	End-June 2024	In progress
10 Implement the anti-corruption strategy	Standardize the technical specifications of the List of Essential Medicines of the Ministry of Health and the vade mecum of the Social Security Institute (IPS).	End-December 2024	In progress
11 Improve the framework for land property rights	Develop a plan to enhance the integrity of the public land cadaster, ensuring accurate and up-to-date documentation and records.	End-December 2024	Reform target rescinded
11a Improve the framework for land property rights	Partial review of the regulatory standards of the General Directorate of the National Cadastre Service within the framework of the comprehensive reform of its regulatory framework	End-December 2024	Proposed new reform target
12 Implement the anti-corruption strategy	Implementation of pilot projects of the Health Information System in two public hospitals.	End-June 2025	Proposed new reform target
13 Implement the anti-corruption strategy	Implementation of a pilot of an information exchange system to carry out cross-checking examinations of public officials' net worth information.	End-August 2025	Proposed new reform target

Table 2. Paraguay: Reform of Targets for 2023-25 (concluded)

Pillar III: Enhance Social Protection and Inclusiveness				
14	Formalize MSME workers and independent workers	Submit to the National Congress a Bill for the formalization of dependent workers of MSMEs and independent workers in general.	End-March 2024	Not met.
15	Integrate the information system for beneficiaries of social programs	Implement the guidelines of decree No. 6833 of March 2022 "SIPEN" (Pension Information System), Article 1, subsection b, to the beneficiaries of the "Coordination of Various State Obligations" (CODE).	End-March 2024	Met.
16	Integrate the information system for beneficiaries of social programs	Implement the guidelines of decree No. 6833 of March 2022 "SIPEN" (Pension Information System), Article 1, subsection b, to the social program of the Ministry of Children and Adolescents (MINNA).	End-June 2024	In progress
17	Enhance social protection of vulnerable groups	Approval of the Action Plan of the National Care Policy of Paraguay 2030 (PNCUPA) by the Interinstitutional Care Commission (CIC).	End-June 2024	Revised target date, In progress
18	Enhance protection of vulnerable groups	Implementation of the system for receiving complaints about violence against women and establishing a single registry of those complaints.	End-March 2025	Proposed new reform target

Table 3. Paraguay: Schedule of Reviews Under the Policy Coordination Instrument, 2022-25

Program Review	Review Date	Test Date
Board Discussion of the PCI Request	November 21, 2022	...
First Review	June 1, 2023	December 31, 2022
Second Review	December 1, 2023	June 30, 2023
Third Review	June 1, 2024	December 31, 2023
Fourth Review	November 1, 2024	June 30, 2024
Fifth Review	May 22, 2025	December 31, 2024
Sixth Review	November 1, 2025	June 30, 2025

Table 4. Paraguay: Reform Measures Under the Resilience and Sustainability Facility

Key challenge	Reform measures	Review	Assessed
Public investment is not resilient to climate shocks	1 MEF to amend and publish the Decree 4436/20 to incorporate climate aspects at each stage of project development of public investment projects (appraisal, selection, external audit etc.) in line with Fund TA recommendations.	4th Review	
	2 MEF and BCP to publish a green taxonomy aligned with Paraguay's NDC.	4th Review	
Vulnerability of financial sector to climate shocks	3 BCP to: (i) establish reporting requirements and a data repository for material climate-related exposures of banks; (ii) adopt a framework to monitor and assess climate-related financial risks for banking sector; and (iii) issue supervisory guidelines for banking sector to incorporate climate-related risks to their risk management frameworks, along with timelines for the adoption of the guidelines.	5th Review	
	4 MOPC and VMME to enact regulation of the non-conventional renewable energy law 6977/2023, including (1) the specification / rationalization of economic incentives, (2) technical aspects (i.e., requisites to connect to the national interconnection system, detailed criteria for licenses, and conditions that would enable an effective development of non-hydro non-conventional renewable energy through all the defined players (generators, co-generators, self-providers, and exporters)).	3rd Review	Met
Preservation and expansion of clean electricity matrix	5 ANDE to publish an external audit and a study of international benchmarks for its costs at different segments of its operations and efficiency parameters by an internationally reputed firm.	4th Review	
	6 ANDE to develop, publish, and gradually adopt transparent and well-specified methodologies for adapting electricity tariffs in line with Law 966/64, accounting for operating costs, the financial costs of projected capital spending needs for preserving and expanding the clean electricity matrix, and efficiency gains on the basis of the results of the external audit and study by an internationally reputed firm (RM5), and the evolution of losses according to the plan in RM8.	5th Review	
	7 MOPC/VMME and MIC to establish by decree energy efficiency standards for the three appliances that represent the largest share of household electricity consumption in line with international benchmarks by the International Organization for Standardization.	4th Review	Delayed
	8 8a. ANDE and MOPC/VMME to develop, publish, and gradually implement a plan for ANDE loss reduction with quantitative targets, to install 20,000 smart meters to reduce non-technical electricity losses. 8b. ANDE to implement progressively hourly/dynamic tariffs. 8c. ANDE to increase inspections against electricity theft by 10 percent above same period in 2023.	4th Review	
	9 MEF, in coordination with DNIT, to adopt an explicit carbon tax replacing existing excise taxes on liquid fuels.	5th Review	
C02 emissions from the transport and residential sectors	10 10a. MOPC/VMME-VMT, MIC and MEF to enact regulation of the Electromobility Law 6925/2023, and to adjust fiscal incentives in favor of electric vehicles. 10b. MIC, MOPC/VMT and ANDE to install additional electric public charging infrastructure. VMT to lead the selection of the operational model and develop regulations for electric public transportation in the metropolitan area of Asuncion and set targets for an increased share of electric buses in the metropolitan area of Asuncion.	4th Review	
	11 INFONA, MADES, MOPC/VMME, and MAG to replace the Decree 4056 of 2015 to create the registry of industrial biomass users and establish the prerequisites for the use of biomass. INFONA, MADES, National Police and SENAD will regulate and implement a decree to create joint intervention protocols for land use change using the National Forest Monitoring System. The institutions in charge of the protocol will coordinate with other institutions of the Estate, including the Attorney General, to ensure the interventions in the protocol.	3rd Review	Met
Conservation of forests	12 INFONA to change its normative framework aiming at strengthening its institutional and financial capacities to protect native forests and respond to deforestation alerts. This includes the creation of a National Directorate for the National Forest Monitoring System.	3rd Review	Met
	13 MIC to enact regulation of the law 7014/2022 that promotes the reutilization, recycling, and use of plastic (polyethylene terephthalate) containers.	5th Review	
Contain methane emissions			

Table 5. Paraguay: Proposed Access Under the Resilience and Sustainability Facility

Availability Date	Million of SDR	Percent of Quota	Conditions for Access
June 1, 2024	25.175	12.50	Completion of RSF review of reform measure 4 implementation
June 1, 2024	25.175	12.50	Completion of RSF review of reform measure 7 implementation
June 1, 2024	25.175	12.50	Completion of RSF review of reform measure 11 implementation
June 1, 2024	25.175	12.50	Completion of RSF review of reform measure 12 implementation
November 1, 2024	20.14	10.00	Completion of RSF review of reform measure 1 implementation
November 1, 2024	20.14	10.00	Completion of RSF review of reform measure 2 implementation
November 1, 2024	20.14	10.00	Completion of RSF review of reform measure 5 implementation
November 1, 2024	20.14	10.00	Completion of RSF review of reform measures 8 implementation
November 1, 2024	20.14	10.00	Completion of RSF review of reform measure 10 implementation
May 22, 2025	25.18	12.50	Completion of RSF review of reform measure 3 implementation
May 22, 2025	25.18	12.50	Completion of RSF review of reform measure 6 implementation
May 22, 2025	25.18	12.50	Completion of RSF review of reform measure 9 implementation
May 22, 2025	25.16	12.50	Completion of RSF review of reform measure 13 implementation
Total	302.10	150.00	
<i>Memorandum Item:</i>			
Quota	201.40		

Source: IMF staff estimates

Attachment II. Technical Memorandum of Understanding

This Technical Memorandum of Understanding (TMU) defines the quantitative targets, continuous targets, and memorandum items described in the Program Statement for monitoring the IMF-supported program under the Policy Coordination Instrument (PCI) during the period from November 21, 2022, to November 20, 2025, and under the Resilience and Sustainability Facility (RSF) during the period from November 21, 2023, to November 20, 2025. It also sets out the terms and schedule for the reporting of information that will allow IMF staff to monitor the program. Program reviews will analyze the achievement of quantitative targets on the specified dates and on an ongoing basis. Specifically, the third review will evaluate the targets at end-December 2023, the fourth review will evaluate the targets at end-June 2024, the fifth review will assess the targets at end-December 2024, and the final review will consider the targets at end-June 2025.

A. Definitions

1. Unless otherwise indicated, in this TMU “government” refers to the budgetary central government of the Republic of Paraguay. It excludes the central bank, financial and non-financial state-owned enterprises, and governments at the departmental and municipal levels.
2. Unless otherwise noted, in this TMU “public sector” refers to the government, local governments, and all entities owned, or majority controlled by the government.

B. PCI Program Targets

Cap on the Central Government Fiscal Deficit (Program Definition)

3. **Definition.** For the purposes of the program, the net lending/borrowing ratio, or the overall fiscal balance (also referred to as “net lending/borrowing”), is the difference between total government revenues and total government outlays (total obligated expenditure (*gasto total obligado*) plus net acquisition of nonfinancial assets). The definition of revenues and expenditures is broadly consistent with that of the *Government Finance Statistics Manual 2001 (GFSM)*. Obligated government expenditure is defined on the basis of a payment order accepted by the Treasury, as well as those executed with external resources.¹
4. **Reporting requirements.** During the program period, the authorities will report to IMF staff, on a monthly basis, provisional data on the overall fiscal balance (program definition) and its components, with a lag of no more than 30 days after the end of the month. The revenue and expenditure data included in the calculation of the overall fiscal balance will be drawn mainly from

¹ Under the Paraguayan Treasury’s accounting system, obligated expenditure differs from accrued expenditure in that future payment is assured under the Treasury’s cash flow plan. The recording of this expense is somewhere in between the accrual basis and cash basis.

the preliminary Treasury account balances. Final data will be transmitted as soon as final Treasury account balances are available, but no more than two months after reporting the provisional data.

Cap on Central Government Primary Current Expenditure (Program Definition)

5. Definition. For program purposes, the balance of primary current expenditure includes (i) compensation of employees; (ii) expenditures for the use of goods and services; (iii) subsidies; (iv) current grants to foreign governments, international organizations, and other general government units; (v) social benefits; (vi) and other current expenditures. An equivalent definition is total obligated expenditure less interest expense, less grants and other capital expenditures. The quantitative target is set as a ceiling to the primary current expenditure accumulated since the beginning of the year.

6. Reporting requirements. During the program period, the authorities will report to IMF staff, on a monthly basis, provisional data on central government primary current expenditure (program definition) and its components, with a lag of no more than 30 days after the end of the month.

Cap On Net Incurrence Of Central Government Floating Debt (Program Definition)

7. Definition. For the purposes of the program, domestic arrears are defined as floating debt, i.e., the difference between the expenditure recorded on an obligated basis and the amounts transferred for payment by the Treasury (based on information generated by the integrated accounting system, SICO, and the integrated cash flow system, SITE). The change in the stock of floating debt is recorded in the government finance statistics (SITUFIN) as the balance of net changes in floating debt attributable to the current budget year and the change in floating debt attributable to the previous year (repayment). The quantitative target for total floating debt is capped at its cumulative net change since the beginning of the year.

8. Reporting requirements. Data recorded on a monthly basis will be provided to the Fund with a lag of no more than 30 days after the close of each month.

Cap On The Accumulation Of Arrears On Foreign Debt Payments By The Central Government

9. Definition. External debt service arrears are defined as overdue debt service arising from obligations contracted directly or guaranteed by the central government, except for debt subject to rescheduling or restructuring. The program requires that no new external arrears accumulate at any time under the arrangement.

10. Reporting requirements. Reports of external arrears by creditor (if any), with detailed explanations, are to be transmitted monthly, within 30 days after the close of each month.

Inflation Consultation Band Linked To Current Central Bank Of Paraguay Projections

11. Definition. Inflation is defined as the 12-month change in the consumer price index (CPI) at the end of the period, base index (December 2017=100), published by the Central Bank of Paraguay. When the official press release differs from the index calculation, the index calculation will be used.

12. Reporting requirements. Inflation reports and their components must be transmitted monthly, within two weeks after the close of each month.

13. Failure to comply with the inflation consultation band limits (specified in the Program Statement, Table 1a) at the end of a six-month period would trigger discussions with IMF staff on the reasons for the deviation and the proposed policy response, and a consultation with the IMF Executive Board should be held.

Social Assistance Benefits

14. Definition. Social assistance benefits follow the *GFSM 2001* classification. They will be defined as the Social Assistance Benefits subcomponent of the Social Benefits account of the central government expenditure accounts in the Monthly Financial Situation Report of the Central Government (SITUFIN). This target is not part of the formal program conditionality, but the execution outcome of this expenditure must be reported so that it can be compared with the original projection (memorandum item).

15. Reporting requirements. Reports on social assistance benefits and their components must be transmitted monthly, within 30 days after the close of each month.

C. Additional Information for PCI Monitoring Purposes/Reporting Requirement

16. The authorities will transmit to IMF staff, if possible in electronic format, within the specified deadlines, the following:

a) Three days after adoption: any decree, decision, circular, edict, supplementary appropriation order, ordinance, or law that has economic or financial implications for the current program. This includes, in particular, all acts modifying budgetary allocations included in the budget law in execution, for example: supplementary appropriation orders (advance decrees), cancellation of budgetary allocations, and orders or decisions creating supplementary allocations to budgetary allocations. It also includes acts leading to the creation of a new agency or a new fund.

b) Within a maximum period of 30 days (except in specific cases explicitly indicated below), preliminary data on:

- Tax receipts and tax and customs payments by item, accompanied by the corresponding receipts on a monthly basis;

- The monthly amount of expenditures committed, certified, or for which payment orders have been issued;
 - The four-monthly report by the General Directorate of Public Investment (DGIP), based on the National Public Investment System (SNIP), on investment projects, with their progress and execution;
 - The complete monthly picture of the financial situation of the central government based on the Treasury accounts (SITUFIN), including the breakdown of tax revenues by type of tax;
 - The monthly statistical report of public debt included in the Debt Management and Financial Analysis System (DMFAS), by creditor category, and separating debt service into amortization and interest payments, providing this information no later than six weeks after the close of the month;
 - A quarterly update of projected public debt service, separating amortization and interest payments by creditor category (domestic debt: loans, treasury bonds, and others (if any)); external debt: multilateral, bilateral, treasury bonds, and others (if any));
 - A monthly report on the price structure of fuel products, including an estimate of subsidies involved, if any.
- c) The final data will be provided as soon as the final balances of the Treasury accounts are available, but no later than one month after the communication of the provisional data.

17. The Central Bank of Paraguay will transmit to IMF staff:

- The central bank's monthly balance sheet, with a maximum lag of one month;
- The monthly consolidated balance sheet of the banks, with a maximum lag of two months;
- The depository corporations' outlook (consolidated monetary outlook), quarterly, with a maximum lag of two months;
- Commercial banks' lending and deposit interest rates, on a monthly basis; and
- The prudential supervision and financial soundness indicators of banking financial institutions, on a quarterly basis, with a maximum delay of two months.

D. RSF Program Reform Measures

18. For all the reform measures (RMs), government authorities will share relevant material at least three months prior to the program reviews so the IMF can comment on progress. The content of the measures underpinning the implementation of the agreed RMs will be in line with the

technical recommendations of IMF staff, including technical assistance from the IMF or the World Bank, as appropriate.

19. RM5: The ANDE audit should cover and verify, but not be limited to, ANDE's costs, revenues, and administrative and capital expenditures, following standard international accounting practices. This will contribute to a better understanding of the sustainability of the current rates and the impact of technical and non-technical losses and delays on cost recovery. The technical study should cover all costs by business segment: generation, transmission, distribution, and marketing. If this methodology is already being implemented, there will need to be an assessment of how it is being done and if there is room for improvement. In addition, the technical study should provide relevant comparators and determine cost efficiency by segment, which will be used as input for the rate adjustment mechanism.

20. The results of the audit and technical study will be made public when delivered by the reputable international firm.

21. RM6: The regulation published in RM6 should include a clear mandate, timelines, and principles to guide rate adjustments, ensuring transparency. It should also specify the following:

- *Responsible entity*: a lead agency responsible for heading up the development and implementation process and establishing processes to resolve impasses in the event that agencies have opposing views on inputs, methodology, or outcomes.
- *Public availability of inputs*: the methodology should use public and verifiable information to establish rate tiers that take into account operating costs, financial costs of projected capital expenditure needs, and efficiency gains.
- *Frequency of adjustment*: quarterly, semi-annual, or annual.
- *Smoothing mechanism parameters*: to reduce the impact of cost volatility on final consumers (e.g., related to investment in transmission lines in a particular year), a smoothing mechanism (moving average) could be applied.
- *Cost efficiency*: the methodology should compare ANDE's performance with comparators (state-owned enterprises with clean hydroelectric generation) across relevant dimensions, including transmission and distribution losses and administrative costs, and determine cost recovery rates. The methodology should clearly specify the loss reduction trajectory in accordance with RM8, which will be considered as part of the cost structure to be recovered through the rate (e.g., recognize current transmission losses in 2024 and gradually reduce them until ANDE reaches cost efficiency by line of business in a specific time period).

22. ANDE will share the preliminary methodology with the IMF at least 3 months prior to the program review. In addition, once the methodology is in place, ANDE will need to establish a plan for the gradual increase in rates to match the results of the methodology in consultation with the Vice Ministry of Mines and Energy and the National Council of State-Owned Enterprises.

23. RM7: The reform measure will focus on three household appliances. In addition, according to the United Nations Environment Programme (UNEP), residential refrigerators, air conditioners, and industrial electric motors should be prioritized in terms of energy saving potential.² Efficiency standards should be established through a participatory approach, including the National Institute of Technology, Standardization, and Metrology, producers, importers, and retailers, and in line with international best practices established by the International Organization for Standardization.

24. RM8: The installation and activation of at least 20,000 smart meters before October 1, 2023, which, on the one hand, will reduce transmission and distribution losses, and on the other hand, will allow for the gradual introduction of hourly rates. The smart meter implementation strategy will prioritize consumers who account for a high percentage of electricity sales and consumption. By the same date, ANDE will also begin the gradual introduction of hourly rates.

25. The cut-off date to evaluate the one-year increase in inspections will be October 1, 2024. ANDE will increase its inspections by 10 percent over those carried out the previous year in order to reduce electricity theft. ANDE reported that in 2022 it carried out around 16,000 inspections, so the target of this reform measure is 13,200 inspections before October 1, 2024, with the aim of reaching 17,600 inspections in 2024.

26. RM9: The carbon tax, which replaces the current selective taxes on fuel consumption, will be set at a rate equivalent in local currency to 250,000 guaraníes per ton of CO₂. The carbon tax will apply to the following liquid fuels: diesel, gasoline, and LPG. The carbon tax rate in local currency will be reviewed periodically, considering a technical report that will be published each year by the MEF and BCP and taking into account the trends in the CPI, fuel prices, and the exchange rate to use as a basis for any revision of the carbon tax rate. The draft of the respective decree will be shared with the IMF in advance.

Fuel	Tax per liter (Guarani per liter)	Proposal		
		Carbon tax (Guarani per ton of CO ₂ - eq)	Carbon tax (Guarani per liter)	Supplementary tax (Guarani per litre)
Diesel	680	250,000	680	0
Naphtha up to 88 octane	828	250,000	680	148
Supernaphtha (between 88 and 96 octane)	2516	250,000	680	1836
LPG	1100	250,000	680	420

² [Paraguay - United for Efficiency \(united4efficiency.org\)](https://www.united4efficiency.org/)



PARAGUAY

June 10, 2024

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION,
THIRD REVIEW UNDER THE POLICY COORDINATION
INSTRUMENT, MODIFICATION OF TARGETS, AND FIRST
REVIEW UNDER THE ARRANGEMENT UNDER THE RESILIENCE
AND SUSTAINABILITY FACILITY—INFORMATIONAL ANNEX

Prepared By

The Western Hemisphere Department
(In consultation with other departments)

CONTENTS

FUND RELATIONS _____ 2

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS _____ 4

FUND RELATIONS

(As of April 30, 2024)

Article VIII

Membership Status: Joined: December 28, 1945

General Resources Account:	SDR Million	% Quota
Quota	201.40	100.00
IMF's Holdings of Currency (Holdings Rate)	154.55	76.74
Reserve Tranche Position	46.85	23.26

SDR Department:	SDR Million	% Allocation
Net cumulative allocation	288.23	100.00
Holdings	99.70	34.59

Outstanding Purchases and Loans: None

Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
RSF	Dec 19, 2023	Nov 20, 2025	302.10	0.00
Stand-By	May 31, 2006	Aug 31, 2008	30.00	0.00
Stand-By	Dec 15, 2003	Nov 30, 2005	50.00	0.00

Outright loans¹

Type	Date of Arrangement	Date Drawn/Expired	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
RFI	April 21, 2020	May 21, 2021	201.40	0.00

Overdue Obligations and Projected Payments to Fund²

(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2024	2025	2026	2027	2028
Principal					
Charges/Interest	5.80	7.74	7.74	7.74	7.75
Total	5.80	7.74	7.74	7.74	7.75

¹ Undrawn outright disbursements (RFI and RCF) expire automatically 60 days following the date of commitment, i.e., Board approval date.

² When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Exchange Rate Arrangement: The de jure exchange rate arrangement is floating as Article 47 of Law No. 489/95 establishes that the exchange rate is determined by market forces. The BCP publishes information on its foreign exchange interventions on its website. The BCP intervenes occasionally in the market to smooth the effects of undue fluctuation. The BCP, as the government's financial agent, receives U.S. dollars from the government flowing from the royalties and compensation paid by the binational hydroelectric entities and exchanges them for guaranies at the request of the government for the purpose of public expenditures. The de facto exchange rate arrangement is classified as "floating" under the IMF exchange rate arrangement classification system.³ Paraguay has accepted the obligations under Article VIII, Sections 2(a), 3, and 4 of the IMF's Articles of Agreement and maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions and multiple currency practices.

Article IV Consultation: The Executive Board concluded the 2022 Article IV consultation on June 15, 2022.

Technical Assistance: Over the past decade Paraguay benefitted from technical assistance in the area of foreign exchange operations, tax administration, public financial management, including in climate-related, balance of payments, risk-based supervision, bank resolution framework and deposit insurance, capital markets development, AML/CFT Framework, CBDC.

Resident Representative: Maximiliano Appendino has been the Resident Representative in Paraguay since summer 2023.

³ The classification criteria for exchange rate arrangement can be found in the IMF Annual Report on Exchange Arrangements and Exchange Restriction.

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

Information on the activities of other IFIs in Paraguay can be found at:

<https://www.worldbank.org/en/country/paraguay>

<https://www.iadb.org/en/countries/paraguay/overview>



PARAGUAY

June 11, 2024

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION, THIRD REVIEW UNDER THE POLICY COORDINATION INSTRUMENT, MODIFICATION OF TARGETS, AND FIRST REVIEW UNDER THE ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY—UPDATED WORLD BANK ASSESSMENT LETTER FOR THE RESILIENCE AND SUSTAINABILITY FACILITY

This update to the RSF Assessment Letter for Paraguay highlights relevant changes that have occurred since the issuance of the first Assessment Letter on December 12, 2023.

A. Country Vulnerability to Climate Change Including Human, Social and Economic Costs

1. **Paraguay remains vulnerable to extreme weather events such as floods and droughts. While normal weather conditions in late 2023 supported a favorable soybean harvest, the volume of soybean exports dropped 26.6 percent year-on-year in March 2024 due to lower water levels along the Paraguay-Paraná waterway.** As Paraguay is a landlocked country, these rivers play a key role in facilitating trade. The World Bank estimates that droughts can elevate logistics costs by 15-58 percent due to increased storage needs and delays, depending on the severity of the drought. The Ministry of Environment and Sustainable Development has warned of lower-than-normal precipitation in the coming months, which could lead to possible potable water shortages. Localized droughts, heatwaves and forest fires continue to pose a threat to family farmers and livestock herders especially in the Western region (Chaco Paraguayo)¹. On the other hand, more than 4000 families have been affected by flooding in parts of the Eastern region in April², leading to the loss of subsistence crops and displacement in some cases. The National Emergency Secretariat has provided potable water, food kits and temporary shelter to affected families.

¹ Source: [La Nación](#), March 19, 2024.

² Source: [Ultima Hora](#), April 25, 2024.

B. Government Policies and Commitments in Terms of Climate Change Adaptation and Priority Areas to Strengthen Resilience

2. **There are no notable updates in this section since the original assessment letter (see Annex 1).**

C. Government Policies and Commitments in Terms of Climate Change Mitigation and Priority Areas to Reduce Greenhouse Gas Emissions

3. **The government has taken steps towards improving the traceability of agriculture and livestock commodities.** In December 2023 it enacted Law 7221 to establish the Animal Identification and Traceability System of Paraguay (SIAP). The Ministry of Industry and Commerce has been designated as the lead institution to develop a national response to the European Union's deforestation-free regulation. In addition, the government has made efforts to publish more information related to land use change. In March 2024, the National Forestry Agency launched theForests and Land Use Change portal, which integrates geospatial data of native forests, agriculture crops, forest plantations with land use change data. This followed the launch of an integrated information portal on sustainable forestry in November 2023, the "Paraguay Forestal para el Mundo".

D. Other Challenges and Opportunities

4. **The government has continued to take steps to develop the local currency bond market to mitigate exchange rate risks (the bulk of Paraguay's debt is denominated in US dollars).** In February 2024, Paraguay successfully issued its first guaraní-denominated bond in international markets (PYG 3.64 trillion or US\$500 million in 7.9% bonds due 2031). This followed a sovereign credit rating upgrade by S&P from BB to BB+ with a stable outlook, one notch below investment grade. MEF is developing a sustainable sovereign bond framework, which is undergoing an external review by Sustainable Fitch.

E. World Bank Engagement in the Area of Climate Change

5. **The World Bank continues to support Paraguay's efforts to be better prepared for climate-related shocks and to decarbonize.** The government has requested support from the World Bank Group in the following areas: scaling up commercial forestry and improving land administration, a budget support loan with a climate focus, and technical assistance to the Ministry of Social Development on the development of a social protection strategy for adaptation to climate change and risk management. The International Finance Corporation is preparing a Country Private Sector Diagnostic to identify barriers to private investment in renewable energy, forestry, sustainable agriculture, and light manufacturing.