



PARAGUAY

2022 ARTICLE IV CONSULTATION—PRESS RELEASE; AND STAFF REPORT

June 2022

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2022 Article IV consultation with Paraguay, the following documents have been released and are included in this package:

- A **Press Release**.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on lapse of time basis, following discussions that ended on April 5, 2022, 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 May 27, 2022.
- An **Informational Annex** prepared by the IMF staff.

The documents listed below have been or will be separately released.

Selected Issues

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IMF Executive Board Concludes 2022 Article IV Consultation with Paraguay

FOR IMMEDIATE RELEASE

Washington, DC – June 15, 2022: The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation¹ with Paraguay on June 15, 2022 and endorsed the staff appraisal without a meeting on a lapse-of-time basis.²

After two consecutive years of GDP decline, Paraguay's economy rebounded in 2021, growing by 4.2 percent thanks to a recovery in the secondary and tertiary sectors and despite contractions in agricultural production and electricity generation. The Covid-19 pandemic currently appears under control and most of the remaining restrictions have recently been lifted. Annual headline inflation started increasing sharply in the second half of 2021 primarily due to higher food and fuel prices, a phenomenon exacerbated by the war in Ukraine, reaching 11.8 percent in April 2022. The Central Bank of Paraguay reacted quickly and has raised its policy rate by a cumulative 650 basis points to 7.25 percent by end-May 2022. The fiscal position has improved since the 2019 and 2020 shocks. After increasing to 6.1 percent of GDP in 2020, the fiscal deficit fell to 3.7 percent of GDP in 2021 partly thanks to the expiration of one-off emergency measures.

The medium-term outlook remains favorable though there are challenges in the near-term. While heatwaves and a severe drought have diminished 2022 GDP growth prospects to 0.3 percent, staff projects a rebound of 4.5 percent in 2023, and 3.5 percent growth over the medium term. End-2022 inflation would be above the central bank's tolerance corridor of 4 percent +/- 2 percent, at about 8 percent, but is projected to converge back to the authorities' target by end-2023. The authorities remain committed to their medium-term fiscal target of converging back to the 1.5 percent of GDP deficit limit under the Fiscal Responsibility Law.

Risks to the outlook include fiscal pressures from demands for salary increases and various bills in Congress. Over a longer horizon, Paraguay is vulnerable to climate change and faces risks from changes in precipitation patterns and the frequency and intensity of severe weather events.

Executive Board Assessment

In concluding the 2022 Article IV consultation with Paraguay, Executive Directors endorsed the staff's appraisal, as follows:

¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

² The Executive Board takes decisions under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

After three years of continuous external shocks, Paraguay faces difficult challenges in 2022 and beyond. Just as the country was recovering from the impact of the Covid-19 pandemic, recent drought and international price shocks have halted the economic expansion. Countercyclical fiscal policies since 2019 mitigated the impact of the shocks, but they also raised public debt and depleted fiscal buffers. The monetary policy stance needs to maintain a tightening bias in the face of global inflationary pressures, while striving to avoid adding to undue strains on the financial system and the economy. Despite the challenges Paraguay is facing in 2022, it is worth noting that the external position in 2021 was stronger than the level implied by fundamentals and desirable policies.

To protect the hard-won fiscal credibility, the commitment to the fiscal rule should be maintained. The government's goal to return to the FRL's deficit ceiling remains appropriate, but the transition path appears increasingly rocky in the face of ongoing fiscal pressures during a pre-electoral period. In this context, it would be helpful to codify the return to the deficit ceiling in the updated version of the Fiscal Responsibility Law, which is still awaiting discussion in Congress.

Rebuilding fiscal space is even more important considering Paraguay's substantial spending needs in critical sectors for long-term inclusive growth. The Covid-19 pandemic has laid bare shortcomings in the public health system, but education is also under-resourced, and investment needs in basic infrastructure and resilience to climate change are large. Eliminating waste and raising public spending efficiency would be part of the response, as well as greater involvement of the private sector, for example through public-private partnerships. However, on their own these policy levers are not likely to generate sufficient resources to cover the gaps.

The government also needs to raise more domestic revenue to address these challenges. Over the medium-term there is room to increase the tax per GDP ratio. Besides continued improvement in tax administration, the authorities should reassess Paraguay's special tax regimes for specific sectors and activities, and consider another tax reform that goes beyond the improvements enacted in 2020.

Paraguay responded well to the pandemic through quick and novel temporary social assistance programs. The timely delivery and quick implementation of cash transfers through digital and mobile systems prevented a larger spike in poverty, but those programs could have been, with the benefit of hindsight, targeted even better. The lessons learnt and the data collected should be carried over to upgrade the system of beneficiaries of the overall social safety net.

Returning to price stability remains the main objective of the Central Bank, and the BCP is well-equipped to address the challenges and has responded fast and appropriately. However, the underlying price pressures are of a global nature, which will require both a balanced approach and patience. Further adjustments to the monetary policy stance need to remain flexible and data dependent, particularly with regard to inflation drivers and the feedback effects between actual inflation and inflation expectations.

The banking system remains well-capitalized and profitable, and the authorities should continue their efforts to both deepen and widen financial supervision. Supervisors should continue to follow their work plan to implement risk-based

supervision. The supervisory perimeter should be extended to include pension funds and the independence and integrity of the regulatory agency for financial cooperatives should be strengthened. Authorities' efforts to enhance financial inclusion are welcome and should continue. Paraguay should also continue to follow guidance by the peer evaluation on AML/CFT issues.

Paraguay should step up the implementation of structural reform measures.

Governance, business climate, and the efficiency of the public sector would all improve by implementing proposals that have been largely formulated: reforms of public procurement, the civil service, and the structure of the state have matured into legal bills and could be approved and implemented fairly quickly. These would go a long way in reducing corruption risks and unleashing the growth potential of non-traditional sectors of the economy.

Policies to counteract the impact of climate change are being formulated. They should be fully integrated in the planning framework for national development and for the medium-and long-term fiscal budget. Paraguay's favorable electricity matrix offers opportunities for the transition toward net-zero GHG consumption and production routines. These efforts should be complemented by further investment in the supply of renewable energies and revitalized initiatives to stop deforestation and degradation in the vulnerable habitats of the country.

Table 1. Paraguay: Selected Economic and Financial Indicators

	2018	2019	2020	Prel. 2021	2022	2023	Proj. 2024	2025	2026	2027
	(Annual percent change, unless otherwise indicated)									
Income and prices										
Real GDP	3.2	-0.4	-0.8	4.2	0.3	4.5	3.5	3.5	3.5	3.5
Nominal GDP	5.2	2.6	1.4	10.1	10.9	8.9	7.2	8.1	7.7	7.9
Per capita GDP (U.S. dollars, thousands)	5.7	5.3	4.9	5.2	5.6	5.9	6.2	6.5	6.8	7.1
Consumption (contribution to real GDP growth)	3.1	1.7	-1.7	4.4	2.8	-4.3	0.3	2.9	2.6	2.5
Investment (contribution to real GDP growth)	3.0	-1.5	-1.0	5.3	2.3	5.8	2.9	1.2	1.4	1.4
Net Exports (contribution to real growth)	-2.9	-0.6	1.9	-5.5	-4.9	3.0	0.3	-0.5	-0.5	-0.4
Consumer prices (end of period)	3.2	2.8	2.2	6.8	8.0	4.2	4.0	4.0	4.0	4.0
Nominal exchange rate (Guarani per U.S. dollar, eop)	5,961	6,453	6,917	6,879	...	...	...	...	...	...
Monetary sector										
Credit to private sector 1/	14.1	9.7	8.1	10.5	9.4	8.6	9.0	8.9	9.0	9.0
Monetary policy rate, year-end	5.3	4.0	0.75	5.25	...	...	...	...	...	...
External sector										
Exports (fob, values)	2.5	-7.5	-9.5	22.0	-11.4	18.1	3.5	4.1	3.0	3.7
Imports (cif, values)	12.1	-5.2	-18.1	30.4	-1.9	6.2	2.7	3.4	3.1	3.3
Terms of trade	-2.1	-2.7	-0.5	-2.6	3.8	-1.7	-0.5	2.1	1.0	1.4
Real effective exchange rate 2/	3.3	-2.9	-1.2	0.3	...	...	...	...	...	...
	(In percent of GDP, unless otherwise indicated)									
External current account	-0.2	-0.5	2.7	0.8	-2.9	0.4	0.5	0.6	0.6	0.7
Trade balance	1.2	0.3	3.8	1.8	-1.5	1.8	2.0	2.1	2.0	2.0
Exports	34.1	33.5	32.4	36.6	29.7	32.9	32.2	31.5	30.7	30.1
Of which: Electricity	5.2	4.5	4.9	4.2	3.6	3.1	2.8	2.5	2.2	1.9
Imports	-32.1	-32.3	-28.3	-34.2	-30.6	-30.5	-29.6	-28.9	-28.1	-27.4
Of which: Oil imports	-4.1	-3.8	-3.0	-4.0	-6.9	-5.1	-4.3	-3.9	-3.6	-3.5
Capital account and financial account	1.6	1.4	3.1	3.0	3.1	0.6	0.7	0.4	0.4	0.2
Of which: Direct investment	0.4	0.6	0.3	0.3	1.2	4.0	4.4	1.4	1.0	1.0
Gross international reserves (in millions of U.S. dollars)	8,004	7,500	9,976	10,570	10,070	10,570	11,120	11,670	12,220	12,770
In months of next-year imports of goods and services	7.0	8.3	8.6	8.9	8.0	8.2	8.3	8.4	8.5	8.6
Ratio to short-term external debt	2.2	2.1	2.4	2.4	2.3	2.4	2.6	2.7	2.9	7.3
Gross domestic investment	22.8	21.7	20.0	22.4	24.0	27.9	29.5	29.3	29.4	29.5
Gross domestic saving	22.6	21.2	22.7	23.2	21.1	28.3	29.9	29.9	30.0	30.2
Central government revenues	14.0	14.2	13.5	14.0	13.5	13.6	13.8	13.8	13.7	13.7
Of which: Tax revenues	9.9	10.0	9.5	10.0	9.8	9.8	10.0	10.1	10.1	10.2
Central government expenditures	15.4	17.0	19.7	17.8	16.7	16.0	15.3	15.2	15.2	15.3
Of which: Compensation of Employees	6.6	7.0	7.3	6.8	7.0	6.7	6.5	6.5	6.3	6.1
Of which: Net Acquisition of Non Financial Assets	2.0	2.9	3.6	3.0	2.3	1.9	1.4	1.5	1.8	2.0
Central government net lending/borrowing	-1.4	-2.9	-6.1	-3.7	-3.2	-2.3	-1.5	-1.4	-1.5	-1.5
Central government primary balance	-0.7	-2.0	-5.1	-2.6	-2.6	-1.9	-0.9	0.0	0.1	0.0
Public sector debt (excl. central bank bills)	22.3	25.8	36.9	37.7	39.5	39.0	38.7	37.9	37.2	36.5
Of which: Foreign currency	18.1	21.4	31.9	33.0	34.1	33.7	33.3	32.5	31.9	31.1
Of which: Domestic currency	4.2	4.4	5.0	4.7	5.3	5.3	5.4	5.3	5.3	5.4
Memorandum items:										
GDP (billions of Guaranies) 3/	230,576	236,567	239,915	264,103	292,829	318,781	341,889	369,614	398,138	429,456
GDP (US\$ billions)	40.2	37.9	35.4	38.3	...	...	...	...	...	...

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

1/ Includes local currency credit and foreign currency credit valued at a constant exchange rate.

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

3/ Historical GDPs were revised in 2018, including a 30 percent upward revision in nominal GDP for 2017.



PARAGUAY

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION

May 27, 2022

KEY ISSUES

After two consecutive years of GDP decline driven by external shocks, Paraguay's economy rebounded in 2021. In 2019, drought and flooding reduced economic growth to -0.4 percent. In 2020, the impact of the pandemic on the secondary and tertiary sectors was partly compensated by a rebound of agriculture and an extensive emergency package, and GDP fell by only 0.8 percent. Growth rebounded to 4.2 percent in 2021, but heatwaves and a severe drought decelerated the recovery and have limited 2022 growth prospects, though a recovery is projected for 2023 and the medium-term. While the loss of agricultural export revenue is affecting Paraguay's balance of payments in 2022, the external position in 2021 was stronger than the level implied by fundamentals and desirable policies.

The confluence of negative shocks has led to a strong rise in inflation. Annual headline inflation started increasing in the second half of 2021, and the recent sharp rise in international fuel and food prices following the war in Ukraine exacerbates inflation risks. The central bank has reacted quickly to the price shock, raising its policy interest rate to a level it considers consistent with the neutral rate. Inflation is projected to converge back to the authorities' target of 4 percent by end-2023 or early 2024.

The fiscal position has improved since the 2019 and 2020 shocks and is expected to converge to the 1.5 percent of GDP fiscal deficit limit over the medium-term. The fiscal deficit peaked at 6.1 percent of GDP in 2020 following a strong policy response to mitigate the impact of the pandemic. It fell to 3.7 percent of GDP in 2021, and the authorities aim at a gradual consolidation over the next 3 years to help rebuild fiscal buffers. This may require a continued withdrawal of the fiscal stimulus in 2022, while growth is low, but this procyclical fiscal stance will even out over the medium-term as the economy recovers. To achieve that objective, and given large development and climate-change adaptation gaps, enhancing domestic revenue mobilization is critical.

The banking system remains stable, but it is important to closely monitor banks' health following the unwinding of any remaining forbearance measures implemented during the pandemic. Supervision should be strengthened, particularly for cooperatives, insurance companies, and pension funds.

Paraguay needs to step up the implementation of structural reform measures, which have been lagging. The pandemic has laid bare structural deficiencies identified in the past. Health and education reforms are urgently needed as well as continued public investment in transport infrastructure. Governance, business climate, and the efficiency of the public sector need to be strengthened, and corruption risks reduced, to foster economic diversification and productivity growth. The government has prepared a series of reform packages that need to be discussed in Congress and implemented as soon as possible.

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

Discussions took place in Asunción during March 23–April 5, 2022. The staff team comprised of Mauricio Villafuerte (head), Tobias Roy, Mauricio Vargas, Manuk Ghazanchyan, Yuanchen Yang (all WHD), Ramon Hurtado (FAD), and Francisco Figueroa (LEG). Jesús Sanchez and Nicolás Landeta (WHD) provided research and administrative assistance. Jorge Corvalan (OED) attended the policy meetings. The team met with Central Bank of Paraguay (BCP) President José Cantero, Minister of Finance Óscar Llamosas, senior officials from the Ministries of Agriculture; Industry and Commerce; and Public Works, and representatives from the private sector, think tanks, and the donor community.

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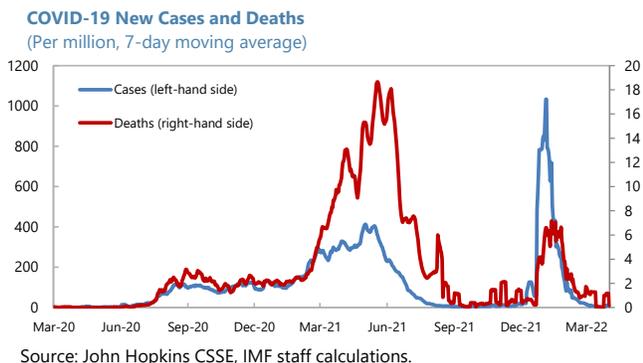
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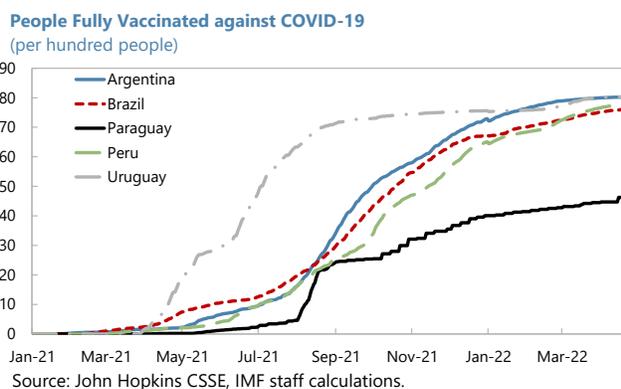
CONTEXT

1. The Covid-19 pandemic had a strong impact on Paraguay, but the pandemic currently appears under control. Imposing a strict lockdown and closing borders, the country avoided the brunt of the first wave through July 2020. However, cases and deaths started to pick up in August 2020, and during June 2021 Paraguay experienced one of the highest cases and deaths counts in Latin America. Paraguay's vaccination campaign was slow to start, and its vaccination rate continues to lag regional peers. Most of the remaining restrictions have recently been lifted, and public life has largely normalized.



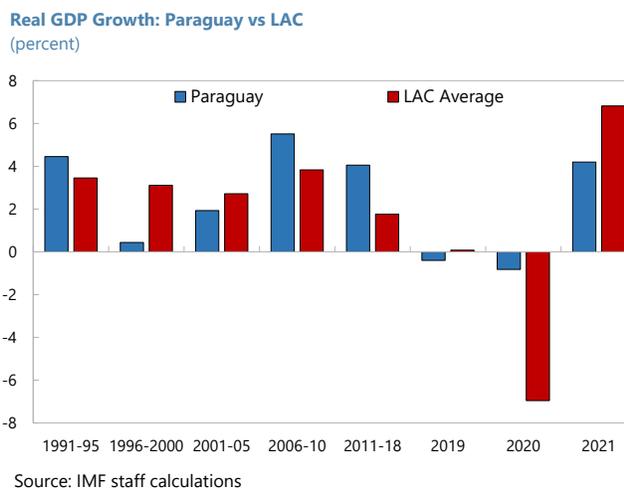
2. After two consecutive years of GDP decline, Paraguay's economy rebounded in 2021.

In 2019, drought and flooding reduced economic growth to -0.4 percent. In 2020, the impact of the pandemic on the secondary and tertiary sectors was partly compensated by a rebound of agriculture and an extensive emergency package, and the economy shrank by only -0.8 percent. Growth rebounded to 4.2 percent in 2021, though heatwaves and a severe drought decelerated the recovery in 2021 and have diminished Paraguay's 2022 growth prospects.



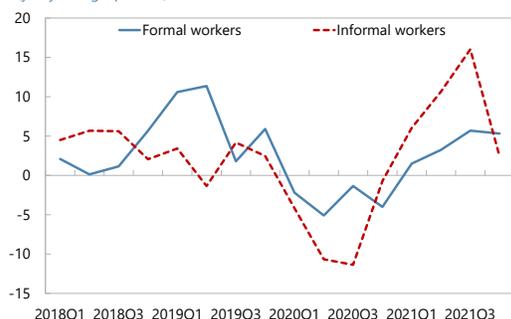
3. After years of progress, the pandemic is retarding the reduction of poverty, gender and income inequality, and informality (see Box 1, SM/21/9).

The Paraguayan government responded fast through two new social assistance programs (Pytyvõ and Ñangareko) that targeted informal and self-employed workers and vulnerable families in the subsistence economy. These measures and the increase in allocations to the established Tekoporã social assistance program helped substantially mitigate the impact of the pandemic (125). On the other hand, schools were closed for in-classroom teaching until August 2021 and have only



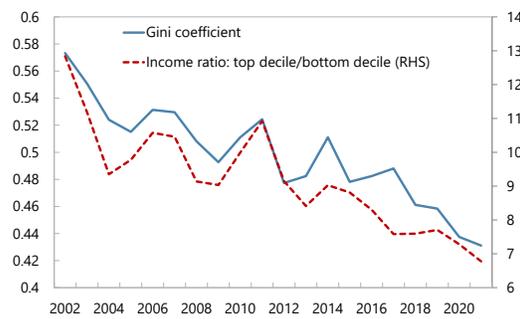
recently resumed full operations. Given low-grade internet connectivity, the loss of in-person teaching could exact a toll on the quality of future human capital.

Employment Growth
(y-o-y change, percent)



Source: Paraguayan authorities, IMF staff calculations

Income Inequality

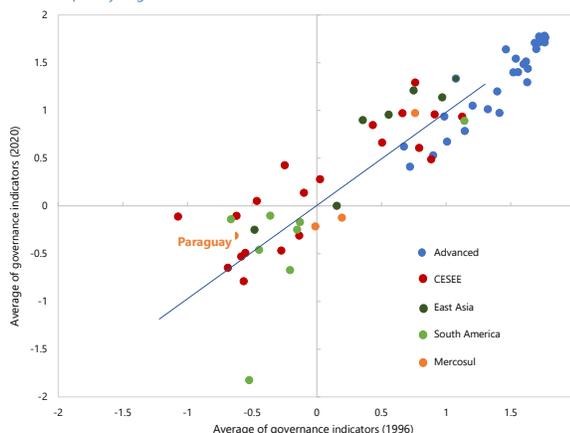


Source: Paraguayan authorities

4. The recent recurrence of external shocks reaffirms the need for rebuilding policy buffers.

After substantially reducing the monetary policy rate (to 0.75 percent) and expanding the provision of liquidity to the financial sector during the pandemic, the central bank (BCP) has taken quick steps to normalize the stance of monetary policy. In addition, the level of international reserves remains high. The process of rebuilding fiscal buffers is still ongoing after a significant debt buildup during the past three years that increased the ratio of public debt to GDP from 22 in 2018 to nearly 38 by end-2021. The government aims to reduce the central government’s budget deficit to 3 percent of GDP as part of its plan to converge back to a deficit ceiling of 1.5 percent of GDP by 2024. However, to achieve this target, expenditure consolidation and sizable cuts in public investment (or social spending) may become unavoidable.

Changes and Average Levels of Worldwide Governance Indicators Grouped by Region



Source: World Governance Indicators and IMF staff calculations.

5. Paraguay needs to tackle structural and social obstacles to achieve a more balanced growth model (as noted in previous Article IV consultations, Annex I). Strong governance, good business climate, and human capital have been identified as important factors for growth, and Paraguay continues to score poorly on many of those indicators (see chart).¹ A 2020 governance diagnostic by the IMF identified administrative and legal weaknesses in public institutions and the judicial system, feeding perceptions of corruption, clientelism, and impunity, and undermining the efficiency of expenditure control. Finally, severe weather events (droughts, flooding) have occurred

¹ The degree of uncertainty of World Governance Indicators point estimates is captured through the confidence interval range of likely values. There is an approximately 90 percent likelihood that a country's governance rank falls within the stated confidence range.

more frequently in recent years, raising concerns about Paraguay's vulnerabilities to current and future climate.

6. The government's policy space is constrained by an intensifying pre-electoral cycle.

The President's approval ratings have suffered from perceptions of poor handling of the pandemic and inaction against corruption. Recent municipal elections strengthened the ruling Colorado party. The political calendar is heating up with primary elections in the fourth quarter of 2022 and general elections in April 2023, intensifying frictions between the different factions of the ruling party. The pre-electoral uncertainty is compounded by populist proposals to counter the impact of rising fuel and food prices on the population.

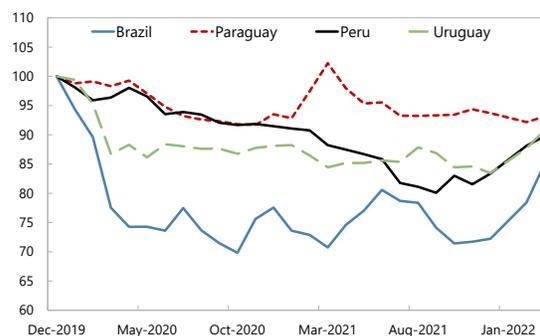
RECENT DEVELOPMENTS

7. The economy recovered in 2021, but progress was uneven. The BCP estimates economic growth for 2021 at 4.2 percent driven by services, in particular commerce, restaurants and hotels, as well as manufacturing. By contrast, agricultural production and electricity generation contracted in 2021 aggravated by low water levels in the Paraná River.

8. Paraguay's balance of payment benefited from favorable commodity prices and benign external financing conditions.

Exports prospered from a good harvest in 2020 and from high soy prices in 2021. While agricultural production stagnated in 2021, total export proceeds rose by 21 percent that year, with soy and meat as the strongest contributors. Imports also rebounded, most notably for fuels and machinery. The *guaraní* appreciated slightly against the dollar. In early 2021, the government issued long-term external sovereign bonds for US\$800 million on favorable terms. Gross international reserves rose by US\$594 million to US\$10.6 billion (8.9 months of prospective imports) at end-2021.

Nominal Exchange Rate, eop
(USD/LC, Index: Dec-2019=100)

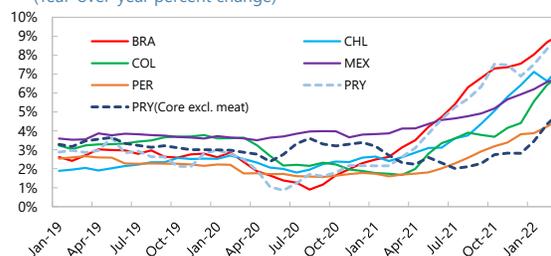


Source: Haver, IMF staff calculations

9. Annual headline inflation started increasing in the second half of 2021, primarily due to

higher food (particularly meat) and fuel prices. 12-month inflation seemed to have peaked in October at 7.6 percent, receded to 6.8 percent in December, before jumping sharply to 10.1 percent in March 2022. But a core index that excludes prices of fuels, fruits and vegetables, and meat, increased by 5 percent. The BCP reacted quickly to the price shock, raising its policy interest rate in several steps by a cumulative 650 basis points to 7.25 percent by end-May 2022, a level the BCP considers consistent with the neutral rate.

LA5: Core Inflation
(Year-over-year percent change)

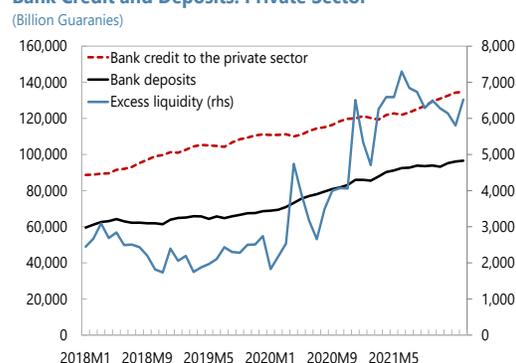


Sources: Haver Analytics; and national authorities

Note: Peru refers to Lima

10. The BCP's accommodative monetary policy stance since 2020 has helped cushion the impact of the external shocks on the financial system. Interest rates for bank lending decreased in line with the reduced policy rate to their lowest (11 percent) in October 2021 but have started rising again. Credit to the private sector grew by 10.5 percent in 2021. The banking system appears solid and well-capitalized (2.3 percent NPL ratio and a tier-1 capital asset ratio of 15.2 percent). However, many banks took advantage of regulatory forbearance measures during the pandemic (due to expire in June 2022) to refinance, renew, and restructure loans. The share of those loans is trending downward and currently estimated below 10 percent of total loans. A high degree of dollarization (FX liabilities and FX loans are at 47.6 and 41.3 percent of total liabilities and total assets, respectively) remains a risk to financial stability.

Bank Credit and Deposits: Private Sector



Source: Paraguayan authorities

Financial soundness Indicator Heatmap

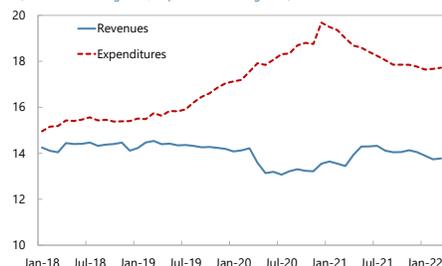
Paraguay	2020Q4	2021Q1	2021Q3	2021Q4	Latest
Overall Financial Sector Rating	M	M	M	M	M
Credit cycle	L	M	L	L	L
Change in credit / GDP ratio (pp, annual)	2.9	3.2	0.2	-0.4	-0.4
Growth of credit / GDP (% , annual)	6.2	6.7	0.3	-0.8	-0.8
Credit-to-GDP gap (st. dev)	0.9	0.0	-0.7	0.1	0.1
Balance Sheet Soundness	M	M	M	M	M
Balance Sheet Structural Risk	M	M	M	M	M
<i>Deposit-to-loan ratio</i>	109.0	111.0	111.1	106.2	106.2
<i>FX liabilities % (of total liabilities)</i>	47.4	46.3	47.6	47.2	47.2
<i>FX loans % (of total loans)</i>	42.2	40.9	41.3	42.1	42.1
Balance Sheet Buffers	L	L	L	L	L
Leverage	L	L	L	L	L
Leverage ratio (%)	8.5	9.5	9.3	9.4	9.4
Profitability	L	L	L	L	L
ROA	1.7	1.6	1.7	1.8	1.8
ROE	14.3	13.7	13.7	14.0	14.0
Asset quality	L	L	L	L	L
NPL ratio	2.4	2.8	3.0	2.3	2.3
NPL ratio change (% , annual)	-5.8	-11.3	1.8	-5.6	-5.6

Note: L = Low vulnerability; M = Medium vulnerability; H = High vulnerability.

Source: Central Bank of Paraguay IMF staff calculations.

11. The fiscal position has improved since the 2019 and 2020 shocks. To stabilize employment, the government accelerated public investment, in roads and social housing. Because of low river water levels, receipts from the two binational hydroelectric dams declined in 2020 and 2021. Wages rose in 2020 for the hiring of extra personnel for medical and security services but were remarkably contained afterwards. As a result, the government had to suspend the 1.5 percent of GDP fiscal deficit limit under the Fiscal Responsibility Law (FRL) in 2019 and in 2020.² The expiration of one-off emergency measures during 2021 helped contain spending, while tax revenue improved with the economy's rebound. The fiscal deficit, after increasing to 6.1 percent of GDP in 2020, fell to 3.7 percent of GDP in 2021.

Revenue and Expenditure
(12-month moving total, in percent of rolling GDP)



Source: Paraguayan authorities, IMF staff calculations

12. In 2021, the government used the general SDR allocation (SDR 193 million, 0.7 percent of GDP) to finance expenditures related to the Covid-19 emergency plan. Both their ownership and corresponding external liability were legally transferred to the Ministry of Finance, and the new SDR liability is reported as part of central government external debt. The expenditures associated with the use of SDR were recorded above the line, adding to the computed fiscal deficit, whereas the disbursement was recorded as a financing item.

Central Government Operations				
	2018	2019	2020	2021
(in percent of GDP)				
Total revenue	14.1	14.2	13.5	14.0
Tax revenue	10.0	10.0	9.5	10.0
Nontax revenue	4.1	4.2	4.1	4.0
of which: Binationals	1.4	1.7	1.2	0.9
Expense	13.4	14.1	16.1	14.8
Wages and salaries	6.6	7.0	7.3	6.8
Goods and services	1.3	1.3	1.4	2.1
Interest	0.7	0.8	1.1	1.1
Subsidies	0.0	0.0	0.0	0.0
Grants, social transfers, and other expense	4.8	5.0	6.2	4.9
Net operating balance	0.7	0.1	-2.5	-0.7
Net acquisition of non-financial assets	2.0	2.9	3.6	3.0
Net lending/Borrowing	-1.3	-2.9	-6.1	-3.7

OUTLOOK AND RISKS

13. The near-term outlook is marked by the confluence of several negative shocks. This year's harvest has been damaged by sustained drought conditions and heatwaves during the critical summer months of 2021/22.³ In addition, supply chain obstructions have caused scarcities and sharp price increases for vital import products. The low water levels of the Paraguay and Paraná rivers threaten navigability, shipping costs, and electricity production. These factors have been aggravated by the supply shock triggered by the war in Ukraine, given

Medium-Term Outlook for Selected Macroeconomic Indicators

(In percent of GDP, unless otherwise indicated)

	2019	2020	Prel. 2021	Proj.			
				2022	2023	2024	2025
Real GDP growth (in percent)	-0.4	-0.8	4.2	0.3	4.5	3.5	3.5
Per capita GDP (U.S. dollars, thousands)	5.3	4.9	5.2	5.6	5.9	6.2	6.5
Consumer prices (end of period; in percent)	2.8	2.2	6.8	8.0	4.2	4.0	4.0
Terms of trade (annual percent change)	-2.7	-0.5	-2.6	3.8	-1.7	-0.5	2.1
External current account	-0.5	2.7	0.8	-2.9	0.4	0.5	0.6
Gross international reserves (in US\$ billion)	7.5	10.0	10.6	10.1	10.6	11.1	11.7
Central government fiscal balance	-2.9	-6.1	-3.7	-3.2	-2.3	-1.5	-1.4
Public sector debt	25.8	36.9	37.0	39.4	39.0	38.6	37.9

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

² Technically, the 2019 suspension was covered by an escape clause in the Fiscal Responsibility Law. That mechanism was not available in 2020, as the fiscal deficit would by far exceed the ceiling allowed by the escape clause.

³ Local sources estimate that about 60 percent of the summer soy harvest have been destroyed, leading to a loss of export revenue by US\$3 billion.

Paraguay's dependence on imports of oil and derivatives.⁴ Staff projects GDP growth at 0.3 percent for 2022, a 4.5 percent rebound in 2023, and 3.5 percent growth over the medium-term. The recent sharp increases in international fuel and food prices exacerbate inflation risks. Inflation is projected to converge back to the authorities' target of 4 percent by end-2023, but end-2022 inflation would be above the central bank's tolerance corridor of 4 percent +/- 2 percent, at about 8 percent.

14. The authorities remain committed to their medium-term fiscal targets despite existing challenges. On top of potentially lower revenue from binational hydroelectric dams and agro producers, the government has announced limited support measures for small and medium agricultural producers. In addition, the government also faces salary increase pressures and various bills in Congress that put fiscal stability at risk.⁵ The external current account is projected to record a sharp, but temporary, deterioration in 2022 given a severe drop in export volumes that more than offsets the impact of higher export prices and higher imports linked to elevated prices for fuels, shipping, and agricultural inputs.

15. Paraguay is proactively responding to the risk of globally rising core yields and risk premia. For 2022, the government already locked in its external financing needs from the market by issuing a US\$500 million sovereign bond at 10 years maturity and 3.85 percent interest in January. But going forward, there is global uncertainty about future financial terms and conditions. The authorities have stepped up discussions with multilateral partners on additional financing options for this and next year.

16. Paraguay is vulnerable to climate change. Rising average temperatures pose a threat starting in the short-term and will intensify as time goes by, affecting both agricultural yields and the population's health and social welfare. In the second half of the century, Paraguay faces risks from changes in precipitation patterns and the frequency and intensity of severe weather events, though these changes are hard to predict based on past long-term data. Some climate studies predict higher average precipitation in the future, but they also acknowledge deep uncertainty about their local and temporal distribution, as well as their volatility. Moreover, the potential impact from important "tipping points", such as the deforestation of the Amazon rainforest, is poorly understood.

17. Recent extreme weather events provide a stern warning. The recent three years have seen a series of droughts and lack of rainfall in the waterhead areas of the Paraná and Paraguay rivers outside Paraguay. The intense drought in southern Amazonia and the Pantanal of 2020 led to catastrophic wildfires. While there is no solid scientific evidence linking these events to climate change, they may serve as a glimpse into what the future climate holds for Paraguay. These events may also increase financial system risks. While the BCP has successfully implemented measures to extend banks' grace periods for declaring affected loans as nonperforming, a more systematic approach towards managing risks from extreme weather events would be advisable. More generally,

⁴ Paraguay is the region's country most exposed to trade links with Russia and Ukraine. It sells about 5 percent of its exports to Russia (basically beef).

⁵ Recent initiatives in Congress included various attempts to implement a fuel subsidy and VAT tax holidays.

a better integration of climate adaptation, transition, and (to some extent) climate mitigation measures into the overall policy framework is needed.

Authorities' Views

18. The authorities acknowledged the challenges brought about by more recurrent shocks.

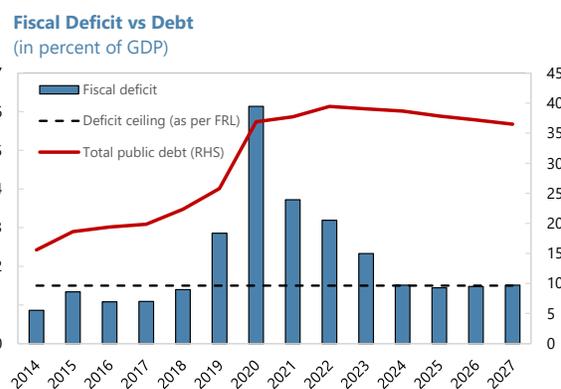
The previously expected positive economic prospects for 2022 have been derailed by a drought, the war in Ukraine, and continued low water levels in the Paraná River. The authorities agreed that downside risks over the near- and medium-terms were significant, including potential new outbreaks of Covid-19 variants and weather-related shocks.

19. The authorities noted that external factors were the main drivers of the current high inflation, which started back in 2021 and has been exacerbated by the spillovers from the war in Ukraine. The authorities have taken firm action and sharply increased the monetary policy rate since mid-2021 and expect inflation to moderate by the second half of the year and to slowly decline towards the 4 percent inflation target. They reconfirmed their objective of achieving the 1.5 percent of GDP fiscal deficit target by 2024, but expressed concerns about rising fiscal pressures during the pre-electoral cycle.

POLICY DISCUSSIONS

A. Creating Fiscal Space to Ensure Sustainability, Rebuild Buffers, and Tackle Development Needs

20. Converging back to the 1.5 percent of GDP deficit ceiling by 2024 remains appropriate to ensure public debt sustainability (Annex III).⁶ Over the medium term, achieving this objective is also appropriate from a cyclical perspective, as the cumulative negative fiscal impulse would be compensated by a post-COVID recovery of private demand, though fiscal policy would be pro-cyclical in 2022. Public debt is now close to 40 percent of GDP. While this can still be considered a relatively “safe” level,⁷ fiscal buffers are largely depleted in the face of large development gaps (I21), relatively low fiscal revenue, and the need to make room for climate change adaptation investment and transition management. In light of ongoing external shocks and fiscal pressures from initiatives to implement a fuel subsidy, salary increases, and tax



⁶ To codify this commitment, the government formulated a new FRL draft (“FRL 2.0”) in 2020, which includes new transition rules, a tightening of the ceiling on real current expenditure (capped at a 2 percent increase), and a public debt ceiling (40 percent of GDP). However, the law is still being discussed in Congress (see [SM/21/9](#), Annex 1).

⁷ A 2017 FAD TA report estimated the range of 30–45 percent of GDP as a safe area for an eventual public debt anchor (“Paraguay – Establishing a Structural Balance Rule and a Public Debt Target”).

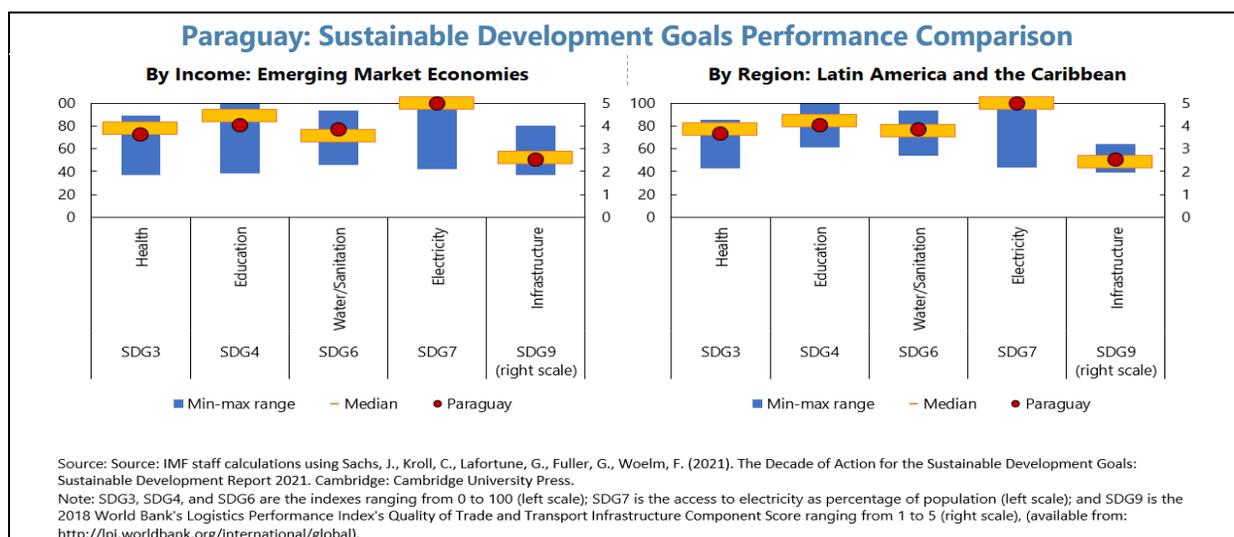
exemptions, reaching those targets will be challenging. In any case, Paraguay should further reduce its reliance on external commercial financing for funding its budget deficit.

21. Paraguay would face SDG spending gaps above 5 percent of GDP per year (Annex V).

As a way to assess Paraguay's development needs, staff undertook a standardized analysis designed by FAD based on achieving key SDG objectives at a level of the best performers in Paraguay's per-capita income country group. According to those benchmarking estimates, spending gaps in Paraguay are the largest in education (2.9 percent of annual additional investment of the estimated 2030 GDP), road infrastructure (2.3 percent), and water and sanitation (0.2 percent).

22. Enhancing domestic revenue mobilization is a priority as tax revenue in Paraguay is relatively low.

Paraguay's tax-to-GDP ratio falls below the averages of various comparator groups and a simple regression line linking tax revenue performance with per-capita GDP.⁸ A closer cross-country comparison of tax productivity reveals that Paraguay fares poorly on personal income tax, better at VAT (when measured against private consumption), and very well on corporate income tax, which could partly be explained by large multinational grain companies shifting regional profits to low-tax Paraguay. Tax rates are low (rates for VAT, corporate income tax, and personal income tax at 10 percent). A tax reform was enacted in 2020, but the expected long-term yield is relatively modest at 0.8 percent of GDP.⁹



23. Revenue losses from tax expenditures are relatively significant (about 1.4 percent of GDP despite very low tax rates).

Paraguay offers a wide range of tax relief and exemptions for specific sectors, with cumbersome administration and disputable economic benefits. The authorities

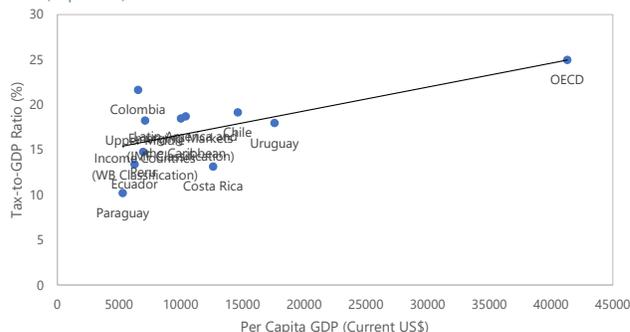
⁸ The country also collects non-tax revenue from the binational hydroelectric dams (Itaipú and Yacyretá), averaging about two percent of GDP over the past decade. This contribution is expected to decrease with a rise in Paraguay's energy demand. A renegotiation of the tariffs Itaipú receives from Paraguay and Brazil is due by 2023, when Itaipú's long-term debt is repaid, but it is unclear whether and to what extent this will result in a fiscal windfall for Paraguay.

⁹ The tax reform unified several different corporate income taxes, strengthened the tax on dividends and profits, reduced deductible expenses on the personal income tax, and increased the margin by which the administration can lift several excise taxes without the need for going to Congress. But tax rates were left unchanged.

should usefully reassess the impact of these tax expenditures, publish their cost estimates as part of their budget reporting, and consider trimming them.

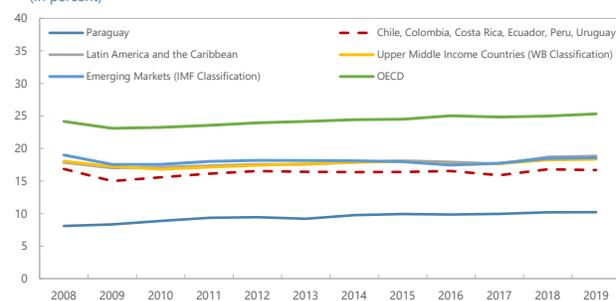
24. Efficiency of spending could also be enhanced. A comparison with other LAC country reveals that Paraguay’s public sector spends *less* on wages than the average in terms of GDP, but *more* in terms of total expenditure, leaving less room for public investment and social services. In addition, applying regional estimates from a 2018 IADB (Inter-American Development Bank) study¹⁰ would suggest “waste” in Paraguay’s public purchases of goods and services of about 1 to 1.3 percent of GDP, which could be salvaged from better procurement systems and oversight.¹¹ Finally, the pension system for public employees (“Caja Fiscal”) is running growing deficits and needs to be overhauled with urgency.

Income Level and Tax-to-GDP Ratio, 2019
(In percent)

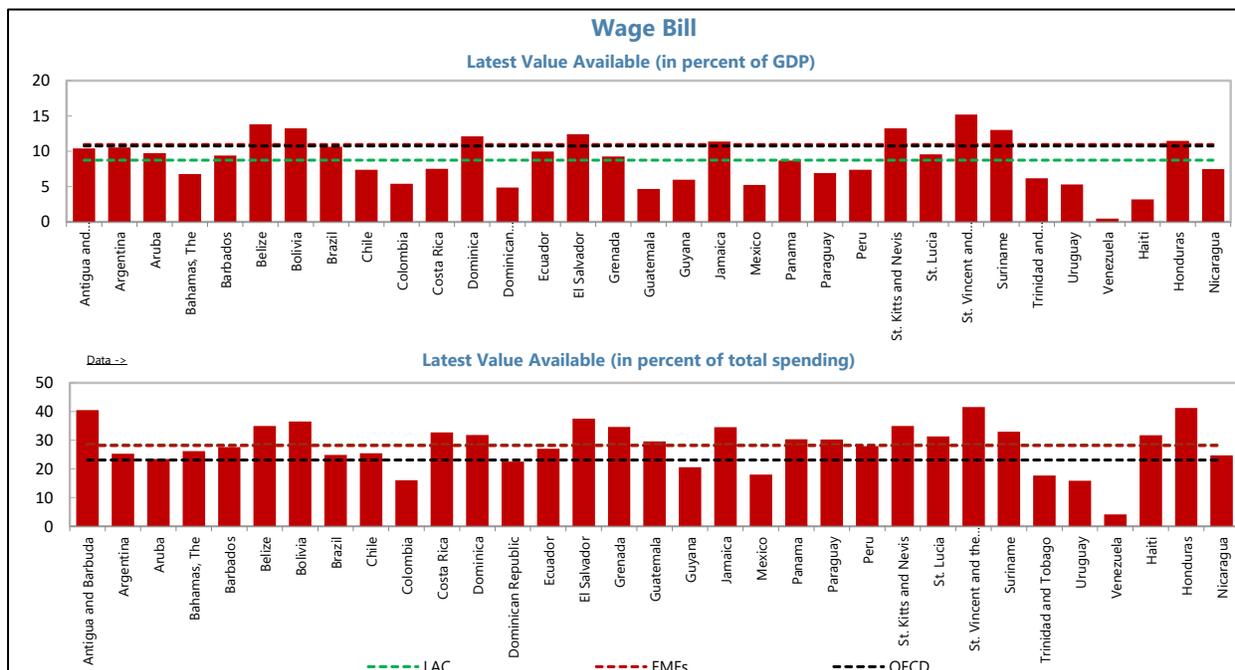


Source: WEO, IMF Internal World Revenue Longitudinal Database (WoRLD).

Paraguay and Comparators: Tax-to-GDP Ratio, 2008-2019
(In percent)



Source: WEO, IMF Internal World Revenue Longitudinal Database (WoRLD).



¹⁰ IADB (2018), “Better Spending for better Lives: How Latin America and the Caribbean can do more with less”, p. 55.

¹¹ A new procurement law was approved by one of the chambers of Congress in December 2021.

25. Paraguay's social assistance programs were crucial to mitigate the impacts of the COVID-19 pandemic shock on the vulnerable population. Staff, in collaboration with the World Bank, prepared an assessment of the novel cash transfer program "Pytyvõ," which targeted informal sector workers affected by the shock.¹² The results suggests that it effectively prevented a larger erosion of poverty and inequality indicators. Without those transfers, poverty incidence would have reached 30 percent in 2020 (a 3.2 percentage points increase from 2019), and extreme poverty would have increased by 2.5 percentage points. The Pytyvõ program experience thus provides important lessons on deploying benefits in a timely manner. However, the results also show important opportunities to enhance the targeting strategy, for example through a beneficiary system that could be extended to existing or new social assistance programs.

Authorities' Views

26. The authorities are committed to bringing the fiscal deficit back to the FRL ceiling despite challenges from the recent drought and price shocks. They reconfirmed their fiscal deficit objective of 3.0 percent of GDP for this year. To face rising fiscal pressures from Congress, they submitted to Congress a law that, if approved, will protect fiscal execution in pre-electoral periods from such pressures.¹³ The authorities appreciated staff's analysis on spending gaps for reaching SDG objectives and noted that they had recently updated the National Development Plan 2030.¹⁴ With regard to domestic tax revenue, the authorities expressed openness to consider an analysis and reform of special tax regimes. They also concurred with the need to reform the "Caja Fiscal" and to enhance efficiency of public spending, noting that the pending procurement law and the civil service reform aim to achieve exactly that objective.

27. The authorities agreed with the results from the staff's analysis on the effectiveness of social assistance programs implemented during the pandemic. They are keen to support their social protection system by enhancing cash transfers programs, including the implementation of a more suitable system of beneficiaries.

B. Monetary and Exchange Rate Policies

28. The BCP is appropriately considering further tightening, should inflationary pressures persist. The BCP has proactively managed the monetary policy rate in response to increased inflation, having substantially increased the monetary policy rate since mid-2021 (119). Inflation expectations continue to be well anchored, though they have started to slightly surpass the 4 percent target over the 2-year monetary policy horizon. Any further adjustments to the monetary

¹² See Selected Issues: *Effectiveness of Social Assistance Program in Paraguay during Covid-19 Times*.

¹³ The draft "law of governmental behavior in administrative and fiscal matters during electoral times" proposes to suspend salary increases beyond the original budget during the five quarters before the general election. The same applies for policy initiatives that would result in a reduction of tax collection.

¹⁴ The plan is closely aligned with the UN's SDG and is guiding the medium-term planning of the government's performance budget.

policy stance should remain responsive to new information, particularly with regards to inflation drivers and the feedback effects between actual inflation and inflation expectations.

29. The exchange rate flexibility within a well-functioning inflation targeting regime has served Paraguay well. With the onset of the pandemic, the exchange rate depreciated by about 7 percent in 2020 and FX interventions specifically aimed at preventing excessive volatility in the FX market amounted to US\$133 million. The guaraní regained some strength in 2021 and the BCP further supported the currency with FX interventions of US\$356 million. This year, the diminished harvest in combination with rising import prices might generate exchange rate depreciation pressures and higher volatility in FX markets. The high level of financial dollarization and the currently high inflation rates add to the challenges for the BCP's exchange rate policy. Staff analysis¹⁵ suggests that, up to now, FX interventions by the BCP seem to have been effective to avoid disorderly market conditions linked to very short-term exchange rate volatility. For instance, at the daily level, exchange rate volatility has been lower than those of other (non-highly dollarized) Latin American countries, but similar over longer periods. Given the tightening bias of the monetary policy stance, staff recommended that the BCP not (or only partially) sterilize the monetary impact of any targeted FXI.

30. Paraguay's external position in 2021 continued to be stronger than implied by economic fundamentals and desirable policies (Annex III). The external current account position will deteriorate substantially in 2022, but that should be a temporary phenomenon as it is projected to return to small surpluses over the medium-term. As staff has highlighted before, stronger than the norm current account balances (even adjusting for amortizations to binationals) are the result of low investment levels. Closing the gap should stem from increased capital inflows and foreign direct investment as a result of business climate and governance reforms. External stability risks remain contained with continued improvement in Paraguay's net international investment position in 2021 on account of the amortization of the binational hydroelectric company's external debt. The external debt sustainability analysis shows that the debt trajectory is overall robust to standard shocks.

Authorities' Views

31. In the authorities' view, the more hawkish monetary policy stance adopted since August 2021 has been appropriate to respond to inflation pressures. Also, the authorities underscored that they are carefully monitoring inflation expectations and expressed their readiness to continue responding to increasing prices using monetary policy tools. They noted that the temporary use of forward guidance policy in the last quarter of 2021 helped reduce uncertainty about the monetary policy stance then. The authorities acknowledged the monetary tightening impact of unsterilized FX sales, but noted that they had to calibrate their approach based on the overall liquidity position of the financial system. The authorities also highlighted that the hike in the monetary policy rate has been in line with their neutral interest rate estimates.

32. The authorities agreed on the role of exchange rate as an important shock absorber. They have also agreed on the appropriateness and the need to step up foreign exchange

¹⁵ See Selected Issues: *Foreign Exchange Interventions in Paraguay and their Role in the Monetary Policy Framework*.

interventions to curb short-term and excessive volatilities of guaraní stemming from the recent shocks including the recent war in Ukraine. The authorities emphasized that real shocks have more prominent impact on the exchange rate in Paraguay than financial shocks.

C. Financial Sector Policies

33. Financial soundness indicators continue to suggest that the banking system remains well capitalized and profitable (¶110). It is critical to closely monitor banks' health following the unwinding of forbearance measures implemented during the pandemic due to expire in June 2022. Supervisory activities should continue to focus on assessing underlying asset quality, including under adverse shocks, to ensure that future capital and liquidity buffers will be appropriate. The BCP should also continue with comprehensive stress-testing programs that would disclose remaining pockets of solvency risks including outside the banking system.

34. The authorities should accelerate the implementation of FSSR recommendations, primarily on consolidated and risk-based supervision. Efforts to introduce risk-based regulatory frameworks and develop the supervisory risk-matrix for cooperatives and insurance companies are still ongoing. The strengthening of institutional stress testing capability and coordination on related frameworks in and among regulatory bodies is still pending. Supervision needs to be extended to the pension system. Under the existing (outdated) legislation, pension funds are not financially supervised, but instead are subjected to rigorous asset holding restrictions, which undermine the development of long-term capital markets and forces pension funds to hold shorter-term deposits with private banks. Supervision also needs to be strengthened in the financial cooperatives' sector. The BCP has started publishing online its audited financial statements under IFRS and has undergone a safeguards assessment. An FSAP is scheduled to start in late 2022 and would provide an opportunity to assess progress with FSSR recommendations and to look more broadly at emerging financial sector issues.

35. Further progress in financial inclusion will benefit from a more coordinated supervisory framework. Following the successful implementation of the National Financial Inclusion Strategy (ENIF), approximately 60 percent of the adults in Paraguay have access to formal or commercial financial products. A draft Financial Inclusion 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 the traceability of financial transactions. The planned launch of a 24/7 instant payment system promises to further increase financial inclusion, helping the country achieve its objective of providing financial access to 100 percent of households by 2030. However, efforts should be made to limit financial integrity risks and regulatory arbitrage.

36. An AML/CFT evaluation by GAFILAT will be completed soon. The preliminary mutual evaluation report (MER) prepared by GAFILAT identified technical shortcomings and effectiveness issues in various areas of Paraguay's AML/CFT regime, as well as in key stakeholders. A recent face-to-face meeting with GAFILAT allowed the authorities the opportunity to provide additional clarifications and explanations, which may impact the final report conclusions. The final MER will be presented to and discussed by GAFILAT in July. Under the Thematic Trust Fund, the Legal

Department (LEG) recently established a comprehensive capacity development project that aims to strengthen Paraguay's AML/CFT regime in three key areas, including enhancing the legal and regulatory framework, strengthening risk-based supervision of financial institutions and designated businesses and professions, and enhancing the financial intelligence unit's capabilities to conduct operational financial intelligence reports and strategic analyses. Technical assistance will also be coordinated with the IADB, who will provide assistance in areas not covered under LEG's project.

Authorities' Views

37. The authorities stressed that the impact of rising inflation and monetary policy tightening on the banking sector and on asset prices remains limited. They also highlighted the role of the National Financial Stability Committee in coordinating supervision activities across the whole financial system. They also emphasized the progress made in establishing risk-based supervision, in developing macro-prudential tools, and in strengthening crisis preparedness frameworks, including with technical assistance from the Fund. Work to develop a risk-based regulatory framework for cooperatives and insurance companies is ongoing, and a law has been drafted to introduce a pension system supervisory entity and enhance its regulations.

38. The authorities aim at increased financial inclusion as a key instrument to reduce poverty and boost economic growth. They highlighted the progress in implementing the National Financial Inclusion Strategy and believe that the draft Financial Inclusion Law and the rollout of the 24/7 instant payment system will further facilitate access to financial services. They remain actively engaged with the banking sector to discuss the new system's cost distribution and risk-sharing.

D. Structural and Governance Issues

39. The pandemic has laid bare structural deficiencies identified in the past. Health and education reforms remain on the agenda, as well as continued public investment in transport infrastructure. The authorities committed to publishing by end-June the governance diagnostic report prepared by the IMF with IADB participation. To address some of the vulnerabilities made in the report, the government has mainly focused on anti-corruption, public procurement, fiscal responsibility, civil service reform, pension reform and supervision, and a reform of the structure of the state to reduce core government functions' fragmentation and improve coordination, oversight, and control. Improved governance and reduced corruption are necessary for economic diversification and productivity growth in Paraguay.

40. However, progress towards implementation of the reforms has been slow. Draft public procurement, civil service reform, and fiscal responsibility laws have been submitted to the Congress and are pending approval, but the law to reform the structure of the state has not yet been sent. Assisted by the IADB, a new anti-corruption law was drafted (and submitted to Congress) which enhances the roles and investigative competences of the National Anti-corruption Secretariat (SENAC) and strengthens the anti-corruption and transparency units established within each government agency. Also, a new Transparency and Anti-Corruption National Plan 2021-2025 was developed with assistance from the U.S. Agency for International Development (USAID) and

approved in 2020. The authorities have also established formal registries for legal persons/arrangements and beneficial ownership information.

41. The government's main fiscal functions have become more integrated. Better coordination and integration in managing the social spending should arise from the annual budgetary law, which now requires that all social spending funded with resources from binational hydro-electric companies has to be included in the budgetary proposals of the government entities, though this provision has not been fully observed. In addition, a 2021 law established that the accounts of the binational hydro-electric companies are subject to external control by the Court of Accounts (Contraloría General de la República). The stronger oversight of social spending financed by Itaipú and Yacyretá through annual audits alongside a broader availability of information on social spending should help make it more efficient. A fiscal risk statement is being elaborated with technical assistance support from FAD, the results-based budget was used for the first time in 2021, but the treasury single account's coverage has not been expanded to provinces yet, and the certification system of public works has not been extended to other government institutions beyond the Ministry of Public Works.

42. Some planned reorganization of processes can help reduce vulnerabilities to corruption and strengthen coordination and oversight. The intended reinforcement of pre- and post-procurement phases would facilitate a better integration of the activities of the National Directorate of Procurement (DNCP) with those of the Ministry of Finance. This reorganization, the automatization and integration of planning and budget allocations within the integrated financial management information system, and the extension of the procurement system to the entire public sector can strengthen coordination and oversight by the Ministry of Finance. At present, all public procurements, including for COVID-19 contracts, are being processed and awarded by the DNCP, which verifies all required information related to the providers of goods and services, including their beneficial ownership, before any contract is approved and awarded. Independent verification of all procurement activities and related information is conducted by the Comptroller General through yearly audits, as noted in audit reports presented to Congress for 2020 and 2021.

43. The pandemic hit women harder in Paraguay, but digitalization could play a mitigating role to reduce gender gaps in employment and job loss in the future (Annex VIII). The pandemic disproportionately affected female employment, and male employment has recovered more quickly. At the same time, Paraguay is experiencing a digitalization spurt, with women digitalizing more rapidly than men, though women with no education continue to have the lowest digitalization levels. Analysis done by staff and the World Bank suggests that women having internet access recorded higher employment and lower job loss, reinforcing the importance of promoting digitalization in Paraguay.

Authorities' Views

44. The authorities will continue to push for the implementation of structural and governance reforms. They are committed to press congress for the discussion and approval of substantial pieces of legislation prepared by the government (public procurement law, civil service

reform, fiscal responsibility law). The authorities agreed with staff on the importance of strengthening the anti-corruption framework and on the need to foster digitalization, particularly for women.

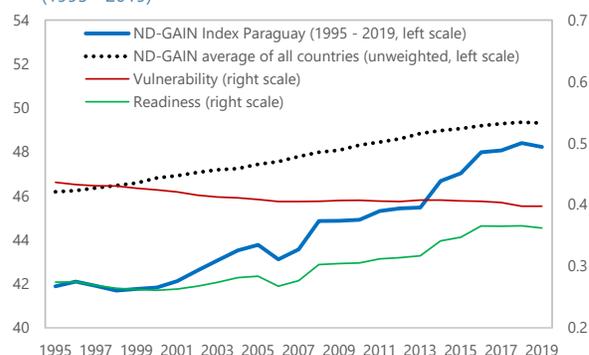
E. Climate Change Policies

45. Paraguay stands in the middle ground of climate change adaptability and vulnerability (ranked 94th among 181 countries by ND-GAIN).

Its relatively low score is explained by the failure of readiness to compensate for significant vulnerability. Paraguay's clean electricity matrix and its relatively large non-CO₂ emissions stand out in terms of contributions to GHG emissions. Paraguay's electricity generation is dominated by the binational hydroelectric dams, though a lot of cooking and heating energy is derived from biomass, often sourced from deforestation. Water is crucial for the Paraguay economy, for irrigation, hydropower generation, and fluvial transportation. Methane is released in large quantities from cattle breeding and from the use of industrial fertilizers.

Mitigation measures should focus on taking advantage of the renewable energy potential and from price-based and regulatory policies to stop deforestation and reduce the carbon footprint of agriculture and animal husbandry. The ability of Paraguay to adapt to changing water flows may require strong international cooperation among countries on the same watershed.

Paraguay: ND-GAIN, Vulnerability, and Readiness Indices (1995 - 2019)



46. Paraguay's climate change policies are still in their infancy. A National Adaptation Plan was formulated in 2016 and it is focused mainly on building public awareness and environmental capacity within and across government institutions. The matrix of proposed measures was neither costed nor embedded in medium and long-term fiscal planning and budget formulation. Paraguay has also submitted and continuously updated its Nationally Defined Contributions (NDC), starting in 2015. In its latest NDC update (2021), Paraguay went a step further by significantly pulling down the GHG values of the baseline scenario, against which GHG reduction commitments will be measured.

47. To improve climate change adaptation policies, Paraguay should strive to move toward an integrated climate change and adaptation policy framework. Such a framework would have to consider policy options in several dimensions, including fiscal and energy policies. For instance, there might be a need to investigate the impact on public investment plans of adaptation and transition investment needs and determine how this would be incorporated within a credible fiscal path. In addition, Paraguay should endeavor to take advantage of its significant hydroelectric energy potential and analyze ways to engage private firms and households toward that objective (see also Annex VII).

Authorities' Views

48. The authorities explained that they are increasingly including the challenges presented by climate change in their policy and developments planning. They presented various analytical work and policy initiatives. They also appreciated the Fund's concern about these issues and expressed interest in a continued dialogue and in further support to tackle the challenges posed by climate change.

STAFF APPRAISAL

49. After three years of continuous external shocks, Paraguay faces difficult challenges in 2022 and beyond. Just as the country was recovering from the impact of the Covid-19 pandemic, recent drought and international price shocks have halted the economic expansion. Countercyclical fiscal policies since 2019 mitigated the impact of the shocks, but they also raised public debt and depleted fiscal buffers. The monetary policy stance needs to maintain a tightening bias in the face of global inflationary pressures, while striving to avoid adding to undue strains on the financial system and the economy. Despite the challenges Paraguay is facing in 2022, it is worth noting that the external position in 2021 was stronger than the level implied by fundamentals and desirable policies.

50. To protect the hard-won fiscal credibility, the commitment to the fiscal rule should be maintained. The government's goal to return to the FRL's deficit ceiling remains appropriate, but the transition path appears increasingly rocky in the face of ongoing fiscal pressures during a pre-electoral period. In this context, it would be helpful to codify the return to the deficit ceiling in the updated version of the Fiscal Responsibility Law, which is still awaiting discussion in Congress.

51. Rebuilding fiscal space is even more important considering Paraguay's substantial spending needs in critical sectors for long-term inclusive growth. The Covid-19 pandemic has laid bare shortcomings in the public health system, but education is also under-resourced, and investment needs in basic infrastructure and resilience to climate change are large. Eliminating waste and raising public spending efficiency would be part of the response, as well as greater involvement of the private sector, for example through public-private partnerships. However, on their own these policy levers are not likely to generate sufficient resources to cover the gaps.

52. The government also needs to raise more domestic revenue to address these challenges. Over the medium-term there is room to increase the tax per GDP ratio. Besides continued improvement in tax administration, the authorities should reassess Paraguay's special tax regimes for specific sectors and activities, and consider another tax reform that goes beyond the improvements enacted in 2020.

53. Paraguay responded well to the pandemic through quick and novel temporary social assistance programs. The timely delivery and quick implementation of cash transfers through digital and mobile systems prevented a larger spike in poverty, but those programs could have been, with the benefit of hindsight, targeted even better. The lessons learnt and the data collected should be carried over to upgrade the system of beneficiaries of the overall social safety net.

54. Returning to price stability remains the main objective of the Central Bank, and the BCP is well-equipped to address the challenges and has responded fast and appropriately. However, the underlying price pressures are of a global nature, which will require both a balanced approach and patience. Further adjustments to the monetary policy stance need to remain flexible and data dependent, particularly with regard to inflation drivers and the feedback effects between actual inflation and inflation expectations.

55. The banking system remains well-capitalized and profitable, and the authorities should continue their efforts to both deepen and widen financial supervision. Supervisors should continue to follow their work plan to implement risk-based supervision. The supervisory perimeter should be extended to include pension funds and the independence and integrity of the regulatory agency for financial cooperatives should be strengthened. Authorities' efforts to enhance financial inclusion are welcome and should continue. Paraguay should also continue to follow guidance by the peer evaluation on AML/CFT issues.

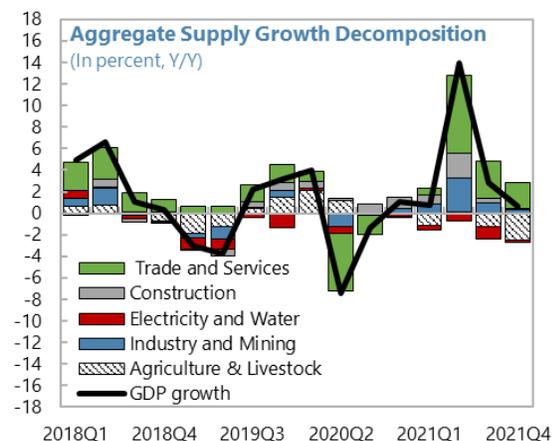
56. Paraguay should step up the implementation of structural reform measures. Governance, business climate, and the efficiency of the public sector would all improve by implementing proposals that have been largely formulated: reforms of public procurement, the civil service, and the structure of the state have matured into legal bills and could be approved and implemented fairly quickly. These would go a long way in reducing corruption risks and unleashing the growth potential of non-traditional sectors of the economy.

57. Policies to counteract the impact of climate change are being formulated. They should be fully integrated in the planning framework for national development and for the medium- and long-term fiscal budget. Paraguay's favorable electricity matrix offers opportunities for the transition toward net-zero GHG consumption and production routines. These efforts should be complemented by further investment in the supply of renewable energies and revitalized initiatives to stop deforestation and degradation in the vulnerable habitats of the country.

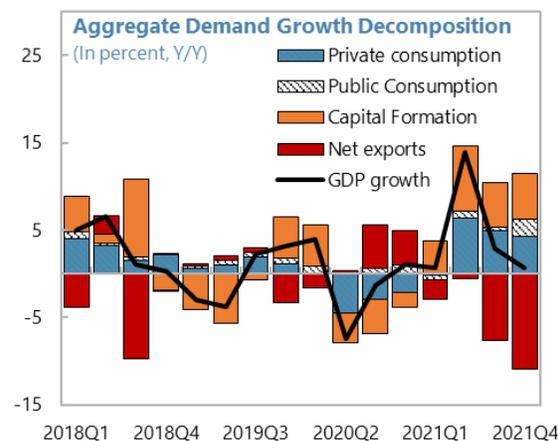
58. Staff proposes that the next Article IV consultation with Paraguay follows the standard 12-month cycle.

Figure 1. Paraguay: Recent Developments

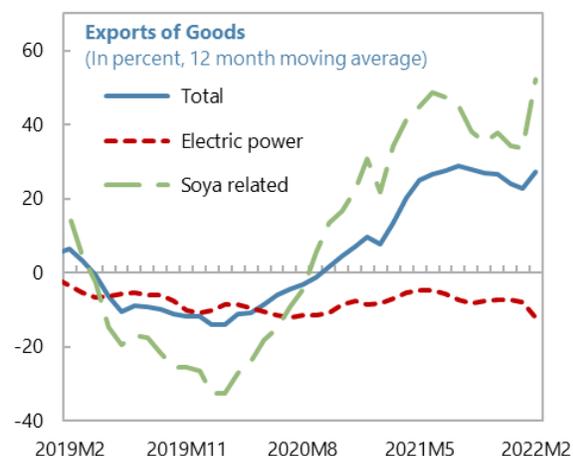
Robust growth in services, manufacturing and construction contributed to the economy's expansion in 2021Q2 and Q3, more than offsetting the 2020 contraction.



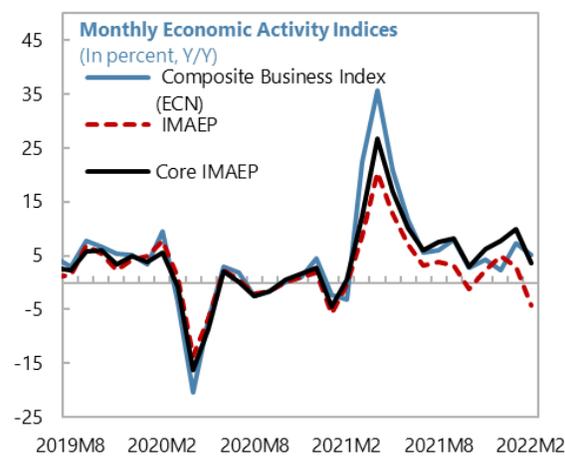
Private consumption and investment sustained economic growth from the demand side.



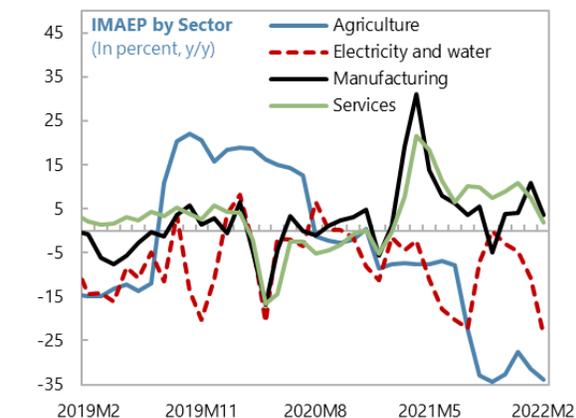
After a fall in 2020, agricultural exports rebounded in 2021 supported by high international prices of soy.



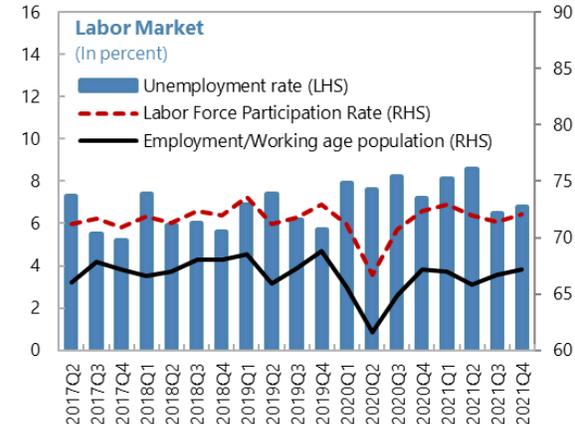
Overall, the economy expanded by 4.2 percent in real terms in 2021...



...and the recovery was concentrated in manufacturing and services sectors.



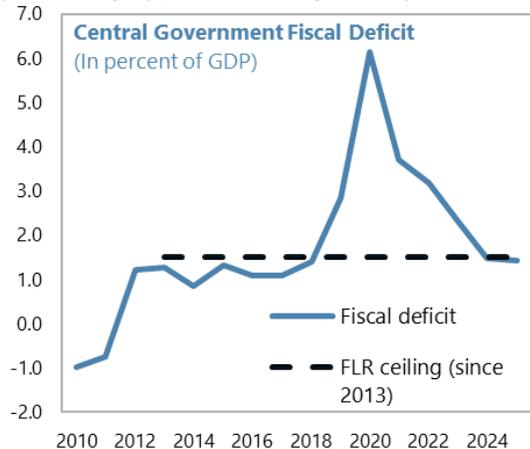
Labor force participation recovered in 2021 but it is still below pre-pandemic levels.



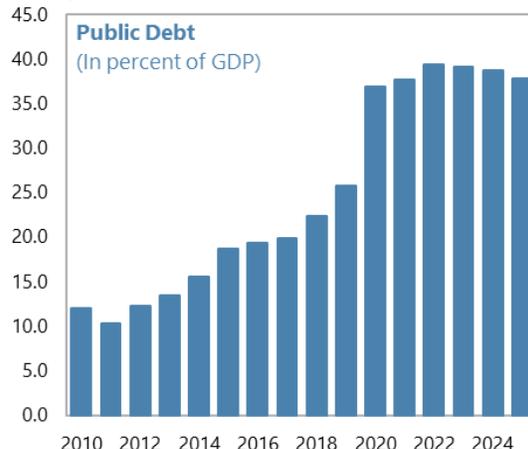
Sources: BCP, Ministry of Finance and IMF staff calculations.

Figure 2. Paraguay: Fiscal Developments

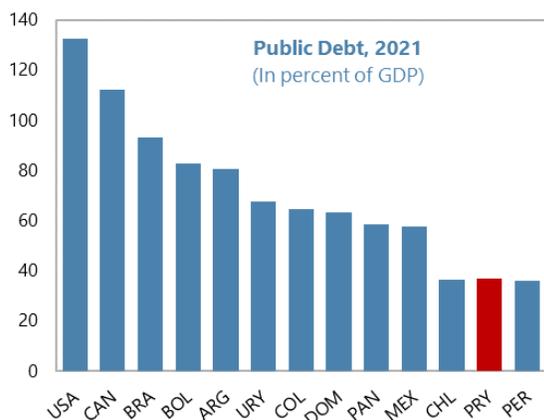
After having breached the FLR ceiling in the past three years, Paraguay plans to converge back by 2024.



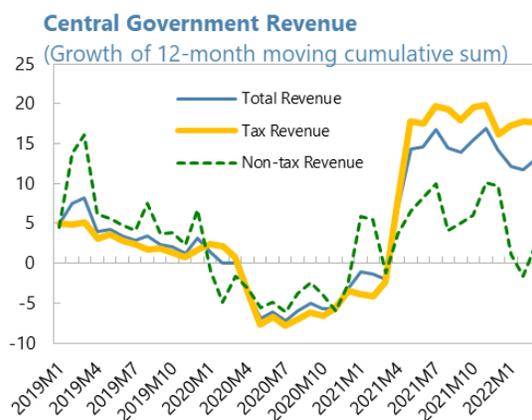
Public debt has increased substantially since the outbreak of the pandemic...



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



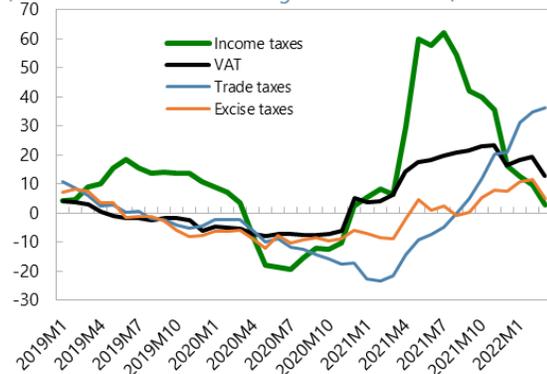
Rebounding tax revenue has driven the recovery of government revenue...



...with income taxes and VAT leading the way.

Tax Revenue

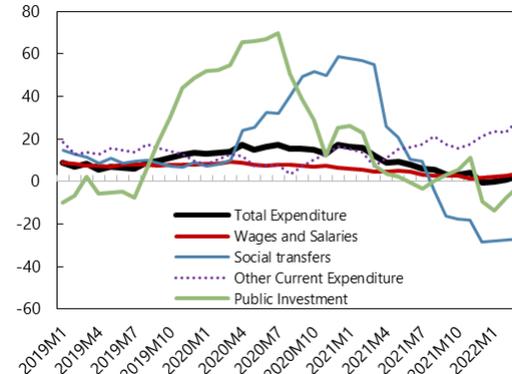
(Growth of 12-month moving cumulative sum)



During the pandemic, public investment and social transfers were the main drivers of public expenditure.

Central Government Expenditure

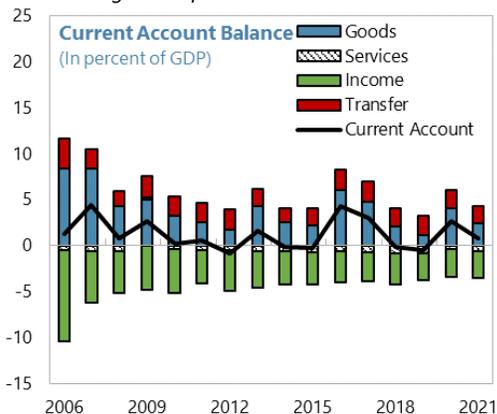
(Growth of 12-month moving cumulative sum)



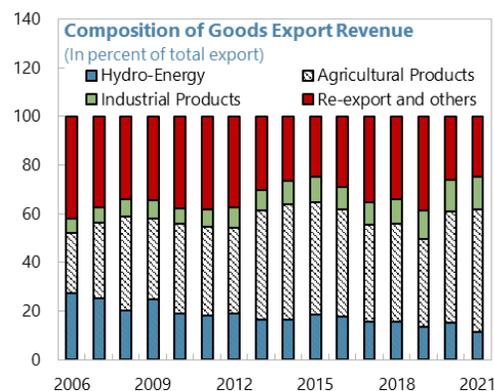
Sources: Ministry of Finance, WEO and IMF staff estimates.

Figure 3. Paraguay: External Sector Developments

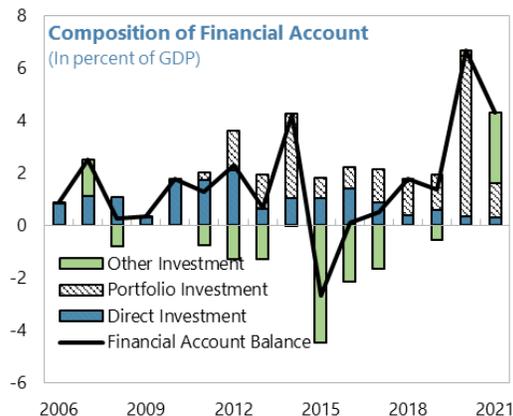
The current account has deteriorated on accounts of lower exports and higher oil prices



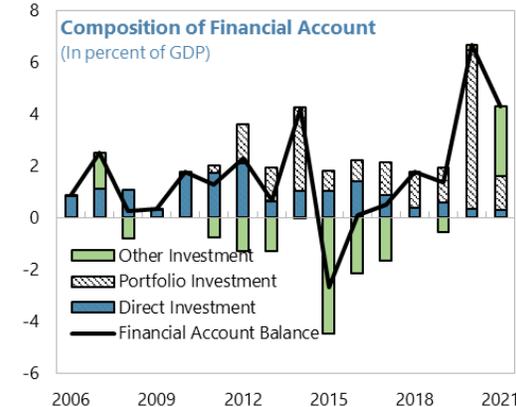
Agricultural products make up a large share of exports.



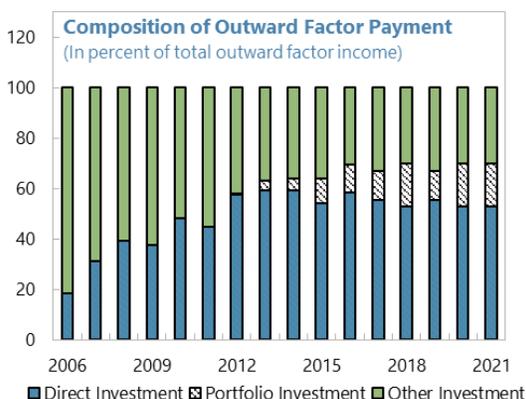
Direct investment and government bond issuances have been a stable source of capital inflows



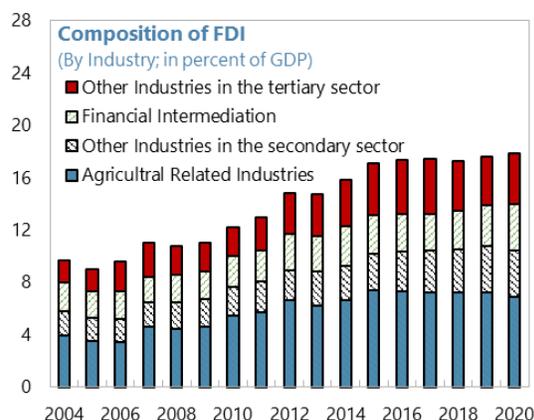
Direct investment and government bond issuances have been a stable source of capital.



Profit payments are a major source of outward factor payments. The foreign investor base is expanding along with the increase in direct investment



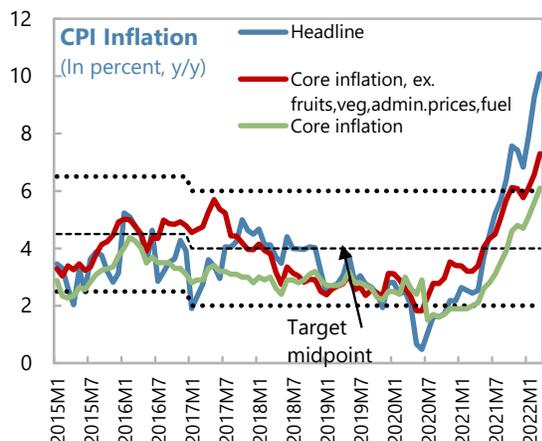
...A large portion of foreign capital has invested in agricultural related industries, manufacturing and trade



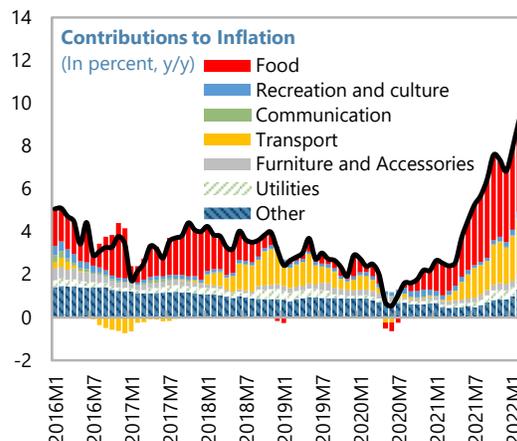
Sources: BCP and IMF staff calculations.

Figure 4. Paraguay: Monetary Indicators

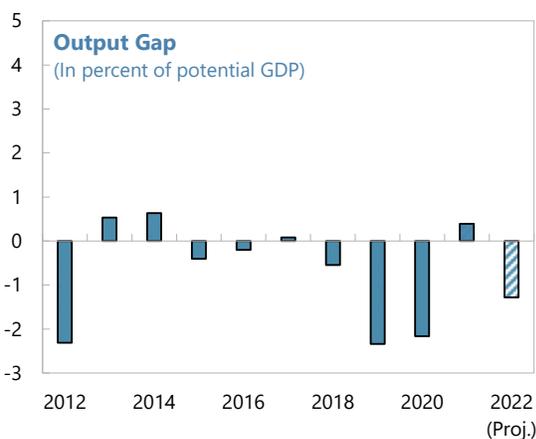
After hitting a bottom in mid-2020, inflation went steadily up in 2021...



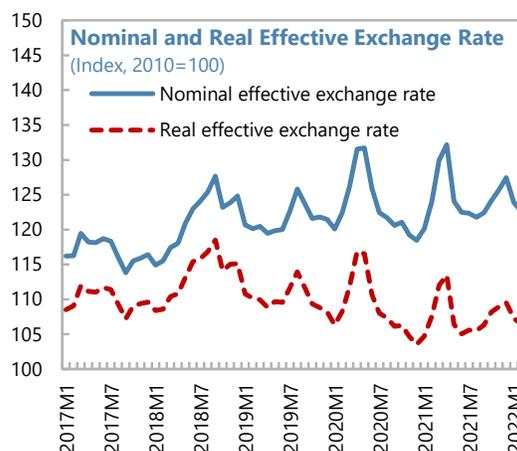
...led by significant higher food and fuel prices.



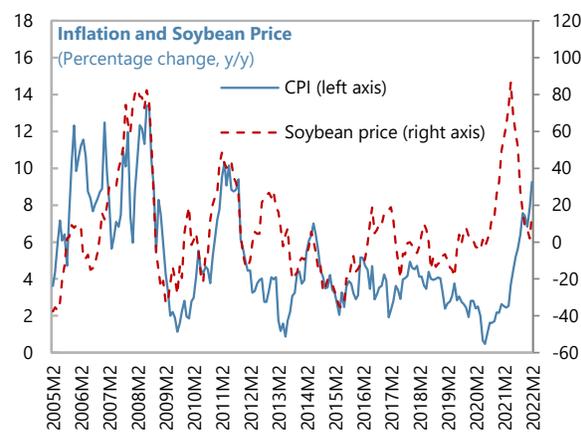
The output gap shrank in 2021 but it is still negative...



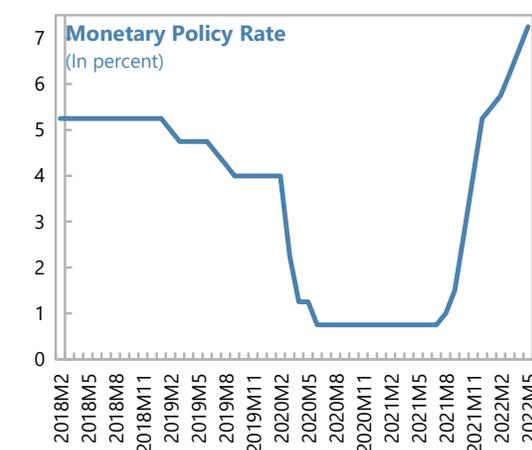
... while the currency, in real terms, slightly depreciated compared to 2020.



In view of domestic prices growing at a rate above the target level ...



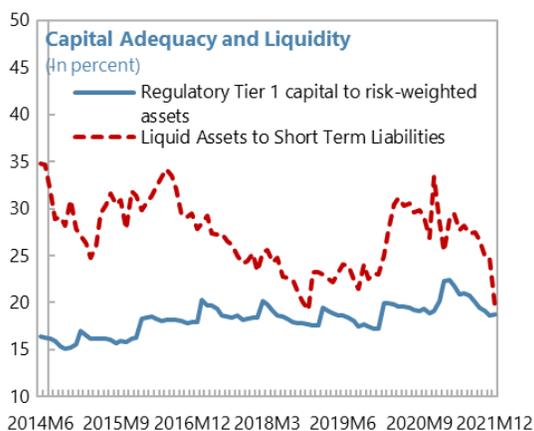
...the central bank reacted and rapidly tightened its policy rate since August 2021, currently at 7.25 percent.



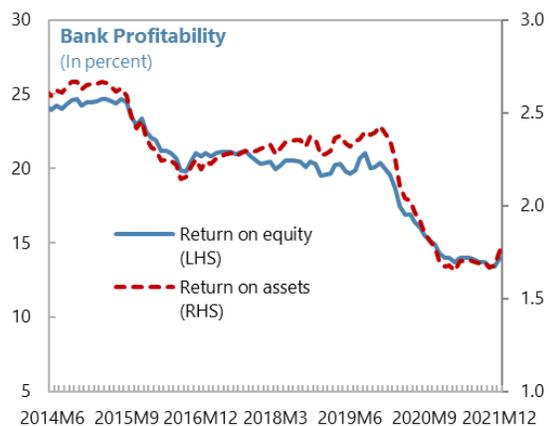
Sources: BCP, Ministry of Finance and IMF staff calculations.

Figure 5. Paraguay: Financial Sector Developments

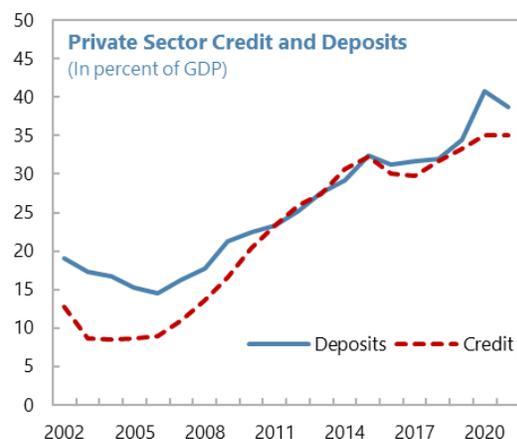
Banks are liquid and well capitalized.



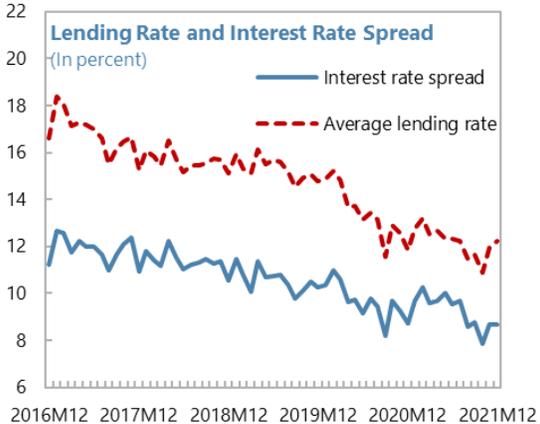
Banks profitability has gone down recently.



Financial deepening has increased in Paraguay.



Lending rates and interest rate spreads have come down over time



Sources: BCP and IMF staff calculations.

Table 1. Paraguay: Selected Economic and Social Indicators

I. Social and Demographic Indicators				
Population 2021 (millions)	7.4		Gini index (2021)	43.1
Unemployment rate (2021)	7.7		Life expectancy at birth (2020)	74
Percentage of population below the poverty line (2021)	26.9		Adult literacy rate (2020)	95.0
Rank in UNDP development index (2019)	103 of 189		GDP per capita (US\$, 2021)	5,207

II. Economic Indicators										
	2018	2019	2020	Prel.	Proj.					
				2021	2022	2023	2024	2025	2026	2027
(Annual percent change, unless otherwise indicated)										
Income and prices										
Real GDP	3.2	-0.4	-0.8	4.2	0.3	4.5	3.5	3.5	3.5	3.5
Nominal GDP	5.2	2.6	1.4	10.1	10.9	8.9	7.2	8.1	7.7	7.9
Per capita GDP (U.S. dollars, thousands)	5.7	5.3	4.9	5.2	5.6	5.9	6.2	6.5	6.8	7.1
Consumption (contribution to real GDP growth)	3.1	1.7	-1.7	4.4	2.8	-4.3	0.3	2.9	2.6	2.5
Investment (contribution to real GDP growth)	3.0	-1.5	-1.0	5.3	2.3	5.8	2.9	1.2	1.4	1.4
Net Exports (contribution to real growth)	-2.9	-0.6	1.9	-5.5	-4.9	3.0	0.3	-0.5	-0.5	-0.4
Consumer prices (end of period)	3.2	2.8	2.2	6.8	8.0	4.2	4.0	4.0	4.0	4.0
Nominal exchange rate (Guarani per U.S. dollar, eop)	5,961	6,453	6,917	6,879	...	...	...	...	...	...
Monetary sector										
Credit to private sector 1/	14.1	9.7	8.1	10.5	9.4	8.6	9.0	8.9	9.0	9.0
Monetary policy rate, year-end	5.3	4.0	0.75	5.25	...	...	...	...	...	...
External sector										
Exports (fob, values)	2.5	-7.5	-9.5	22.0	-11.4	18.1	3.5	4.1	3.0	3.7
Imports (cif, values)	12.1	-5.2	-18.1	30.4	-1.9	6.2	2.7	3.4	3.1	3.3
Terms of trade	-2.1	-2.7	-0.5	-2.6	3.8	-1.7	-0.5	2.1	1.0	1.4
Real effective exchange rate 2/	3.3	-2.9	-1.2	0.3	...	...	...	...	...	...
(In percent of GDP, unless otherwise indicated)										
External current account										
Trade balance	-0.2	-0.5	2.7	0.8	-2.9	0.4	0.5	0.6	0.6	0.7
Exports	1.2	0.3	3.8	1.8	-1.5	1.8	2.0	2.1	2.0	2.0
Of which: Electricity	34.1	33.5	32.4	36.6	29.7	32.9	32.2	31.5	30.7	30.1
Imports	5.2	4.5	4.9	4.2	3.6	3.1	2.8	2.5	2.2	1.9
Of which: Oil imports	-32.1	-32.3	-28.3	-34.2	-30.6	-30.5	-29.6	-28.9	-28.1	-27.4
Of which: Oil imports	-4.1	-3.8	-3.0	-4.0	-6.9	-5.1	-4.3	-3.9	-3.6	-3.5
Capital account and financial account										
Of which: Direct investment	1.6	1.4	3.1	3.0	3.1	0.6	0.7	0.4	0.4	0.2
Of which: Direct investment	0.4	0.6	0.3	0.3	1.2	4.0	4.4	1.4	1.0	1.0
Gross international reserves (in millions of U.S. dollars)										
In months of next-year imports of goods and services	8,004	7,500	9,976	10,570	10,070	10,570	11,120	11,670	12,220	12,770
Ratio to short-term external debt	7.0	8.3	8.6	8.9	8.0	8.2	8.3	8.4	8.5	8.6
Ratio to short-term external debt	2.2	2.1	2.4	2.4	2.3	2.4	2.6	2.7	2.9	7.3
Gross domestic investment										
Gross domestic saving	22.8	21.7	20.0	22.4	24.0	27.9	29.5	29.3	29.4	29.5
Central government revenues	22.6	21.2	22.7	23.2	21.1	28.3	29.9	29.9	30.0	30.2
Central government expenditures	14.0	14.2	13.5	14.0	13.5	13.6	13.8	13.8	13.7	13.7
Of which: Tax revenues	9.9	10.0	9.5	10.0	9.8	9.8	10.0	10.1	10.1	10.2
Central government net lending/borrowing	15.4	17.0	19.7	17.8	16.7	16.0	15.3	15.2	15.2	15.3
Of which: Compensation of Employees	6.6	7.0	7.3	6.8	7.0	6.7	6.5	6.5	6.3	6.1
Of which: Net Acquisition of Non Financial Assets	2.0	2.9	3.6	3.0	2.3	1.9	1.4	1.5	1.8	2.0
Central government primary balance	-1.4	-2.9	-6.1	-3.7	-3.2	-2.3	-1.5	-1.4	-1.5	-1.5
Central government primary balance	-0.7	-2.0	-5.1	-2.6	-2.6	-1.9	-0.9	0.0	0.1	0.0
Public sector debt (excl. central bank bills)	22.3	25.8	36.9	37.7	39.5	39.0	38.7	37.9	37.2	36.5
Of which: Foreign currency	18.1	21.4	31.9	33.0	34.1	33.7	33.3	32.5	31.9	31.1
Of which: Domestic currency	4.2	4.4	5.0	4.7	5.3	5.3	5.4	5.3	5.3	5.4
Memorandum items:										
GDP (billions of Guaranies) 3/	230,576	236,567	239,915	264,103	292,829	318,781	341,889	369,614	398,138	429,456
GDP (US\$ billions)	40.2	37.9	35.4	38.3	...	...	...	...	...	...

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

1/ Includes local currency credit and foreign currency credit valued at a constant exchange rate.

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

3/ Historical GDPs were revised in 2018, including a 30 percent upward revision in nominal GDP for 2017.

Table 2. Paraguay: Operations of the Central Government
(In percent of GDP unless specified otherwise)

	2018	2019	2020	Prel. 2021	2022	2023	Proj.			
							2024	2025	2026	2027
Revenue	14.0	14.2	13.5	14.0	13.5	13.6	13.8	13.8	13.7	13.7
Taxes	9.9	10.0	9.5	10.0	9.8	9.8	10.0	10.1	10.1	10.2
Income taxes	2.3	2.5	2.5	2.6	2.6	2.6	2.6	2.8	2.8	3.0
Excises	1.3	1.2	1.2	1.1	1.0	1.0	1.0	1.0	1.0	1.0
Value added tax	5.1	4.7	4.9	5.2	5.2	5.2	5.3	5.3	5.3	5.3
Import duties	1.1	1.0	0.8	0.9	0.8	0.9	0.9	0.9	0.9	0.9
Other	0.2	0.5	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Social contributions	0.9	0.9	1.0	1.1	1.1	1.0	1.0	1.0	1.0	1.0
Other revenue	3.2	3.3	3.0	3.0	2.7	2.8	2.8	2.7	2.6	2.5
Grants	0.8	0.6	0.6	0.7	0.6	0.6	0.7	0.7	0.7	0.7
Itaipu-Yacyreta hydroelectric plants	1.4	1.7	1.2	0.9	0.7	0.8	0.7	0.6	0.6	0.5
Other nontax revenue	1.0	1.0	1.2	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Expenditure	15.4	17.0	19.7	17.8	16.7	16.0	15.3	15.2	15.2	15.3
Expense	13.4	14.1	16.1	14.8	14.5	14.1	13.8	13.7	13.4	13.2
Compensation of employees	6.6	7.0	7.3	6.8	7.0	6.7	6.5	6.5	6.3	6.1
Purchases of goods and services	1.3	1.3	1.4	2.1	1.5	1.4	1.3	1.3	1.3	1.3
Interest	0.7	0.8	1.1	1.1	1.3	1.4	1.5	1.5	1.4	1.3
Grants	2.1	2.0	1.9	1.8	1.6	1.6	1.6	1.5	1.5	1.5
Social benefits	2.3	2.4	3.8	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Other expense	0.5	0.6	0.6	0.6	0.6	0.5	0.4	0.4	0.4	0.4
Gross operating balance	0.6	0.1	-2.5	-0.7	-0.9	-0.5	-0.1	0.1	0.3	0.5
Net acquisition of nonfinancial assets	2.0	2.9	3.6	3.0	2.3	1.9	1.4	1.5	1.8	2.0
Net lending/borrowing (overall balance)	-1.4	-2.9	-6.1	-3.7	-3.2	-2.3	-1.5	-1.4	-1.5	-1.5
Net financial transactions	1.4	2.9	6.1	3.7	3.2	2.3	1.5	1.4	1.5	1.5
Net acquisition of financial assets	1.1	1.5	2.8	0.6	0.0	0.0	0.0	0.0	0.0	0.0
Financial investments	0.0	0.0	0.7	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Net lending	0.0	0.0	0.7	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	3.0	3.6	11.1	5.2	3.2	2.3	1.5	1.4	1.5	1.5
Domestic	1.2	1.4	2.6	1.0	0.7	0.3	0.2	0.2	0.3	0.4
Debt securities	0.0	0.0	-0.1	0.3	0.7	0.3	0.2	0.2	0.3	0.4
New issues	0.3	0.2	0.6	0.6	1.3	0.9	0.9	0.9	0.9	0.9
Amortizations	-0.3	-0.2	-0.7	-0.3	-0.6	-0.6	-0.6	-0.7	-0.6	-0.4
Net credit from the banking system	0.8	1.0	1.8	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Net credit from the Central bank 1/	-0.2	0.7	-1.6	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Net credit from the commercial banks	1.0	0.3	3.4	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts payable	0.4	0.4	1.0	0.6	0.0	0.0	0.0	0.0	0.0	0.0
External	1.8	2.2	8.4	4.1	2.5	2.0	1.3	1.2	1.1	1.1
Disbursements	2.2	2.7	9.0	4.6	4.2	3.5	2.5	2.6	2.7	2.8
of which: August 2021 SDR allocation	...	...	...	0.7	...	...	...	...	...	...
Amortizations	-0.4	-0.5	-0.5	-0.4	-1.7	-1.5	-1.3	-1.4	-1.6	-1.7
Statistical Discrepancy 2/	-0.5	0.7	-2.1	-0.9	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Primary balance	-0.7	-2.0	-5.1	-2.6	-1.9	-0.9	0.0	0.1	-0.1	-0.2
Output gap 3/	-0.5	-2.3	-2.2	0.4	-1.3	-0.3	0.0	0.0	0.0	0.0
Cyclically adjusted primary balance 3/	-0.6	-1.6	-4.7	-2.7	-1.7	-0.9	0.0	0.1	-0.1	-0.2
Central government gross debt	17.9	20.8	31.0	32.3	33.3	33.2	33.0	32.5	32.2	31.8
Nominal GDP (in billions of Guaranies)	230,576	236,567	239,915	264,103	292,829	318,781	341,889	369,614	398,138	429,456

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

1/ Includes mainly use of government deposits at the Central Bank.

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

3/ In percent of potential GDP.

Table 3. Paraguay: Operations of the Consolidated Public Sector 1/
(In percent of GDP)

	2018	2019	2020	Prel. 2021	Proj.					
					2022	2023	2024	2025	2026	2027
Revenue	18.9	19.2	18.7	19.2	18.7	18.9	19.2	19.3	19.2	19.1
Tax revenue	10.2	10.3	9.8	10.3	10.1	10.2	10.3	10.4	10.4	10.5
Nontax revenue and grants 2/	8.2	8.6	8.6	8.5	8.3	8.4	8.6	8.6	8.4	8.2
Public enterprises operating surplus	0.5	0.3	0.3	0.4	0.3	0.3	0.3	0.3	0.4	0.4
Expenditure	20.6	23.0	25.9	25.3	23.9	22.9	22.0	21.9	21.7	21.6
Expense	17.2	18.8	21.0	21.1	20.5	19.9	19.5	19.3	18.8	18.5
Compensation of employees	8.7	9.1	9.4	8.8	8.9	8.6	8.4	8.3	8.0	7.8
Purchases of goods and services	2.3	2.4	2.5	3.1	2.6	2.5	2.4	2.3	2.3	2.3
Interest payments	1.1	1.3	1.4	1.6	1.4	1.5	1.6	1.6	1.5	1.5
Transfers 3/	4.4	4.5	6.2	4.7	4.7	4.6	4.6	4.6	4.6	4.5
Current transfers	4.2	4.3	6.0	4.6	4.6	4.5	4.5	4.5	4.5	4.4
Capital transfers	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other expense	0.7	1.6	1.5	2.9	2.8	2.6	2.5	2.5	2.4	2.3
Gross operating balance	1.7	0.4	-2.3	-2.0	-1.8	-0.9	-0.3	0.1	0.4	0.6
Net acquisition of nonfinancial assets	3.4	4.1	4.8	4.2	3.4	3.0	2.6	2.6	2.8	3.1
Net lending/borrowing (overall balance)	-1.6	-3.8	-7.2	-6.2	-5.2	-4.0	-2.8	-2.5	-2.5	-2.5
Net financial transactions	1.6	3.8	7.2	6.2	5.2	4.0	2.8	2.5	2.5	2.5
Net acquisition of financial assets	2.4	1.7	3.0	0.8	0.2	0.2	0.2	0.2	0.2	0.2
Net incurrence of liabilities	4.1	5.5	10.2	6.9	5.4	4.2	3.0	2.7	2.7	2.7
External	1.9	2.3	8.5	4.0	2.4	2.0	1.2	1.1	1.1	1.0
Disbursements	2.4	2.8	9.1	4.6	4.2	3.5	2.5	2.6	2.7	2.8
Amortizations	-0.5	-0.5	-0.6	-0.5	-1.8	-1.5	-1.3	-1.5	-1.7	-1.8
Domestic	1.7	2.8	0.7	2.3	3.0	2.2	1.8	1.6	1.6	1.6
Domestic debt	0.0	0.0	-0.1	0.3	0.7	0.3	0.2	0.2	0.3	0.4
Disbursements	0.3	0.2	0.6	0.6	1.3	0.9	0.9	0.9	0.9	0.9
Amortizations	-0.3	-0.2	-0.7	-0.3	-0.6	-0.6	-0.6	-0.7	-0.6	-0.4
Deposits	1.4	1.8	-0.5	-0.5	0.1	0.0	0.0	0.0	-0.2	-0.2
Change in net deposits com.bks	1.6	1.1	1.1	-0.4	0.1	0.0	0.0	0.0	-0.2	-0.2
Change in net deposits CBP	-0.2	0.7	-1.6	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Quasi-fiscal deficit financing 4/	0.2	1.0	1.4	2.5	2.2	1.9	1.6	1.4	1.4	1.4
Other accounts payable	0.4	0.4	1.0	0.6	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Primary balance	-0.5	-2.5	-5.7	-4.5	-3.8	-2.4	-1.2	-0.9	-0.9	-1.0
Public sector debt (excl. central bank bills)	22.3	25.8	36.9	37.7	39.5	39.0	38.7	37.9	37.2	36.5
Domestic public debt	4.2	4.4	5.0	4.7	5.3	5.3	5.4	5.3	5.3	5.4
Foreign public debt	18.1	21.4	31.9	33.0	34.1	33.7	33.3	32.5	31.9	31.1

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

1/ Includes the nonfinancial public sector and the central bank.

2/ Includes social contributions and grants.

3/ Includes social benefits, grants, and capital transfers.

4/ Corresponds to net losses of CB capital which are not automatically compensated by the government.

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

	2018	2019	2020	Prel. 2021	Proj.					
					2022	2023	2024	2025	2026	2027
Current account	-67	-178	959	311	-1,217	181	222	325	320	381
Trade balance	479	126	1,333	700	-638	794	928	1,054	1,050	1,148
Exports	13,730	12,702	11,494	14,025	12,432	14,678	15,194	15,814	16,282	16,890
Hydro-Electricity	2,109	1,722	1,736	1,609	1,503	1,406	1,315	1,229	1,150	1,075
Agricultural Products	5,547	4,582	5,280	7,049	5,221	6,626	6,878	7,096	7,343	7,599
Industrial Products and others	1,386	1,502	1,502	1,893	1,997	2,132	2,202	2,286	2,379	2,482
Unregistered	1,437	1,310	907	713	403	472	502	515	529	545
Re-Export	3,251	3,586	2,070	2,762	3,307	4,042	4,297	4,687	4,882	5,189
Imports	-12,917	-12,251	-10,036	-13,087	-12,838	-13,629	-13,995	-14,472	-14,927	-15,417
Of which: Fuel products	-1,631	-1,423	-1,048	-1,531	-2,886	-2,283	-2,018	-1,947	-1,931	-1,953
Services (net)	-334	-325	-125	-239	-232	-255	-271	-288	-306	-325
Transport	-430	-438	-184	-282	-282	-304	-322	-340	-360	-377
Travel	27	40	-16	-45	-45	-50	-53	-57	-60	-64
Other	69	73	75	87	96	99	104	109	114	116
Factor income	-1,348	-1,099	-1,068	-1,085	-1,279	-1,359	-1,495	-1,567	-1,616	-1,706
Transfers	801	795	694	696	700	746	789	837	886	939
Capital and financial account	662	539	1,103	1,139	1,317	290	340	206	208	133
Capital transfers	153	151	172	217	200	170	179	191	202	214
Direct investment	156	225	120	122	500	1,765	2,059	719	525	556
Portfolio investment	530	500	2,161	769	200	0	0	0	0	0
Other investment	-177	-336	-1,350	30	417	-1,645	-1,898	-704	-519	-638
Errors and omissions	-777	-416	-257	-856	-600	22	-12	18	23	34
Overall balance	-183	-54	1,805	593	-500	493	550	549	552	547
Financing										
Net international reserves (increase -)	4	55	-1,805	-593	500	-500	-550	-550	-550	-550
Change in Gross Reserves	183	55	-1,805	-593	500	-500	-550	-550	-550	-550
Other factors affecting reserve balance	-179	0	0	0	0	0	0	0	0	0
Exceptional financing	0	0	0	0	0	0	0	0	0	0
Memorandum items:										
Current account in percent of GDP 1/	-0.2	-0.5	2.7	0.8	-2.9	0.4	0.5	0.6	0.6	0.7
Gross reserves (in millions of U.S. dollars)	8,004	7,500	9,976	10,570	10,070	10,570	11,120	11,670	12,220	12,770
In months of imports of GNFS	7.0	8.3	8.6	8.9	8.0	8.2	8.3	8.4	8.5	8.6
External public debt in percent of GDP 1/	18.1	21.4	31.9	33.0	34.1	33.7	33.3	32.5	31.9	31.1
Debt service in percent of exports GNFS	0.0	13.7	15.6	16.5	19.6	16.6	16.4	14.7	15.1	13.3
Export volume (percent change)	-2.0	-4.1	-5.1	14.2	-22.9	17.7	3.9	2.3	2.4	2.4
Import volume (percent change)	4.5	-4.5	-15.2	18.9	-7.7	4.6	2.6	3.8	3.6	3.5
Terms of trade (percent change)	-2.1	-2.7	-0.5	-2.6	3.8	-1.7	-0.5	2.1	1.0	1.4

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

1/ Based on average exchange rate valuation of GDP.

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

	2018	2019	2020	Prel. 2021	Proj.					
					2022	2023	2024	2025	2026	2027
Currency issued	13,757	14,349	17,113	18,070	19,256	20,520	21,867	23,303	24,833	26,463
Growth	6.2	4.3	19.3	5.6	6.6	6.6	6.6	6.6	6.6	6.6
Net international reserves	46,206	48,022	63,887	66,132	65,342	69,579	74,914	80,310	85,935	91,797
Net domestic assets	-36,437	-34,575	-43,767	-46,636	-46,086	-49,059	-53,047	-57,007	-61,102	-65,335
Net nonfinancial public sector	-8,855	-7,160	-10,962	-11,351	-11,351	-11,351	-11,351	-11,351	-11,351	-11,351
Net credit to the central government	-8,854	-7,159	-10,961	-11,350	-11,350	-11,350	-11,350	-11,350	-11,350	-11,350
Net credit to the banking system	-25,411	-25,571	-31,972	-35,706	-39,307	-47,809	-56,389	-64,768	-73,629	-76,953
Reserve requirements	-12,420	-12,513	-9,979	-16,828	-22,489	-26,774	-29,043	-31,752	-33,903	-36,225
Free reserves	-2,394	-2,742	-6,508	-6,138	-6,374	-6,432	-6,545	-6,651	-6,763	-6,881
Monetary control instruments 1/	-11,883	-11,742	-17,779	-14,528	-12,232	-16,391	-22,590	-28,154	-34,751	-35,635
Other	1,286	1,426	2,294	1,788	1,788	1,788	1,788	1,788	1,788	1,788
Other assets and liabilities (net)	-2,171	-1,844	-830	-208	4,572	10,101	14,693	19,111	23,878	22,969
Capital and reserves	-790	-851	-946	-918	5,458	11,359	16,658	21,784	27,341	27,322
Other assets net 2/	-1,381	-994	116	709	-886	-1,258	-1,965	-2,673	-3,464	-4,353
Memorandum Items:										
Total stock of IRMs outstanding 1/	11,960	12,919	18,029	14,761	12,232	16,391	22,590	28,154	34,751	35,635
Monetary base 3/	19,740	20,420	21,843	24,725	26,100	27,561	29,168	30,937	32,818	34,819
Monetary base, annual growth	7.3	3.4	7.0	13.2	5.6	5.6	5.8	6.1	6.1	6.1
Quasi-fiscal balance	568	2,383	3,362	6,548	6,414	5,910	5,316	5,143	5,575	6,155
In percent of GDP	0.2	1.0	1.4	2.5	2.2	1.9	1.6	1.4	1.4	1.4
Cost of monetary policy operations	920	966	743	328	306	276	336	423	506	604
In percent of GDP	0.4	0.4	0.3	0.1	0.1	0.1	0.1	0.1	0.1	0.1

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 guaraní held at the BCP.

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

	2018	2019	2020	Prel.		Proj.				
				2021	2022	2023	2024	2025	2026	2027
I. Central Bank										
Net international reserves	46,206	48,022	63,887	66,132	65,342	69,579	74,914	80,310	85,935	91,797
In millions of U.S. dollars	8,004	7,500	9,976	8,534	9,065	9,840	10,256	10,256	10,256	10,256
Net domestic assets	-36,437	-34,575	-43,767	-46,636	-46,086	-49,059	-53,047	-57,007	-61,102	-65,335
Credit to public sector, net	-8,855	-7,160	-10,962	-11,351	-11,351	-11,351	-11,351	-11,351	-11,351	-11,351
Credit to banking system, net 2/	-13,528	-13,828	-14,192	-21,178	-27,075	-31,418	-33,799	-36,614	-38,877	-41,318
Credit	1,286	1,426	2,294	1,788	1,788	1,788	1,788	1,788	1,788	1,788
Deposits	14,813	15,254	16,486	22,966	28,863	33,207	35,588	38,402	40,666	43,106
Central bank securities	-11,960	-12,919	-18,029	-14,761	-12,232	-16,391	-22,590	-28,154		
Other	-786,460	-848,410	-950,994	-915,617	4,572	10,101	14,693	19,111	23,878	22,969
Currency issued	13,757	14,349	17,113	18,070	19,256	20,520	21,867	23,303	24,833	26,463
II. Monetary Survey										
Net foreign assets	41,499	43,504	68,781	66,324	65,549	69,805	75,194	80,697	86,439	92,430
In millions of U.S. dollars	7,001	6,745	9,905	9,731	9,232	9,735	10,291	10,855	11,420	11,985
Net domestic assets	65,299	74,931	70,398	83,928	92,080	94,540	98,270	103,870	110,011	116,737
Credit to the public sector	-16,112	-15,250	-19,070	-17,585	-17,561	-17,547	-17,531	-17,514	-17,497	-17,480
Credit to the private sector	101,290	111,097	120,049	132,626	145,121	157,617	171,748	187,089	203,888	222,281
Other	-19,879	-20,916	-30,581	-31,112	-35,480	-45,529	-55,946	-65,705	-76,379	-88,063
Broad liquidity (M4)	106,792	118,406	139,125	150,182	157,521	164,238	173,355	184,456	196,338	209,054
Bonds and issued securities	6	30	54	70	71	71	72	73	74	74
Other monetary liabilities	5,445	6,360	7,811	8,648	9,106	9,476	10,006	10,658	11,359	12,111
Central bank securities with private sector	77	1,177	249	233	0	0	0	0	0	0
Broad liquidity (M3)	101,265	110,838	131,010	141,231	148,344	154,690	163,277	173,725	184,905	196,868
Foreign currency deposits	36,011	40,889	49,332	53,530	57,183	59,775	63,646	68,319	73,388	78,885
Money and quasi-money (M2)	65,254	69,949	81,678	87,701	91,162	94,915	99,630	105,406	111,517	117,984
Quasi-money	32,394	34,474	39,145	41,635	43,092	44,601	46,608	49,171	51,875	54,728
Money (M1)	32,859	35,476	42,534	46,066	48,069	50,315	53,023	56,235	59,642	63,255
(Annual percent change)										
M0 (Currency issued)	6.2	4.3	19.3	5.6	6.6	6.6	6.6	6.6	6.6	6.6
Credit to the private sector	14.1	9.7	8.1	10.5	9.4	8.6	9.0	8.9	9.0	9.0
M1	5.4	8.0	19.9	8.3	4.3	4.7	5.4	6.1	6.1	6.1
M2	8.1	7.2	16.8	7.4	3.9	4.1	5.0	5.8	5.8	5.8
M3	8.0	9.5	18.2	7.8	5.0	4.3	5.6	6.4	6.4	6.5
Of which: Foreign currency deposits	7.9	13.5	20.6	8.5	6.8	4.5	6.5	7.3	7.4	7.5
Memorandum items:										
Ratio of foreign currency deposits to M3 (percent)	35.6	36.9	37.7	37.9	38.5	38.6	39.0	39.3	39.7	40.1
Ratio of foreign currency deposits to total private sector deposits (percent)	37.6	38.6	39.5	39.5	41.7	41.9	42.4	42.8	43.2	43.7
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: Indicators of External Vulnerability
(In percent of GDP, unless otherwise indicated)

	2018	2019	2020	Prel.		Proj.				
				2021	2022	2023	2024	2025	2026	2027
Monetary and financial indicators										
Broad money (M3), percentage change 1/	8.0	9.5	18.2	7.8	5.0	4.3	5.6	6.4	6.4	6.5
Credit to the private sector, real (percent change) 1/	10.6	6.7	5.8	3.4	1.3	4.2	4.8	4.7	4.8	4.8
Central Bank bill yield, real	1.6	0.0	-2.0	3.4	0.7	-4.3	-0.2	-0.1	0.0	0.0
Central bank foreign short-term liabilities (millions of U.S. dollars)	48.6	54.7	775.4	441.7	441.7	441.7	441.7	441.7	441.7	441.7
External indicators										
Merchandise exports (percentage change)	4.0	-7.5	-5.6	10.9	10.9	-3.2	-2.1	-0.2	0.1	0.1
Merchandise imports (percentage change)	6.8	-0.2	-0.8	8.2	7.2	1.6	0.2	-0.5	-0.5	-0.3
Merchandise terms of trade (percentage change)	-2.6	-7.2	-4.9	2.5	3.5	-4.7	-2.2	0.3	0.6	0.4
Real effective exchange rate (percentage change)	5.0	-6.0	-4.3	2.7	-1.0	0.5	0.0	0.0	0.0	0.0
Current account balance (percent of GDP)	-0.2	-0.5	2.7	0.8	-2.9	0.4	0.5	0.6	0.6	0.7
Capital and financial account (percent of GDP)	1.6	1.4	3.1	3.0	3.1	0.6	0.7	0.4	0.4	0.2
Net foreign direct investment (percent of GDP)	0.4	0.6	0.3	0.3	1.2	4.0	4.4	1.4	1.0	1.0
Other net investment (percent of GDP)	-0.4	-0.9	-3.8	0.1	1.0	-3.7	-4.0	-1.4	-1.0	-1.1
External public debt (percent of GDP) 2/	18.1	21.4	31.9	33.0	34.1	33.7	33.3	32.5	31.9	31.1
o/w: Central Government External Debt (percent of GDP) 2/	14.9	17.9	27.8	29.1	29.7	29.5	29.4	28.9	28.4	27.9
Total external debt (percent of GDP) 2/	41.1	43.1	51.9	48.4	46.0	42.8	38.5	37.7	37.0	36.2
Excluding debt of binational companies 2/	23.3	27.1	38.0	38.5	39.3	38.9	38.5	37.7	37.0	36.2
External Debt service (in percent of exports GNFS)	0.0	13.7	15.6	16.5	19.6	16.6	16.4	14.7	15.1	13.3
International reserves (in millions of U.S. dollars)	8,004	7,500	9,976	10,570	10,070	10,570	11,120	11,670	12,220	12,770
In months of imports of GNFS	7.0	8.3	8.6	8.9	8.0	8.2	8.3	8.4	8.5	8.6
Ratio to short-term external debt 3/	2.2	2.1	2.4	2.4	2.3	2.4	2.6	2.7	2.9	7.3

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

1/ Foreign-currency components are valued at the accounting exchange rate.

2/ Based on end-of-period exchange rate conversion of U.S. dollar-denominated debt.

3/ Private and public external debt with a residual maturity of one year or less.

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

	2018	2019	2020	Prel.		Proj.				
				2021	2022	2023	2024	2025	2026	2027
National accounts and prices										
Real GDP growth (in percent)	3.2	-0.4	-0.8	4.2	0.3	4.5	3.5	3.5	3.5	3.5
Output gap 1/	-0.5	-2.3	-2.2	0.4	-1.3	-0.3	0.0	0.0	0.0	0.0
Gross domestic investment	22.8	21.7	20.0	22.4	24.0	27.9	29.5	29.3	29.4	29.5
Gross domestic savings	22.6	21.2	22.7	23.2	21.1	28.3	29.9	29.9	30.0	30.2
Consumer prices (end of period; in percent)	3.2	2.8	2.2	6.8	8.0	4.2	4.0	4.0	4.0	4.0
Public finances										
Central government primary balance	-0.7	-2.0	-5.1	-2.6	-2.6	-1.9	-0.9	0.0	0.1	0.0
Central government net lending/borrowing	-1.4	-2.9	-6.1	-3.7	-3.2	-2.3	-1.5	-1.4	-1.5	-1.5
Central government debt	17.9	20.8	31.0	32.3	33.3	33.2	33.0	32.5	32.2	31.8
Public sector debt	22.3	25.8	36.9	37.7	39.5	39.0	38.7	37.9	37.2	36.5
External sector										
Terms of trade (annual percent change)	-2.1	-2.7	-0.5	-2.6	3.8	-1.7	-0.5	2.1	1.0	1.4
Current account	-0.2	-0.5	2.7	0.8	-2.9	0.4	0.5	0.6	0.6	0.7
Foreign direct investment	0.4	0.6	0.3	0.3	1.2	4.0	4.4	1.4	1.0	1.0
Gross international reserves (in US\$ billion)	8.0	7.5	10.0	10.6	10.1	10.6	11.1	11.7	12.2	12.8

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

	2013	2014	2015	2016	2017	2018	2019	2020	2021
Basic indicators									
Capital adequacy					(in percent)				
Regulatory capital/risk-weighted assets	14.7	15.2	16.1	17.9	18.3	17.5	17.2	19.1	18.8
Tier 1 capital/risk-weighted assets	11.3	11.2	11.7	13.4	13.8	13.4	13.5	14.8	15.2
NPLs net of provisions/equity	0.9	1.2	3.7	3.1	2.5	3.1	1.1	0.2	0.9
Asset quality									
NPLs/total loans	2.1	2.0	2.6	2.9	2.8	2.5	2.6	2.4	2.3
Profitability									
Return on assets	2.7	2.6	2.5	2.2	2.3	2.3	2.4	1.7	1.8
Return on equity	24.6	24.2	23.4	20.8	20.3	19.5	20.3	14.3	14.0
Interest Margin/ gross income	11.6	10.2	7.4	8.0	9.8	12.2	8.7	9.5	5.5
Admin. expenses/operating margin	29.3	34.1	36.2	38.2	39.5	33.7	31.5	31.9	30.3
Liquidity									
Liquid assets/total assets	31.0	30.8	31.8	29.5	25.2	23.2	23.0	33.4	19.4
Liquid assets/sight deposits	12.0	11.6	11.7	11.4	10.4	9.4	8.8	14.6	8.5
Market risk									
FX position/equity	10.2	8.4	9.1	8.6	9.6	17.3	15.8	13.9	9.3
Recommended indicators					(in percent)				
Capital/assets	7.0	7.0	7.2	7.9	8.2	8.4	8.7	8.5	9.4
Personnel expenses/admin. expenses	14.2	10.4	6.4	6.6	7.8	11.3	8.3	9.2	5.7
FX loans/total loans	45.4	47.8	50.0	48.1	46.7	47.2	46.1	42.2	42.1
FX liabilities/total liabilities	45.7	49.3	54.6	51.6	48.4	48.1	47.8	47.4	47.2

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

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.	Ongoing. The government aims to reduce the central government's budget deficit to 3 percent of GDP in 2022 as part of its plan to converge back to a deficit ceiling of 1.5 percent of GDP by 2024. The current shock to the agriculture sector prevents a larger fiscal consolidation this year.
Tax revenue needs to be raised. While further curbing tax evasion would help create additional resources, the near term scope is likely to be modest.	Pending. Steady improvements are being made in the area of tax and customs administration, with technical assistance from the Fund.
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. Draft legislation to introduce a pension fund supervisor is still in Congress. The government has undertaken a study on the financial prospects of the Caja Fiscal to inform a reform proposal.
Monetary Policy	
Further easing of monetary policy to provide additional, albeit modest, support.	Not applicable anymore given the rebound of the economy in 2021 and the sharp rise in inflation.
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. There has been progress in financial reporting to the supervisor by non-depository credit providers ("casas de crédito").
Structural Reforms	
Continue addressing Paraguay's governance weaknesses and tackle	Ongoing. The authorities committed to publishing by end-June the governance diagnostic report prepared by the IMF and

corruption, including plans to reform civil service and public procurement process.	IADB. The government has prepared draft legislation on anti-corruption, public procurement, fiscal responsibility, civil service reform, pension reform and supervision, and a reform of the structure of the state. They are still to be approved by Congress.
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. Risk Assessment Matrix

Source/nature of risk (Likelihood / Time horizon)	Expected impact and recommended response
External Risks	
<p>Russia's invasion of Ukraine leads to escalation of sanctions and other disruptions. Sanctions on Russia are broadened to include oil, gas, and food sectors. Russia is disconnected almost completely from the global financial system and large parts of the trading system. This leads to even higher commodity prices, tighter financial conditions, and other adverse spillovers. (High / ST)</p>	<p>High. Disruptions of trade channels already affected a large share of exports of meat to Russia. In addition, the war affected the availability and prices of imported fertilizers (key for soy production). The government should facilitate access to alternative meat and fertilizer markets.</p>
<p>Outbreaks of lethal and highly contagious Covid-19 variants. Rapidly increasing hospitalizations and deaths due to low vaccine protection or vaccine-resistant variants force more social distancing and/or new lockdowns. This results in extended supply chain disruptions and a reassessment of growth prospects, financial tightening, and currency depreciations. (High / ST)</p> <p>Abrupt growth slowdown in China with spillovers affecting other countries through supply trade disruptions, financial, trade, and commodity-prices. (Medium / ST)</p>	<p>Medium. If the pandemic lingers on globally for extended periods of time and/or China's economy decelerates abruptly, it may dampen external demand, foreign inflows, and border trades. Monetary policy, including exchange rate interventions should balance the impact of lower activity with high-inflation scenarios.</p>
<p>De-anchoring of inflation expectations in the U.S. Sharp tightening of global financial conditions and spiking risk premia lead to lower global demand, currency depreciations and asset market selloffs. (Medium / ST)</p>	<p>Medium. Fed rate increases could lead to capital outflows, currency depreciation and higher borrowing costs in Paraguay. Fiscal stability should be assured, and foreign exchange interventions can be calibrated to smooth out the impact of depreciation to domestic prices.</p>
<p>Rising and volatile food and energy prices. Commodity prices are volatile and trend up amid supply constraints, war in Ukraine, export restrictions, and currency depreciations. This leads to bouts of price and real sector volatility, food insecurity, social unrest, and acute food and energy crises.</p>	<p>High. Persistent global prices could further increase inflation rates in Paraguay. Higher commodity prices would benefit fiscal revenues but supply disruptions could lead to production stoppages. Monetary policy should be calibrated to face scenarios with lower growth and high prices.</p>
<p>Widespread social discontent and political instability. Social unrest fueled by increasing prices and shortages of essentials, rising inequality, financial and social scars from the prolonged pandemic, and heavier household debt burdens amid rising interest rates trigger political instability, higher unemployment, and slower economic growth. (High / ST, MT).</p> <p>Geopolitical tensions and de-globalization cause economic and political disruptions, fragmentation of the international monetary system, production reshoring, a decline in global trade, and lower investor confidence. (High / ST, MT).</p>	<p>Medium. Social unrest in the region may disrupt external demand from trading partners and higher risk premium of financial assets, resulting in tighter financial conditions for Paraguay. Social policies need to continue supporting the most vulnerable population, including informal workers. Governance reforms need to move forward to strengthen the transparency, equity and effectiveness of public sector operations.</p>
<p>Natural disasters related to climate change. Higher frequency of natural disasters cause severe economic damage to smaller economies and severe events in large economies reduce global GDP.</p>	<p>High. Agriculture and hydro-energy production are the most affected sectors. Exchange rate depreciation would serve as a short-term buffer for climate-related production shocks. 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): Agriculture and energy sector may be adversely impacted by weather.</p>	<p>Medium to High. Shocks to the agriculture sector 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 shock. Foreign exchange interventions can avoid disorderly market conditions.</p>

Domestic Risks	
<p>Fiscal sustainability (Medium / ST, MT): After the large deficit spike in 2020 and 2021 due to the pandemic, amid numerous downside risks to the economy, the proposed path for returning to the FRL stipulated deficit ceiling by 2024 is near the threshold to guarantee fiscal and debt sustainability.</p>	<p>Medium to High. Fiscal stability is the cornerstone of macroeconomic stability in Paraguay, which significantly impacts investor confidence, financing costs, and growth performance. The government needs to strengthen its ability to raise revenues and control expenditure increases, reform civil services and public procurement processes.</p>

Annex III. External Sector Assessment and External DSA

After a 2020 affected by the pandemic, the external position in 2021 was stronger than the level implied by fundamentals and desirable policies. An increase of FDI would correct that, underpinned by the desired policies that will enhance Paraguay's attractiveness for FDI (structural reforms, governance, education).

External Balance Sheets

1. Paraguay's net international investment position (NIIP) has improved in the past decade and a half, the result of an increase in foreign reserves and a decline in external debt.

As of end 2021, the NIIP was about -22.9 percent of GDP, increasing from -25.4 percent of GDP in 2019. The reduction in external debt, from nearly 215 percent of GDP in 2002 to 31.9 percent of GDP in 2021 was mostly the result of the amortization of the debt of the binational hydroelectric company (ITaipu; about 17 percent of GDP in 2019), which was only partly offset by an increase in external government debt.

2. Currently, FDI (mainly in the agrobusiness sector) is the largest source of liabilities of the private sector, at around 17.8 percent of GDP in 2021, a modest decline since 2019 (about 19.4 percent of GDP).

Assessment

3. External debt is expected to decline going forward. Before the pandemic, the external debt was expected to decline steadily as the debt of the binational hydroelectrical company continued to fall. With the additional financing needs during the pandemic and the need to resort to cheaper external financing, public external debt rose above 31 percent of GDP as of end-2021, a temporary trend that is expected to reverse. The external position remains sustainable under a range of adverse shocks.

Current Account

Background

4. Paraguay's current account has been in surplus over the last 20 years, averaging 1.2 percent of GDP per year. The current account surpluses in 2016 and 2017 were particularly strong, the result of record hydro-electricity exports and a surge in agricultural exports. The current account balance deteriorated in 2019 owing to large agricultural shock associated with a drought and lower hydro-electricity production owing to lower water levels. While national savings remained relatively stable as a share of GDP through 2019, investment share in GDP increased somewhat. With the COVID pandemic onset, the current account balance in 2020 improved reaching 2.7 percent of GDP from a negative 0.5 percent of GDP in 2019 owing to sharp decline in imports, lower oil prices, and a sharp increase in soybean prices. In 2021, the current account surplus is estimated to have fallen to 0.8 percent of GDP owing to the rebound of imports with the partial resumption of activities through the COVID pandemic and higher oil prices. Over the medium-term, the current

account balance is expected to remain at around 0.4-0.7 percent of GDP, reflecting the rebound in soybean production, stabilization of international oil prices, and the phase-out in interest payments linked to the binational loan.

Assessment

5. The current account balance of Paraguay is stronger than the multilateral consistent cyclically adjusted current account norm and is broadly consistent with last's year's results.

The estimated current account gap slightly narrowed from 3.6 percent of GDP in 2019 to an estimated 2.7 percent of GDP owing to an improvement in the current account from a small deficit in 2019 to a surplus of 0.8 percent of GDP in 2021. The current account gap consists of the policy gap (1.2 percent of GDP) and the residual from the current account regression model (1.5 percent of GDP). The real exchange rate regression approach yields similarly consistent results.¹

	CA model 1/ (in percent of GDP)	CA minus amortization to binationals	REER model 1/
CA-Actual	0.8	-1.0	
Cyclical contributions (from model) (-)	0.9	0.9	
COVID-19 adjustor (-)	0.0	0.0	
Additional temporary/statistical factors (-)	0.0	0.0	
Natural disasters and conflicts (-)	-0.2	-0.2	
Adjusted CA	0.2	-1.7	
CA Norm (from model) 2/	-2.5	-2.5	
Adjustments to the norm (-)	0.0	0.0	
Adjusted CA Norm	-2.5	-2.5	
CA Gap	2.7	0.9	1.4
o/w Relative policy gap	1.2	-0.6	
Elasticity	-0.25	-0.25	
REER Gap (in percent)	-10.9	-3.7	-5.5

1/ Based on the EBA-lite 3.0 methodology
2/ Cyclically adjusted, including multilateral consistency adjustments.

6. **Staff's preferred approach to assess the current account position is based on the current account balance that nets out the amortization to binationals.** Paraguay has 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 Itaipu's electricity production that it is entitled to and exports the remainder to Brazil. Paraguay also needs to service the debt of Itaipu to

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.

Brazil. It pays off the debt through electricity exports. These transactions generate a positive current account item, and an offsetting capital outflow, with no impact on the rest of the economy.²

Capital and Financial Flows

Background

7. Foreign direct investment has been the major source of capital inflows in last few years. In addition, the government has continued to tap funding from the international markets, placing bonds for US\$1,000 million each year from 2016 to 2020. In the context of the COVID-19 pandemic, there was also a sovereign bond issuance of US\$1,450 million in 2020. In 2021, the government issued sovereign bonds worth US\$826 million to finance the 2021 budget and to soften the maturity of bonds falling due in 2031. These international offerings have become another stable source of capital inflow.

Assessment

8. Paraguay has a fully open capital and financial account, but still shallow financial markets. Paraguay has enjoyed a stable flow of FDI in the last decade, and despite the economic turmoil mainly in Argentina in 2019, FDI inflows are rather stable constituting about 0.3 percent of GDP in 2021. Vulnerabilities to the financial flows remain contained as the major source of capital is direct investment and government's external borrowing, which was received well in the last few international public offerings, given the low level of public debt.

Reserves

Background

9. Gross international reserves have increased since 2019, from US\$7,500 million then to US\$10,570 million at the end of 2021. Reserves increased by US\$1,805 million in 2020 reflecting the sovereign bond issuances of that year, though there was an increase in foreign exchange interventions to contain depreciation pressures of the Guaraní early that year. In 2021, foreign exchange interventions declined somewhat, and the Guaraní closed the year with a slight appreciation.

Assessment

10. Reserves have increased to the coverage of 8.9 months of imports in 2021. The fluctuation in the import coverage of reserves from 8.3 in 2019 to 8.9 in 2021 is largely related to the sharp fall of imports in 2022 owing to lower exports. The level of 2021 reserves is comfortably above the Fund's metrics for a small open economy. The flexible exchange rate continues to be the first

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

line of defense against external shocks. Staff recommends to limit discretionary interventions to exceptional situations of disorderly market conditions.

Table 1. Paraguay: External Debt Sustainability Framework, 2017-2027
(In percent of GDP, unless otherwise indicated)

	Actual										Projections					Debt-stabilizing non-interest current account 6/ 1.9
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027			
Baseline: External debt	43.7	42.9	39.9	39.6	41.7	50.8	48.5	45.3	42.6	38.1	37.4	36.7	35.9			
Change in external debt	3.2	-0.8	-3.0	-0.4	2.1	9.1	-2.3	-3.2	-2.7	-4.5	-0.7	-0.7	-0.8			
Identified external debt-creating flows (4+8+9)	-2.0	-0.7	-7.5	-1.9	2.5	-2.7	-3.1	1.6	-6.3	-6.2	-3.3	-2.8	-2.9			
Current account deficit, excluding interest payments	-1.6	-6.0	-0.5	2.6	-1.2	-4.5	-2.6	0.9	-2.4	-2.5	-2.0	-1.9	-1.8			
Deficit in balance of goods and services	-1.5	-5.4	-4.1	-1.2	-0.3	-3.8	-1.8	1.5	-1.8	-2.0	-2.1	-2.0	-2.0			
Exports	32.9	35.4	36.4	36.5	35.9	34.2	38.3	31.3	34.4	33.8	33.1	32.3	31.6			
Imports	31.4	29.9	32.3	35.3	35.6	30.4	36.5	32.8	32.7	31.8	31.0	30.3	29.5			
Net non-debt creating capital inflows (negative)	-1.1	-1.0	-1.3	-0.8	-0.4	-0.3	-0.3	-1.2	-4.0	-4.4	-1.4	-1.0	-1.0			
Automatic debt dynamics 1/	0.7	6.4	-5.7	-3.6	4.0	2.2	-0.2	1.8	0.0	0.7	0.1	0.1	-0.1			
Contribution from nominal interest rate	1.6	2.0	-2.5	-2.4	1.6	1.8	1.8	2.0	2.0	2.1	1.4	1.3	1.1			
Contribution from real GDP growth	-1.2	-2.1	-1.9	-1.2	0.2	0.4	-2.0	-0.1	-1.9	-1.4	-1.3	-1.2	-1.2			
Contribution from price and exchange rate changes 2/	0.3	6.5	-1.3	0.0	2.2	0.0	-1.8	-4.1	-0.9	-0.9	-1.0	-0.8	-0.9			
Residual, incl. change in gross foreign assets (2-3) 3/	5.2	-0.2	4.5	1.5	-0.3	11.8	0.8	-4.8	3.5	1.8	2.6	2.1	2.1			
External debt-to-exports ratio (in percent)	132.9	121.4	109.8	108.4	116.0	148.7	126.6	144.9	123.6	113.0	113.0	113.8	113.7			
Gross external financing need (in billions of US dollars) 4/	2.6	1.1	1.4	2.6	3.1	2.0	3.1	4.6	3.2	3.1	3.1	3.3	3.1			
in percent of GDP	7.2	2.9	3.5	6.6	8.1	5.5	8.0	11.1	7.1	6.6	6.2	6.1	5.5			
Scenario with key variables at their historical averages 5/						47.6	47.5	44.2	46.5	47.0	48.7	49.8	51.1	-0.7		
Key Macroeconomic Assumptions Underlying Baseline														For debt stabilization		
Nominal GDP (US dollars)	36.3	36.4	39.4	40.2	37.9	35.4	38.3	41.9	44.7	47.2	50.1	53.1	56.2			
Real GDP growth (in percent)	3.0	4.3	4.8	3.2	-0.4	-0.8	4.2	0.3	4.5	3.5	3.5	3.5	3.5			
Exchange rate appreciation (US dollar value of local currency, change in percent)	-3.5	-14.3	0.9	-2.0	-8.1	-7.8	-1.8	-1.3	-2.0	-1.4	-1.8	-1.8	-1.8			
GDP deflator (change in domestic currency)	2.9	1.6	2.2	2.0	3.0	2.3	5.6	10.5	4.2	3.6	4.5	4.1	4.2			
GDP deflator in US dollars (change in percent)	-0.8	-12.9	3.1	-0.1	-5.4	-5.8	3.7	9.1	2.0	2.1	2.6	2.2	2.4			
Nominal external interest rate (in percent)	4.0	4.1	-6.4	-6.1	3.9	4.0	3.9	4.4	4.6	5.1	3.8	3.8	3.8			
Growth of exports (US dollar terms, in percent)	-14.5	7.5	11.4	2.4	-7.2	-11.1	21.0	-10.6	17.4	3.6	4.1	3.1	3.7			
Growth of imports (US dollar terms, in percent)	-13.4	-4.6	16.9	11.5	-4.9	-20.1	29.5	-1.6	6.2	2.9	3.6	3.3	3.3			
Current account balance, excluding interest payments	1.6	6.0	0.5	-2.6	1.2	4.5	2.6	-0.9	2.4	2.5	2.0	1.9	1.8			
Net non-debt creating capital inflows	1.1	1.0	1.3	0.8	0.4	0.3	0.3	1.2	4.0	4.4	1.4	1.0	1.0			

1/ Derived as $[r - g - r(1+g) + ea(1+r)] / (1+g+r+gr)$ times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as $[-r(1+g) + ea(1+r)] / (1+g+r+gr)$ times previous period debt stock. r increases with an appreciating domestic currency ($e > 0$) and rising inflation (based on GDP deflator).

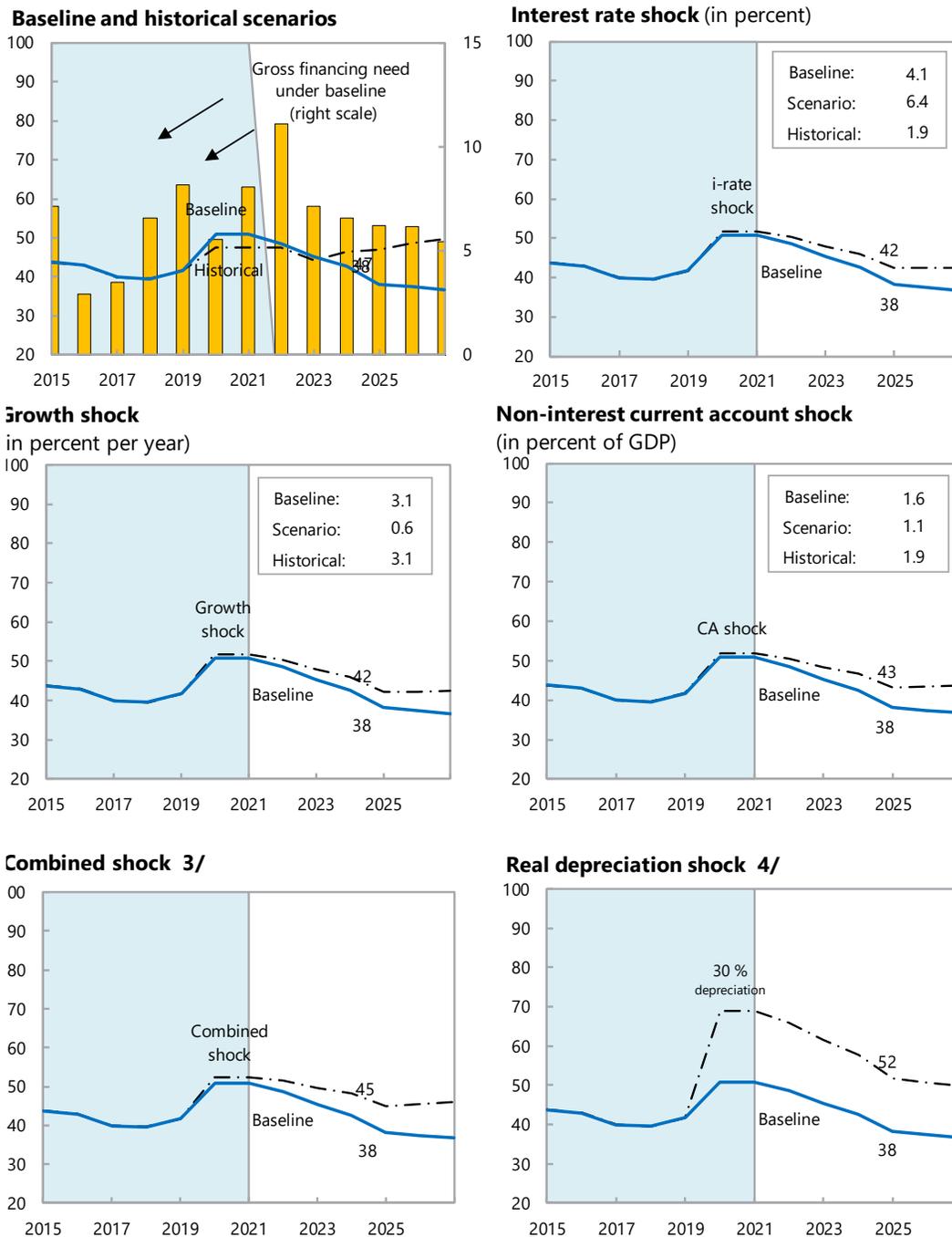
3/ For projection, line includes the impact of price and exchange rate changes.

4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Figure 1. Paraguay: External Debt Sustainability: Bound Tests ^{1/2/}
 (External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.
 1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
 2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
 3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
 4/ One-time real depreciation of 30 percent occurs in 2010.

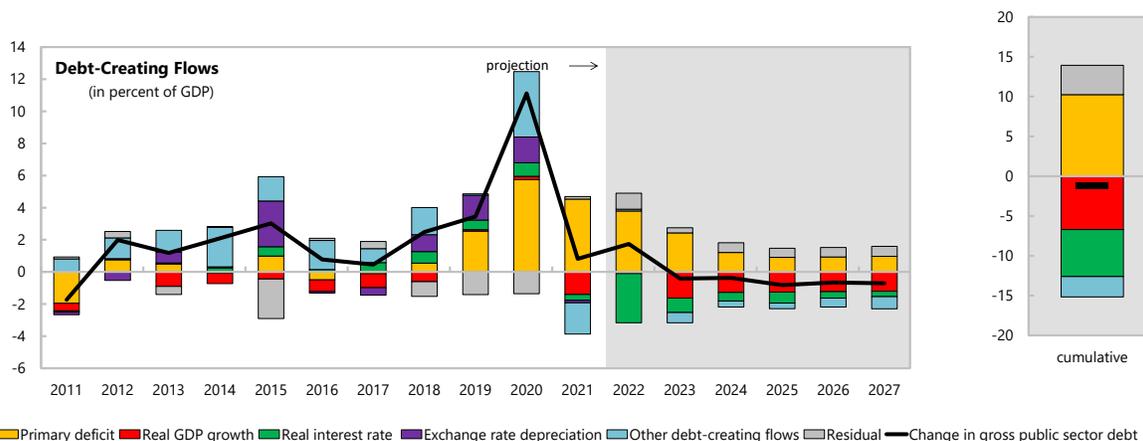
Annex IV. Public Sector Debt Sustainability Analysis

Figure 1. Paraguay: Public Sector Debt Sustainability Analysis – Baseline Scenario
(In percent of GDP, unless otherwise specified)

	Actual			Projections						
	2011-2019	2020	2021	2022	2023	2024	2025	2026	2027	
Nominal gross public debt	17.5	36.9	37.7	39.5	39.0	38.7	37.9	37.2	36.5	
Public gross financing needs	2.0	8.1	8.4	6.2	4.4	3.1	3.1	3.4	3.6	
Real GDP growth (in percent)	3.6	-0.8	4.2	0.3	4.5	3.5	3.5	3.5	3.5	
Inflation (GDP deflator, in percent)	3.3	2.3	5.6	10.5	4.2	3.6	4.5	4.1	4.2	
Nominal GDP growth (in percent)	7.0	1.4	10.1	10.9	8.9	7.2	8.1	7.7	7.9	
Effective interest rate (in percent) ^{2/}	5.2	5.6	4.8	1.6	1.9	2.3	2.7	3.1	3.4	

As of April 27, 2022		
Sovereign Spreads		
EMBIG (bp)		270
5Y CDS (bp)		...
Ratings	Foreign	Local
Moody's	Ba1	Ba1
S&Ps	BB	BB
Fitch	BB+	BB+

	Actual			Projections							cumulative	debt-stabilizing primary balance ^{8/}
	2011-2019	2020	2021	2022	2023	2024	2025	2026	2027			
Change in gross public sector debt	1.5	11.1	0.8	1.7	-0.4	-0.4	-0.8	-0.7	-0.7	-1.2		
Identified debt-creating flows	2.0	12.5	0.7	0.7	-0.7	-1.0	-1.4	-1.3	-1.3	-4.9		
Primary deficit	0.3	5.7	4.5	3.8	2.4	1.2	0.9	0.9	1.0	10.2		
Primary (noninterest) revenue and grants	18.1	18.7	19.2	18.7	18.9	19.2	19.3	19.2	19.1	114.4		
Primary (noninterest) expenditure	18.4	24.4	23.7	22.5	21.3	20.4	20.2	20.1	20.1	124.7		
Automatic debt dynamics ^{3/}	0.4	2.7	-1.9	-3.2	-2.5	-1.8	-1.9	-1.6	-1.5	-12.6		
Interest rate/growth differential ^{4/}	-0.2	1.1	-1.8	-3.2	-2.5	-1.8	-1.9	-1.6	-1.5	-12.6		
Of which: real interest rate	0.3	0.8	-0.4	-3.1	-0.9	-0.5	-0.7	-0.4	-0.3	-5.9		
Of which: real GDP growth	-0.5	0.2	-1.4	-0.1	-1.6	-1.3	-1.3	-1.2	-1.2	-6.7		
Exchange rate depreciation ^{5/}	0.6	1.6	-0.2	...	...	...	...	...	...	...
Other identified debt-creating flows	1.3	4.1	-1.9	0.1	-0.6	-0.4	-0.3	-0.6	-0.8	-2.6		
NFPs asset accumulation ^{6/}	1.3	4.1	-1.9	0.1	-0.6	-0.4	-0.3	-0.6	-0.8	-2.6		
Residual ^{7/}	-0.5	-1.4	0.2	1.0	0.3	0.6	0.6	0.6	0.6	3.7		



Source: Fund staff estimates and projections.

1/ Public sector is defined as consolidated public sector. It includes the non-financial public sector and the central bank. The stock of public debt excludes central bank bills.

2/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

3/ Derived as $[(r - \pi(1+g) - g + ae(1+r))/(1+g+\pi+g\pi)]$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

4/ The real interest rate contribution is derived from the numerator in footnote 3 as $r - \pi(1+g)$ and the real growth contribution as $-g$.

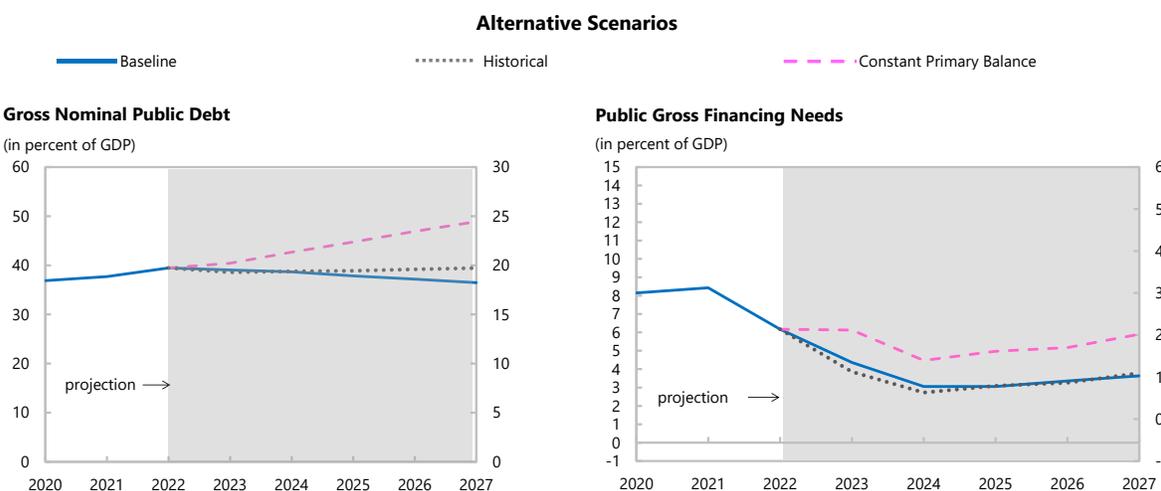
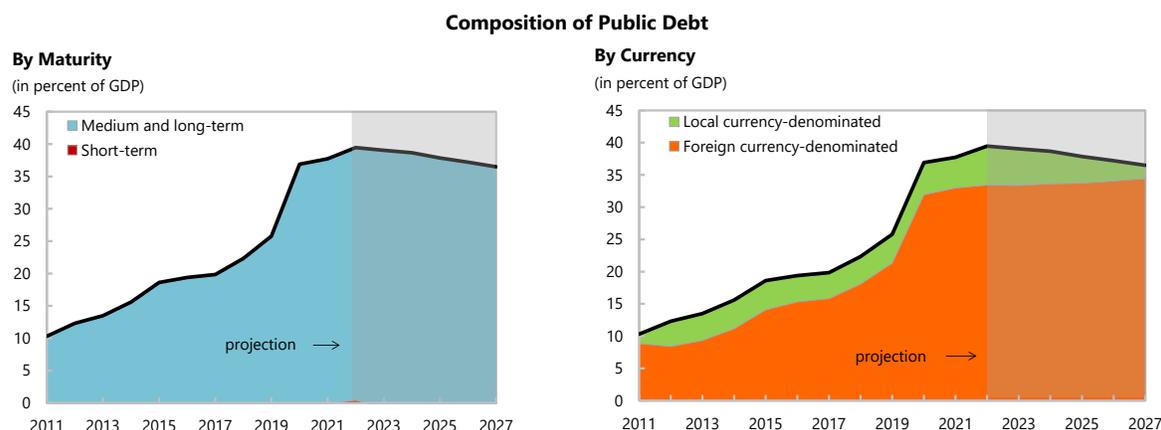
5/ The exchange rate contribution is derived from the numerator in footnote 3 as $ae(1+r)$.

6/ Includes social security surplus, accumulation of deposits from the sovereign bond issuance in 2014, and financing of the national development bank.

7/ Includes asset changes and interest revenues (if any). For projections, it includes the impacts of exchange rate changes.

8/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Figure 2. Paraguay: Public DSA – Composition of Public Debt and Alternative Scenarios



Underlying Assumptions

(in percent)

Baseline Scenario	2022	2023	2024	2025	2026	2027
Real GDP growth	0.3	4.5	3.5	3.5	3.5	3.5
Inflation	10.5	4.2	3.6	4.5	4.1	4.2
Primary Balance	-3.8	-2.4	-1.2	-0.9	-0.9	-1.0
Effective interest rate	1.6	1.9	2.3	2.7	3.1	3.4
Constant Primary Balance Scenario	2022	2023	2024	2025	2026	2027
Real GDP growth	0.3	4.5	3.5	3.5	3.5	3.5
Inflation	10.5	4.2	3.6	4.5	4.1	4.2
Primary Balance	-3.8	-3.8	-3.8	-3.8	-3.8	-3.8
Effective interest rate	1.6	1.9	2.5	3.0	3.5	3.7

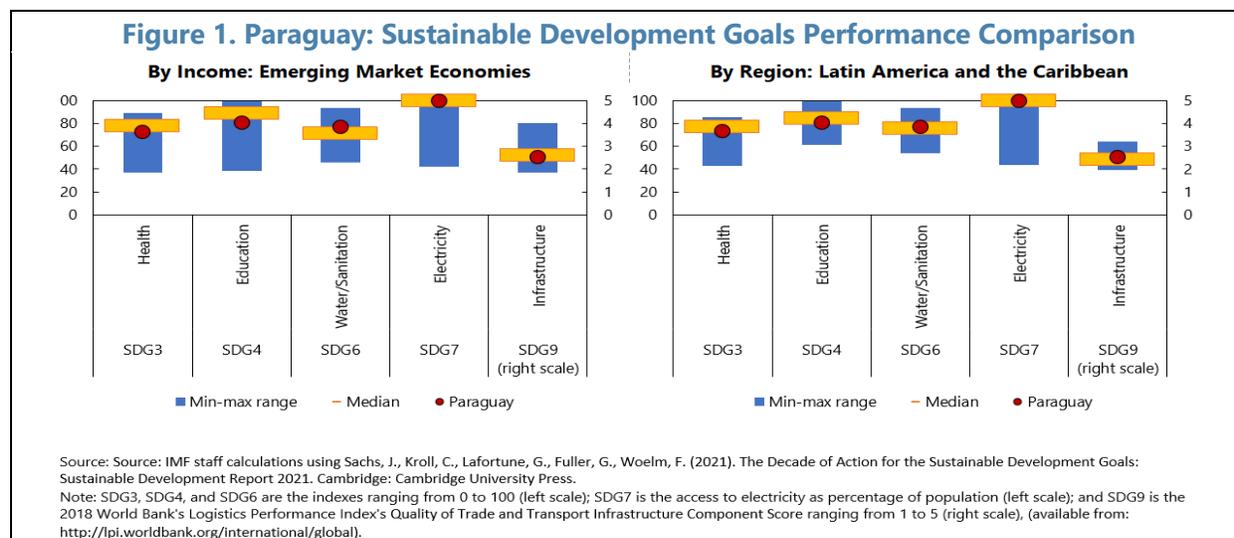
Historical Scenario	2022	2023	2024	2025	2026	2027
Real GDP growth	0.3	3.1	3.1	3.1	3.1	3.1
Inflation	10.5	4.2	3.6	4.5	4.1	4.2
Primary Balance	-3.8	-1.5	-1.5	-1.5	-1.5	-1.5
Effective interest rate	1.6	1.9	2.6	3.3	4.0	4.5

Source: Fund staff estimates and projections.

Annex V. Expenditure Gaps Toward SDGs

Achieving inclusive growth is a critical objective for Paraguay going forward, building on the macroeconomic stability and the economic and social development successes over the last two decades. Relying on the UN-sponsored Sustainable Development Goals (SDGs) and a costing framework that the Fund has applied to other countries (IMF Staff Discussion Note (SDN) No. 19/03), this note provides a first approximation for Paraguay of the increase in public spending outlays needed to attain health, education, and roads, water, and sanitation infrastructure SDGs, which would amount to up to 7 percent of GDP per year. These cost estimates will need to be refined as more data is available and accompanied with a financing strategy encompassing continuing tax administration efforts, broad-based tax reform, scaled-up private sector participation, and greater spending efficiency.

1. The authorities have embraced the SDGs as part of their national development strategy. In fact, Paraguay was formulating its National Development Plan “Paraguay 2030” at the time of preparation of the 2030 Agenda and the SDGs, which allowed to align both sets of objectives. An interinstitutional SDG Commission involving the three branches of government was established to coordinate policies and monitor progress towards the achievement of SDG commitments. Still, moving from planning to executing policies remains challenging. As a way to operationalize some key objectives under a practical framework, we estimate the additional spending in the education, health, and infrastructure (water, sanitation, and roads) sectors needed to bring Paraguay’s spending patterns in line with good performing countries of a similar level of income (US\$6,000 to US\$15,000 of GDP per capita) by 2030. While these sectors only represent a selection of SDGs, they are deemed to have substantial synergies with other goals, such as ending poverty and hunger, promoting gender equality, and tackling inequality. In those areas Paraguay fares relatively well within emerging market economies and Latin America and the Caribbean (Panel 1) but lags the good performers.



Education

2. Education performance is assessed with the SDG4 index constructed using three variables: net primary school enrolment rate, expected years of schooling, and literacy rate for the population aged 15–24. The SDG4 index is 76.2 for Paraguay (Table 1). The benchmarking exercise consists of deriving the median value for cost items for education (e.g., teachers’ salaries, pupils per teacher, and allocation of total expenses between other non-compensation current spending and capital spending) consistent with delivering an SDG4 score of 84. Based on these reference values, we estimate that total education expenditure as a percent of GDP should increase from 4.5 in 2021 to 8.8 in 2030, an increase concentrated in public spending (+4.5 percent of GDP).

Table 1. Paraguay: Benchmarking Education Needs

	GDP per capita 6000-15000			Paraguay	
	All	Low performance	High performance	2018 (or latest)	2030
GDP per capita	9,169.5	8,408.5	12,390.3	5,381.0	8,236.0
<i>Main factors</i>					
Students per teacher ratio	14.3	18.3	11.3	13.0	11.3
Teacher wages (ratio to GDP per capita)	1.7	2.3	1.6	4.6	1.6
Other current and capital spending (% total spending)	45.8	43.3	46.6	19.7	46.6
<i>Other</i>					
Student age population (% total population)	35.7	40.2	23.2	45.7	40.1
Enrollment rate (preprimary to tertiary)	77.5	72.3	85.6	75.0	80.3
Private share (% of total spending)	12.8	20.7	10.1	40.6	10.1
<i>Results</i>					
Education spending (percent of GDP)	6.1	6.5	5.4	4.5	8.8
Public	5.3	5.1	4.9	3.4	7.9
Private	0.8	1.3	0.5	1.1	0.9
Spending per student (USD 2018)	2,019.6	1,872.9	3,380.4	706.5	2,247.0
SDG4 index	82.7	78.0	88.5	76.2	>84

Health

3. Health performance as assessed by SDG3 index reaches 73.9 in Paraguay (Table 2). The SDG3 index is constructed using 14 variables, among which maternal, neonatal and under-5 mortality rates, HIV prevalence, and healthy life expectancy at birth. The benchmarking exercise then consists of deriving the median value for cost drivers in healthcare (population density of different types of health personnel, doctors’ and nurses’ remuneration, and shares of current and capital expenditure in total health spending) consistent with delivering an SDG3 score of 84. This exercise suggests that Paraguay does not need to increase public outlays in health. Improvements in spending efficiency would seem the best way to reach the health-related SDG in Paraguay.

Table 2. Paraguay: Benchmarking Health Needs

	GDP per capita \$6000-\$15000			Paraguay	
	All	Low performance	High performance	2016 (or latest)	2030
GDP per capita	8,909.5	8,115.8	12,623.2	5,381.0	8,236.0
<i>Main factors</i>					
Doctors per 1,000 population	2.0	1.9	2.7	2.7	2.7
Other medical personnel per 1,000 population	6.4	6.3	7.7	5.0	7.7
Doctor wages (ratio to GDP per capita)	4.1	4.2	4.0	9.9	4.0
Other current and capital spending (% total spending)	59.8	60.9	59.8	56.7	56.7
Private share (% total spending)	39.5	47.8	31.6	44.0	31.6
<i>Results</i>					
Health spending (percent of GDP)	6.4	5.9	7.1	8.0	6.1
Public	3.9	3.1	4.9	4.5	4.2
Private	2.5	2.8	2.3	3.5	1.9
Per capita spending (USD 2018)	570.4	482.3	899.5	433.1	504.1
SDG3 index	80.1	78.2	85.8	73.9	>84

Water and Sanitation Infrastructure

4. Water and sanitation performance is assessed by the SDG6 index, which comprises universal safe drinking water and adequate sanitation. According to the World Bank WASH costing model (World Bank, 2015, 2016, and 2017), to achieve the SDG targets of universal safe access to water and sanitation by 2030, total new investment would need to be on average US\$150 million per year (0.2 percent of 2030 GDP) (Table 3).

Table 3. Paraguay: Benchmarking Water and Sanitation Infrastructure Needs

	Ending open defecation	Basic						Safely Managed				Total
		Water		Sanitation		Hygiene		Water		Sanitation		
		Rural	Urban	Rural	Urban	Rural	Urban	Rural	Urban	Rural	Urban	
Total target population (million)	0.3	1.2	1.6	1.5	1.7	0.6	1.7	2.4	2.5	2.1	4.1	6.5
Population unserved in 2015 (million)	0.1	0.9	0.2	1.2	0.3	0.3	0.3	2.1	1.1	1.9	2.7	4.8
Population growth 2015-2030 (million)	0.3	0.3	1.4	0.3	1.4	0.3	1.4	0.3	1.4	0.3	1.4	1.7
Cost (per capita, \$)	24.5	23.6	88.8	85.1	208.3	3.6	2.7	203.6	203.6	70.8	131.7	348.0
Total cost (\$ million)	8.0	27.7	142.1	124.1	355.9	2.2	4.6	485.2	504.3	152.0	540.5	2,257.6
Annual cost (\$ million)	0.5	1.8	9.5	8.3	23.7	0.1	0.3	32.3	33.6	10.1	36.0	150.5
Total cost (% of 2030 GDP)	0.013	0.044	0.227	0.198	0.568	0.003	0.007	0.775	0.805	0.243	0.863	3.604
Annual cost (% of 2030 GDP)	0.001	0.003	0.015	0.013	0.038	0.000	0.000	0.052	0.054	0.016	0.058	0.240

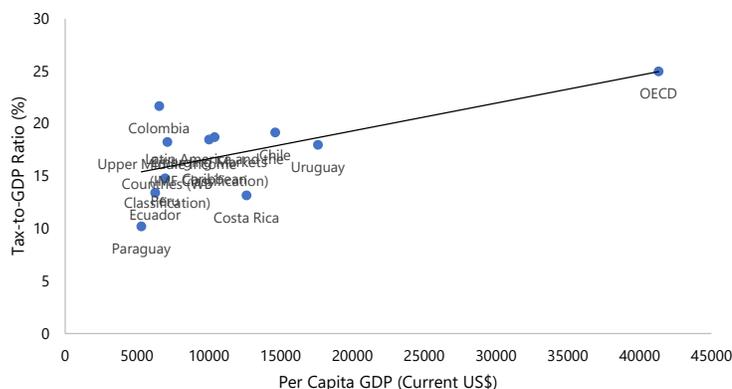
Roads Infrastructure

5. Paraguay would still have a substantial roads infrastructure gap despite a recent boost in public investment. On the basis of SDG9's link between infrastructure and economic development, the proposed methodology estimates the costs of closing the existing road infrastructure gap by 2030, measured as the target road density minus the current road density. The target road density is determined by GDP per capita, population density, and access by those living in remote locations per the Rural Access Index (RAI, share of rural population with access to an all-season road within 2 kilometers). The total cost is obtained by multiplying the road gap by a unit cost per kilometer. This exercise, based on the World Bank figures, suggests that approaching the density observed in good performing countries would imply an increase in annual expenditures of about 2.3 percent of GDP. However, the World Bank's measured RAI is reportedly 56, but it is consistent with a road density of 0.08 Km per square Km which seems too low relative to data from the authorities (closer to 0.2 Km per square Km).

Annex VI. Assessment of Tax Efficiency

Using FAD’s Assessment of Revenue Tool (ART), which relies on FADTP Internal World Revenue Longitudinal Database and FADTP Internal International Tax Rates Database, we are able to compare Paraguay’s tax revenue performance over the period 2008-19 against a set of comparator countries and country groupings. They comprise respectively, Chile, Colombia, Costa Rica, Ecuador, Peru, and Uruguay, and Latin America and the Caribbean, Upper Middle Income Countries (World Bank classification), Emerging Markets (IMF classification), and OECD.

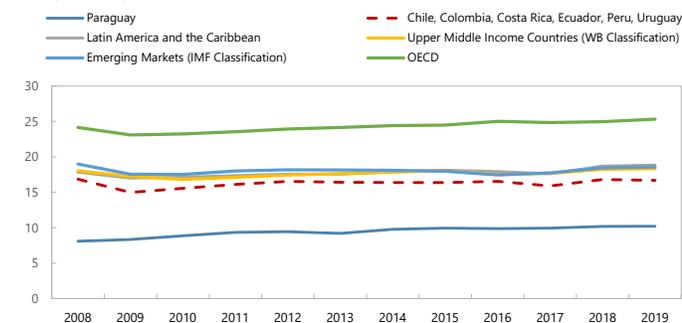
Paraguay and Comparators: Income Level and Tax-to-GDP Ratio, 2019 (In Percent)



Source: WEO, IMF Internal World Revenue Longitudinal Database (WoRLD).

1. At a broader level, when linking tax revenue performance with per capita GDP in 2019, Paraguay substantially underperforms its comparators, with Paraguay’s tax-to-GDP ratio farther away from a simple regression line.

Paraguay and Comparators: Tax-to-GDP Ratio, 2008-2019 (In Percent)

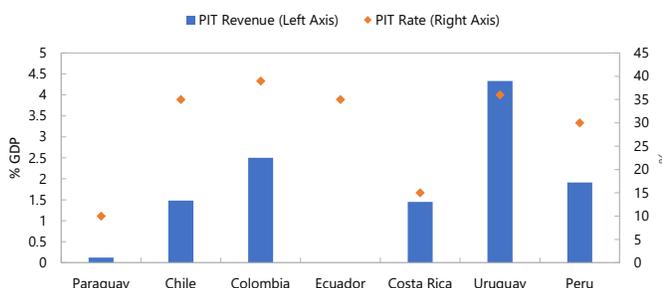


Source: WEO, IMF Internal World Revenue Longitudinal Database (WoRLD).

2. Since 2008, Paraguay’s tax-to-GDP ratio has slightly improved but remains well below the one for its comparator country groupings and the comparator country average.

3. When comparing personal income taxes (PIT) in 2019 (i.e., before the recent personal income tax reform in Paraguay), it is noticeable that Paraguay has the lowest PIT tax rate among comparator countries in the region and the lowest collection in percent of GDP.

Paraguay and Comparators: PIT Revenue and Top Combined Rate, 2019 (In Percent of GDP and Percent)



Source: IMF Internal World Revenue Longitudinal Database (WoRLD); IMF Internal Tax Rates Database; IBFD.

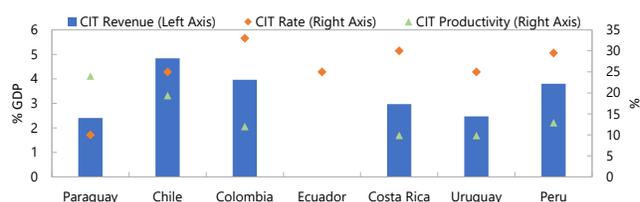
4. The situation in the corporate income tax (CIT) is slightly better for Paraguay. In fact, even though CIT collection in percent of GDP is lower than in comparator

countries, its productivity (computed as (CIT Revenue) / [(CIT Rate) * (GDP)]) is the best one as Paraguay has a standard CIT rate of only 10 percent.¹

5. In the case of the VAT, Paraguay collected less than most its comparator countries, though its productivity as measured by C-Efficiency (calculated as (VAT Revenue) / [(VAT Rate) * (Total Consumption)]) was the highest (on par with Ecuador).

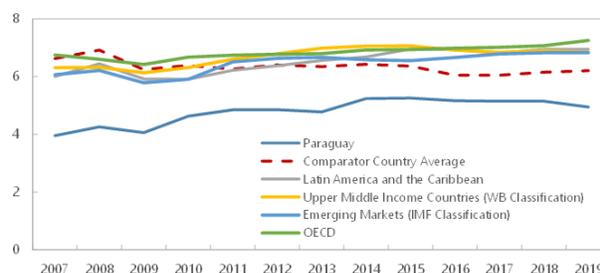
6. Looking at the evolution of general goods and services tax revenue (i.e., VAT, excises, and trade taxes), Paraguay has consistently collected below its comparator country groupings and the comparator country average.

Paraguay and Comparators: CIT Revenue, Top Combined Rates and Productivity, 2019
(In Percent of GDP and Percent)



Source: IMF Internal World Revenue Longitudinal Database (WoRLD); IMF Internal Tax Rates Database; IBFD IMF staff calculation. CIT Productivity is calculated as (CIT Revenue) / [(CIT Rate) * (GDP)].

Paraguay and Comparators: General Goods and Services Tax Revenue, 2007-2019
(In Percent of GDP)



Source: IMF Internal World Revenue Longitudinal Database (WoRLD).

¹ However, this chart does not include individual rates and revenue.

Annex VII. Climate Change Impact and Policies

In the long term, rising average temperatures will negatively impact both agricultural yields in Paraguay's main export crops and the population's health and social welfare. In the medium term, Paraguay faces risks from changes in precipitation patterns and the frequency and intensity of droughts and flooding. These pose a threat to agriculture, electricity generation, and water levels in the Paraguay and Paraná rivers, which are Paraguay's main transportation channel for external trade. In the face of these risks, Paraguay will need to intensify efforts to integrate climate adaptation, transition, and mitigation into its overall policy framework.

Paraguay's Exposure to Climate Change and Adaptation Potential

1. Paraguay has a subtropical climate, with dry zones to the west and humid zones to the east. The average annual temperature is 23°C, and the average annual total precipitation is 1,500 mm.¹ Paraguay is rich in natural resources, with a growing agricultural and livestock sector. Clean and renewable hydroelectric energy is abundant, produced by two large binational dams, and the unconsumed surplus is exported to Brazil and Argentina. Paraguay's reliance on these sectors makes it particularly vulnerable to the impacts of increasing climate variability and climate change. Vulnerability is aggravated by substantial habitat deterioration due to deforestation, both for the conversion of land use for agriculture and for widespread cooking and heating with biomass. According to the World Bank, Paraguay is already subject to the impact of severe climate events.²

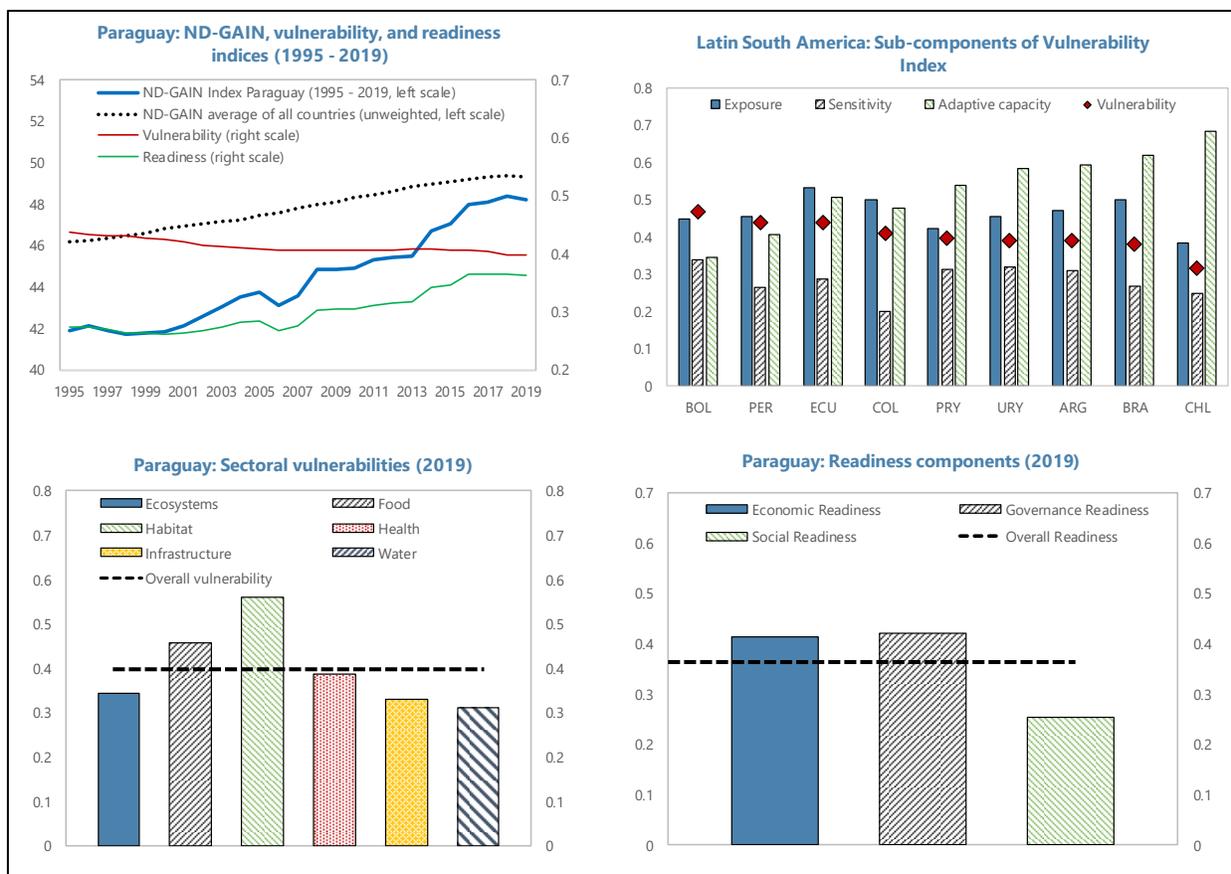
2. Both the projected path and recent history point to a clear warming trend. A CMIP5 BAU scenario points to a temperature increase in the range of +1.7 to +6.6 degree Celsius, with a median of 4.3.³ By the second half of the century, rising temperatures are projected to lead to more frequent periods of extreme heat waves, affecting negatively the productivity of people, livestock, and crops. Public health is at the risk of deteriorating from diarrheal and respiratory illnesses, as well as from diseases like malaria and dengue.⁴ These risks are compounded by deep uncertainty about precipitation patterns. While a BAU scenario of the IPCC climate model considers an average increase of overall rainfall, the regional and temporal distribution of precipitation is uneven, pointing to an increase of both extreme drought and flood events. Moreover, the risks emanating from tipping points such as deforestation of the Amazon are not well understood. In recent years, Paraguay has already experienced increasingly frequent and intense drought periods that have hit the country's agricultural and electricity production.

1 Grassi, B., 2020: Estudio del Clima Paraguay 2019. MADES-STP. Asunción, Paraguay.

2 Climate Risk Profile: Paraguay (2021): The World Bank Group.

3 World Bank (2021), p. 8.

4 Plan Nacional de Adaptación al Cambio Climático (SEAM/PNUD/FMAM, 2017).



3. By the standards of ND-GAIN⁵, Paraguay is located in the middle range of climate change vulnerability. Paraguay is ranked 94th out of 184 countries in the overall ND-GAIN index based on 2019 data. Its relatively low ND-GAIN score compared to the (unweighted) average of all countries is explained by the failure of readiness to compensate for vulnerability. Paraguay’s vulnerability is in the middle range of its South American peers, with comparable exposure and a somewhat higher sensitivity to climate change, which is partly compensated by adaptive capacity. With regard to sectoral components, human habitat, food, and health are found to be relatively vulnerable. As to the general conditions that facilitate climate adaptation, social readiness performs worse than economic and governance readiness. This sub-index is particularly impacted by Paraguay’s low scores of education and of innovation.

National Policy Framework

4. Paraguay’s first National Adaptation Plan (NAP) was formulated in 2016. It is closely aligned with the government’s National Development Plan 2014–30 towards reaching the country’s SDGs, which originally focused on three pillars: (1) Poverty reduction and social development; (2)

⁵ “The Notre Dame-Global Adaptation Index (ND-GAIN) Country Index is a free open-source index that shows a country’s current *vulnerability* to climate disruptions. It also assesses a country’s *readiness* to leverage private and public sector investment for adaptive actions” (ND-GAIN Country Index Technical Report, Nov. 2015, p. 2). Rising readiness pulls up the index, whereas rising vulnerability (including lack of capacity to adapt) pulls it down.

Inclusive economic growth; and (3) Insertion of Paraguay in global markets.⁶ The NAP, which was formulated under the auspices of Paraguay's Secretariate of the Environment (SEAM), focuses on measures related to raising climate-change awareness and capacity building within and across government institutions.

5. Paraguay has also submitted and continuously updated its Nationally Defined Contributions (NDCs) for climate mitigation. Paraguay's first NDCs were communicated in 2015. They proclaim unconditional commitments to reduce greenhouse gases (GHG) by 10 percent, with a commitment to reduce GHG by another 10 percent, conditional on external financing. In its latest NDC update (2021) Paraguay went a step further by significantly reducing the GHG emission values of the baseline BAU scenario, effectively lowering the target for future GHG emission levels.

Climate Change Policies

6. To improve climate change adaptation policies, Paraguay should strive to move toward an integrated policy framework. Development policy goals are not separable from climate policy goals, and both need to be integrated with medium and long-term fiscal planning. Recent moves toward performance budgeting and strengthened links between the Secretariate of Planning and the Ministry of Finance are positive steps in this direction, as well as the issuance of guidelines for environmental risk management by financial institutions regulated by the banking superintendency to promote sustainable financing practices.

7. Paraguay's hydro-based electricity matrix provides a favorable starting point for decarbonizing the energy sector. A recent study by the Columbia Center on Sustainable Investment⁷ found that the transition to a zero-emissions energy sector is feasible, provided that an appropriate policy framework will be put in place. This will require enhanced long-term investment in renewable energy sources, transmission systems, technologies that boost energy efficiency, and a better regulation and alignment of public and private sector incentives toward electrification of energy uses.

⁶ The plan has recently been revised and updated under the lead of Paraguay's Technical Secretariate of Planning. It now includes the strengthening of public institutions as a fourth pillar.

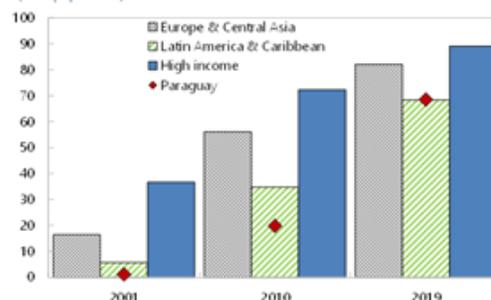
⁷ CCSI (2021): *Evaluación y Planificación del Sector Energético del Paraguay: Vías de Descarbonización*, New York.

Annex VIII. Digitalization in Paraguay, and the Differential Impact of COVID-19 on Female Employment: Some Insights¹

A. Some Stylized Facts on Digitalization On LAC Region and Paraguay

1. The evidence points to the LAC region experiencing a digital growth spurt.² Nearly half of the LAC countries register a moderate momentum measured by the digital evolution index across four key drivers (supply, demand, institutional environment, and innovation). A few countries are advancing rapidly, with Chile, Costa Rica, Paraguay, Uruguay, Mexico, and Colombia leading the way, both in the state of digital evolution and the rate of progress i.e., digital momentum.

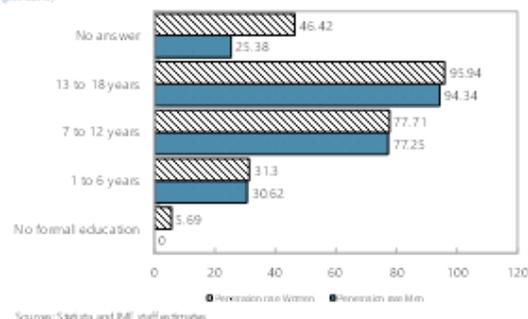
Individuals using the Internet (percent of population)
(% of population)



Source: World Bank.

2. Paraguay does well in terms of digitalization compared to the LAC average, and women are also doing slightly better than men. The penetration rate of internet use in LAC is about 68 percent, slightly lower than the rate observed in Paraguay (69 percent) as of 2019. Over 77 percent of female Paraguayans with 7 to 12 years of formal education use the internet. The highest usage rate was among the female population who had 13 to 18 years of education, amounting to 95.9 percent, nearly the same as for men. Meanwhile, the lowest usage rate was among women without any formal education, with 5.7 percent.

Internet use in Paraguay in 2017, by level of education and gender.
(percent)



Source: Statistics and IAP staff estimates.

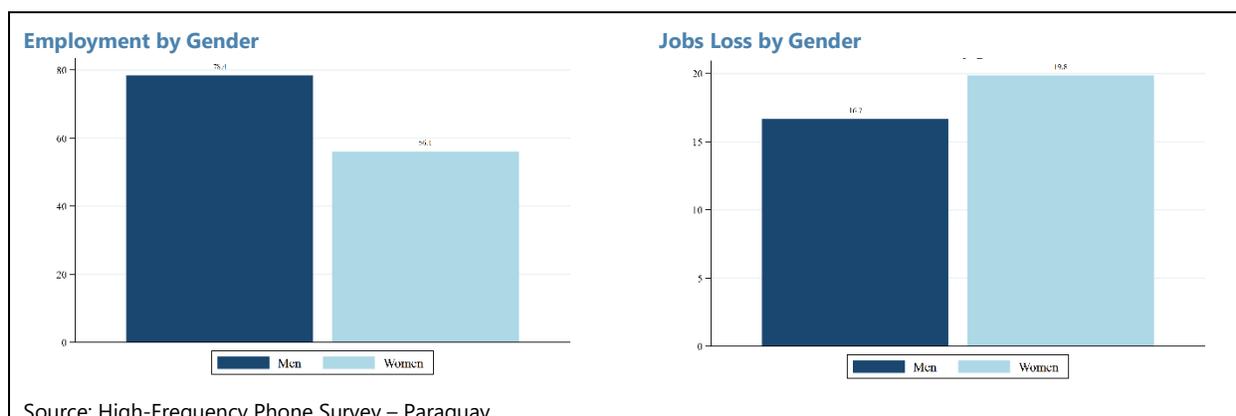
B. Stylized Facts on Digitalization, the Pandemic, and Gender Gaps in Paraguay

3. In Paraguay, the pandemic shock affected male and female employment differently increasing pre-existing gaps. According to the [Paraguay High-Frequency Survey](#) (a World Bank initiative), more than half of women reported having lost their jobs as of May 2020, at the very onset

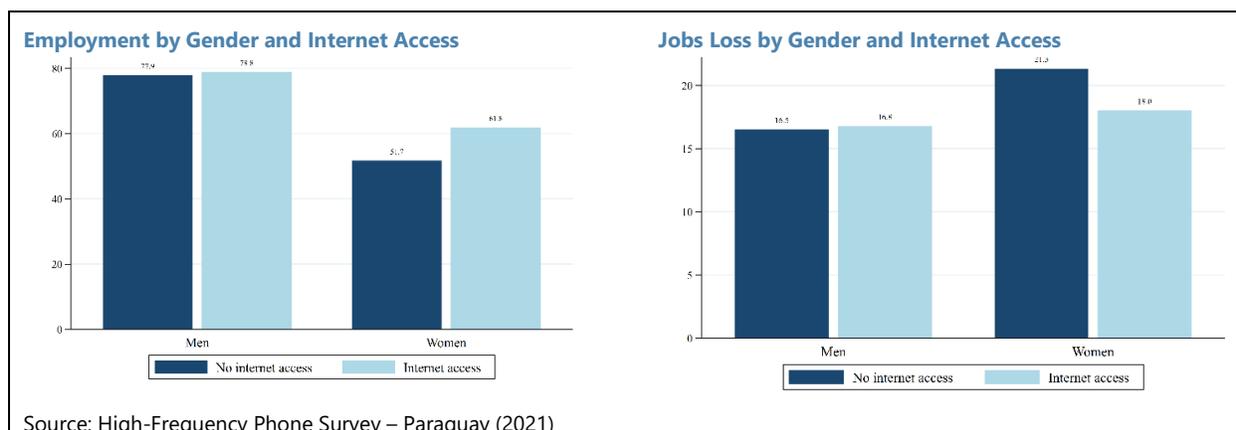
¹ Prepared by Silvia Granados (World Bank), Manuk Ghazanchyan, Gustavo Canavire (World Bank), and Yuanchen Yang.

² Digitalization refers to the widespread use of digital technologies, such as the internet and mobile phones, to collect, store, analyze, and exchange information (World Bank 2016; Brookings 2017). For the purposes of this study, and consistent with the literature, we define digitalization, as internet usage as a percent of the population.

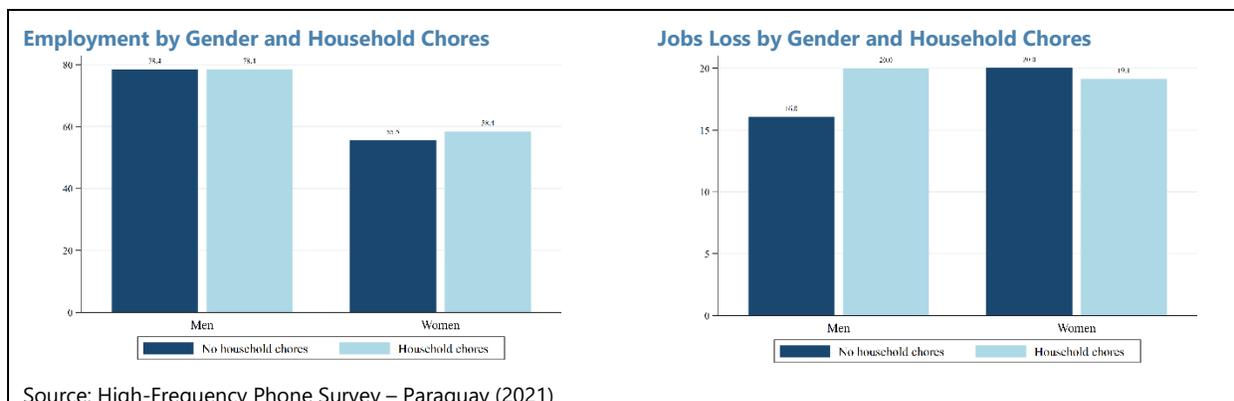
of the pandemic, compared to 35 percent for men. Moreover, men's employment recovered more quickly.



4. By June 2021, women's employment in Paraguay was higher and job loss was lower for those women who had internet access. It is striking that for men's employment and job loss during the pandemic, digitalization does not seem to matter much. This is perhaps related to the occupational differences of men and women with men involved in less internet intensive sectors, including construction and mining.

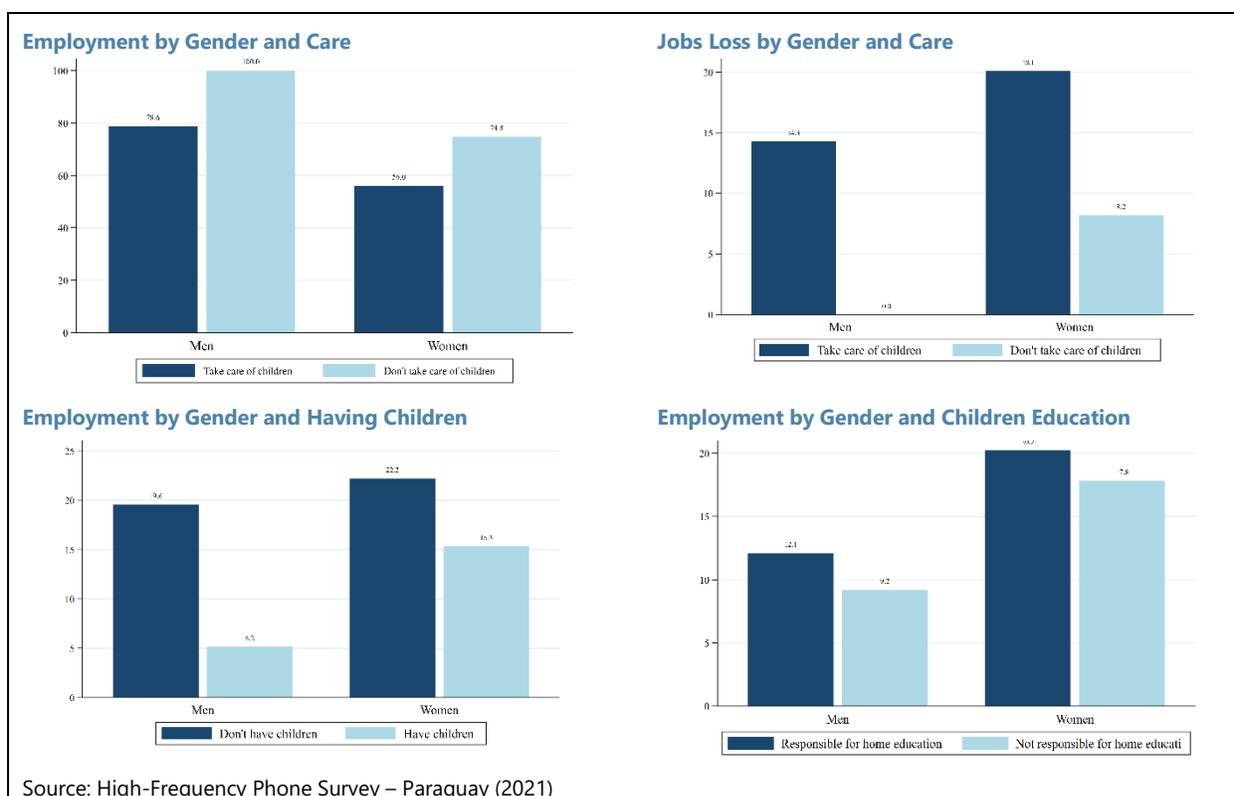


5. In Paraguay, almost half (48.1. percent) of women who are inactive report that they do not work or look for a job because they do household chores and housekeeping. In the case of men, less than 1 in 10 are in this situation. It appears that greater childcare and household chores responsibilities for women account for the differences in gender employment and job loss for these segments of the population. The imbalances of unpaid work defined as household chores and childcare are more pronounced in rural households (40 percent of the population), where women representing about 53.9 percent spent 16.2 more hours in these activities than their male counterparts (World Bank, 2020). Women are over-represented in unskilled and informal employment, with 27 percent concentrated in unskilled occupations (as opposed to 17 percent of men) – many of whom work as domestic workers. It is worth noting that job loss for women that do and do not take part on household chores is higher than job loss for men without household chores.



Source: High-Frequency Phone Survey – Paraguay (2021)

6. COVID-19 amplified women’s unpaid work burdens. For instance, the widespread closure of schools and childcare facilities did not only increase the amount of time that parents had to spend on childcare and child supervision, but also forced many to supervise or lead home schooling. Much of this additional burden fell on women as can be seen from the analysis below. The job loss for women who had children and had to take care of them and were responsible for their education, was much higher than for those without those responsibilities.



Source: High-Frequency Phone Survey – Paraguay (2021)

7. Finally, it is critical again to recognize and delineate the role of digitalization/internet usage and its interaction with the impact of COVID-19 on women with additional chores including the care for children. The employment gap between men and women having children for those with internet access is much lower than for those with no internet access. Similarly, the job loss for women with internet access is much lower compared to men despite them having children.



C. Conclusions and Policy Implications

8. For Paraguay, the increased use of technological solutions has been reinforced by the COVID-19 crisis. Almost two years of lockdowns triggered a transition towards digital interactions, including remote work, online education, and digital health among others. Awareness of women’s additional chores in Paraguay in terms of large gaps in household chores, unpaid work, and childcare has become extremely important. Thus, going forward reducing the gender gap in sectoral employment and labor market flexibility and reducing informality (unpaid work for women) can help increase the share of women in digitalization and reduce the impact of the COVID-19 and other crises on women. More prominence should be given to the Ministry of Women Affairs to lead these initiatives for women, including at the legislative level.



PARAGUAY

May 27, 2022

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION— INFORMATIONAL ANNEX

Prepared By

The Western Hemisphere Department
(In consultation with other departments)

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FUND RELATIONS

(As of April 30, 2022)

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	97.23	33.73

Outstanding Purchases and Loans: None

Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Stand-By	May 31, 2006	Aug 31, 2008	30.00	0.00
Stand-By	Dec 15, 2003	Nov 30, 2005	50.00	0.00
Stand-By	Jan 01, 1969	Dec 31, 1969	7.50	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				
	2022	2023	2024	2025	2026
Principal					
Charges/Interest	0.60	0.95	0.95	0.95	0.95
Total	0.60	0.95	0.95	0.95	0.95

¹ Since March 22, 2021, 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 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, 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 2020 Article IV consultation on February 12, 2021.

Technical Assistance 2016–22

DPT	Purpose	Date of Delivery
MCM	Foreign Exchange Operations	February 2016
FAD	Tax Revenue Administration	March 2016
FAD	Fiscal Responsibility Law	March 2016
LEG	Anti Money Laundering Activities	March/April 2016
MCM	Review of Insurance Supervision	May 2016
MCM	Risk-Based Bank Supervision	July 2016
MCM	Central Bank Accounting and Related Systems	October 2016
FAD	Customs Administration	October 2016
FAD	Structural Balance Rule and a Public Debt Objective	November 2016
STA	Government Finance Statistics	December 2016
STA	Enhanced General Data Dissemination	February 2017
STA	National Accounts Statistics	March 2017
MCM	Risk-Based Bank Supervision	April 2017
STA	Balance of Payments Statistics	May 2017
FAD	Tax Revenue Administration	May 2017
MCM	Financial Sector Stability Review - Scoping Mission	May 2017
MCM	Risk-Based Bank Supervision	July 2017
MCM	Financial Sector Stability Review	October 2017
MCM	Adoption of IFRS Accounting Standards	October 2017
MCM	Risk-Based Bank Supervision	December 2017
FAD	Tax Policy	June 2018
MCM	Insurance Regulation and Supervision	July 2018

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

DPT	Purpose	Date of Delivery
MCM	Adoption of IFRS	August 2018
STA	National Accounts Statistics	October 2018
MCM	Stress Testing (Banking System)	November 2018
FAD	Customs Administration	December 2018
MCM	Risk-Based Banking Supervision	January 2019
MCM	Contingency Planning for Crisis Preparedness	February 2019
MCM	Cybersecurity Strategy assessment	March 2019
MCM	FSSR: Stress Testing Banking/Credit unions	March 2019
MCM	FSSR Follow-up Risk-based Supervision	April 2019
MCM	FSSR: Risk Based Supervision	May 2019
FAD	Customs Administration	September 2019
FAD/LEG	TA Governance Project FAD/LEG/WHD Mission	February 2020
FAD	Governance Assessment	March 2020
FAD	Customs Risk Assessment	July 2020
MCM	Adoption of IFRS	October 2020
FAD	Tax Revenue Administration	November 2020
MCM	Bank Resolution Framework	November 2020
LEG	AML/CFT Best Practices	December 2020
FAD	Revenue Administration	February 2021
MCM	FSSR Follow-up: Insurance Law and Supervision	April 2021
MCM	Capital Adequacy Assessment	April 2021
MCM	Insurance Law and Supervision	May 2021
FAD	Revenue Administration	June 2021
MCM	Resolution Framework and Deposit Insurance	June 2021
STA	Financial Institutions	August 2021
MCM	CBDC Conference	September 2021
FAD	Public Financial Management (Fiscal Risks)	September 2021
FAD	Customs administration	December 2021
FAD	Tax policy (Tax Expenditures and Incentives)	February 2022
STA	National Accounts	February 2022
LEG	Strengthening the AML/CFT Framework	March 2022

Resident Representative: There is currently no resident representative in Paraguay.

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>

STATISTICAL ISSUES

(As of April 30, 2022)

Assessment of Data Adequacy for Surveillance

In general, data provision to the Fund has some shortcomings, but is broadly adequate for surveillance. Paraguay has made significant improvements in the compilation and dissemination of macroeconomic statistics, but some shortcomings persist.

National accounts. National accounts with base year 2014, broadly consistent with the guidelines of the *2008 SNA*, were released in 2018. The rebased GDP series disseminated cover annual and quarterly national accounts data from 1991 to 2020 and Q4 2021, and a monthly indicator of economic activity (IMAEP) from January 2014 to March 2022.

Price statistics. Both the consumer (CPI) and producer price indices (PPI) are reported on a regular and timely basis. The geographic coverage of the CPI, both in terms of expenditure weights and price collection, is limited to urban households living in Greater Asunción (the capital and metropolitan area). 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.

Government finance statistics. The government finance statistics (GFS) used for internal purposes and provided to WHD are broadly consistent with the recommendations of the *Government Finance Statistics Manual 2001* (GFSM 2001). In early 2015, the Ministry of Finance introduced GFSM 2001 classifications and presentation for monthly budgetary central government statistics, which are published regularly on the Ministry's website. The asset position of the social security system is available on a daily basis. Statistics of the nonfinancial public sector include data of four employer social insurance schemes, which are treated as financial corporations in the monetary and financial accounts. Data on medium- and long-term external debt are reliable and available on a monthly basis. Shortcomings remain in recording short-term supplier and commercial credit of the public sector.

Monetary and financial statistics. Paraguay reports monetary data for the central bank and other depository corporations (ODCs) using the standardized report forms (SRFs). An integrated monetary database meeting the data needs of the BCP and the Fund staff is in operation in support of surveillance. Coverage of the ODC survey is complete, including data on credit cooperatives. The Superintendence of Banks reports 11 of the 12 core and seven of the 13 encouraged financial soundness indicators for deposit takers to STA on a monthly basis. Paraguay reports data on some key series and indicators of the Financial Access Survey (FAS), including the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the U.N. to monitor Target 8.10 of the Sustainable Development Goals.

External sector statistics (ESS). Quarterly balance of payments and international investment position (IIP) data, which follow the recommendations of the fifth edition of the Balance of Payments

Manual (BPM5), are available from 2000 onwards. 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. The authorities started publishing the monthly Reserves Data Template in July 2020.

Data Standards and Quality

Paraguay became a participant in the Fund's General Data Dissemination System (now e-GDDS) in September 25, 2001 and published a National Summary Data Page on March 2, 2017. Paraguay disseminates 14 of the 15 data categories recommended under the IMF's enhanced General Data Dissemination System (e-GDDS) which are broadly aligned with the Table of Common Indicators Required for Surveillance, with timeliness and periodicity prescribed under the e-GDDS. Paraguay is in the process of improving the coverage for central and general government operations, the central bank and depository corporations survey, and external debt. Paraguay's data ROSC was published on August 18, 2014.

Paraguay: Table of Common Indicators Required for Surveillance
(As of April 30, 2022)

	Date of Latest Observation	Date Received	Frequency of data ⁸	Frequency of Reporting ⁸	Frequency of Publication ⁸	Memo Items:		
						Data Quality – Methodological Soundness ⁹	Data Quality Accuracy and Reliability ¹⁰	Year of metadata update
Exchange Rates	4/29/22	4/30/22	D	D	D			2021
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	Mar-2022	Apr-2022	M	M	M			2021
Reserve/Base Money	Mar-2022	Apr-2022	M	M	M	O, LNO, LO, O	O, O, O, LO, LO	2020
Broad Money	Mar-2022	Apr-2022	M	M	M			2020
Central Bank Balance Sheet	Mar-2022	Apr-2022	M	M	M			2020
Consolidated Balance Sheet of the Banking System	Mar-2022	Apr-2022	M	M	M			2021
Interest Rates ²	Feb-2022	Apr-2022	M	M	M			2021
Consumer Price Index	Mar-2022	Apr-2022	M	M	M	O, LO, O, O	LO, LO, O, O, LO	2019
Revenue, Expenditure, Balance and Composition of Financing ³ – CG	Mar-2022	Apr-2022	M	M	M	LNO, LNO, LNO, LO	LO, LO, LO, LO, LO	2019
Revenue, Expenditure, Balance and Composition of Financing – CPS ⁴	Dec-2021	Apr-2022	A	A	A	LNO, LNO, LNO, LO	LO, LO, LO, LO, LO	not disseminated
Stocks of CG Debt ⁵	Dec-2021	Mar-2022	M	M	M			2019
International Investment Position ⁶	Q4 2021	Mar-22	Q	Q	Q			2021
External Current Account Balance	Q4 2021	Apr-2022	Q	Q	Q	LO, LO, LO, LO	LO, O, LO, O, LO	2021
Exports and Imports of Goods and Services ⁷	Feb-2022	Apr-2022	M	M	M			2021
GDP/GNP	Q4 2021	Apr-2022	Q	Q	Q	LO, LNO, LO, LO	LNO, LO, LNO, O, LO	2019
Gross External Debt	Q4 2021	Mar-2021	Q	Q	Q			2021

¹ Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

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

³ Central government (CG) revenue, expenditure, balance, and composition of financing data are available monthly.

⁴ The consolidated public sector consists of the central government, social security funds, state and local governments, public financial institutions, and nonfinancial public enterprises.

⁵ Debt guaranteed by the central government. Includes debt by the central administration and decentralized administration (central bank, autonomous entities, nonfinancial public enterprises, social security, and financial public institutions).

⁶ Includes external gross financial asset and liability positions vis-à-vis nonresidents.

⁷ Monthly frequencies for goods only.

⁸ Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); Not Available (NA).

⁹ Reflects the assessment provided in the data ROSC published in August 2014 and based on the findings of the mission that took place during February 12–26, 2014 for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning (respectively) concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O), largely observed (LO), largely not observed (LNO), not observed (NO), or not available (NA).

¹⁰ Same as footnote 9, except referring to international standards concerning (respectively) source data, assessment of source data, statistical techniques, assessment and validation of intermediate data and statistical outputs, and revision studies.