



PARAGUAY

June 2023

FIRST REVIEW UNDER THE POLICY COORDINATION INSTRUMENT AND REQUEST FOR MODIFICATION OF TARGETS—PRESS RELEASE AND STAFF REPORT

In the context of the First Review Under the Policy Coordination Instrument and Request for Modification of Targets, 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 4, 2023, with the officials of Paraguay on economic developments and policies underpinning the IMF arrangement under the PCI. Based on information available at the time of these discussions, the staff report was completed on May 16, 2023.

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

Letter of Intent sent to the IMF by the authorities of Paraguay*

*Also included in Staff Report

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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IMF Executive Board Concludes First Review Under the Policy Coordination Instrument for Paraguay

FOR IMMEDIATE RELEASE

Washington, DC – June 8, 2023: The Executive Board of the International Monetary Fund (IMF) concluded the First Review under the Policy Coordination Instrument for Paraguay on June 7, 2023, and endorsed the staff appraisal without a meeting on a lapse-of-time basis.¹

Paraguay's two-year program under the Policy Coordination Instrument (PCI) was approved in November 2022. The PCI supports Paraguay's macroeconomic policies and structural reforms, aiming at ensuring macroeconomic and fiscal stability, fostering economic growth, and enhancing social protection and inclusion. The program is performing well, and all but two of the program's targets for December 2022 were met.

Paraguay's economy has demonstrated remarkable resilience during a four-year period of multiple adverse shocks. As it was recovering from the impact of the Covid-19 pandemic, a severe drought hit the economy in early 2022. Economic growth is now rebounding, mainly on behalf of the recovering agricultural sector. Inflation peaked in 2022, but has since declined, following a proactive and persistently tight monetary policy stance, which also helped anchor inflation expectations close to the central bank's target. The fiscal position continued to improve in 2022 on behalf of strengthening revenue and expenditure constraint, reducing the fiscal deficit to 3.0 percent of GDP. The negative impact of lower exports on the external current account was appropriately absorbed by private-sector financing and a flexible exchange rate.

The medium-term outlook remains favorable. Paraguay is exposed to various external risks, but their potential impact appears moderate in the near-to-medium term. Economic growth is projected at 4.5 percent for 2023, the external current account is projected to improve notably, and the rate of inflation is expected to converge back to the central bank's target of four percent in the first half of 2024 at the latest. Continued sound and credible fiscal policies will be critical to safeguard the favorable scenario. The banking system is projected to remain stable, assuming continued sound supervision and healthy internal safeguards. Other domestic risks need to be addressed by continued implementation of the structural reform agenda, including measures to strengthen governance, reduce vulnerabilities to corruption, and intensify policies to cushion the potential impact of ongoing climate change.

Executive Board Assessment

In concluding the First Review under the Policy Coordination Instrument for Paraguay, Executive Directors endorsed the staff's appraisal, as follows:

¹ 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.

Paraguay has shown resilience to recent external shocks, and its policy responses have been effective and appropriate. The severe shortfall in export earnings caused by the 2022 drought was successfully weathered given the private sector's capacity to mobilize external resources, combined with moderate exchange rate adjustment, which resulted in a better-than-expected international reserves position at the end of the year. Fiscal policy held a steady course despite very challenging international shocks to energy and food prices, supporting sustainable public finances going forward. The central bank's early and proactive monetary tightening appears to be vindicated by a steadily decreasing inflation rate, with a favorable outlook to converge to the midpoint of the inflation target band by end-2023. In addition, Paraguay's banking system remains stable and solvent.

For resilience to endure, Paraguay needs to continue to rebuild its fiscal buffers and advance important structural reforms. The significant build-up of public debt in recent years has narrowed the fiscal space, and this trend must be reverted by reestablishment of the fiscal deficit rule. Structural reforms to strengthen public sector efficiency are a necessary ingredient to a sustainable fiscal strategy. High on the agenda are measures to contain the losses from the public servants' pension fund ("Caja Fiscal") and the contingent financial risks from unsupervised pension funds. Improving public companies' oversight and strategic management would also reduce fiscal risks. Finally, raising more domestic tax revenue remains key to providing sufficient investment in infrastructure, health, and education for Paraguay's population, which would enhance productivity toward future growth and shared prosperity.

Structural reforms to modernize public institutions, increase government effectiveness, strengthen governance, control corruption, and improve the business climate will help to foster the conditions for sustained economic growth. Paraguay has benefited from previous technical assistance in the areas of public financial management, governance, and financial supervision. Staff concurs that the reforms covered by this PCI would strengthen the efficient use of public resources and create more favorable conditions for private investment.

While Paraguay has made significant strides in developing social programs, there is still ample opportunity to enhance their effectiveness. Paraguay features high informality, inequality, and poverty rates. In response to those challenges, Paraguay has been implementing measures that would improve the efficiency of social expenditure, expand their reach to more vulnerable populations, enhance social programs targeting, promote greater formalization of the economy, and strengthen financial inclusion.



PARAGUAY

May 16, 2023

FIRST REVIEW UNDER THE POLICY COORDINATION INSTRUMENT AND REQUEST FOR MODIFICATION OF TARGETS

EXECUTIVE SUMMARY

Recent developments: Paraguay continues to recover from last year's severe drought, with economic growth for 2023 expected at 4.5 percent. The recovery of agricultural exports is also contributing to an improved external current account, easing potential pressures on the exchange rate. In the context of a continued tight monetary policy stance, inflation has been declining over the last twelve months. The government successfully reduced the fiscal deficit to 3 percent of GDP, and fiscal policies remain on the envisaged consolidation path. Paraguay's financial and banking sector remains stable. On April 30, Paraguay held national elections in which the candidate for the ruling Colorado party, Santiago Peña, was elected President by a significant margin.

Program implementation: A two-year program supported by the Policy Coordination Instrument (PCI) was approved in November 2022. All except two PCI quantitative targets (ceilings on current primary expenditure and on net incurrence of floating debt) were met, as well as all four reform targets for December 2022. The prospects for meeting quantitative and reform targets for 2023 (June and December) are positive, although a reprogramming of several fiscal quantitative targets for June and December 2023 is needed. Staff also agreed with the authorities on new program targets for June 2024. Staff recommends completion of the First Review under the PCI.

Policy recommendations: Policies should continue to safeguard macroeconomic stability and fiscal sustainability. The envisaged fiscal consolidation in 2023 and 2024 remains appropriate to rebuild policy buffers and to ensure that public debt remains sustainable. Monetary policy should continue to focus on bringing down inflation to the central bank's target, and the exchange rate should maintain its role as the primary absorber of external shocks. Structural reforms should focus on mitigating fiscal risks, fostering economic growth, and on enhancing social protection and inclusion. The reform agenda under the PCI serves these purposes, aiming at measures to protect the solvency of the public sector's pension fund, to enhance domestic revenue mobilization, to strengthen the supervision of pension funds and public enterprises, to modernize the state and the civil service, to improve governance and control corruption and to strengthen social protection while implementing policies to reduce informality.

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

Discussions were held in Asunción between March 27 and April 4, 2023. The staff team comprised Mauricio Villafuerte (head), Tobias Roy, Mauricio Vargas, Yuanchen Yang, Manuk Ghazanchyan (all WHD), and Jehann Jack (SPR). Maximiliano Appendino, the newly designated Resident Representative in Paraguay joined the mission. Diego Gutiérrez, Mariana Bravo 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, other senior officials from the government, and representatives from the donor community.

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CONTEXT

1. The economy has demonstrated remarkable resilience during a 4-year period of multiple adverse shocks. Despite facing various shocks, including two droughts, the COVID-19 global pandemic, and a spike in global and domestic inflation, the economy has shown a notable ability to withstand them and recover thanks to timely policy responses and credible and sound economic conditions for private sector activities. However, the government's fiscal response to these shocks required a deviation from the fiscal responsibility law's deficit ceiling of 1.5 percent of GDP and a spike in public debt. While these measures were necessary to support the economy during the challenging times, rebuilding policy buffers will be important to ensure long-term sustainability.

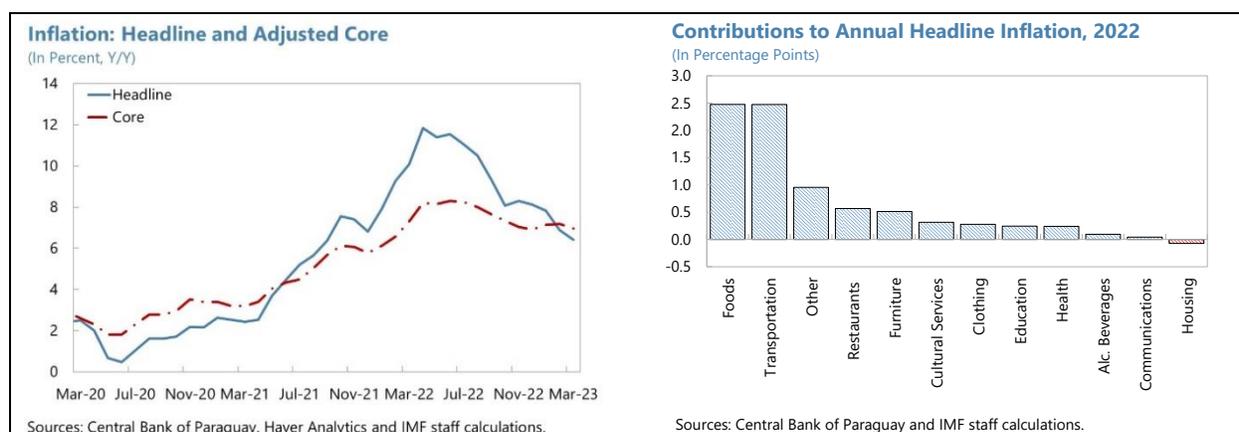
2. Santiago Peña was elected as the next Paraguay's president. Following the results of the national elections of April 30, 2023, the candidate of the ruling Colorado Party obtained about 43 percent of the votes followed by Efraín Alegre from the Liberal Party with about 27 percent of the votes and Payo Cubas with 23 percent of the votes. Mr. Peña was Minister of Finance in 2015–17 under the presidency of Horacio Cartes, the current president of the Colorado Party, and previously served at the Board of the Central Bank of Paraguay. The new administration is expected to continue with prudent macroeconomic policies while promoting private investment and job creation and enhancing some social protection programs.

3. On November 21, 2022, the Executive Board approved a Policy Coordination Instrument (PCI) for Paraguay. The program was requested with the general objective of making the economy more resilient in the face of recurrent external shocks—including through rebuilding fiscal buffers and structural reforms to enhance the public sector's efficiency, improve governance, and strengthen social assistance in the face of a large informal sector, in which women are over-represented compared to men. Another rationale of the PCI was to foster policy continuity in the context of an electoral year, eventually serving as a bridge that would cover both the last year of the current and the first year of the next administration. Accordingly, the two-year program focuses on three pillars: (1) ensuring macroeconomic and fiscal stability; (2) enhancing productivity and fostering economic growth; and (3) enhancing social protection and inclusion. Policy continuity and continued good cooperation with the Fund are expected.

RECENT ECONOMIC DEVELOPMENTS AND PROGRAM PERFORMANCE

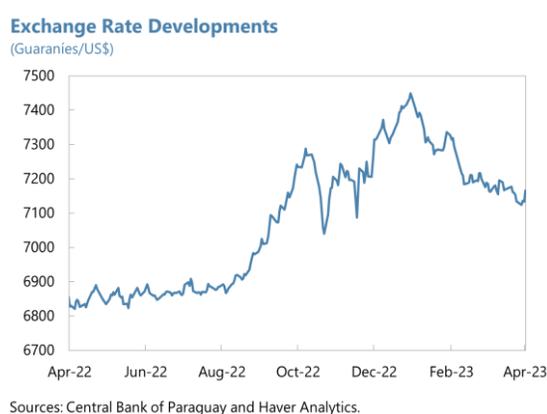
4. An adverse weather shock in late 2021 and early in 2022 stalled economic growth in 2022. While the electricity and water sectors managed to recover and grow by nearly 7 percent after three years of decline, overall growth for 2022 was constrained by contractions in the agriculture and construction sectors. The agriculture sector was hit hard by heatwaves and a severe drought that caused a substantial decline in soy production and exports. Additionally, a decrease in public investment resulted in a 4 percent contraction in the construction sector.

5. The annual inflation rate has been declining over the last year. After peaking at 11.8 percent in April 2022 on the back of higher transportation and food prices, CPI inflation has fallen continuously, reaching 8.1 percent at end-2022 and 5.3 percent in April 2023, still above the Central Bank of Paraguay’s (BCP) inflation target range (4 percent +/- 2 pps). Adjusted core inflation¹ has also decreased, albeit at a slower pace. Inflation expectations over the next 12 months fell to 4.5 percent in April 2023 after peaking at 5.5 percent a year earlier. Inflation expectations over the monetary policy horizon (24 months) are consistent with the BCP’s target of 4 percent.



6. Monetary policy remains tight. In response to rising inflationary pressures since mid-2021, the BCP started a significant tightening cycle in August 2021 that implied a 775 basis points’ increase in the policy rate to 8.5 percent by September 2022. Since then, the BCP has paused its tightening efforts to assess the policy impact on inflation and economic outlook, while closely monitoring price data. The current real policy rate is estimated at 3.8 percent given 12-month inflation expectations of 4.5 percent. This exceeds the estimated real neutral rate of 1–2 percent, indicating a tight stance of monetary policy.

7. The guaraní weakened in the last quarter of 2022 before rebounding in early 2023, reflecting still subdued export income and high imports of goods and services. The BCP remains committed to a flexible exchange rate and it allowed for a temporary weakening of the exchange rate before stepping up FX sales in early 2023 to dampen excessive short-term volatility, undertaking about US\$150 million in net FX sales through March, which staff considers appropriate given the presence of shallow FX markets in Paraguay.²

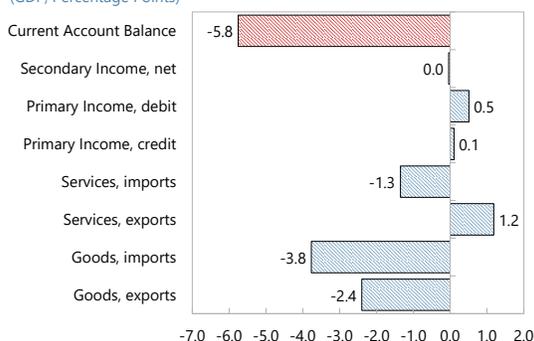


¹ Headline inflation excluding fruits and vegetables, fuels, and tariffed utilities and other services.

² The Fund’s Integrated Policy Framework (IPF) indicates that interventions may be appropriate in the presence of frictions (e.g., shallow FX markets or large FX mismatches) and in response to large shocks, which would otherwise undermine central bank’s price and financial stability objectives.

8. The external current account deteriorated in 2022 driven by a sharp fall in the merchandise trade balance. The estimated current account deficit of 6.5 percent of GDP was driven by low exports due to the end 2021/early 2022 drought, higher import volumes, and higher prices (particularly for fuel and fertilizers) following the war in Ukraine. Despite that, gross international reserves increased slightly (by US\$134 million) in 2022 as the large current account deficit was partly financed by the use of deposits abroad accrued by the private sector in previous (windfall) years and through short-term lines of credit thanks to Paraguay's access to international financial markets. Exports have gradually diversified with latest trade data revealing a slow but steady increase in the share of manufactured exports, mainly from the *maquila* sector.

Change in the Current Account Balance, 2022 vs 2021
(GDP, Percentage Points)



Sources: Central Bank of Paraguay and IMF staff calculations.

9. Fiscal policies broadly remain on the envisaged consolidation path. The 2022 fiscal deficit, at 3 percent of GDP, stayed within the parameters of program projections. Tax revenue also performed broadly as projected. Non-tax revenue surprised on the upside by 0.3 percent of GDP, mainly because of higher social contributions which fully compensated higher spending on public investment. However, preliminary results up to April 2023 showed a cumulative fiscal deficit that exceeded seasonality-based projections by 0.7 percent of GDP, driven by a combination of weak revenue from social security contributions,³ unusually high investment expenditure (including to regularize some payments with construction firms (1128)), and regularization of payments to providers of medicines and vaccines.⁴

10. Paraguay's financial sector remains stable. Solvency indicators comfortably exceed the legal minimum capital requirements and profitability has recovered to pre-pandemic levels due in part to continued forbearance measures and recent transitory measures specifically targeting sectors affected by the late 2021/early 2022 drought. Financial risks associated with the debt repayment capacity of households and businesses are expected to remain limited. In response to the increasing demand for digital payment instruments, Paraguay launched the "Instant Payment System (SPI)" module in May 2022, allowing instant transactions 24/7. The project represents a major

³ The underperformance of social contributions in early 2023 is related to the overperformance in late 2022, as the Treasury changed the earlier practice to account a part of social contribution revenue from the current year only in the next year. From now on, the revenue will be accounted in the same year when the related expense (transfer to the social security funds) is accrued and accounted for.

⁴ Historically, only 15.5 percent of annual investment were executed in the first quarter, even in election years. This year, the government accelerated execution and spent 23.4 percent of planned annual investment in the first quarter. This will be compensated by a lower-than-usual execution in Q2 through Q4.

advancement for the country's payment system by reducing operating costs, increasing the security and transparency of transactions, and thereby fostering financial inclusion.

Program Performance

11. All except two PCI quantitative targets for December 2022 were met, reflecting minor/temporary deviations. The ceiling on current primary expenditure was only exceeded by 0.1 percent of GDP, on account of an unexpected multilateral loan disbursement in late 2022 that was used to pay for purchases of medicines by the Ministry of Health. The end-December 2022 ceiling on floating debt was missed because the authorities issued a payment order in late December in advance of the redemption of an international sovereign bond in early 2023. While this payment order is linked to a below-the-line financing operation, its accounting counter entry was captured as floating debt. The operation was unwound when the bond repayment was made. The preliminary fiscal outcome for 2022 indicates that the central government fiscal deficit, and the accumulation of external debt payment arrears met the program ceilings (see Table 1a of Appendix I). End-year inflation came in at 8.1 percent, below the programmed center point and comfortably inside the inflation consultation band.

12. All four reform targets (RTs) for December 2022 were met.

- (i) *The civil service reform bill was submitted to Congress on October 21.* The proposed bill suggests a series of changes to the current law aiming at modernizing the civil service and making it more efficient. The draft law proposes a modern and competent civil service structure based on meritocracy, with a single salary scale linked to professional development that promotes more efficient public spending.
- (ii) *The National Council of Public Enterprises reestablished the mandatory implementation of the control panel of public enterprises.* The control panel consists of a set of selected and organized indicators that will enable the monitoring and evaluation of public companies' management, as well as the analysis of their financial and non-financial performance.
- (iii) *In late December, the authorities submitted to Congress a new version of the draft law on collateral of movable assets.* Once approved, the new law would facilitate access to credit by micro, small, and medium-sized enterprises (MSMEs) through greater flexibility and scope in terms of assets used as collaterals.
- (iv) *The government complied with the targets for increasing the coverage of social transfer programs ("Tekoporã" and the Food Pension Program for Vulnerable Elderly Adults).* The Ministry of Finance added 18,431 families to the Tekoporã program, significantly exceeding the expected number of 4,000 additional families. The number of new Food Subsidy Program beneficiaries in 2022, at near 41,000, was also significantly higher than programmed (26,000).
- (v) *The law of public procurement was approved in Congress in late 2022, creating auspicious conditions for its administrative regulation by June 2023 (a reform target).*

13. In addition, the Paraguayan authorities recently published their first annual Fiscal Risk Report. While not a formal reform target, the publication of this report, which was prepared following IMF technical assistance recommendations, had been announced by the authorities in their previous Program Statement of November 2022. The report complements the annual Public Finance Report of the Ministry of Finance, which focuses on macroeconomic risks. Adding to that analysis, the Fiscal Risk Report incorporates specific risks such as those related to Public-Private Partnerships (PPPs), public enterprises, pension system, and climate change.

OUTLOOK AND RISKS

14. The economy is recovering as expected. After last year's significant losses in soy cultivation from a severe drought, estimates and prospects for the ongoing agricultural campaign are good. Economic growth in 2023 continues to be projected at 4.5 percent supported by expected strong exports of agriculture-related products and electricity generation. Inflation is expected to decline to about 4.5 percent by end-2023, assuming global prices moderate and severe weather-related shocks would not occur. However, the April survey on inflation expectations continue to be at 5 percent for end-2023.

15. The external current account is projected to improve in 2023, reflecting recovery in the agriculture exports, stronger external demand, and lower fuel and fertilizer prices. A sharp rebound in agriculture-related exports and a modest increase in hydro-electricity exports, coupled with marginally lower imports would substantially improve the trade balance in 2023. Staff projects reserves to slightly increase to about 7.5 months of imports over the medium-term, a slightly higher level than in the pre-crisis year of 2018. The reserves-to-ARA metric ratio is estimated at about 195 percent for end-2022, safely above the suggested comfort zone of 100-150 percent.

16. The approved central government's budget for 2023 is in line with the objective of reducing the fiscal deficit to 2.3 percent of GDP. Compared to the administration's budget proposal, about 0.2 percent of GDP in expenditures were re-programmed by Congress from public investment to salaries. The Ministry of Finance intends to dampen the impact of these changes on the wage bill by hiring the additional personnel mandated in the approved budget only in the second half of 2023, but these increased outlays will place a burden on the next administration's budget for 2024. Finally, the higher-than-expected fiscal deficit in the first four months of 2023 enhances the pressure for more austere policies in the remainder of the year to stay within the budget envelope toward a fiscal deficit of no more than 2.3 percent of GDP.

17. Risks to the outlook are moderate but arise from several sources. At the domestic level, there are upside risks stemming from potentially stronger than projected agricultural production or faster implementation of large FDI projects in development⁵, and downside risks from lower construction activity by the public sector, particularly given the austerity bias built into the fiscal

⁵ In 2023 and 2024, Paraguay will benefit from its largest FDI projects in recent history. Parcel (paper pulp from eucalyptus foresting) and Omega Green (biofuels) have pledged to invest US\$4 billion in the next few years. Construction activities are projected to lift off in 2023.

projections for the remainder of 2023. An escalation of Russia's war in Ukraine or deepening geopolitical tensions could disrupt supply chains and trade or amplify commodity price volatility. Global and domestic disinflation could take longer than currently expected, forcing central banks to maintain a tighter monetary policy stance for longer, with negative impact on economic growth and real wages. This could, in turn, fuel social discontent and pressures to relax the fiscal policy stance. Risks to financial stability stem from rising real interest rates and international risk premia, though the long-term profile of Paraguay's external debt is a mitigating factor. Finally, extreme climate events could cause damage to infrastructure and agricultural output.

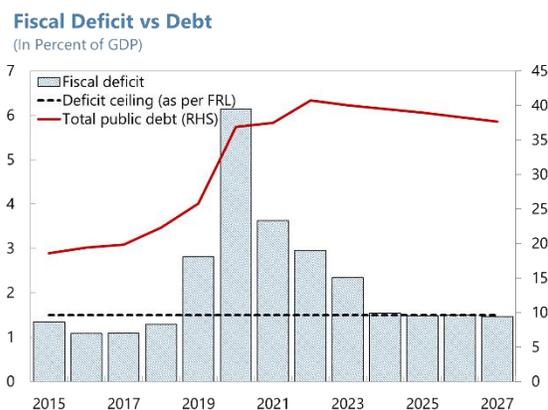
POLICY DISCUSSIONS

Policy discussions focused on: (i) assessing December 2022 targets, (ii) reviewing the progress of June and December 2023 reform targets; (iii) revising existing targets and proposing new ones for the upcoming reviews ⁶(Letter of Intent (LOI) and Program Statement (PS); Tables 1–2).

A. Pillar I. Ensure Macroeconomic Stability and Resilience

Fiscal Policy

18. The authorities remain committed to achieving a fiscal deficit of 1.5% of GDP in 2024, as established in the Fiscal Responsibility Law (FRL). In line with this objective, the National Congress approved the budget law for the fiscal year 2023 that authorizes a deficit of 2.3 percent of GDP, after 3.0 percent of GDP in 2022. Under the envisaged scenario, public debt would have peaked in 2022 at about 41 percent of GDP and then gradually decline, allowing for a steady rebuilding of fiscal buffers. While fiscal space continues to be narrow in the next few years, staff considers public debt sustainable under the envisaged scenario.



19. Given the fiscal outcome of the first quarter, a reprogramming of several 2023 fiscal targets is needed, while keeping annual objectives unchanged. A slight upward revision of estimated and projected nominal GDP for 2022 and 2023 warrants a marginal increment in the nominal fiscal deficit target for end-2023, consistent with the general deficit target of 2.3 percent of GDP. However, given the large cumulative April deficit of 1.4 percent of GDP (against an expected 0.7 percent of GDP), it would not be realistic to try to achieve the original cumulative June deficit target of 0.7 percent of GDP. Given this, the cumulative June deficit will need to be increased by 0.6

⁶ The three pillars of the PCI remain as follows: (i) ensure macroeconomic stability and resilience; (ii) enhance productivity and foster economic growth, and; (iii) enhance social protection and inclusiveness.

percent of GDP. Likewise, the June and December 2023 ceilings on primary current primary expenditure need to be revised upward slightly, as well as the ceiling on net incurrence of floating debt (for June 2023 only). The authorities are committed to compensating the higher deficit in the first part of the year through a recovery in social contributions' revenue and a deceleration in public investment.

Monetary, Financial, and External Policies

20. Monetary policy aims at bringing inflation back to 4 percent over the next 12 months.

The current tight monetary policy stance will be maintained for the time being. The BCP emphasized that future policy rate decisions will depend on the pace of disinflation in the next few months and on the development of inflation expectations, which so far remain well-anchored around the BCP's targets. To the extent that inflation continues to converge to the central inflation target of 4 percent, there will be room to gradually lower the policy rate from its current level of 8.5 percent during the second half of 2023.

21. **A flexible exchange rate contributes to Paraguay's economic stability.** The authorities plan to continue allowing the exchange rate to act as a primary buffer to shocks and to adjust monetary policy to prevent inflationary risks and to stabilize inflation expectations. They intend to continue limiting foreign exchange (FX) interventions to counteracting disorderly market fluctuations.⁷ The country's monetary policy will remain dependent on data, reflecting a dynamic evaluation of the outlook. If core inflation does not clearly fall during the incoming months, the authorities should also be prepared if necessary to raise the policy rate to mitigate any secondary effects in the event of increased import prices and supply-side disruptions on inflation. The BCP remains committed to maintaining a strong reserve position and to fostering transparency in foreign exchange interventions, including by continuing to publish detailed information on its foreign exchange operations.⁸

Structural Reforms

22. **The prospects for meeting the June and December 2023 reform targets under the PCI are positive.** The June 2023 targets relate to: (i) the reform of the public sector pension system ("Caja Fiscal"); (ii) the implementation of electronic invoicing; (ii) further progress on the regularization of unrecorded suppliers' claims for public investment projects. Reform targets for

⁷ The persistence of uncovered interest parity premia in both short- (3-month) and long- (1-year) horizons, the existence of an average bid-ask spread higher than that of similar countries (e.g., Peru and Colombia), and a high level of financial dollarization suggest the presence of underlying frictions that may justify the use of FXIs in certain situations.

⁸ These operations include the auction system for the resale of government revenues in U.S. dollars to the private sector ("ventas compensatorias"), and the more formal FX interventions ("ventas complementarias"). This breakdown is published on a weekly basis on the BCP website, which also provides an account of daily FX transactions with the private and the public sector, as well as forward FX operations of the financial system.

December 2023 are the submission to Congress of the pension fund supervision law and of the corporate governance law.

23. In order to forge greater consensus for pension reform among stakeholders and provide policy continuity, the government is modifying its strategy and creating a new high-level commission that will propose deep structural reforms of the “Caja Fiscal”. In their November 2022 program statement, the government had agreed to submit to Congress a law with transitional measures to contain the losses of the “Caja Fiscal” by end-June 2024 (original reform target). The revised plan entails creating by law a National Commission of experts, with representatives from the Executive, Legislative, and Judicial branches, as well as representatives from the sectors covered by the “Caja Fiscal”, civil society, and academia. This commission would be tasked with a comprehensive review of the system and with formulating reform proposals in accordance with the objectives and scope set forth in the PCI request. The proposed deadline for submission of this law to the National Congress is July 2023 (**reform target**). Once established, the commission would continue its work after the change in government.

24. Regarding domestic revenue mobilization, significant advances in electronic invoicing have been made. Since April 2022, the Integrated National Electronic Billing System (SIFEN), e-kuatia, has been implemented with gradually increased coverage. As of January 2023, more than 500 firms were using electronic invoices, and prospects are good that the target of incorporating at least 750 large and medium-sized taxpayers into the SIFEN will be achieved by the end of June 2023 (**reform target**).

25. The government is continuing its efforts to consolidate the supervision and management of public enterprises (PEs). The draft of the “Corporate Governance Law” draft will be completed, striving to clarify and strengthen the role of the National Council of Public Enterprises and to establishing a common regulatory framework and operating rules for PEs in matters of corporate governance. The bill will be presented to the National Congress by December 2023 (**reform target**).

26. Work on establishing a supervisory agency for pension funds is also ongoing. The lack of a supervisory and regulatory body is a significant weakness in the current system, which is highly fragmented and lacks an adequate institutional framework for control processes, risk diversification, and investment management regulations. Led by the BCP, an expert team is reviewing and improving an earlier law draft that had failed in Congress in 2018. The proposed date for submission to the National Congress remains December 2023 (**reform target**).

27. The government remains committed to strengthening fiscal governance through various other initiatives. Regarding the proposed reinforcement of the fiscal rule, the authorities are working closely with the legislature to ensure the approval of the Fiscal Responsibility Law 2.0, which was presented to the National Congress in December 2020. The proposed Fiscal Safeguards Law for electoral times also remains under consideration in the National Congress. This bill, which was presented to the Congress in April 2022, aims to establish special rules for government behavior

in fiscal and administrative matters to maintain stability and sustainability of public finances during election periods.

28. Progress has been made in recording and resolving unrecorded expenditure commitments. As pointed out in the previous PCI staff report, unrecorded expenditure items for public investment contracts in an estimated amount of 0.5 percent of GDP were discovered in 2022. The Ministry of Finance has meanwhile managed to compile a list of these claims, totaling US\$290 million (about 0.7 percent of GDP) as of December 2022. By end-March 2023, US\$110 million of these were resolved and paid, though there is residual uncertainty if additional unrecorded claims from the past still do exist or are currently being generated. As a more structural measure to strengthen fiscal control, the authorities are planning to issue a Presidential decree that would (i) facilitate a final assessment of the total amounts involved; (ii) stipulate that accounts receivables financing vehicles for such claims with commercial banks can only be authorized by the Ministry of Finance; and (iii) clarify that these rules apply to all levels of the central administration. The issuance of this decree is expected by end-May.

B. Pillar II. Enhance Productivity and Foster Economic Growth

29. The government remains committed to achieving its reform targets under the PCI aimed at enhancing productivity and fostering economic growth. These targets relate to the administrative regulation and implementation of the new reform law for public procurement and to the formulation and submission to Congress of the law to reorder the structure of state functions. The government is proposing two new structural measures under this pillar: (i) the completion of the money laundering and terrorist financing (ML/TF) National Risk Assessment (NRA); and (ii) the relaunch of the reform of the insolvency law.

30. The Public Procurement reform law was approved by the Congress, and the government is now working on its implementation. The law was promulgated on December 9, 2022, updating the legal provisions for the entire public procurement system. The new law will become effective upon the publication of the regulatory decree by the Ministry of Finance by June 2023 (**reform target**).

31. Reorganizing the structure of the state provides a significant contribution to enhancing the efficiency of government operations. The government is working on a legislative proposal to reorder the structures, rules, responsibilities, and regulations applicable to public administration institutions, aiming to integrate competencies, minimize duplications/overlaps within and across institutions, and avoid jurisdictional conflicts. For logistical reasons, the government proposed to delay this reform target to July 2023 (**reform target**).

32. Finalization and approval of the updated ML/TF NRA will assist the authorities with the identification, assessment, and understanding of ML/TF risks in Paraguay. The results of the NRA, conducted with the assistance of the Inter-American Development Bank, will provide the authorities with a road map to develop the necessary legal reforms, policies, preventive measures, and mechanisms to mitigate the risks identified and further strengthen its anti-money laundering

and combating the financing of terrorism (AML/CFT) regime. Significant progress has been made on the project, with government approval expected by the end of July 2023 (**proposed new reform target**).

33. The business climate can be further strengthened by reforming the insolvency legal framework. Reform of the insolvency law had been conceived in 2019 as one leg of a tripod of laws, alongside the simplified equities law (approved in 2020) and the movable assets law (currently under consideration by Congress). It would modernize an outdated insolvency law from the 1960s that lacks best-practice procedures to protect both creditor and debtor interests. An earlier attempt to approve a new insolvency law failed in Congress in 2020, in the midst of the Covid-19 pandemic. Relaunching this initiative would not only improve legal clarity in bankruptcy proceedings but would also leverage the effectiveness of the other two laws aimed at strengthening the business climate. The government intends to prepare and submit a new insolvency bill to the National Congress by June 2024 (**proposed new reform target**).

34. Progress has also been made in the government's anti-corruption agenda. In January 2023 the government submitted to Congress a draft law creating the National Integrity and Transparency Secretariat (SENIT), replacing the current National Anti-corruption Secretariat (SENAC), which was created by decree in 2012. The new secretariat will be based on a law, which will institutionally strengthen its status and effectiveness.

C. Pillar III. Enhance Social Protection and Inclusiveness

35. The government has made progress on measures that would enhance social protection in Paraguay. Structural reform targets in this area comprise the draft law to foster formalization of informal MSME and independent workers and measures to strengthen the administration and control system of beneficiaries of social assistance.

36. The 2023 budget ensures the provision of resources to maintain and widen the support for the most vulnerable households. The 2023 Budget Law includes about US\$61 million for "Tekoporã" (a conditional cash transfer program for very poor families) and about US\$320 million for the "Pensión Alimentaria para Adultos Mayores" program (a non-contributive pension alimony for vulnerable elderly persons not covered by social security).

37. Efforts to create a comprehensive beneficiary system for social programs continue. Paraguay is making strides toward integrating social programs administered by various state institutions. An important initiative towards a unified beneficiary system is the implementation of the Pension System (SIPEN), managed by the Directorate of Non-Contributory Pensions of the Ministry of Finance. SIPEN controls beneficiary information entry, selection, and directs payment orders. Given its successful implementation, the authorities propose to gradually extend SIPEN to other social programs run by (i) the Coordination of Diverse Obligations of the State (CODE); (ii) the Ministry of Children and Adolescents (MINNA); and (iii) the Ministry of Social Development. The goal is to implement SIPEN in at least one of these programs by the end of 2023 (**reform target**). In the medium term, SIPEN coverage will be extended to a second program from these institutions by the

end of June 2024 (**reform target**). These reformulations will make the original reform target under the PCI more ambitious.

38. The government initiative to address labor informality in Paraguay is progressing. A draft bill that would facilitate the formalization of dependent workers of Micro, Small, and Medium Enterprises (MIPYMES) and independent informal workers has been completed. Next steps involve a consultation process with stakeholders before the bill is submitted to the National Congress by the end of July 2023 (**reform target, rescheduled by one month**).

PROGRAM MODALITIES AND CAPACITY DEVELOPMENT

39. Quantitative and reform targets. The attached Program Statement (PS) details the authorities' policy commitments. The program will continue to be monitored on a semiannual basis through quantitative targets (QTs), reform targets (RTs), and standard continuous targets (PS Tables 1 and 2), as defined in the Memorandum of Technical Understanding (November 1, 2022). Policy implementation will be evaluated through review-based monitoring, considering evolving circumstances and policy needs. The set of QTs comprises semi-annual ceilings on the central government fiscal deficit, on current primary expenditure, and on the net change of floating debt (PS, Table 1a). Non-accumulation of external debt payment arrears is maintained as a continuous target. Additional standard continuous targets also remain (Program Statement, Table 1b). An inflation consultation band based on the BCP's inflation projections will also remain as a QT, with targets to be adjusted in the course of the periodic comprehensive revisions.⁹ The quantitative targets for June and December 2023 on the central government's fiscal deficit and on primary current expenditure are being modified at the request of the authorities, as well as the QT on the net incurrence of floating debt for June 2023 (table 1a of Appendix I). RTs are numbered in Table 2 of the Program Statement.

40. Risks to program implementation are assessed to be low. There is no balance of payments' gap for the next 12 months, and there are good prospects that there will be adequate financing for the remaining program period.

41. CD support by the Fund remains closely aligned to the PCI's priorities, focusing, inter alia, on public investment management assessment and climate change (C-PIMA), compliance risk management, and financial stability and integrity, including the AML/CFT regime. The authorities are also committed to strengthening balance of payments (BOP) and national accounts statistics. Recently, the BCP began releasing the BOP estimates under the sixth edition of the Balance of Payments and International Investment Position Manual (BPM6).

42. Paraguay is looking closely at climate-related issues and how to best respond to them. There is increased concern about the impact of climate change in Paraguay following recurrent

⁹ A memo item on social transfers is also added.

adverse climate shocks. In this context, a staff analysis using real-time data to monitor public attitudes towards various climate policy instruments show that there is public support in Paraguay for increasing green investment, among other market- and non-market-based policy instruments, to accelerate climate transition (Annex II). In the meantime, the current government has engaged in the preparation of climate change-related diagnostics with external partners, like the World Bank's CCDD (to be completed by June 2023) and a recently completed PEFA including a climate change module coordinated by the European Union. It has left the decision to access the Resilience and Sustainability Fund (RSF) to the newly elected administration, which takes office on August 15.

STAFF APPRAISAL

43. Paraguay has shown resilience to recent external shocks, and its policy responses have been effective and appropriate.

The severe shortfall in export earnings caused by the 2022 drought was successfully weathered given the private sector's capacity to mobilize external resources, combined with moderate exchange rate adjustment, which resulted in a better-than-expected international reserves position at the end of the year. Fiscal policy held a steady course despite very challenging international shocks to energy and food prices, supporting sustainable public finances going forward. The central bank's early and proactive monetary tightening appears to be vindicated by a steadily decreasing inflation rate, with a favorable outlook to converge to the midpoint of the inflation target band by end-2023. In addition, Paraguay's banking system remains stable and solvent.

44. For resilience to endure, Paraguay needs to continue to rebuild its fiscal buffers and advance important structural reforms.

The significant build-up of public debt in recent years has narrowed the fiscal space, and this trend must be reverted by reestablishment of the fiscal deficit rule. Structural reforms to strengthen public sector efficiency are a necessary ingredient to a sustainable fiscal strategy. High on the agenda are measures to contain the losses from the public servants' pension fund ("Caja Fiscal") and the contingent financial risks from unsupervised pension funds. Improving public companies' oversight and strategic management would also reduce fiscal risks. Finally, raising more domestic tax revenue remains key to providing sufficient investment in infrastructure, health, and education for Paraguay's population, which would enhance productivity toward future growth and shared prosperity.

45. Structural reforms to modernize public institutions, increase government effectiveness, strengthen governance, control corruption, and improve the business climate will help to foster the conditions for sustained economic growth.

Paraguay has benefited from previous technical assistance in the areas of public financial management, governance, and financial supervision. Staff concurs that the reforms covered by this PCI would strengthen the efficient use of public resources and create more favorable conditions for private investment.

46. While Paraguay has made significant strides in developing social programs, there is still ample opportunity to enhance their effectiveness.

Paraguay features high informality, inequality, and poverty rates. In response to those challenges, Paraguay has been implementing

measures that would improve the efficiency of social expenditure, expand their reach to more vulnerable populations, enhance social programs targeting, promote greater formalization of the economy, and strengthen financial inclusion.

47. Staff supports the completion of the First Review under the PCI and modification of end-June and end-December 2023 quantitative targets for the fiscal deficit and current primary expenditure and of the end-June 2023 QT on floating debt. The authorities' reform agenda was expanded to include reform targets for June 2024. Paraguay's successful track record in implementing responsible macroeconomic policies and structural reforms indicate that the risks to program implementation are low.

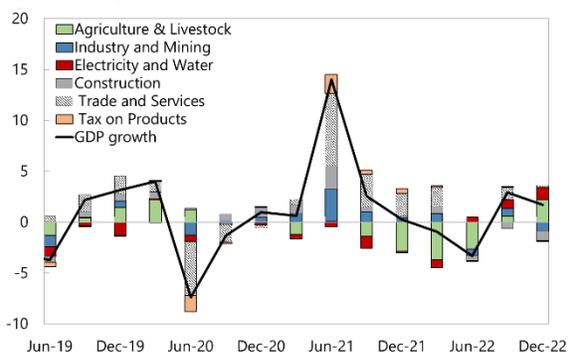
Figure 1. Paraguay: Recent Developments

The economy contracted in the first half of 2022 as weak agricultural production more than offset positive growth in services and manufacturing.

From the demand side, private consumption and investment sustained growth in 2022, compensating for the large drop in agricultural exports.

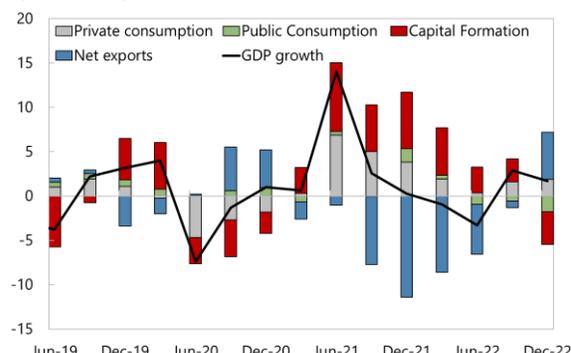
Aggregate Supply Growth Decomposition

(In Percent, Y/Y)



Aggregate Demand Growth Decomposition

(In Percent, Y/Y)

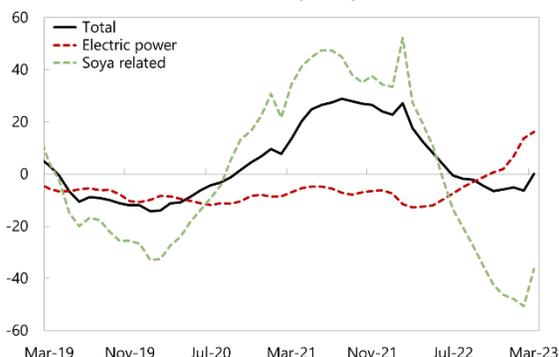


Exports of soy contracted in 2022, while electricity exports started to recover in the second half of 2022.

Monthly economic activity estimates point to a recovery of economic activity this year...

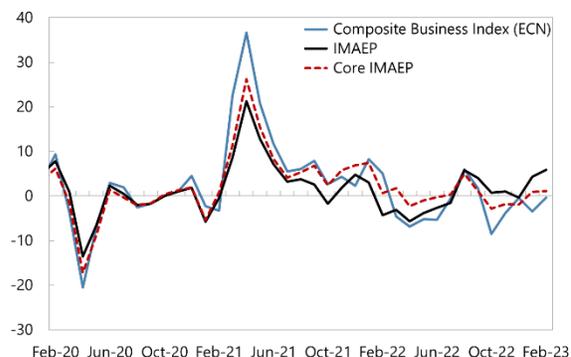
Exports of Goods

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



Monthly Economic Activity Indices

(In Percent, Y/Y)

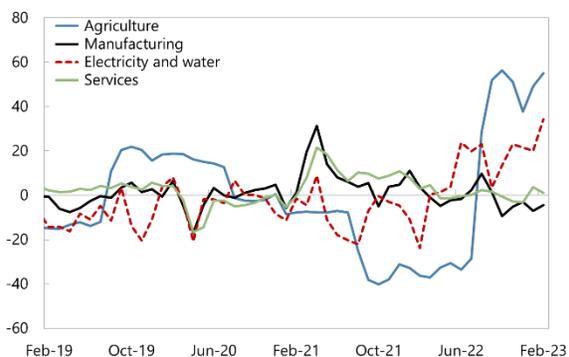


...driven mainly by a rebound in agriculture and electricity and water sectors.

Employment recovered in 2021 and consolidated in 2022, but it is still below pre-pandemic levels.

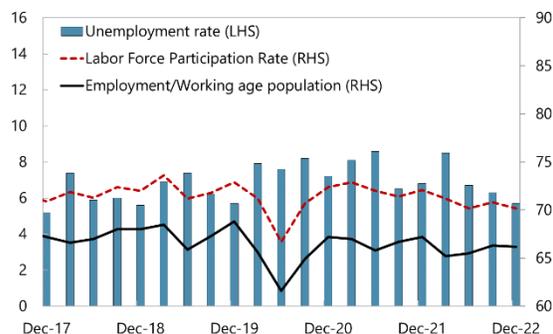
IMAEP by Sector

(In Percent, Y/Y)



Labor Market

(In Percent)



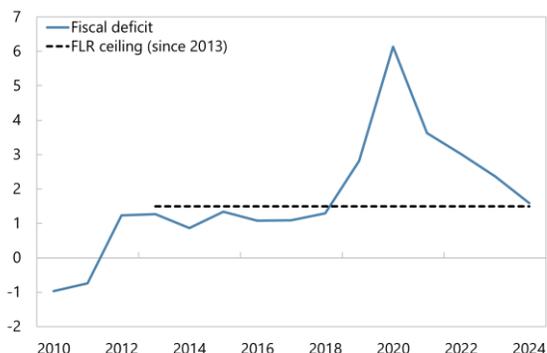
Sources: BCP, Ministry of Finance and IMF staff calculations.

Figure 2. Paraguay: Fiscal Developments

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

Central Government Fiscal Deficit

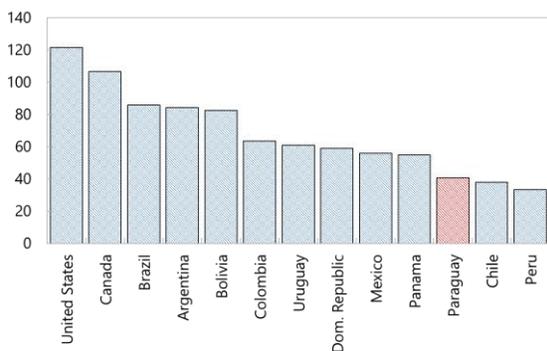
(In Percent of GDP)



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

Public Debt, 2022

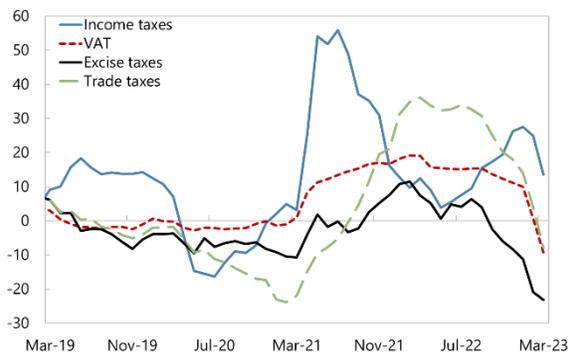
(In Percent of GDP)



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

Tax Revenue

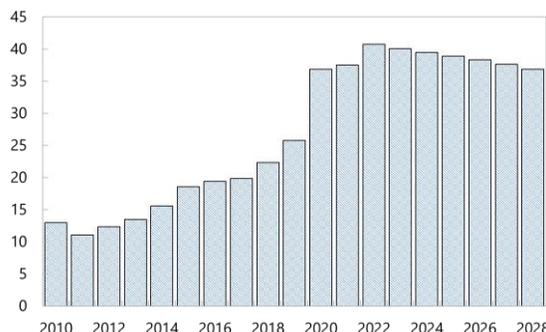
(Growth of 12-Month Moving Cumulative Sum)



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

Public Debt

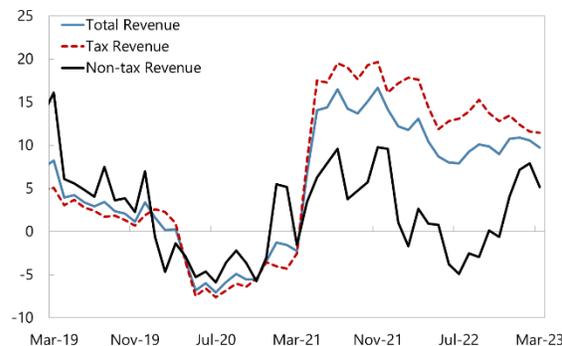
(In Percent of GDP)



Tax revenue has rebounded after the pandemic and is holding up despite the 2022 economic slump...

Central Government Revenue

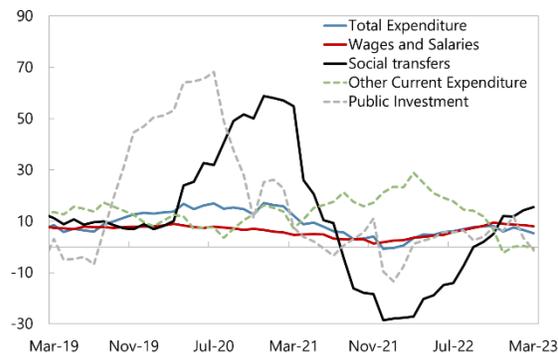
(Growth of 12-Month Moving Cumulative Sum)



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)



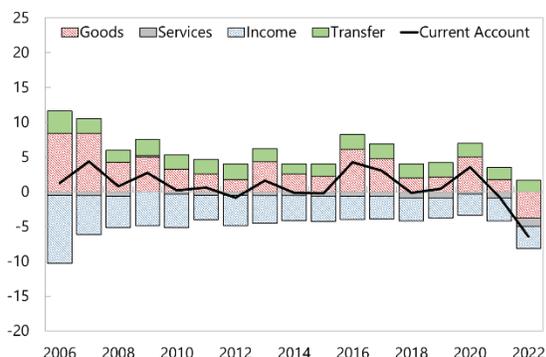
Sources: Ministry of Finance, WEO and IMF staff estimates.

Figure 3. Paraguay: External Sector Developments

The external current account deteriorated sharply in 2022 due to lower exports and higher oil prices.

Current Account Balance

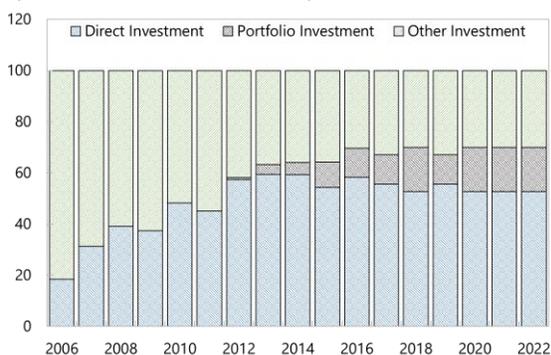
(In Percent of GDP)



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

Composition of Outward Factor Payment

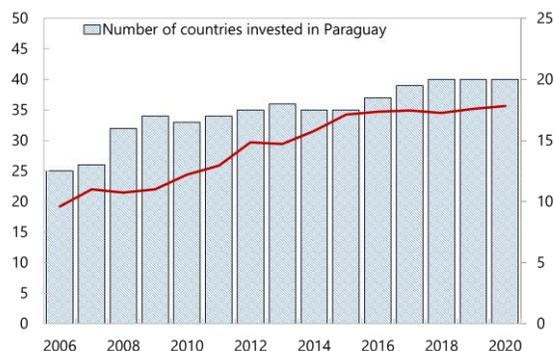
(In Percent of Total Outward Factor Income)



Foreign direct investment has been on the rise in Paraguay over the last decade.

Number of Countries Invested in Paraguay

(Number of Countries, and In Percent of GDP)

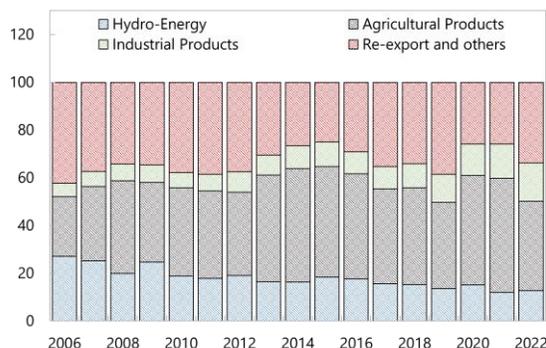


Sources: BCP and IMF staff calculations.

Agricultural products make up a large share of exports.

Composition of Goods Export Revenues

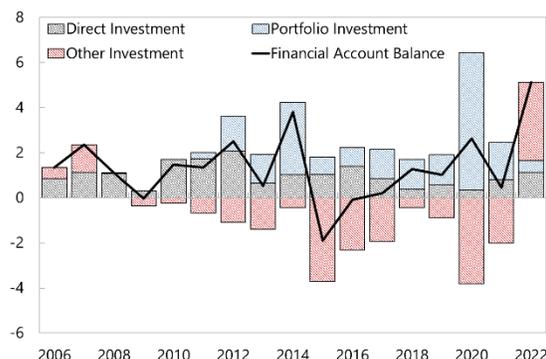
(In Percent of Total Exports)



Other investment was a key source of capital in 2022.

Composition of Financial Account

(In Percent of GDP)



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

Composition of FDI by Industry

(In Percent of GDP)

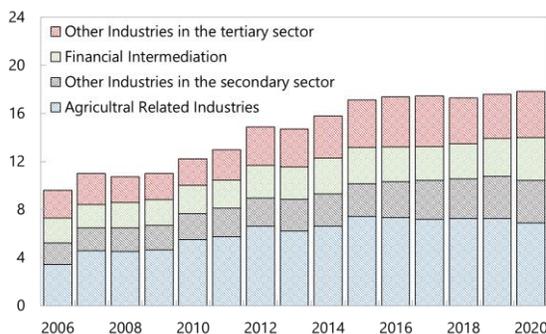
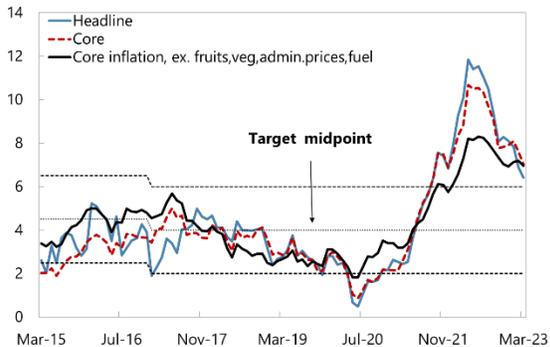


Figure 4. Paraguay: Monetary Indicators

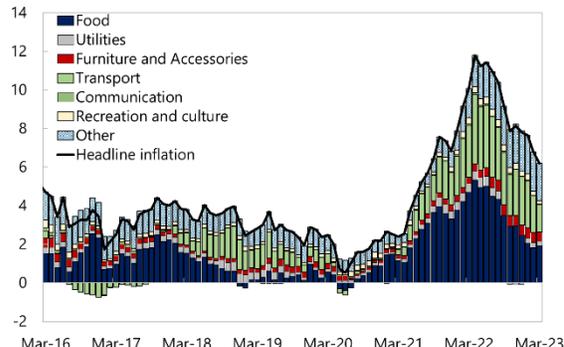
Inflation has been receding since peaking in April 2022...

CPI Inflation
(In Percent, Y/Y)



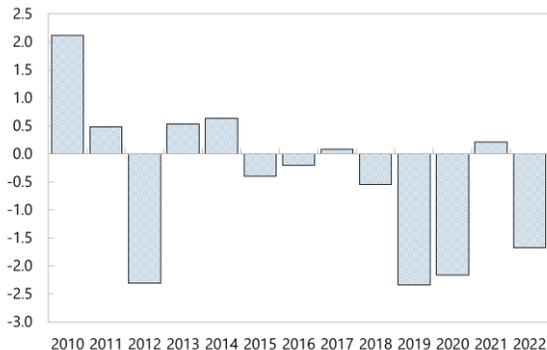
...thanks to a deceleration in food and transport prices.

Contributions to Inflation
(In Percent, Y/Y)



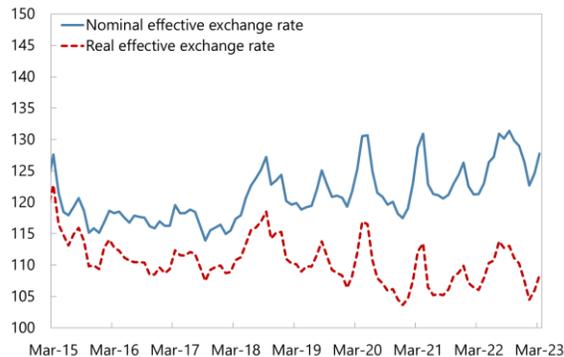
A negative output gap is estimated for 2022.

Output Gap
(In Percent of Potential GDP)



The real exchange rate depreciated slightly in 2022.

Nominal and Real Effective Exchange Rate
(Index, 2010 = 100)



Given that inflation has been higher than targeted levels ...

Inflation and Soybean Price
(Percentage Change, Y/Y)



...the central bank tightened its policy rate, keeping it at 8.5 percent since September 2022.

Monetary Policy Rate
(In Percent)



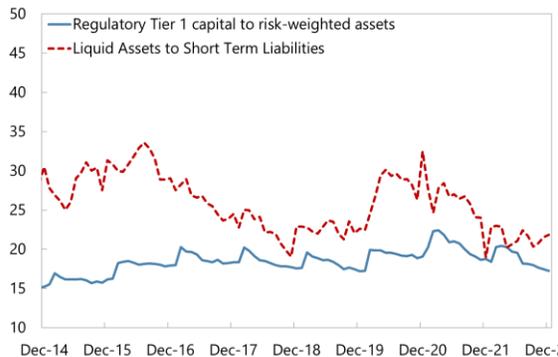
Sources: BCP, Ministry of Finance and IMF staff calculations.

Figure 5. Paraguay: Financial Sector Developments

Banks are liquid and well capitalized.

Capital Adequacy and Liquidity

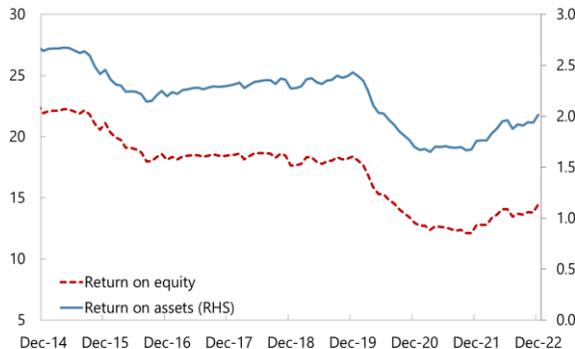
(In Percent)



Banks profitability slightly recovered in 2022.

Bank Profitability

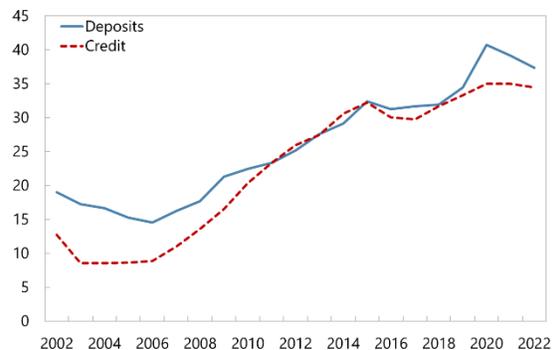
(In Percent)



Financial deepening has increased in Paraguay.

Private Sector Credit and Deposits

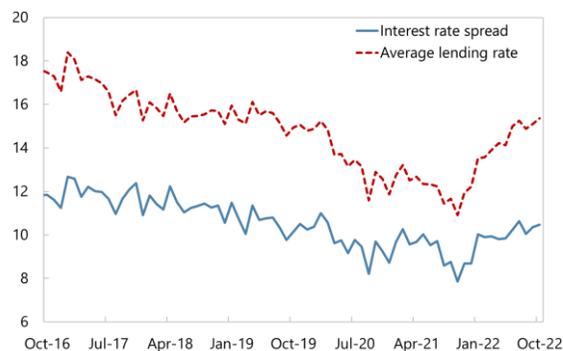
(In Percent of GDP)



Lending rates increased since the last quarter of 2021 in response to the normalization of monetary policy.

Lending Rate and Interest Rate Spread

(In Percent)



Sources: BCP and IMF staff calculations.

Table 1. Paraguay: Selected Economic and Social Indicators

I. Social and Demographic Indicators										
Population 2021 (millions)	7.0				Gini index (2021)				43.1	
Unemployment rate (2022)	6.3				Life expectancy at birth (2020)				73	
Percentage of population below the poverty line (2021)	26.9				Adult literacy rate (2020)				94.5	
Rank in UNDP development index (2021)	105 of 191				GDP per capita (US\$, 2022)				5,598	
II. Economic Indicators										
	2018	2019	2020	2021		2022		2023		Proj.
				New	CR 22/355	Prel.	CR 22/355	Proj.	CR 22/355	2024
(Annual percent change, unless otherwise indicated)										
Income and Prices										
Real GDP	3.2	-0.4	-0.8	4.0	4.1	0.1	0.2	4.5	4.5	3.5
Nominal GDP	5.2	2.6	1.4	12.8	11.5	7.6	7.1	8.9	8.4	7.5
Per capita GDP (U.S. dollars, thousands)	5.7	5.3	4.9	5.4	5.4	5.6	5.5	5.8	5.8	6.1
Consumption (contribution to real GDP growth)	3.1	1.7	-1.7	4.2	4.3	7.5	2.8	-5.6	-4.2	0.8
Investment (contribution to real GDP growth)	3.0	-1.5	-1.0	5.5	5.3	-1.6	3.5	5.1	6.2	2.6
Net Exports (contribution to real growth)	-2.9	-0.6	1.9	-5.6	-5.5	-5.8	-6.1	5.0	2.5	0.1
Consumer prices (end of period)	3.2	2.8	2.2	6.8	6.8	8.1	8.8	4.5	4.1	4.0
Nominal exchange rate (Guarani per U.S. dollar, eop)	5,961	6,453	6,917	6,879	6,879	...	...	...	...	...
Monetary Sector										
Credit to private sector 1/	14.1	9.7	8.1	10.2	10.5	10.7	9.2	7.5	8.7	8.9
Monetary policy rate, year-end	5.3	4.0	0.75	5.25	5.3	...	...	...	...	...
External Sector										
Exports (fob, values)	2.5	-7.5	-9.5	15.5	22.0	-1.5	-7.6	20.7	18.6	4.1
Imports (cif, values)	12.1	-7.8	-18.3	29.4	30.4	16.3	6.5	-1.2	8.2	5.3
Terms of trade	-2.1	-0.2	-0.1	-3.0	-2.7	-0.7	2.5	0.6	-1.9	-1.6
Real effective exchange rate 2/	3.1	-3.0	-1.3	-1.0	-1.0	...	...	...	...	...
(In percent of GDP, unless otherwise indicated)										
External Current Account	-0.2	0.4	3.6	-0.8	0.9	-6.4	-4.9	0.2	-1.9	-0.3
Trade balance	1.2	1.2	4.6	0.9	1.8	-5.0	-3.3	1.7	-0.4	1.3
Exports	34.1	33.5	32.4	33.2	35.5	31.3	31.5	36.1	35.1	35.0
Of which: Electricity	5.2	4.5	4.9	4.0	4.1	4.0	4.0	4.1	3.5	3.6
Imports	-32.1	-31.4	-27.5	-31.5	-33.1	-35.1	-33.9	-33.1	-34.5	-32.5
Of which: Oil imports	-4.1	-3.8	-3.0	-3.8	-3.9	-5.5	-6.7	-5.7	-6.8	-4.7
Capital Account and Financial Account	1.6	1.4	3.1	1.0	2.6	5.5	2.0	0.1	2.2	1.5
Of which: Direct investment	0.4	0.6	0.3	0.8	0.3	1.1	1.2	4.0	4.0	4.4
Gross International Reserves (in millions of U.S. dollars) 3/	7,800	7,496	10,014	10,051	10,570	10,154	10,070	10,304	10,570	10,854
In months of next-year imports of goods and services	7.1	8.6	8.9	7.6	8.1	7.7	6.8	7.5	6.5	7.6
Ratio to short-term external debt	2.2	2.1	2.5	2.5	2.4	2.5	2.2	2.5	2.2	2.7
Gross Domestic Investment	22.8	21.7	20.0	24.0	23.2	22.6	26.1	25.8	30.3	27.4
Gross Domestic Saving	22.6	22.1	23.6	23.2	24.2	16.2	21.1	26.0	28.4	27.1
Central Government Revenues	14.1	14.2	13.5	13.7	13.9	14.1	13.9	14.0	14.2	14.4
Of which: Tax revenues	10.0	10.0	9.5	9.8	9.9	10.3	10.4	10.2	10.4	10.4
Central Government Expenditures	15.4	17.0	19.7	17.3	17.5	17.1	16.9	16.3	16.5	15.9
Of which: Compensation of employees	6.6	6.9	7.3	6.6	6.7	6.7	6.8	6.5	6.8	6.5
Of which: Net acquisition of non financial assets	2.0	2.9	3.6	2.9	2.9	2.9	2.6	2.0	2.1	2.0
Central Government Net Lending/Borrowing	-1.3	-2.8	-6.1	-3.6	-3.7	-3.0	-3.0	-2.3	-2.3	-1.5
Central Government Primary Balance	-0.6	-2.0	-5.1	-2.5	-2.6	-2.5	-1.7	-1.7	-1.0	-0.9
Public Sector Debt (excl. Central Bank Bills)	22.3	25.8	36.9	37.5	37.2	40.8	39.7	39.6	39.4	39.1
Of which: Foreign currency	18.1	21.3	31.9	32.9	32.6	36.4	34.9	35.4	34.7	34.7
Of which: Domestic currency	4.2	4.4	5.0	4.6	4.7	4.4	4.7	4.2	4.7	4.3
Memorandum Items:										
GDP (billions of guaranies) 3/	230,576	236,681	239,915	270,634	267,548	291,336	286,523	317,364	310,499	341,195
GDP (US\$ billions)	40.2	37.9	35.4	40.0	39.5	41.7	...	...	...	...

Sources: Central Bank of Paraguay; Ministry of Finance; and IMF staff estimates and projections.
1/ Includes local currency credit and foreign currency credit.
2/ Average annual change; a positive change indicates an appreciation.
3/ Gross international reserves for 2021 have been revised downward to correct for an inconsistency with the value reported in Table 3 (balance of payments).

Table 2a. Paraguay: Operations of the Central Government
(GSFM2001 Presentation) (In billions of Guaranies)

	2018	2019	2020	2021	2022		2023		Proj.	
					Prel.	CR 22/355	Proj.	CR 22/355	2024	2025
Revenue	32,534	33,633	32,494	37,102	41,094	39,717	44,465	43,975	49,104	52,475
Taxes	23,137	23,577	22,739	26,409	29,962	29,662	32,449	32,339	35,505	38,461
Income taxes	5,260	6,013	5,970	6,934	8,753	8,423	8,988	9,022	10,049	11,340
Excises	3,194	3,026	2,775	2,985	2,736	2,901	2,934	3,186	3,245	3,321
Value added tax	11,812	11,690	11,686	13,631	15,151	15,082	17,204	16,563	18,658	20,024
Import duties	2,521	2,421	2,000	2,423	2,858	2,765	2,941	3,038	3,145	3,337
Other	350	427	309	437	463	491	382	530	408	438
Social contributions	2,114	2,126	2,443	2,778	3,603	2,835	3,656	3,130	4,068	4,349
Other revenue	7,283	7,929	7,312	7,915	7,530	7,220	8,360	8,506	9,532	9,665
Grants	1,747	1,525	1,443	1,832	1,605	1,353	1,744	1,671	1,983	2,164
Itaipu-Yacyreta	3,232	4,111	2,994	2,410	2,843	2,593	3,653	2,910	4,305	4,015
Other nontax revenue	2,304	2,293	2,875	3,673	3,081	3,273	2,963	3,925	3,244	3,487
Expenditure	35,511	40,284	47,223	46,929	49,716	48,450	51,809	51,259	54,363	57,855
Expense	30,823	33,329	38,510	39,051	41,336	41,094	45,309	44,857	47,675	50,672
Compensation of employees	15,228	16,432	17,512	17,841	19,466	19,552	20,701	21,114	22,023	23,314
Purchases of goods and services	2,912	3,120	3,461	5,414	4,496	4,148	4,424	4,442	3,911	4,210
Interest	1,549	1,962	2,554	2,962	3,614	3,907	4,463	4,307	4,895	5,276
Grants	4,796	4,723	4,562	4,769	4,738	4,626	4,955	4,929	5,345	5,509
Social benefits	5,253	5,718	9,083	6,496	7,276	7,240	9,034	8,316	9,762	10,494
Other expense	1,085	1,375	1,338	1,568	1,746	1,621	1,732	1,749	1,739	1,869
Gross Operating Balance	1,711	304	-6,016	-1,949	-242	-1,377	-844	-882	1,430	1,803
Net acquisition of nonfinancial assets	4,688	6,955	8,713	7,877	8,379	7,356	6,501	6,402	6,689	7,183
Net Lending/Borrowing (Overall Balance)	-2,977	-6,651	-14,729	-9,827	-8,622	-8,733	-7,345	-7,284	-5,259	-5,380
Net Financial Transactions	2,977	6,651	14,729	9,827	8,622	8,733	7,345	7,284	5,259	5,380
Net Acquisition of Financial Assets	2,525	-295	6,739	1,470	4,020	0	0	0	0	0
Financial investments	2,439	-259	5,077	775	3,389	0	0	0	0	0
Net lending	86	-35	1,662	695	631	0	0	0	0	0
Net Incurrence of Liabilities	5,779	5,114	25,213	11,504	11,332	8,733	7,345	7,284	5,259	5,380
Domestic	1,678	-215	4,978	608	3,050	751	861	892	1,061	1,267
Debt securities	5	470	-324	803	-330	251	361	492	761	1,267
New TB issues	732	1,396	1,321	1,628	59	1,871	1,992	2,009	2,133	3,862
Amortizations	726	926	1,645	826	390	1,620	1,631	1,516	1,372	2,595
Net credit from the banking system	1,750	-1,430	4,317	390	3,069	0	0	0	0	0
Net credit from the central bank 1/	-444	1,638	-3,821	-330	0	0	0	0	0	0
Net credit from commercial banks	2,194	-3,067	8,138	720	3,069	0	0	0	0	0
Other accounts payable/floating debt	-77	745	985	-585	312	500	500	400	300	0
Foreign	4,101	5,328	20,235	10,896	8,282	7,982	6,484	6,392	4,199	4,113
Loans	4,101	5,328	20,235	10,896	8,282	7,982	6,484	6,392	4,199	4,113
Disbursements	5,113	6,429	21,482	12,055	11,315	12,965	10,009	11,017	8,023	9,362
of which: August 2021 SDR allocation	...	...	...	1,858	...	...	...	...	...	...
Amortizations	1,012	1,101	1,247	1,159	3,032	4,982	3,525	4,625	3,824	5,250
Statistical Discrepancy 2/	-276	1,243	-3,744	-208	1,310	0	0	0	0	0
Memorandum items:										
Primary balance	-1,428	-4,689	-12,175	-6,864	-5,008	-4,826	-2,882	-2,977	-364	-103
Current primary expenditure	26,830	28,853	34,125	33,599	35,075	34,746	38,157	37,926	39,934	42,574

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

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

	2018	2019	2020	2021	2022		2023		Proj.	
					Prel.	CR 22/355	Proj.	CR 22/355	2024	2025
Revenue	14.1	14.2	13.5	13.7	14.1	13.9	14.0	14.2	14.4	14.3
Taxes	10.0	10.0	9.5	9.8	10.3	10.4	10.2	10.4	10.4	10.5
Income taxes	2.3	2.5	2.5	2.6	3.0	2.9	2.8	2.9	2.9	3.1
Excises	1.4	1.3	1.2	1.1	0.9	1.0	0.9	1.0	1.0	0.9
Value added tax	5.1	4.9	4.9	5.0	5.2	5.3	5.4	5.3	5.5	5.5
Import duties	1.1	1.0	0.8	0.9	1.0	1.0	0.9	1.0	0.9	0.9
Other	0.2	0.2	0.1	0.2	0.2	0.2	0.1	0.2	0.1	0.1
Social contributions	0.9	0.9	1.0	1.0	1.2	1.0	1.2	1.0	1.2	1.2
Other revenue	3.2	3.4	3.0	2.9	2.6	2.5	2.6	2.7	2.8	2.6
Grants	0.8	0.6	0.6	0.7	0.6	0.5	0.5	0.5	0.6	0.6
Itaipu-Yacyreta hydroelectric plants	1.4	1.7	1.2	0.9	1.0	0.9	1.2	0.9	1.3	1.1
Other nontax revenue	1.0	1.0	1.2	1.4	1.1	1.1	0.9	1.3	1.0	1.0
Expenditure	15.4	17.0	19.7	17.3	17.1	16.9	16.3	16.5	15.9	15.8
Expense	13.4	14.1	16.1	14.4	14.2	14.3	14.3	14.4	14.0	13.8
Compensation of employees	6.6	6.9	7.3	6.6	6.7	6.8	6.5	6.8	6.5	6.4
Purchases of goods and services	1.3	1.3	1.4	2.0	1.5	1.4	1.4	1.4	1.1	1.1
Interest	0.7	0.8	1.1	1.1	1.2	1.4	1.4	1.4	1.4	1.4
Grants	2.1	2.0	1.9	1.8	1.6	1.6	1.6	1.6	1.6	1.5
Social benefits	2.3	2.4	3.8	2.4	2.5	2.5	2.8	2.7	2.9	2.9
Other expense	0.5	0.6	0.6	0.6	0.6	0.6	0.5	0.6	0.5	0.5
Gross Operating Balance	0.7	0.1	-2.5	-0.7	-0.1	-0.5	-0.3	-0.3	0.4	0.5
Net acquisition of nonfinancial assets	2.0	2.9	3.6	2.9	2.9	2.6	2.0	2.1	2.0	2.0
Net Lending/Borrowing (Overall Balance)	-1.3	-2.8	-6.1	-3.6	-3.0	-3.0	-2.3	-2.3	-1.5	-1.5
Net Financial Transactions	1.3	2.8	6.1	3.6	3.0	3.0	2.3	2.3	1.5	1.5
Net acquisition of financial assets	1.1	-0.1	2.8	0.5	1.4	0.0	0.0	0.0	0.0	0.0
Financial investments	0.0	0.0	0.7	0.3	0.2	0.0	0.0	0.0	0.0	0.0
Net lending	0.0	0.0	0.7	0.3	0.2	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	2.5	2.2	10.5	4.3	3.9	3.0	2.3	2.3	1.5	1.5
Domestic	0.7	-0.1	2.1	0.2	1.0	0.3	0.3	0.3	0.3	0.3
Debt securities	0.0	0.2	-0.1	0.3	-0.1	0.1	0.1	0.2	0.2	0.3
New issues	0.3	0.6	0.6	0.6	0.0	0.7	0.6	0.6	0.6	1.1
Amortizations	-0.3	-0.4	-0.7	-0.3	-0.1	-0.6	-0.5	-0.5	-0.4	-0.7
Net credit from the banking system	0.8	-0.6	1.8	0.1	1.1	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	-1.3	3.4	0.3	1.1	0.0	0.0	0.0	0.0	0.0
Other accounts payable/floating debt	0.0	0.3	0.4	-0.2	0.1	0.2	0.2	0.1	0.1	0.0
External	1.8	2.3	8.4	4.0	2.8	2.8	2.0	2.1	1.2	1.1
Disbursements	2.2	2.7	9.0	4.5	3.9	4.5	3.2	3.5	2.4	2.6
of which: August 2021 SDR allocation	...	...	...	0.7	...	...	...	...	...	...
Amortizations	-0.4	-0.5	-0.5	-0.4	-1.0	-1.7	-1.1	-1.5	-1.1	-1.4
Statistical Discrepancy 2/	-0.1	0.5	-1.6	-0.1	0.4	0.0	0.0	0.0	0.0	0.0
Memorandum Items:										
Primary balance	-0.6	-2.0	-5.1	-2.5	-1.7	-1.7	-0.9	-1.0	-0.1	0.0
Output gap 3/	-0.5	-2.3	-2.2	0.2	-1.7	-1.5	-0.2	-0.5	-0.1	-0.1
Cyclically adjusted primary balance 3/	-0.5	-1.6	-4.7	-2.6	-1.5	-1.5	-0.9	-0.9	-0.1	0.0
Fiscal Impulse (-Δ Cyclically adjusted primary balance)	0.0	1.1	3.1	-2.1	-1.1	-1.2	-0.6	-0.6	-0.8	-0.1
Central government gross debt	17.9	20.8	31.0	31.5	34.5	33.5	33.2	33.4	32.9	32.7
Nominal GDP (in billions of Guaranies)	230,576	236,681	239,915	270,634	291,336	286,523	317,364	310,499	341,195	366,789

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

	2018	2019	2020	2021	Est.	Proj.		2025
					2022	2023	2024	
Current Account	-67	160	1,266	-306	-2,691	96	-139	522
Trade balance	479	464	1,640	342	-2,071	748	595	1,256
Exports	13,730	12,702	11,494	13,280	13,080	15,787	16,441	17,563
Hydro-Electricity	2,109	1,722	1,736	1,609	1,656	1,803	1,689	1,578
Agricultural products	5,547	4,582	5,280	6,339	4,918	5,968	6,205	6,390
Industrial products and others	1,386	1,502	1,502	1,893	2,102	2,199	2,261	2,338
Unregistered	1,437	1,310	907	678	686	805	1,000	1,066
Re-Export	3,251	3,586	2,070	2,762	3,718	5,012	5,286	6,191
Imports	-12,917	-11,913	-9,729	-12,594	-14,649	-14,473	-15,243	-15,667
Of which: Fuel products	-1,631	-1,423	-1,048	-1,531	-2,311	-2,483	-2,209	-2,019
Services (net)	-334	-325	-125	-344	-502	-566	-602	-641
Transport	-430	-240	-184	-282	-414	-459	-486	-515
Travel	27	40	-16	-45	-73	-82	-88	-94
Other	69	-125	75	-17	-15	-26	-28	-31
Factor income	-1,348	-1,099	-1,068	-1,344	-1,316	-1,382	-1,518	-1,561
Transfers	801	795	694	696	697	729	784	828
Capital and Financial Account	662	539	1,103	398	2,297	54	689	28
Capital transfers	153	151	172	217	159	166	178	188
Direct investment	156	225	120	319	474	1,765	2,059	714
Portfolio investment	530	500	2,161	659	215	0	0	0
Other investment	-177	-336	-1,350	-798	1,450	-1,877	-1,549	-874
Errors and Omissions	-777	-754	-563	-685	527	0	0	0
Overall Balance	-183	-55	1,805	-593	134	150	550	550
Financing								
Net international reserves (increase -)	104	55	-1,805	593	-134	-150	-550	-550
Change in gross reserves	183	55	-1,805	593	-134	-150	-550	-550
Other factors affecting reserve balance	-79	0	0	0	0	0	0	0
Exceptional financing	0	0	0	0	0	0	0	0
Memorandum Items:								
Current account in percent of GDP 1/	-0.2	0.4	3.6	-0.8	-6.4	0.2	-0.3	1.1
Gross reserves (in millions of U.S. dollars)	7,800	7,496	10,014	10,051	10,154	10,304	10,854	11,404
In months of imports of GNFS	7.1	8.6	8.9	7.6	7.7	7.5	7.6	7.7
External public debt in percent of GDP 1/	18.1	21.3	31.9	32.9	36.4	35.4	34.7	34.0
Debt service in percent of exports GNFS	10.7	13.7	15.6	16.4	16.9	14.2	14.4	12.9
Export volume (percent change)	-2.0	-4.1	-5.2	8.9	-22.0	19.9	4.8	2.3
Import volume (percent change)	4.5	-4.5	-15.2	19.1	-4.1	0.0	4.3	3.1
Terms of trade (percent change)	-2.1	-0.2	-0.1	-3.0	-0.7	0.6	-1.6	4.4

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

1/ Based on average exchange rate valuation of GDP.

Table 4. Paraguay: Summary of Accounts of the Central Bank
(In billions of Guaranies; end-of-period)

	2018	2019	2020	2021	Prel. 2022	Proj.		2025
						2023	2024	
Currency Issued	13,757	14,349	17,113	18,070	18,526	19,742	21,039	22,420
Growth	6.2	4.3	19.3	5.6	2.5	6.6	6.6	6.6
Net International Reserves	46,206	48,022	63,883	66,132	69,438	69,275	74,579	80,094
Net Domestic Assets	-36,437	-34,575	-43,764	-46,637	-48,048	-49,532	-53,540	-57,674
Net nonfinancial public sector	-8,855	-7,160	-10,962	-11,351	-10,692	-10,692	-10,692	-10,692
Net credit to the central government	-8,854	-7,159	-10,961	-11,350	-10,692	-10,692	-10,692	-10,692
Net credit to the banking system	-25,411	-25,571	-31,972	-35,706	-37,654	-43,311	-49,939	-57,290
Reserve requirements	-12,420	-12,513	-9,979	-16,828	-16,562	-27,039	-29,304	-32,056
Free reserves	-2,394	-2,742	-6,508	-6,138	-4,971	-4,888	-4,971	-5,059
Monetary control instruments 1/	-11,883	-11,742	-17,779	-14,528	-16,340	-11,603	-15,884	-20,395
Other	1,286	1,426	2,294	1,788	219	219	219	219
Other assets and liabilities (net)	-2,171	-1,844	-830	-208	-332	4,471	7,091	10,308
Capital and reserves	-790	-851	-946	-918	-935	2,997	6,318	10,314
Other assets net 2/	-1,381	-994	116	709	603	1,473	774	-6
Memorandum Items:								
Total stock of IRMs outstanding 1/	11,960	12,919	18,029	14,761	16,340	11,603	15,884	20,395
Monetary base 3/	19,740	20,420	21,843	24,725	25,559	26,815	28,372	30,086
Monetary base, annual growth	7.3	3.4	7.0	13.2	3.4	4.9	5.8	6.0
Quasi-fiscal balance	568	2,383	3,362	6,587	5,652	3,915	3,337	4,013
In percent of GDP	0.2	1.0	1.4	2.4	1.9	1.2	1.0	1.1
Cost of monetary policy operations	920	966	743	327	305	331	269	330
In percent of GDP	0.4	0.4	0.3	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 5. Paraguay: Summary Accounts of the Financial System ^{1/}
(In billions of Guaranies; end-of-period)

	2018	2019	2020	2021	Prel. 2022	Proj.		
						2023	2024	2025
I. Central Bank								
Net International Reserves	46,206	48,022	63,883	66,132	69,438	69,275	74,579	80,094
In millions of U.S. dollars	7,752	7,442	9,236	9,614	9,471	9,621	10,171	10,721
Net Domestic Assets	-36,437	-34,575	-43,764	-46,637	-48,048	-49,532	-53,540	-57,674
Credit to public sector, net	-8,855	-7,160	-10,962	-11,351	-10,692	-10,692	-10,692	-10,692
Credit to banking system, net ^{2/}	-13,528	-13,828	-14,192	-21,178	-21,313	-31,708	-34,056	-36,895
Credit	1,286	1,426	2,294	1,788	219	219	219	219
Deposits	14,813	15,254	16,486	22,966	21,532	31,927	34,275	37,114
Central bank securities	-11,960	-12,919	-18,029	-14,761	-16,340	-11,603	-15,884	-20,395
Other	-786,460	-848,410	-948,704	-916,507	-931,505	4,471	7,091	10,308
Currency Issued	13,757	14,349	17,113	18,070	18,526	19,742	21,039	22,420
II. Monetary Survey								
Net Foreign Assets	41,499	43,504	68,778	66,325	66,656	66,570	71,874	77,441
In millions of U.S. dollars	6,962	6,742	9,944	9,641	9,092	9,246	9,803	10,366
Net Domestic Assets	65,299	74,931	70,401	84,599	93,601	98,634	102,434	108,106
Credit to the public sector	-16,112	-15,250	-19,070	-17,584	-19,657	-19,657	-19,641	-19,624
Credit to the private sector	101,290	111,097	120,049	132,326	146,452	157,475	171,553	186,954
Other	-19,879	-20,916	-30,578	-30,143	-33,193	-39,184	-49,478	-59,224
Broad Liquidity (M4)	106,792	118,406	139,125	150,853	160,148	165,096	174,198	185,435
Bonds and issued securities	6	30	54	70	72	72	72	73
Other monetary liabilities	5,445	6,360	7,811	8,653	9,274	9,503	10,031	10,693
Central bank securities with private sector	77	1,177	249	233	0	0	0	0
Broad Liquidity (M3)	101,265	110,838	131,010	141,898	150,802	155,521	164,095	174,669
Foreign currency deposits	36,011	40,889	49,332	53,530	59,045	60,018	63,869	68,653
Money and Quasi-Money (M2)	65,254	69,949	81,678	88,368	91,757	95,504	100,226	106,015
Quasi-money	32,394	34,474	39,145	42,199	43,676	45,205	47,239	49,837
Money (M1)	32,859	35,476	42,534	46,168	48,080	50,299	52,987	56,178
(Annual percent change)								
M0 (Currency issued)	6.2	4.3	19.3	5.6	2.5	6.6	6.6	6.6
Credit to the private sector	14.1	9.7	8.1	10.2	10.7	7.5	8.9	9.0
M1	5.4	8.0	19.9	8.5	4.1	4.6	5.3	6.0
M2	8.1	7.2	16.8	8.2	3.8	4.1	4.9	5.8
M3	8.0	9.5	18.2	8.3	6.3	3.1	5.5	6.4
<i>Of which: Foreign currency deposits</i>	7.9	13.5	20.6	8.5	10.3	1.6	6.4	7.5
Memorandum Items:								
Ratio of foreign currency deposits to M3 (percent)	35.6	36.9	37.7	37.7	39.2	38.6	38.9	39.3
Ratio of foreign currency deposits to total private sector deposits (percent)	37.6	38.6	39.5	39.3	42.2	41.8	42.2	42.7

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 6. Paraguay: Gross External Financing Needs and Sources, 2021-24

(In millions of U.S. dollars, unless otherwise indicated)

	2021	2022	2023	2024
		Prel.	Projection	
Gross External Financing Needs	-937	-3,287	-455	-735
External current account balance	-306	-2,691	96	-139
Debt amortization	-632	-596	-550	-595
Medium and long term debt	-632	-596	-550	-595
Public sector	-632	-596	-550	-595
Private sector				
Short-term debt				
Public sector				
Private sector				
Gross External Financing Sources	344	3,421	605	1,285
Foreign direct investment (net)	319	474	1,765	2,059
Medium and LT debt disbursements 1/	1,767	1,754	1,598	1,194
Public sector	1,767	1,754	1,598	1,194
Private sector				
Short-term debt disbursement				
Public sector				
Private sector				
Other capital flows (net)	-1,742	1,194	-2,758	-1,969
Change in international reserves	593	-134	-150	-550
Use of IMF credit <i>percent of quota</i>	0	0	0	0
Memo: Gross international reserves	10,051	10,154	10,304	10,854
In percent of ARA metric	209.3	207.5	...	...

1/ The main financing source is the sovereign bond placement.

Other contributions are from CAF, IADB, and WB.

Table 7. Paraguay: Medium-Term Outlook
(In percent of GDP, unless otherwise indicated)

	2018	2019	2020	2021	Prel. 2022	2023	2024	Proj.		2027	2028
								2025	2026		
National Accounts and Prices											
Real GDP growth (in percent)	3.2	-0.4	-0.8	4.0	0.1	4.5	3.5	3.5	3.5	3.5	3.5
Output gap 1/	-0.5	-2.3	-2.2	0.2	-1.7	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1
Gross domestic investment	22.8	21.7	20.0	24.0	22.6	25.8	27.4	27.3	27.3	27.3	27.4
Gross domestic savings	22.6	22.1	23.6	23.2	16.2	26.0	27.1	28.4	28.4	28.6	28.9
Consumer prices (end of period; in percent)	3.2	2.8	2.2	6.8	8.1	4.5	4.0	4.0	4.0	4.0	4.0
Public Finances											
Central government primary balance	-0.6	-2.0	-5.1	-2.5	-2.5	-1.7	-0.9	-0.1	0.0	0.0	0.0
Central government net lending/borrowing	-1.3	-2.8	-6.1	-3.6	-3.0	-2.3	-1.5	-1.5	-1.5	-1.5	-1.5
Central government debt	17.9	20.8	31.0	31.5	34.5	33.2	32.9	32.7	32.4	32.2	31.9
Public sector debt	22.3	25.8	36.9	37.5	40.8	39.6	39.0	38.4	37.8	37.0	36.3
External Sector											
Terms of trade (annual percent change)	-2.1	-0.2	-0.1	-3.0	-0.7	0.6	-1.6	4.4	1.2	1.7	2.0
Current account	-0.2	0.4	3.6	-0.8	-6.4	0.2	-0.3	1.1	1.1	1.3	1.6
Foreign direct investment	0.4	0.6	0.3	0.8	1.1	4.0	4.4	1.4	1.0	1.0	1.0
Gross international reserves (in US\$ billion)	7.8	7.5	10.0	10.1	10.2	10.3	10.9	11.4	12.0	12.5	13.1

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

1/ In percent of potential GDP

Table 8. Paraguay: Financial Soundness Indicators

	2014	2015	2016	2017	2018	2019	2020	2021	2022
Basic Indicators									
				(in percent)					
Capital adequacy									
Regulatory capital/risk-weighted assets	15.2	16.1	17.9	18.3	17.5	17.2	19.1	18.8	17.3
Tier 1 capital/risk-weighted assets	11.2	11.7	13.4	13.8	13.4	13.5	14.8	15.2	14.0
NPLs net of provisions/equity	1.2	3.7	3.1	2.5	3.1	1.1	0.2	0.9	2.6
Asset quality									
NPLs/total loans	2.0	2.6	2.9	2.8	2.5	2.6	2.4	2.3	2.9
Profitability									
Return on assets	2.6	2.5	2.2	2.3	2.3	2.4	1.7	1.8	2.0
Return on equity	28.0	27.6	23.3	20.3	19.5	20.3	14.3	14.0	14.5
Interest Margin/ gross income	10.2	7.4	8.0	9.8	12.2	8.7	9.5	5.5	....
Admin. expenses/operating margin	34.1	36.2	38.2	39.5	33.7	31.5	31.9	30.3	....
Liquidity									
Liquid assets/total assets	30.8	31.8	29.5	25.2	23.2	23.0	33.4	19.4	21.8
Liquid assets/sight deposits	11.6	11.7	11.4	10.4	9.4	8.8	14.6	8.5	9.3
Market risk									
FX position/equity	8.4	9.1	8.6	9.6	17.3	15.8	13.9	9.3	9.6
Recommended Indicators				(in percent)					
Capital/assets	7.0	7.2	7.9	8.2	8.4	8.7	8.5	9.4	8.9
Personnel expenses/admin. expenses	10.4	6.4	6.6	7.8	11.3	8.3	9.2	5.7	11.8
FX loans/total loans	47.8	50.0	48.1	46.7	47.2	46.1	42.2	42.1	45.9
FX liabilities/total liabilities	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. Risk Assessment Matrix¹

Source/nature of risk (Likelihood / Time horizon)	Expected impact and recommended response
External Risks	
<p>Intensification of regional conflict(s). Escalation of Russia's war in Ukraine or other conflicts disrupt trade, remittances, refugee flows, FDI and financial flows, and payment systems. (High / ST)</p> <p>Deepening geo-economic fragmentation and geopolitical tensions. These could set off a reconfiguration of trade, supply disruptions, technological and payments systems fragmentation, rising input costs, financial instability, and lower potential growth. (High / ST, MT).</p>	<p>High. Disruptions of trade channels already affected 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>Abrupt global slowdown or recession. Global and idiosyncratic risk factors combine to cause a synchronized sharp growth downturn, with recessions in some countries, adverse spillovers through trade and financial channels, and market fragmentation. (Medium / ST)</p>	<p>Medium. A new bout of global financial tightening, possibly combined with volatile commodity prices, could lead to spiking risk premia, debt distress, widening external imbalances, and fiscal pressures. It may dampen external demand, foreign inflows, and border trades. Monetary policy, including exchange rate interventions, should balance the impact of lower activity with volatile prices.</p>
<p>Monetary policy miscalibration. Amid high economic uncertainty and volatility, major central banks slow monetary policy tightening or pivot to loosen monetary policy stance prematurely. (Medium / ST)</p>	<p>Medium. Persistent high inflation could de-anchor inflation expectations. The government should continue to implement a successful data-driven inflation-targeting framework and continue to allow the exchange rate to work as an important shock absorber.</p>
<p>Commodity price volatility. A succession of supply disruptions due to conflicts, export restrictions and demand fluctuations causes recurrent commodity price volatility, external and fiscal pressures, and social and economic instability. (Medium / ST)</p>	<p>High. Persistent global prices could further increase inflation rates in Paraguay. Higher commodity prices would benefit fiscal revenues and trade balance, but supply disruptions could lead to production stoppages. Monetary policy should be calibrated to face scenarios with lower growth and volatile prices.</p>
<p>Social discontent. Supply shocks, high inflation, real wage drops, and spillovers from crises in other countries worsen inequality and trigger social unrest. (High / ST, MT).</p>	<p>Medium. Social unrest may exacerbate imbalances, slow growth, and trigger market repricing. Social policies need to continue supporting the most vulnerable population. Governance and anti-corruption reforms need to move forward to strengthen the transparency of public sector operations.</p>
<p>Systemic financial instability. Sharp swings in real interest rates, risk premia, and assets repricing amid economic slowdowns and policy shifts. (Medium / ST)</p>	<p>Medium. Adverse financial conditions may trigger insolvencies in weak banks or non-bank financial institutions, causing market dislocations. The government should continue enhancing financial system supervision and the AML/CFT regime. Monetary policy should continue to allow the exchange rate to work as an important shock absorber.</p>
<p>Extreme climate events. Extreme climate events cause more severe than expected damage to infrastructure and loss of human lives and livelihoods. (Medium / ST)</p>	<p>High. This may amplify supply chain disruptions and inflationary pressures, causing water and food shortages and reducing growth. Exchange rate depreciation would serve as a short-term buffer. In the medium term, reducing export concentration, diversifying the mix of clean power generation, and facilitating adaptation in agriculture would be important.</p>
Domestic Risks	
<p>Weather-related shocks (Medium to High / ST): The agriculture 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 shocks. Foreign exchange interventions can avoid disorderly market conditions.</p>
<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, control expenditure increases, and reform civil services and public procurement processes.</p>

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

Annex II. Public Attitudes Towards Climate Policies in Paraguay

1. Climate change is posing an unprecedented challenge to the world economy. There is a global consensus that climate changes like carbon dioxide (CO₂) emissions and global warming are amongst the biggest threats to the future of humanity. The average global surface temperature could rise by 2.8 degrees Celsius by the end of the century without immediate action to slow the pace of global warming (UN, 2022). With rising global surface temperature, the likelihood and intensity of natural disasters will significantly increase.

2. Paraguay is highly vulnerable to climate change. According to a study by the Economic Commission for Latin America and the Caribbean (ECLAC, 2014), Paraguay faces substantial risks from climate change due to its heavy dependence on commodities production and because its infrastructure, logistical capacity and services sector are still in development. Paraguay has been impacted by changes in the El Niño Southern Oscillation weather pattern, which has caused drought and flooding episodes with significant impacts on its agricultural sector and water resources.

3. This study uses state-of-the-art machine learning algorithms to understand public perceptions about climate policies in Paraguay.¹ Apart from scientific evaluation, it is important to know how the public perceives climate change and various policy instruments to address it. In the end, public participation can play a crucial part in efforts to achieve carbon neutrality. UN Conference on Environment and Development (UNCED) included explicit goals of citizen participation and engagement in climate actions (Principle 10).

4. Twitter data offers unique advantages in analyzing public attitudes towards certain events and policies.² As one of the world's largest social networking platforms, Twitter currently has 486 million users who share their emotions, opinions, and views on a daily basis in short texts called tweets. As the first step, we collect tweet full-texts data from official twitter accounts of government agencies and industry associations in Paraguay, including the Ministry of Environment and Sustainability Development, Ministry of Finance, etc.³

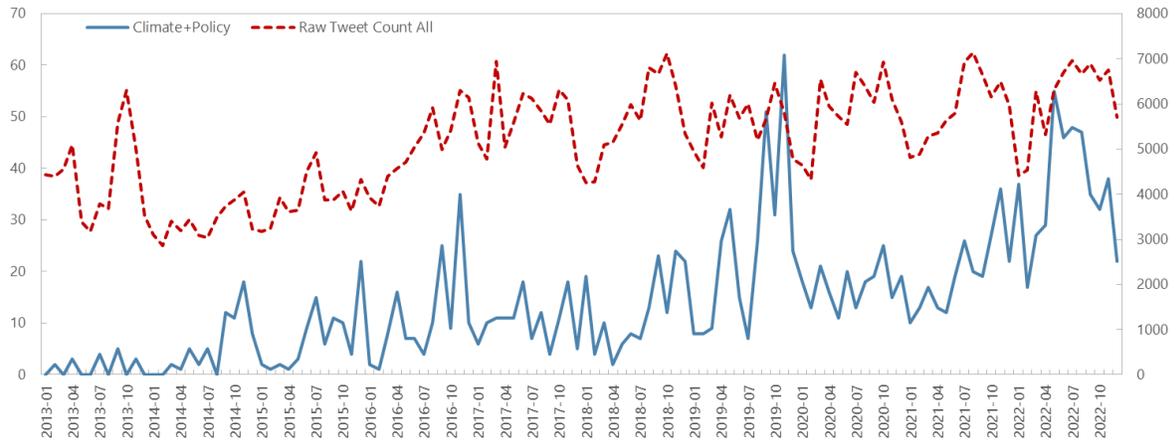
5. To identify tweets related to climate policies, we adopt a keyword search strategy. To construct our list of filtering keywords, we first collect climate change white papers from official sources such as the Intergovernmental Panel on Climate Change (IPCC), the Environmental Protection Agency (EPA), and National Oceanic and Atmospheric Association (NOAA). The keywords in the sample are shown in Figure 1. The list of policy instruments, including both market- and non-

¹ See Yang, Y., "Measuring Public Attitudes Towards Climate Policies Using Twitter Data", forthcoming IMF Working Paper, for technical details.

² Twitter had 588.3 thousand users in Paraguay in 2022. The figure was equivalent to 8.1 percent of the country's total population at the time.

³ The current sample includes full texts data of verified twitter accounts of 42 government agencies and industry associations in Paraguay, 50 in Argentina, 42 in Uruguay, and 47 in Brazil. Twitter data obtained here is for non-commercial, academic use only.

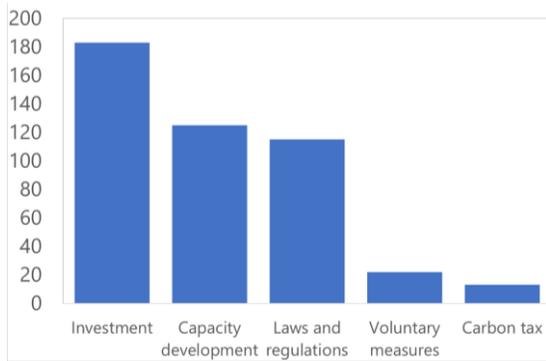
Figure 2. Paraguay: Change of Climate Policy Related Tweets Over Time



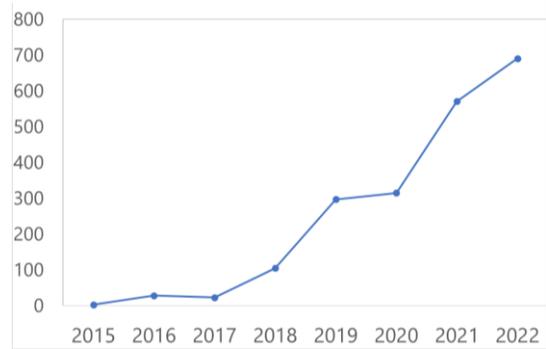
Sources: Twitter and IMF staff calculations.

Figure 3. Paraguay: Climate Policy

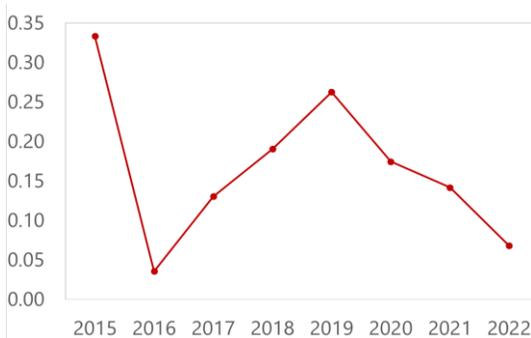
Twitter Counts on Selected Climate Policy Tools



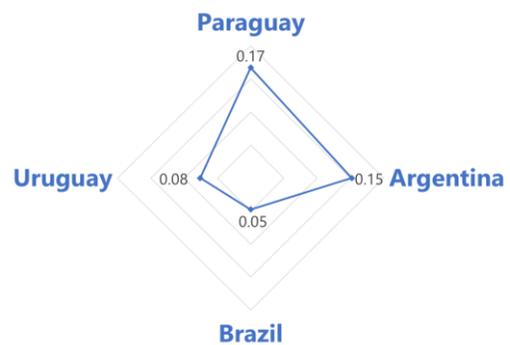
Number of Climate Policy Comments on Twitter



Positive Comments on Climate Policies



Cross-Country Comparison



Source: Twitter and IMF Staff Calculations

References

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Appendix I. Program Statement

Asunción, May 17, 2023

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

Dear Ms. Georgieva:

Paraguay's economy continues to recover from the impact of the severe drought that occurred between late 2021 and early 2022, which had substantial repercussions on the agriculture and export sectors. In 2022, after a significant decline in activity during the first half of the year, economic indicators recovered, particularly in the agricultural and electricity production sectors, and accordingly, growth is estimated at 0.1 percent for 2022. In addition, the 2022-2023 agricultural campaign and the production of electrical energy are confirmed as economic driving forces this year. Our projections indicate an economic expansion of 4.5 percent in 2023.

Paraguay did not escape the substantial inflationary pressures observed in this and other regions of the world. After inflation reached a year-on-year peak of 11.8 percent in April 2022, the efforts of the Central Bank of Paraguay, with the implementation of a tighter monetary policy, were effective in controlling domestic price increases. Inflation at end-2022 was 8.1 percent, below the programmed central point and comfortably within the inflation consultation band of the Policy Coordination Instrument (PCI). As of April 2023, annual inflation fell to 5.3 percent and continues to decline. In the interim, the Central Bank of Paraguay has remained alert, and has maintained the monetary policy rate at 8.5 percent since September 2022. As of April, inflation expectations for 2023 and 2024 are 5 percent and 4 percent, respectively. BCP technical staff project inflation at around the inflation target midpoint already by end-2023. In addition, our exchange rate policy continues to support our currency's flexibility, while our international reserves remain at adequate levels, after having increased during the past year despite external challenges.

We continue to meet our fiscal targets. We ended 2022 with a fiscal deficit of 3 percent of GDP, in line with our previous projections and commitments under the PCI. For the current year, the budget

approved by the National Congress is designed to reduce the fiscal deficit to 2.3 percent of GDP. We remain committed to gradually reducing the fiscal deficit to the original ceiling of 1.5 percent of GDP under the Fiscal Responsibility Law (LRF) in 2024.

This Program Statement describes the progress made to date and sets out the economic policies that the government and the Central Bank of Paraguay (BCP) intend to implement during the rest of the program supported by the PCI. Program implementation has been on track and the quantitative targets of the PCI outlined for December 2022 were met, except for those relating to current primary expenditure and floating debt, which exceeded their respective limits, in minimal amounts and temporarily. The floating debt target was exceeded because resources had to be provided within the 2022 budget execution (per advanced payment order) for the amortization of sovereign bonds maturing in January 2023. Meanwhile, the nonobservance of the primary current expenditure target is mainly explained by increases in sectors whose wages are indexed to the current minimum wage. In addition, we met our commitments under the structural reform agenda. The Civil Service Reform Law was submitted to the National Congress in October 2022; in December, the National Public Enterprise Council (CNEP) issued resolutions to restore the use of the control panel and to approve the strategic objectives to be achieved by public enterprises in 2023 (against this backdrop, results-based management contracts were signed by the public enterprises, and the control panel is now in use); a new version of the Law on Collateral of Movable Assets was submitted to the National Congress; and the coverage targets for the Tekoporã and Food Pension for the Elderly social programs were widely exceeded.

Implementation of our program will continue to be monitored through quantitative, continuous, and reform targets and an inflation consultation clause, as described in the attached Program Statement. IMF reviews will continue to be conducted on a semiannual basis to assess program implementation and to agree any additional measures that may be required to achieve its objectives. Targets for the subsequent reviews are shown in Tables 1a and 2. We request the modification of the quantitative targets (QT) for end-June 2023 and end-December 2023, as well as approval for the proposed end-June 2024 QTs presented in Table 1a.

We believe that the policies described in this Program Statement are appropriate to achieve the objectives of the PCI-supported program. We will promptly adopt any additional measures that may be needed for that purpose. We will consult with the IMF prior to adopting these measures or in advance of revising the policies contained in this Program Statement. In addition, we will provide all information requested by the IMF to assess program implementation. In keeping with our

commitment to transparency, we wish to make this letter publicly available, together with the Program Statement and the TMU, as well as the IMF Staff Report on the first review of the PCI supported program. We therefore authorize its publication at the IMF's website, subject to the approval of the Executive Board. These documents will also be published at the website of the government of Paraguay.

Sincerely yours,

/s/
José Cantero Sienna
President
Central Bank of Paraguay

/s/
Oscar Llamosas Díaz
Minister
Ministry of Treasury

Attachment: Technical Memorandum of Understanding

Attachment I. Program Statement May 2023–November 2024

1. **In 2022, the government of Paraguay requested the IMF’s collaboration in the implementation of a program under the Policy Coordination Instrument (PCI).** The request was approved by the IMF Executive Board in November 2022. This nonfinancial instrument was received positively by all economic players in Paraguay and was supported by agencies of the central government, the private sector, and civil sector groups.
2. **This Program Statement sets out our economic program for the remaining term of the Policy Coordination Instrument.** The program is organized around three pillars: (i) ensuring macroeconomic stability and resilience; (ii) enhancing productivity and fostering economic growth; and (iii) enhancing social protection and inclusion. During the first stage of the PCI, we made progress in several areas: civil service reform; the establishment of strategic objectives to be achieved by public enterprises in 2023 and improvements in the monitoring of their management; the draft law on collateral of movable assets; and the increase in coverage of social programs for the most vulnerable sectors. Supported by the positive results from the first phase of the program, we remain committed to achieving the subsequent program targets to benefit all Paraguayan citizens.
3. **We will continue to focus on completing substantial structural reforms.** We will continue to encourage and finalize structural and institutional reforms to ensure stronger, more inclusive growth while maintaining fiscal sustainability and financial stability. The PCI has been a key factor in the design of a comprehensive program of structural and institutional reforms to boost the Paraguayan economy. In the context of the forthcoming general elections, we are confident that the remaining objectives of this program will serve as a bridge from this administration to the next in the challenges of promoting economic and financial stability.

RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

4. **Paraguay continues to recover from the negative effects of last year’s drought.** The country’s economy is still recovering from the impact of the severe drought that occurred between late 2021 and early 2022 that had substantial repercussions on the agriculture and export sectors. During the first half of the year, there was a substantial decline in economic activity, reflected with a year-on-year decline in GDP during the first and second quarters (-0.9 and -3.3 percent, respectively). Nonetheless, the data from the Monthly Economic Activity Indicator for Paraguay (IMAEP) began to show signs of recovery from the second half of 2022, particularly in the agricultural and electricity production sectors, reflected in an interannual GDP expansion in the third and fourth quarter (2.9 and 1.7 percent) and leading to an estimated growth rate of 0.1 percent for 2022.
5. **As a result of more favorable weather conditions, a rebound in agricultural production is anticipated this year.** The 2022-2023 growing season is confirmed as a driving force for the primary sector, agroindustries, and trade in 2023. Our projections indicate economic expansion of approximately 4.5 percent this year, that could be revised upwards if other sectors perform more

dynamically than expected. Expansion, albeit moderate, is expected in manufacturing, electricity and water, and services in general. From the viewpoint of expenditure, there would be greater dynamism of net external demand and, to a lesser extent, of internal demand.

6. While the external current account deficit grew significantly in 2022, it is expected to improve substantially in 2023. We estimate an external current account deficit of more than 6 percent of GDP in 2022, owing to a sustained moderation in exports and double-digit growth in imports boosted by high international prices. Despite the negative performance in 2022, we project a substantial recovery of the current account balance in 2023. Unlike the previous year, for 2023, exports are expected to increase at double-digit rates. A modest current account surplus of approximately 0.4 percent of GDP is expected for 2023, explained primarily by a positive trade balance.

7. Inflationary pressures are expected to decline this year. Overall inflation at end-2022 stood at 8.1 percent, below the programmed central point and comfortably within the inflation consultation band. The increase in prices was explained primarily by accelerated prices in the transportation and food sectors. As of April, year-on-year inflation continued its downward trend to 5.3 percent. In April, inflation expectations for 2023 and 2024 were 5 percent and 4.0 percent, respectively. According to the BCP's surveys of expectations, inflation should return to the center of its target range of 4 percent within the monetary policy horizon (24 months). Against this backdrop, the BCP has maintained the monetary policy rate at 8.5 percent per annum since September 2022, reflecting an increase of 325 basis points since December 2021, in a context of persistent price increases.

8. Despite the negative impact of the lower growth scenario in 2022, the fiscal deficit was reduced by 0.6 percent of GDP, and we remain committed to reducing the deficit by 0.7 percent of GDP for 2023. The 2022 fiscal deficit of 3 percent of GDP remained within the parameters of the program projections. Tax revenue also performed broadly as expected. Non-tax revenue increased unexpectedly by 0.3 percent GDP, primarily because of increased social contributions that completely offset the increase in public investment expenditure. The central government budget for 2023 was approved by Congress in December, in line with the objective of reducing the fiscal deficit to 2.3 percent of GDP.

9. In terms of the risks in connection with our projections, the international environment is still complex, and the economic outlook and global inflation prospects are uncertain. Some of the key risk factors are a renewed escalation of the war in Ukraine, unexpected inflationary developments leading to tightened financial conditions, and a greater probability of recession in the major advanced economies. A tightening of international financial conditions could bolster the U.S. dollar, with adverse effects on capital flows to emerging economies, depreciation in their currencies, and pressure on the fiscal accounts. There are further risks deriving from the situation of our trading partners and the local conditions. At the local level, economic growth risks derive primarily from climate change, logistical factors, oil prices, and adequate availability of agricultural inputs. The outlook for the 2022/2023 growing season is quite positive as climate conditions have improved substantially in recent months; similarly, prospects for the water and electricity generation sector are

quite favorable. Concerning agricultural inputs, the data still reflect shortages and high prices; and high levels of market volatility could negatively influence soybean production and profitability.

STRATEGIC OBJECTIVES OF OUR REFORM PROGRAM

Pillar I. Ensuring Macroeconomic Stability and Resilience

10. We will continue to implement reforms to reaffirm Paraguay's macroeconomic stability and resilience. We remain committed to gradually reducing the fiscal deficit to the original cap of 1.5 percent of GDP under the Fiscal Responsibility Law (LRF). This objective will be achieved through the implementation of a number of fiscal reforms that will help strengthen fiscal governance, protect the budget during election periods, reduce fiscal risks, and strengthen the tax revenue base. Monetary and foreign exchange policies will continue to focus on ensuring low, stable inflation levels and a flexible exchange rate.

11. In the fiscal area, after implementing fiscal mitigation measures as a result of the impact of adverse shocks during three of the past four years, the government has committed to a gradual convergence to a deficit of 1.5 percent of GDP. During 2022, despite the contraction in agricultural production and its impact on the level of economic activity that required fiscal measures to support the affected sectors, the fiscal deficit reached 3.0 percent of GDP, in accordance with the quantitative target established under the PCI.

Fiscal Policies

12. We remain committed to achieving a fiscal deficit of 1.5 percent of GDP by 2024, as provided in the Fiscal Responsibility Law (LRF). For that purpose, the National Congress approved the National General Budget for the 2023 fiscal year with the authorization of a deficit of 2.3 percent of GDP (0.7 percentage points below the target for 2022), in line with our objective of gradual fiscal convergence to a deficit of 1.5 percent of GDP by 2024. Mindful of the direct impact on the reduction of fiscal space in the medium term, we must propose measures to contain and rationalize public expenditure and prioritize public investments to achieve fiscal convergence and to maintain sustainable public finance levels.

13. Containing growth in primary current expenditure, while maintaining priority expenditure in the health, education, and social areas. To restore sustainable fiscal performance levels, we propose limiting growth of real primary current expenditure to 3.0 percent for the period 2023-2024. These measures constrain additional current expenditure items to those established in the current legislation, which refer to organic growth of the economy; adjustment of those public sector salary and expenditure items that are indexed to the legal minimum wage (SML)—these sectors include the public forces, transfers to the program for the elderly, and other administrative sectors with such wage levels. In terms of the management of expenditure on uses of goods and services, we will intensify the rational management of the use of such resources, in terms both of institutional operations and the prioritization of the procurement of medicines and hospital supplies.

In this context, primary current expenditure at end-2024 is projected at approximately 12 percent of GDP. In the medium term, this approach will imply a diminution of the growth of public debt in terms of GDP, to restore fiscal buffers. In line with our 2022–2024 macroeconomic framework, public debt of the central government is projected at a level of approximately 38 percent of GDP by end-2024, under a baseline scenario without any adverse shocks.¹ We are also committed to maintaining low levels of net changes in floating debt at the end of each fiscal year. The corresponding quantitative targets for the fiscal deficit, primary current expenditure, and net changes in floating debt are described in Table 1a.

Structural Fiscal Policies

14. **Despite the progress indicated, significant challenges remain to ensure the country’s macroeconomic stability and resilience against severe economic shocks, while also placing the country on a path to sustainable development and improving social protection and inclusion.**

Accordingly, the proposal of the Executive Branch in pursuit of the transformation of the government includes a package of structural reforms, including the reform of the public sector pension and retirement system. These initiatives all have the fundamental objective of contributing to the financial and actuarial sustainability of the system, in accordance with the convergence plan that is currently in place and the guidelines established in Law 5098/13 on Fiscal Responsibility.

Reform of the Public Sector Retirement System

15. A reform of the Public Sector Pension Fund (*Caja Fiscal*) is needed to make it sustainable. Contributions from the National Teacher Corps, the Armed Forces, and the National Police are insufficient and result in recurring deficits that must be covered with treasury cash outlays or pension contributions from other sectors in surplus. The situation reflects a highly fragmented system, with significant disparities in terms of equitable access to benefits. The actuarial estimate of the *Caja Fiscal* for the period 2019–2056 reveals a deficit of 28.5 percent of the 2019 GDP, in nominal terms representing a net present value of approximately USD 11.408 billion. As of December 2021, the cumulative surplus deposited with the BCP was approximately USD 429 million.²

16. We intend to establish a high-level commission to propose a profound structural reform of the *Caja Fiscal*. We propose the creation of a National Committee of Experts, which would include representatives from the three branches of government (the Executive, Legislative, and Judicial), as well as representatives from the sectors comprising the *Caja Fiscal*, civil society, and academia, to undertake a comprehensive review of the system and draft reform proposals in accordance with the objectives and scope provided in the PCI request.³ The proposed date for

¹ Based on the analysis of the endogenous debt evolution model.

² Reserves deposited with the BCP include surplus flows from the Contributory Civil Program, and revenue in connection with the capitalization income and interest collected to date from investments that have been made.

³ <https://www.imf.org/-/media/Files/Publications/CR/2022/Spanish/1PRYSA2022004.ashx>

submission to the National Congress is by July 2023 (**reform target**). It is intended for the Commission to be established by Law, to support its continuity after the government transition.

17. We continue working on the establishment of a Retirement and Pension

Superintendency. Under the leadership of the BCP, we have established a working team to review and improve the Draft Law on the establishment of a Retirement and Pension Superintendency. The absence of a supervisory and regulatory authority is one of the most important weaknesses in the current system, that it is highly fragmented and that does not have an adequate institutional status in terms of the control processes and mechanisms for regulation and diversification of the risks of investment management, to ensure that the resources will be present to meet the objectives of the funds in the medium and long term. In 2018, a draft law having similar objectives was rejected in the Senate, after receiving strong opposition from some union sectors. The new working team will focus on incorporating recommendations made in connection with the previous project, refining the technical details of the new draft law, and ensuring a consensus among the different social sectors. The proposed date for submission to the National Congress is still December 2023 (**reform target**).

Improving Mobilization of National Public Revenue

18. We observe significant progress in electronic invoicing. Since April 2022, we have been implementing e-kuatia, the new Integrated National Electronic Invoicing System (SIFEN), in a process that we expect to complete in October 2024, with the objective of covering 80 percent of national invoicing with electronic documents. As of January 2023, more than 100 million electronic invoices were issued, involving 542 companies. It is projected that approximately 1,500 companies should be using electronic invoices by the end of 2023. An important intermediate objective is the inclusion of at least 750 large and medium-sized taxpayers in the SIFEN by end-June 2023 (**reform target**).

19. We will continue to develop the compliance risk management framework. Our compliance risk management framework has benefited from technical assistance provided by the IMF. We have promoted and implemented the use of Big Data in our efforts to identify taxpayer risk factors, and we recently received training from the IMF in the area of fiscal behavioral sciences.

Improving Fiscal Governance Through a Stronger Fiscal Rule

20. The government will continue to push for the approval of the Fiscal Responsibility Law 2.0. We will continue to be available to collaborate with the legislature as required for the passage of the draft law that was submitted to the National Congress in December 2020.

Strengthening institutional management of fiscal risks and public finances

21. We are continuing our efforts to strengthen the analysis and to release the Fiscal Risk Report on an annual basis. For approximately the past two years, fiscal risk analysis focusing on macroeconomic risks has been available in the annual Public Finance Report published by the Ministry of Treasury. In addition, in accordance with the IMF technical assistance recommendations, the Ministry of Treasury prepared the first Fiscal Risk Report for Paraguay, that includes the analysis

of the specific risks, such as those related to public-private partnerships (PPPs), public enterprises, risks in connection with pensions, and those driving from climate change. The main objective of the risk analysis is to help strengthen fiscal transparency in connection with public management and the ability to react to macrofiscal projection errors. The first fiscal risk report, which corresponds to 2022, was published in April 2023.⁴

22. We are moving towards a more robust public financial management system aligned with international best practices. The assessment of the Public Expenditure and Financial Accountability (PEFA) system in Paraguay in 2022 shows significant progress in aligning the system with international best practices compared to the assessment conducted in 2016. During the critical period from 2019 to 2021, 71% of the 31 indicators assessed earned a "C" grade or higher, demonstrating that the system is on track. Opportunities for improvement can be observed, given that 64.5% of the indicators have a grade equal to or lower than "C+". Along these lines, we will continue to work on strengthening public financial administration from the perspective of incorporating new regulations, tools, processes, and procedures to improve fiscal policy management and the implementation of climate change and gender policies.

Consolidating the Supervision and Management of Public Enterprises

23. To address contingent fiscal risks, improve public sector efficiency, and to refine the strategic approach, we are continuing to improve the supervision and management of the nine public enterprises. As a first step, we met the target proposed by the PCI for December 2022 by re-establishing the control panel system to measure the performance of enterprises, aiming to move towards a results-based management model. The control panel is a computer tool comprising a set of selected orderly indicators that will allow to monitor and assess management of public enterprises and make it possible to analyze the financial and nonfinancial performance of each enterprise. Resolution 28 of the National Public Enterprise Council of December 20, 2022, establishes the mandatory use of the dashboard by public enterprises; designates the Directorate General of Public Enterprises (DGEP) as the administrator of the panel; and assigns the DGEP the authority to regulate its operation. We will also complete the drafting of the Corporate Governance Law that will clarify and strengthen the role of the National Public Enterprise Council and establish a common regulatory framework and operating rules for public enterprises in the area of corporate governance. This draft law will be submitted to the National Congress during the second half of 2023 (**reform target**).

Fiscal Safeguards in Pre-Election Periods

24. The Draft Law on Fiscal Safeguards in Election Periods is still pending approval by the National Congress. The purpose of this Law is to establish special rules for government conduct in fiscal and administrative matters, to ensure that fiscal stability and sustainability are maintained during election periods. In April 2022, we submitted a draft law to the National Congress for

⁴ https://www.economia.gov.py/application/files/4316/8121/3095/Informe_de_Riesgos_Fiscales_Paraguay_publicado__vf.pdf

consideration. We confirm our interest in the implementation of this text, and we are prepared to provide clarification to the authorities of the legislative branch on its objectives and content.

Consolidating Supplier Payment Processes and Recording of Public Investment

25. We have made progress in the process of recording accrued commitments. As described in our previous Program Statement, in 2022 we identified occasional delays in the payment process for certain public works contracts. To date, we have received detailed information from the executing agencies on the projects involved, and we are in the process of analyzing the records to identify the amounts of total debt and outstanding balances. In the interim, the contracting enterprises received payments through a debt transfer mechanism with commercial banks. Considering the importance of such projects for the economic and social development of the country, it is considered necessary to continue strengthening the legal tool with respect to the administration of credits contracted by the State Agencies and Entities (OEE) that are part of the Executive Branch, in order to have in the short term, of a sufficient flow of information and resources to face the economic considerations derived from the execution of contracts related to public investment projects and contracts for the provision of goods and services, without compromising the validity and effectiveness of the contractual relationship and to establish a sustainable payment plan, in accordance with the institutional budget assigned for the current Fiscal Year, and taking into consideration the real capacity of the Public Treasury, as well as what is established in the Fiscal Convergence Plan.

26. In this regard, the Ministry of Finance has worked on and submitted to the consideration of the Presidency a draft decree, with the aim of regulating the procedures for the assignment of receivables (assignment of credits) derived from the execution of contracts linked to public investment projects and contracts for the provision of goods and services, concluded within the framework of the legal provisions governing public procurement - Law 2051/2003 "ON PUBLIC PROCUREMENT" (still in force on a transitional basis) and Law 7021/2021 "ON PUBLIC SUPPLY AND PROCUREMENT". This regulatory proposal will allow better control and monitoring by the Ministry of Finance of the commitments that have been made, that will improve the predictability of these commitments and provide adequate plans to settle them.

27. As of the entry into force of the decree, the OEEs that are part of the Executive Branch will unfailingly require the favorable opinion of the National Economic Team (EEN) to authorize the assignments of collection rights (assignment of credits), regardless of whether the contracts have been entered into under the new Law No. 7021/2022, as well as Law No. 2051/2003. On the other hand, assignments that have been authorized within the framework of Article 38 of Law No. 2051/2003, and prior to the entry into force of the decree, must be reported to the EEN, within ten (10) working days counted from the day following its entry into force. The report shall identify the Assignor Contractor and the Assignee; and determine the net amount of the assigned debt, the term and maturity of the payment obligations. In any of the cases indicated above, the Internal Audit Unit of the respective OEE of the Executive Branch must certify the amounts of the assigned obligations, by assigning contractor and date; and, once the credits have been certified, they will be sent to the Accounting Directorate of the respective institutions for their corresponding

registration in the Accounting System (SICO) / Integrated Financial Administration System (SIAF), in accordance with the legal and regulatory provisions in force. Finally, based on the certifications and records made, the OEE of the Executive Branch must provide for the available budgetary appropriations for their allocation and subsequent payment of the assigned debts, based on the previously established quotas, and in coordination with the Ministry of Finance.

Monetary and Foreign Exchange Policies

28. We will consider tightening further monetary policy if inflationary pressures persist.

We have proactively managed the monetary policy rate in response to rising inflation and will continue calibrating this tool to ensure that inflation projections and expectations in the medium term are aligned with the 4 percent inflation target.

29. We will also maintain the flexible foreign exchange regime, with exceptional interventions in the foreign exchange market during periods when the guaraní is found to be excessively volatile in the short term. While exchange rate flexibility within a properly functioning regime of inflation targeting strategies has been useful for Paraguay, our currency is exposed to financial and real shocks. Our monetary policy tools include the use of exceptional exchange rate interventions to limit excessive volatility and to preserve financial stability. We will maintain and strengthen the transparency of foreign exchange market interventions through the publication of information on this subject at the website of the Central Bank of Paraguay.

Pillar II: Improving Productivity and Promoting Economic Growth

30. The second pillar is designed to improve productivity and to lay the base for more diversified, inclusive economic growth through structural reforms. The first review under the PCI includes the achievement of two reform targets involving the submission of two laws to the National Congress: the Public Service and Professional Civil Service Law and the Law on Collateral of Movable Assets. We are still working on two outstanding targets within this pillar: one to help streamline public expenditure, and a second to improve the efficiency of government operations.

Rationalizing Public Expenditure

31. We are focusing on implementation of the Public Procurement Reform Law that has been promulgated. Based on the recommendations from previous technical support on upgrading public expenditure, we prepared a draft law that reorganizes procurement procedures using a more consistent, centralized approach. On December 9, 2022, Law 7021 on Public Supply and Procurement was promulgated, that updates the current regulatory texts for the overall public procurement system. This new law will enter into force on the publication of the regulatory decree. The new law replaces Law 2051/03 and includes the creation of the National Public Supply System that will be managed by the Ministry of Finance, and the Register of Public Procurers and Register of Government Suppliers (registration is mandatory to participate in procurement procedures). The new law promotes transparency in accordance with the principles of economy, effectiveness, and efficiency; enhanced participation of bidders on equal terms; and the adjustment of public

procurement procedures through administrative modernization and simplification. We will draft the relevant regulations for their adoption by decree by June 30, 2023 (**reform target**).

Civil Service Reform

32. We are continuing to work on the reform to establish a general legal framework for the integrity of the public service. The development of government institutions is largely dependent on the quality of their human resources. For that purpose, we proposed the draft Public Service and Professional Civil Service Law, that proposes a series of changes to the current Law 1626/00 on the Public Service.⁵ The objective is to have a more modern, competitive, merit-based public service with one wage scale, that is based on professional development, and that promotes more efficient public expenditure. The reform of the Public Service Law is fundamental and cuts across all government institutions. It will enable the system to be reorganized, professionally upgraded, and based on merit, leading to greater productivity in the provision of high-quality public goods and services. On October 21, 2022, we submitted the Draft Law to the National Congress for consideration, meeting the reform target set for December 2022. The Ministry of Finance, along with the Civil Service Secretariat, in their respective areas of authority, will subsequently be responsible for its regulation and implementation.

Reorganizing the Government

33. We will continue to work on improving the efficiency of government operations. We remain committed to redesigning public sector procedures and reducing bureaucracy. An essential component of our agenda is the reform project that, based on the previous diagnostics, will provide a new design and organization for the government. The Technical Planning Secretariat is currently working on a legislative proposal designed to establish the structure, rules, responsibilities, and regulations that will be applicable to the organization of the institutions comprising general government, so that the appropriate skills and functions can be incorporated to avoid conflicts of authority and the duplication of functions within the same public institution or with other institutions of general government (**reform target for July 2023**).

Improving governance and reducing vulnerability to corruption

34. In previous years, we benefited from a comprehensive governance assessment. The Governance Diagnostic Assessment, led by the IMF in early 2020, was completed and the report was published at the end of October 2022, completing the previous action planned for the initiation of the PCI.⁶

⁵ The general objective of the Law is to create and establish the general provisions of the public service system, and to regulate the rules and procedures for professional civil service based on the principles of the Public Service, to ensure that every person has the right to receive timely, high quality public services and attention.

⁶ <https://www.hacienda.gov.py/web-hacienda/archivo.php?a=9e9ea1a7b2abb1acb06ca6aba3acafaaa2b06ca6aba3acafaaa25dad9eaf9ea4b29eb65da4ac9fa2afab9eabb79e5d6a9ea9a2aaa4afb29fa2af6bada1a39e03d&x=e6e6085&y=a9a9048>

35. We have developed and adopted a new comprehensive anticorruption plan⁷ in accordance with the recommendations from the governance diagnostic. In this connection, at the end of January 2023, we submitted to Congress a draft law creating the National Integrity and Transparency Secretariat (SENIT), that should replace the current National Anticorruption Secretariat (SENAC).⁸ The new Secretariat will emphasize the planning and implementation of transparency and integrity policies that promote the prevention of acts of corruption and aim to strengthen the skills, functions, and responsibilities of the authority responsible for fighting corruption.

36. We will continue to strengthen the anti-money laundering and combating the financing of terrorism (AML/CFT) regime. The results of the 2021 evaluation of Paraguay's AML/CFT regime conducted by the Financial Action Task Force of Latin America (GAFILAT) were discussed and presented for approval in July 2022. Paraguay approved the mutual evaluation process which reflected an adequate level of technical compliance and effectiveness in the fight against money laundering, financing of terrorism, and proliferation of weapons of mass destruction.

37. Another measure to mitigate ML/TF risks will be the completion and approval of the updated ML/TF NRA. To date, the project conducted with the assistance of the Inter-American Development Bank has made significant progress and is expected to be approved by the government by end-July 2023 (**reform target**). The identification and understanding of ML/TF risks in Paraguay will provide a sound basis for financial and nonfinancial institutions to update their respective risk assessment frameworks and models/matrices to consider the results of the NRA exercise.

Strengthening the Business Climate

38. We will continue to work on strengthening the business climate, which is an important indicator of actions to improve the attraction of new investments and projects that promote further sustainable growth. To increase potential economic growth and productivity, it is essential to provide instruments to make it easier for micro, small, and medium-scale enterprises (MSMEs) to obtain credit. In this connection, during the previous months, we worked on an updated version of the Draft Law on Collateral of Movable Assets, the product of the inter-institutional technical effort led by the Central Bank of Paraguay, that was redrafted in some areas to reflect best practices and comparative legislation of the Latin American countries. The Draft Law is designed to promote the granting of low-cost credit, to increase the supply of guaranteed financial credit, and to facilitate access to credit for MSMEs through greater flexibility and scope in terms of the assets that can be provided as collateral (such as accounts receivable, harvests, etc.). We submitted the updated version of the Draft Law to the National Congress at the end of December 2022, meeting the reform target established for this first review under the PCI.

⁷ National Integrity, Transparency and Anticorruption Plan, 2021-2025.

⁸ The SENAC was established in 2012 with a decree of the Executive Branch, and reports to the Presidency of the Republic.

39. We also intend to renew the initiative to reform the legal framework for insolvencies. To provide some context, the modernization of the insolvency law had been designed as part of a set of three texts, along with the Law on Simplified Actions and the Law on Collateral of Movable Assets, in which the effectiveness and impact of the three laws would be mutually intensified. An earlier attempt to pass a new insolvency law failed in Congress, and we believe that now is the time to revitalize this initiative. A new draft law on insolvency will be submitted to Congress by June 2024 **(reform target)**.

Pillar III: Improving Social Protection And Inclusion

40. The social protection policy is a fundamental pillar for progress towards the fulfillment of economic and social rights. This policy became more relevant with the outbreak of the COVID-19 pandemic, as well as the increase in uncertainty and the intensification of inflationary pressures as a result of the war in Ukraine, that have led to exacerbated inequalities and vulnerabilities.

41. Coordinated by the Technical Unit of the Social Office, we will continue to build the ¡Vamos! Social Protection System, that consists of three basic pillars: (i) social integration, linked to universal, selective policies aimed at the population in situations of poverty; (ii) labor and productive integration related to labor regulation and inclusion policies; and (iii) social security, linked to contributory and noncontributory policies.

42. In the short term, Paraguay will continue to increase the coverage of two of its most important programs. Our commitment to strengthen social protection in Paraguay remains strong. The reform target of increasing the coverage of the Tekoporã Program from almost 166,000 households in 2021 to 170,000 households in 2022 was broadly exceeded, and the program now covers more than 184,000 households. Similarly, coverage of the Food Subsidy Program for the Elderly added more than 41,000 new beneficiaries during 2022, and exceeded the minimum proposed for this program review of 26,000 new beneficiaries.

43. The 2023 Budget Law makes provision for continuity for traditional social programs such as the Tekoporã and the Elderly Food Support Programs, in order to meet the requirements of the most vulnerable sectors. For 2023, we presented a Draft General National Budget that includes approximately USD 320 million for the Food Subsidy Program for the Elderly and USD 61 million for the Tekoporã Program. With these allocations, we intend to reach 300,000 beneficiaries with the Food Subsidy, and to cover the needs of the current number of beneficiary households in the Tekoporã Program.

Beneficiary identification systems and administration of social programs

44. We continue to move towards the integration of social programs managed by different government institutions. As part of the implementation of the ¡Vamos! Social Protection System, in July 2022, the Integrated Social Protection Card (FIPS) was launched, reaching a total of 2,732 homes in 10 areas of the city of Villeta. The FIPS, designed and coordinated by the Technical Unit of the Social Office, has the consensus of 26 institutions working within the ¡Vamos! Social

Protection System, and it will collect information on an integrated, consistent basis, to provide accurate information on the social and economic gaps that exist in Paraguay.

45. We continue to work towards the construction of a comprehensive, single system of beneficiaries designed to harmonize the treatment and implementation of current social programs. A central factor within this agenda is the implementation of the Pension System (SIPEN), a computer and technological solution developed by the Noncontributory Pensions Directorate of the Ministry of Treasury. The SIPEN includes processes for data entry, selection, generation of earnings, and control and payment for the Integrated Financial Administration System (SIAF). In addition, the SIPEN is integrated into the systems comprising the Government Resource Administration System (SIARE). During this year, we will continue our efforts to ensure that the processes of identification, selection, and payments of the programs managed by the Noncontributory Pensions Directorate are carried out within the SIPEN. We also propose to extend the successive implementation of the SIPEN to other social programs managed by the following government institutions: (a) Coordination Unit for Miscellaneous Government Obligations (CODE) under the Ministry of Finance; (b) Ministry of Childhood and Adolescence (MINNA); and (c) Ministry of Social Development. We propose to complete implementation of the SIPEN in at least one of these institutions by the **end of 2023 (reform target)**. In the medium term, we plan to extend coverage of the SIPEN to a second institution among the remaining institutions mentioned above by the end of June 2024 (**reform target**).

Formalizing Employment

46. Informality in Paraguay is persistent, and it accounts for more than half of the country's employed workers. To address informal labor activity, we are working on a draft law for the formalization of dependent workers in micro, small, and medium-scale enterprises, and independent workers in general, that would promote the target population's access to the formal social security system by providing appropriate incentives.⁹ To date, the technical staff of the Ministry of Treasury have completed the initial Draft Law, along with a technical report on its implications on the labor market. We will subsequently begin the process of socialization between the entities involved and representatives from the private sector for their subsequent submission to the National Congress by the end of June 2023 (**reform target**).

Increasing Financial Inclusion

47. It is one of our government's priorities to improve access to financial services. Insufficient access to financial services is a longstanding problem in Paraguay. We have drafted a Law on Financial Inclusion that will make it mandatory to pay wages by electronic transfer rather

⁹ The definition of informal activity reflected in the preparation of the Draft Law applies the definition of the National Statistics Office (INE) which, in the case of dependent workers, defines informal workers as those who do not contribute to a pension and retirement system; and, in the case of independent workers, those whose company is not registered with the Single Taxpayer Register (RUC). In addition, the main occupation is taken into account to estimate informal employment. Agricultural activities are not included, in accordance with the recommendations of the International Labour Organization (ILO) (INE, 2021).

than in cash. It will also require financial intermediaries to provide workers with free accounts for the direct payment of wages, and to enable the account holders to make at least one free cash withdrawal per month. This measure will improve access and promote the formalization of low-income households that have insufficient access to banking services. The Draft Law also includes tax incentives to ensure compliance with regulatory texts and laws, and to promote transparency in financial transactions. The Draft Law received a favorable opinion from two congressional committees and is pending approval by the National Congress. The implementing regulation will be drafted following its approval.

PROGRAM MONITORING

48. Quantitative targets, continuous targets, and reform targets will continue to be used to monitor progress in the implementation of policies in the context of this program. The following quantitative targets are being modified for end-June 2023, end-December 2023 and set for June-2024, as well as a quantitative target to be monitored on an ongoing basis (Tables 1a and 1b of this Program Statement). The government and IMF senior management and staff also agreed on the reform targets shown in Table 2 of this Program Statement. The second review is scheduled to be completed by December 1, 2023; the third review by June 1, 2024; and the fourth review by November 1, 2024. The definitions are provided in the attached Technical Memorandum of Understanding.

Table 1a. Paraguay: Quantitative Targets for the PCI, 2022–24 1/

	2022			2023				2024
	end-Dec			end-Jun		end-Dec		end-Jun
	Prog. QT	Actual	Status	Prog. QT	Proposed QT	Prog. QT	Proposed QT	Proj./ New QT
I. Quantitative Targets (QT)								
1 Ceiling on the central government fiscal deficit (in billions of guaraníes) 2/ 3/	-8,733	-8,622	Met	-2,322	-4,280	-7,284	-7,345	-1,484
2 Ceiling on current primary expenditure of the central government (in billions of guaraníes) 2/	34,746	35,075	Not met	17,432	17,849	37,926	38,178	18,269
3 Ceiling on the net incurrence of floating debt by the central government 4/	500	738	Not met	-2,100	-1,617	500	500	-2,117
II. Continuous Targets								
4 Ceiling on accumulation of external debt payment arrears by the central administration (in millions of U.S. dollar)	0.0	0.0	Met	0.0	0.0	0.0	0.0	0.0
III. Inflation Consultation Band 5/								
Upper band limit (2 percent above center point)	10.8	...		8.5	8.5	6.1	6.1	6.1
End of period inflation, center point 6/	8.8	8.1	Met	6.5	6.5	4.1	4.1	4.1
Lower band limit (2 percent below center point)	6.8	...		4.5	4.5	2.1	2.1	2.1
IV. Memorandum Items								
Social assistance benefits 2/	2,906	2,921	Met	1,434	1,434	3,338	3,338	1,666
1/ As defined in the Program Statement and the Technical Memorandum of Understanding.								
2/ Cumulative since the beginning of a calendar year.								
3/ Refers to the negative of net lending/borrowing (overall balance) as per the GFSM 2001 definition.								
4/ Cumulative change since the start of each year.								
5/ Board consultation is required upon breach of the band limits.								
6/ Defined as the change over 12 months of the end-of-period consumer price index, as measured and published by the Central Bank of Paraguay.								

Table 1b. Paraguay: Standard Continuous Targets

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

Table 2. Paraguay: Reform Targets for 2022–24

Policy Objective	Reform Targets	Target Date	Status
Pillar I: Ensure Macroeconomic Stability and Protect the Fiscal Policy Framework			
1 Implement measures to protect the solvency of the Public Sector Pension System ("Caja Fiscal")	Send to Congress a law to create a national commission that will devise and propose measures for a fundamental reform of the "Caja Fiscal".	End-July 2023	Modified target; new date proposed.
2 Enhance domestic revenue mobilization	Incorporate at least 750 large and medium-sized taxpayers in the Integrated National Electronic Invoicing System (SIFEN).	End-June 2023	In progress.
3 Improve the monitoring and supervision of Public Enterprises	Reestablish the control panel with results-based management contracts for one year (2023).	End-December 2022	Met.
4 Strengthen the oversight and strategic management of Public Enterprises	Review and send to Congress the "Corporate Governance Law", which will clarify and strengthen the role of the SOE supervisory board.	End-December 2023	In progress.
5 Strengthen financial supervision	Send a new version of the pension fund supervision law, which will create a new supervisory agency, to one of the two chambers of Congress.	End-December 2023	In progress.
Pillar II: Enhance Productivity and Foster Economic Growth			
6 Civil service reform	Submit to Congress the new "Ley de la Función Pública y Carrera del Servicio Civil" (civil service law).	End-December 2022	Met.
7 Rationalize public spending	Complete and enact the administrative regulation for the new procurement law.	End-June 2023	In progress.
8 Improve the efficiency of government operations	Complete work on the law draft that orders the structure of the state and submit the draft to one of the two chambers of Congress.	End-July 2023	In progress; new date proposed.
9 Improve the business climate	Submit to Congress a new version of the law on collateral of movable assets ("ley de garantías mobiliarias").	End-December 2022	Met.
10 Strengthen the AML/CFT regime	Complete and approve the updated version of the National Risk Assessment.	End-July 2023	New reform target
11 Improve the business climate	Complete work on the new version of the Insolvency Law law and submit the draft to one of the two chambers of Congress.	End-June 2024	New reform target
Pillar III: Enhance Social Protection and Inclusiveness			
12 Formalize MSME workers and independent workers	Submit to the National Congress a Bill for the formalization of dependent workers of MSMEs and independent workers in general.	End-July 2023	In progress; new date proposed.
13 Reduce the coverage gap of the social transfer programs.	Increase the number of beneficiaries of the "Tekoporã" and "Food Pension for Elderly Adults" programs by 4,000 families (from 166,000 to 170,000 families) and 26,000 new annual beneficiaries, respectively.	End-December 2022	Met.
14 Integrate the information system for beneficiaries of social programs	Implement the guidelines of decree No. 6833 of March 2022 "SIPEN" (Pension Information System), Article 1, subsection b to one of the following state institutions: Coordination of Various State Obligations (CODE); Ministry of Children and Adolescents (MINNA); or Ministry of Social Development (MDS).	End-December 2023	Modified reform target; in progress.
15 Integrate the information system for beneficiaries of social programs	Implement the guidelines of decree No. 6833 of March 2022 "SIPEN" (Pension Information System), Article 1, subsection b to a second of the two remaining state institutions after successful completion of target 14: Coordination of Various State Obligations (CODE); Ministry of Children and Adolescents (MINNA); or Ministry of Social Development (MDS).	End-June 2024	New reform target

Table 3. Paraguay: Reviews of the Policy Coordination Instrument, 2022–24

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

Attachment II. Technical Memorandum of Understanding

1. This Technical Memorandum of Understanding (TMU) defines the quantitative targets, continuous targets, and memorandum items described in the Program Statement to monitor the IMF-supported program, in the context of the Policy Coordination Instrument (PCI), during the period November 21, 2022 – November 20, 2024. It also establishes the terms and schedule for the transmission of information that will allow IMF staff to monitor the program. The reviews of the program will analyze the fulfillment of the quantitative targets on the specified dates and on an ongoing basis. Specifically, the second review will evaluate the targets at the end of June 2023, the third review will evaluate the targets at the end of December 2023 and the fourth review the targets at the end of June 2024.

A. Definitions

2. Unless otherwise indicated, in this TMU “Government” refers to the central budgetary government of the Republic of Paraguay. It excludes the central bank, financial and non-financial public companies, and governments at the departmental and municipal levels.

3. Unless otherwise stated, in this TMU “public sector” refers to government, local governments, and all entities owned or majority controlled by the government.

B. Program Goals

Ceiling on the Central Government Fiscal Deficit (Program Definition)

4. Definition. For the purposes of the program, the financing capacity/need ratio or the global fiscal balance (also called “net loan / net indebtedness”), is the difference between total income and total expenditure of the government (total obligated expenditure plus net acquisition of non-financial assets). The definition of revenue and expenditure is broadly consistent with that of the Government Finance Statistics Manual 2001 (GFSM). Obligated public spending is defined on the basis of payment orders accepted by the Treasury, as well as those executed with external resources.¹

5. Information requirements. During the program duration, the authorities will report to IMF staff, on a monthly basis, provisional data on the overall fiscal balance (program definition) and its components, with a delay of no more than 30 days after the end of each month. The revenue and expenditure data included in the calculation of the overall fiscal balance will be drawn primarily from the Treasury's preliminary accounting balances. Final data will be shared with the Fund as soon as

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

final Treasury account balances are available, but no later than two months after the provisional data has been reported.

Ceiling On Current Primary Expenditure of the Central Government (Program Definition)

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

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

Ceiling on the Net Incurrence of Floating Debt by the Central Government (Program Definition)

8. Definition. For the purposes of the program, domestic payment delays are defined as the floating debt, that is, the difference between the expense recorded on an obligated basis and the amounts transferred for its payment by the Treasury (based on the information generated by the integrated accounting system, SICO, and the integrated treasury system, SITE). In the public finance statistics (SITUFIN), the change in the stock of floating debt is recorded as the balance of net changes in floating debt attributable to the current budget year and the change in floating debt attributable to the previous year (repayment). The quantitative target of total floating debt is set as a ceiling for its accumulated net change since the beginning of the year.

9. Information requirements. Monthly data will be provided to the Fund with a lag of no more than 30 days after the end of each month.

Ceiling on Accumulation of External Debt Payment Arrears by the Central Government

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

11. Information requirements. Reports of external arrears by creditor (if any), with detailed explanations, will be transmitted monthly, within 30 days after the end of the month.

Inflation Consultation Band Linked to Current Projections of the Central Bank of Paraguay

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

13. Information requirements. Reports on inflation and its components must be transmitted monthly, within two weeks after the end of the month.

14. Failure to meet the inflation consultation band limits (specified in the Program Statement, Table 1a) at the end of a semester would trigger discussions with IMF staff about the reasons for the deviation and the proposed policy response, and a consultation with the IMF Board of Directors will be required.

Social Assistance Benefits

15. Definition. Social assistance benefits follow the GFSM 2001 classification. They will be defined as the *Social Assistance Benefits* subcomponent of the *Social Benefits* account of the central government spending accounts of the Monthly Report on the Financial Situation of the Central Administration (SITUFIN). This target is not part of the formal conditionality under the program but reporting the execution of this item is requested to compare it with its original projection (memorandum item).

16. Information requirements. Social assistance benefits' reports and their components must be transmitted on a monthly basis, within 30 days after the end of each month.

C. Additional Information for Monitoring/Reporting Obligation of the Program

17. The authorities will transmit to the Fund staff, in electronic format, if possible, and within the maximum deadlines indicated, the following:

- (a) Three days after implementation: any decree, decision, circular, edict, supplemental appropriation order, ordinance, or law that has economic or financial implications for the current program. This includes, particularly, all actions that modify budget allocations included in the budget law in execution, for example: supplementary allocation orders (advance decrees), cancellation of budget allocations, and orders or decisions that create supplementary budget allocations. This includes also actions leading to the creation of a new agency or a new fund.
- b) Within a maximum period of 30 days (except in specific cases explicitly indicated below), preliminary data on:
 - Tax receipts and tax and customs settlements by category, accompanied by the corresponding revenue on a monthly basis;

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

18. The Central Bank of Paraguay will transmit to the staff of the Fund:

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