



PARAGUAY

January 2024

SECOND REVIEW UNDER THE POLICY COORDINATION INSTRUMENT, REQUEST FOR AN EXTENSION OF THE POLICY COORDINATION INSTRUMENT, MODIFICATION OF TARGETS, INFLATION BAND CONSULTATION, AND REQUEST OF ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR PARAGUAY

In the context of the Second Review Under the Policy Coordination Instrument, Request for an Extension of the Policy Coordination Instrument, Modification of Targets, Inflation Band Consultation, and Request of Arrangement under the Resilience and Sustainability Facility, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on December 19, 2023, following discussions that ended on November 3, 2023, with the officials of Paraguay on economic developments and policies underpinning the IMF arrangement under the Policy Consultation Instrument. Based on information available at the time of these discussions, the staff report was completed on December 4, 2023.
- An **Assessment Letter for the Resilience and Sustainability Facility** prepared by the staff of the World Bank.
- A **Statement by the Executive Director** for Paraguay.

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IMF Executive Board Concludes Second Review under the Policy Coordination Instrument and Approves Resilience and Sustainability Facility for Paraguay

FOR IMMEDIATE RELEASE

- IMF's Executive Board concluded today the Second Review under the Policy Coordination Instrument (PCI) and approved a two-year Resilience and Sustainability Facility (RSF) for Paraguay.
- The government is committed to continued prudent macroeconomic policies and the implementation of structural reforms, including a series of adaptation and mitigation measures and to preserve and expand its green energy matrix.
- The two-year program under the RSF allows Paraguay a maximum access of SDR 302.1 million (150 percent of quota). Paraguay is the first South American country to secure access to the RSF.

Washington, DC – December 19, 2023: The Executive Board of the International Monetary Fund (IMF) concluded today the Second Review under the Policy Coordination Instrument (PCI) and approved a two-year Resilience and Sustainability Facility (RSF) for Paraguay. The two-year program under the RSF allows Paraguay a maximum access of SDR 302.1 million (150 percent of quota). Paraguay is the first South American country to secure access to the RSF.

The Board also granted a request for the extension of the PCI and modification of the end-December 2023 and end-June 2024 targets.^{1,2} Paraguay's two-year program under the 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 PCI program is performing well despite a few targets missed by narrow margins. Most of the reform targets were also met. Some aspects of the reform agenda had to be reprogrammed to reflect the new government's priorities and allow adequate time to build consensus on long-standing challenges. The authorities requested the extension of the PCI by 12 months.

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

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

The government is committed to enacting a series of adaptation and mitigation measures and to preserve and expand its green energy matrix. In this connection, the authorities requested the approval of a two-year program under the RSF with maximum access of SDR 302.1 million (150 percent of quota).

The economy is growing strongly in 2023, boosted by agriculture and electricity production. Inflationary pressures have also receded, and expectations are well anchored to the central bank's target of 4 percent. A small surplus is projected for the external current account on the back of strong exports. The guarani has been relatively stable this year. The fiscal position has deteriorated somewhat from last year, including because of a need to register and settle previously unrecorded claims to government suppliers.

Barring global and weather-related external shocks, Paraguay's growth prospects are bright. Economic growth is projected to moderate only slightly to 3.8 percent for 2024, while inflation will stay close to the target. The external current account is expected to remain in a small surplus. The authorities are planning to gradually reduce the fiscal deficit back towards the 1.5 percent of GDP ceiling under the fiscal rule by 2026, which will boost policy credibility. The banking system remains stable and profitable, a necessary condition for supporting investment and financial inclusion, buttressed by continued sound supervision. Renewed focus on implementing structural reforms by the new administration includes measures to strengthen governance and the rule of law, safeguard the viability of pension programs and other social assistance, and policies to tackle ongoing climate change.

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

"The Paraguayan authorities have continued to implement policies conducive to preserving macroeconomic stability. High economic growth, lower than expected inflation, strong performance of the export sector, and a stable banking system are factors contributing to the recent re-affirmation of the country's sovereign rating. Barring specific events, including adverse climate and external shocks, key economic variables are expected to remain robust in 2024 and beyond. The new government is committed to continue to implement reforms underpinned by the PCI focused on macroeconomic stability, fostering economic growth, and enhancing social protection.

"It remains important for Paraguay to rebuild fiscal buffers, including through implementation of long-standing structural reforms. The reestablishment of the fiscal deficit rule by 2026 is rightfully the government's key priority. Strengthening the public sector's efficiency is also a crucial part of a sustainable fiscal strategy. Going forward, the need to ensure the sustainability of the public servants' pension fund is imperative. Improving oversight and governance of public enterprises would also reduce fiscal risks. Streamlining social assistance programs through better targeting and efficiency gains should also be an objective which would contribute to more inclusive growth. Decisive steps in combatting corruption and limiting reputational risks will go a long way in improving the investment environment.

"The authorities are committed to implementing an ambitious set of climate-related reforms consistent with maximum access under the RSF. Reforms will be aimed at increasing the resilience of public investments, developing a green taxonomy, containing climate risks to the financial sector, preserving and expanding a clean electricity matrix, decarbonizing its economy, conserving forests, and improving waste management. Timely fulfillment of these

commitments, closely coordinated with development partners, will help build the country's image as a "green" investment destination."



PARAGUAY

December 4, 2023

SECOND REVIEW UNDER THE POLICY COORDINATION INSTRUMENT, REQUEST FOR AN EXTENSION OF THE POLICY COORDINATION INSTRUMENT, MODIFICATION OF TARGETS, INFLATION BAND CONSULTATION, AND REQUEST OF ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY

EXECUTIVE SUMMARY

Recent developments: Paraguay's economy is set to grow at around 4.5 percent in 2023, led by robust agricultural production and exports combined with high electricity generation. Inflation has receded rapidly allowing for a reduction of the monetary policy rate to the current 7.25 percent. The fiscal position of the central government is weaker than projected during the 1st PCI review, with a deficit of 4.1 percent of GDP in 2023, not least due to settlement of outstanding claims. The external current account reversed into a surplus. President Santiago Peña took office in August.

PCI program implementation: Most PCI quantitative targets (QTs) for June were missed, albeit narrowly. Most of the reform targets (RTs) were met. Given minor deviations and the fact that a new government is taking office, staff recommends the completion of the Second Review. The authorities requested an extension of the PCI by 12 months through November 2025 with proposed new targets, and a modification of the end-December 2023 and end-June 2024 targets.

RSF request: The government is committed to enacting a series of adaptation and mitigation measures and further expanding generation and exports of green energy. Given the strength and breadth of the proposed reforms and Paraguay's sound capacity to repay the Fund, staff supports the request for the RSF with maximum access (150 percent of quota).

Policy recommendations: Paraguay is well positioned to preserve macroeconomic stability and advance with needed long-standing structural reforms. It would be important to persevere with fiscal consolidation to rebuild buffers while leaving room for important social and infrastructure spending. Monetary policy will have to consider important external risks and be data-driven with respect to further easing. The structural reform agenda should focus on fostering growth and inclusion and improving governance and the control of corruption. The commitment to implement an ambitious matrix of climate-related reforms, closely coordinated with development partners, will help enhance the country's image as a "green" investment destination.

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

Discussions were held in Asunción between October 25 and November 3, 2023. The staff team comprised Mauricio Villafuerte (head), Jonas Nauerz, Tobias Roy, Ilya Stepanov (climate expert), Svetlana Vtyurina (all WHD), Jehann Jack (SPR), Koralai Kirabaeva and Alberto Garcia-Huitron (all FAD), Maximiliano Appendino (Resident Representative) and Pablo Alonso Mendez (local economist). Diego Gutiérrez and Nicolás Landeta (all WHD) provided research and administrative assistance. Jorge Corvalan (OED) attended the policy meetings. The team met with the Minister of Economy and Finance Carlos Fernandez Valdovinos, Central Bank of Paraguay (BCP) President Carlos Carvallo Spalding, Minister of Agriculture Carlos Giménez, Minister of Social Development Miguel Rojas, other senior officials from the government, representatives from the banking sector, donor community, and IFIs.

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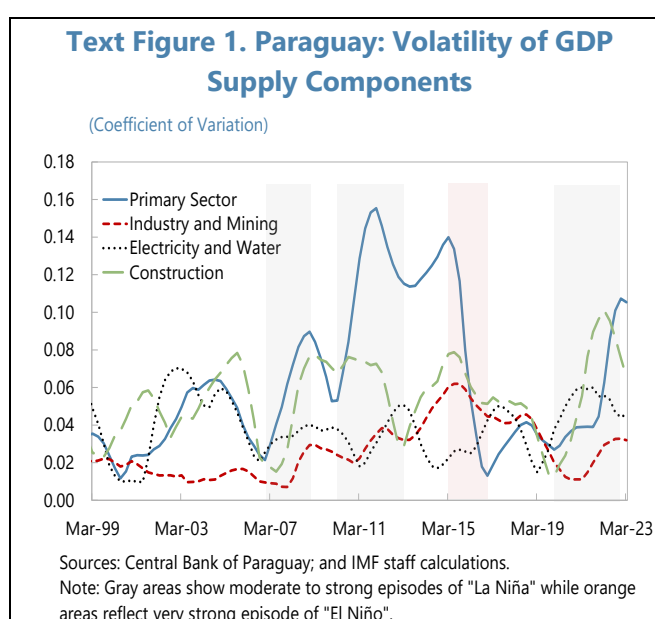
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CONTEXT

1. The new government is expected to uphold prudent macroeconomic policies and focus on catalyzing private investment, especially in green industries. The new cabinet, in office since mid-August, is cohesive, with wide-ranging experience in the private and public sectors. The President's party has the majority in both chambers of Congress, which should facilitate reforms, but consensus will be needed to support major initiatives, given the wide spectrum of views within the Colorado party. The government managed to quickly push through some of the reforms aimed at improving efficiency, such as integrating several government functions into the new Ministry of Economy and Finance and merging the tax and customs collection agencies.

2. Paraguay's economic well-being is intricately tied to the fluctuations in water availability, making it highly reliant on favorable weather conditions for its water resources. Despite its relatively small size, Paraguay has made relatively substantial contributions to global food security and the environment. It is the third largest soybean exporter in the world and has been among the largest global exporters of clean (hydro) electricity since the early 1980s due to large binational dams (Itaipú and Yacyretá). Since water is crucial for irrigation, hydropower generation, and fluvial transportation, more frequent extreme weather events pose significant challenges to economic activity and external accounts. The primary sector, typically the most volatile component of GDP, has accounted, on average, for about 11 percent of total GDP since 2010 and 61 percent of total exports, while electricity generation has accounted for about 9 and 24 percent, respectively.



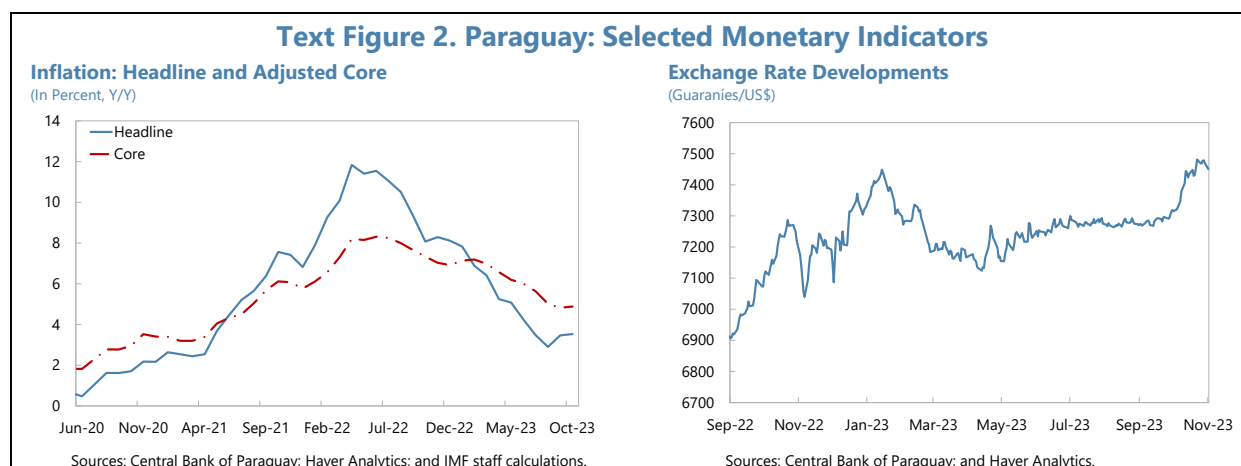
3. The new administration has requested access to the Resilience and Sustainability Facility (RSF) to support its ambitious climate-related agenda. The program will be underpinned by an extended PCI, approved in November 2022 and the first review concluded in June 2023. The PCI is aimed at rebuilding fiscal buffers, enhancing the public sector's efficiency, improving governance, and strengthening social assistance in the presence of a large informal sector. The RSF would help the authorities to implement climate-centric reforms focused at reducing the vulnerabilities to climate change and achieving more sustainable long-term growth, including through further development of green industries and the protection of the country's substantial natural assets (Annex II). Given the potential impact of climate-related disasters on national debt and external financing requirements, the RSF financing would help address anticipated climate-related balance of payment (BoP) needs by amplifying external safeguards, strengthening contingency plans, and catalyzing private investment in green industries (Table 6).

RECENT ECONOMIC DEVELOPMENTS AND PROGRAM PERFORMANCE

4. The agriculture and electricity sectors have been leading Paraguay's recovery this year.

GDP growth is projected to rebound to 4.5 percent, with the two sectors expanding by 23 and 14 percent, respectively. Strong exports of goods and services will also be aiding the recovery, growing by about 26 percent. By contrast, domestic demand has been dampened by a slowdown in investment, with construction projected to fall by 4 percent, as public projects commissioned by the previous government have petered out, and the new administration is in the process of defining their priorities for new investments.

5. Headline inflation has receded quickly in recent months. The greater-than-expected deceleration is attributed to a large extent to the reduction in both agricultural and energy commodity prices that was passed on to domestic prices and a tight monetary policy stance. Headline inflation was 3.5 percent in October, below the 4 percent target, owing to reduced prices of fruits, vegetables, and fuels. Core inflation remained relatively elevated at 4.9 percent. The BCP has recently trimmed its 12-month inflation projections for end-2023 from 4.1 to 3.8 percent, in line with the recent expectations survey. In this context, since August, the BCP reduced the policy interest rate four times (totaling 125 basis points) from 8.5 to the current 7.25 percent. Inflation expectations for 2024 remain well-anchored at 4 percent.



6. The external current account is projected to have improved sharply in 2023. Net exports were buoyed by growth in key export sectors, such as agriculture and electricity generation. The current account shifted from a deficit of 7.2 percent of GDP in 2022 to a surplus of 0.2 percent of GDP in 2023. In this context, commercial banks have proceeded to rebuild their net foreign assets' position, which was reduced substantially in response to the last year's large current account deficit. The Guarani remained relatively stable in nominal terms. Starting December 14, Paraguay will be able to export meat to the United States (USA) after a 25-year break, a development that should help open other markets to Paraguayan meat exports. In October, Fitch affirmed Paraguay's

sovereign rating at one notch below investment grade (BB+) and upgraded the country ceiling to 'BBB-' which would allow strong private firms to qualify as "investment grade."

7. The fiscal position has been weaker this year than projected under the 1st PCI review.

As of end-October, the annualized fiscal deficit of the central government stood, on a cash basis, at 3.2 percent of GDP, with overruns in current primary spending, such as purchases of medicines and outlays for school lunches, and interest payments (0.2 percent of GDP), and weaker tax revenue and social contributions (0.4 percent of GDP). VAT collection was reportedly affected by increased contraband of essential consumption goods, mainly from Argentina (-0.2 percent of GDP), while corporate income tax receipts, which are linked to corporate income of the previous year, suffered from a larger-than-expected impact of last year's drought (-0.1 percent of GDP).¹ The new government also decided to pay on the outstanding claims (1.1 percent of GDP) with suppliers to the Ministries of Public Works and Health after validating them. These will be registered as expenses for this year and financed through borrowing. For the year, the deficit is projected at 4.1 percent against the original target of 2.3 percent of GDP, and public debt at about 40 percent of GDP.

8. Paraguay's financial sector remains stable. Solvency and profitability indicators are strong, and the banking system is liquid. There was a healthy growth of deposits and credit, at 12 and 10 percent, year-on-year in September, respectively. While NPLs have edged up slightly from the end- 2022, in part due to some of the expired forbearance measures that were introduced during the drought, reductions in the policy rate should help reduce financial risks associated with the debt repayment capacity of households and businesses.

PCI Program Performance

9. Most QTs for June were missed, albeit narrowly. The fiscal outcome as of June 2023 indicates that the central government fiscal deficit, the current primary expenditure, and the net incurrence of floating debt limits were breached by very small margins (Table 1a of Appendix I, Attachment I). The breach of the ceiling on primary current expenditure (by 0.04 percent of GDP) mainly owes to temporary overruns in purchases of goods and services (medicines). This also impacted the fiscal deficit, although the deviation here was even smaller (by 0.01 percent of GDP). Finally, the ceiling on floating debt was missed by a mere 0.001 percent of GDP due to a lack of liquidity available in the last days of June for the settlement of priority expenditures, which automatically gave rise to temporary financing per floating debt. Going forward, to avoid such minor breaches of QTs, the authorities plan to build additional buffers into their projections, which would result in higher projected ceilings. The continuous target of zero accumulation of external debt payment arrears was met. Inflation was 4.2 percent as of end-June, year-on-year, below the

¹ A minor share of social contributions that is nominally debited from public servant salaries (but does not result in a cash intake for the Treasury) could not be credited as revenue (-0.1 percent of GDP), because that requires a corresponding transfer on the expenditure side to the social security system, for which Treasury liquidity was lacking. This factor is budget neutral, because it affects both revenue and expenditure sides, but it reduces the overall amount of revenue.

programmed inflation consultation band (4.5 - 8.5 percent) due to a faster-than-expected convergence towards the 4 percent inflation target (Table 1a of Appendix I, Attachment I).

10. Most RTs set for June/July 2023 were met.

- The legislation to establish a national commission tasked with devising and recommending measures for a comprehensive reform of the public pension system ("Caja Fiscal") was submitted to Congress.
- The number of large and medium-sized taxpayers added to the Integrated National Electronic Invoicing System (SIFEN) reached 842 against the targeted floor of 750.
- The administrative regulation for the new procurement law, albeit delayed, was signed by the President, and enacted on August 11.
- The draft law to reorder the structure of the state was presented to Congress on July 31 as planned.
- The updated version of the National Risk Assessment (NRA) has not been completed yet—the new government decided to review its details and finalize it by June-2024. Despite the significant progress achieved in establishing institutional working groups and obtaining and analyzing the necessary data for completing the update exercise, the process was negatively impacted by the unexpected departure of experienced technical staff assigned to the exercise and high turnover within key and core AML/CFT stakeholder institutions, including within the Secretariat for Prevention of Money or Asset Laundering (SEPRELAD) as the national coordinator. In addition, government officials and technical staff assigned under the new administration to continue the NRA work requested revisions to the original timetable, which are currently being considered by Inter-American Development Bank (IADB) staff overseeing the project.
- Similarly, a draft bill aiming at the formalization of dependent workers within micro, small, and medium enterprises (MSMEs) and independent workers in general is being reviewed by the new government. The July 2023 test date was not met, and the authorities now plan to submit it to Congress by end-March 2024.

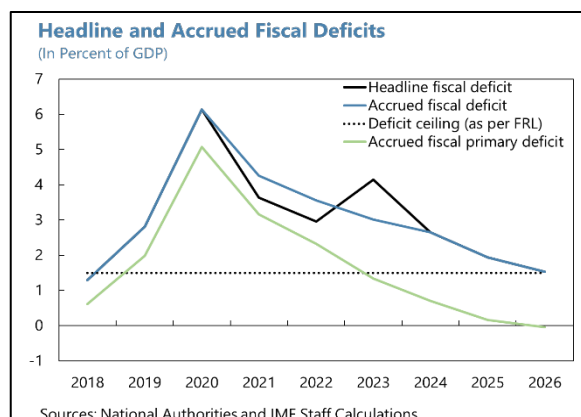
OUTLOOK AND RISKS

11. Looking ahead and barring large global commodity and weather shocks, key economic variables are expected to remain robust in 2024 and over the medium term. Growth is projected to hover around 3.5–4 percent, supported by agricultural production, construction, and strong electricity generation. On the demand side, solid external demand for soy and electricity will help buttress growth, and investment and consumption are expected to accelerate due to significant private investment projects and lower interest rates. The baseline scenario assumes that a natural climate phenomenon (El Niño) would have a moderate impact, though there are downside risks stemming from delayed rains. Inflation is projected to remain around the target of 4 percent from 2024 onwards.

12. The new government is committed to reducing the central government’s fiscal deficit as prescribed in the Fiscal Responsibility Law (FRL).

The authorities aim at achieving the 1.5 percent of GDP target by 2026 thanks mostly to a compression in investment spending after the recent completion of large roads construction projects. The new government has announced that it will not increase taxes or introduce new taxes but focus instead on enhancing revenue administration (including through the fusion of tax

department with customs) and by tackling tax expenditures and exemptions. While the new 2023 headline deficit projection shows a deterioration of the fiscal stance, an estimate of the accrued fiscal deficit (obtained by distributing the 1.1 percent of GDP of previously identified outstanding claims being recorded in 2023 back to 2021-22) indicates sustained negative fiscal impulses since 2020.² The even more pronounced reduction of the accrued primary deficit implies that the fiscal stance is sufficiently tight, even if the FRL ceiling will be reached only in 2026. The revised fiscal path is also consistent with keeping debt sustainable (Annex II). Various scenarios do not flag major concerns, and the medium-term risk index conveys a low-risk signal. The long-term assessment modules identify moderate risks from demographics (pensions and health) and from climate adaptation and mitigation costs.



13. The current account surplus is expected to slightly increase in the medium term. It is projected to record modest surpluses (around 1 percent of GDP) with higher FDI and investment inflows in the forestry and manufacturing sectors. The international reserves’ coverage ratio is expected to increase slightly to around 8 months of imports. Reserves are estimated at about 198 percent for end-2023 and they are not expected to breach the reserve adequacy ratio (ARA) metric’s comfort zone of 100-150 percent over the medium term.

14. Risks to the outlook are balanced. Among external risks, the intensification of conflicts alongside heightened geo-economic fragmentation could induce significant commodity price fluctuations (Annex III). An abrupt global downturn or monetary policy missteps by major central banks might further strain the global economy. Domestically, hot temperatures and delayed rains would lead to protracted planting, which could result in lower agricultural output and higher costs in some regions, as recent droughts have shown, significantly impacting the balance of payments and growth (Annex I). The preliminary results of the recent population census in Paraguay point to a 16 percent downward revision in population estimates. The final results are expected in the summer of 2024. The preliminary assessment suggests that there were several measurement issues with the previous two censuses. Upon the finalization of the results, a recalibration of economic estimates,

² The fiscal impulses as discussed here are simply defined as the change in the primary fiscal deficit and do not include cyclical or structural factors, for which models and data are not available.

such as income per capita, poverty rates, and GDP over the longer term would be conducted in coming years.

Text Table 1. Paraguay: Medium-Term Outlook for Selected Macroeconomic Indicators
(In percent of GDP, unless otherwise indicated)

| | 2020 | 2021 | 2022 | Proj. | | | |
|--|------|------|------|-------|------|------|------|
| | | | | 2023 | 2024 | 2025 | 2026 |
| Real GDP growth (in percent) | -0.8 | 4.0 | 0.1 | 4.5 | 3.8 | 3.8 | 3.5 |
| Per capita GDP (U.S. dollars, thousands) | 4.9 | 5.4 | 5.6 | 5.8 | 6.1 | 6.3 | 6.7 |
| Consumer prices (end of period; in percent) | 2.2 | 6.8 | 8.1 | 4.1 | 4.0 | 4.0 | 4.0 |
| Terms of trade (annual percent change) | 2.2 | -1.5 | 0.4 | 5.7 | -1.3 | 3.9 | 1.3 |
| External current account | 3.6 | -0.8 | -7.2 | 0.2 | 0.5 | 1.5 | 1.3 |
| Gross international reserves (in US\$ billion) | 10.0 | 10.1 | 10.2 | 10.3 | 10.9 | 11.4 | 12.0 |
| Central government fiscal balance | -6.1 | -3.6 | -3.0 | -4.1 | -2.6 | -1.9 | -1.5 |
| Public sector debt | 36.9 | 37.5 | 40.8 | 40.4 | 42.8 | 40.9 | 40.2 |

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

POLICY DISCUSSIONS

Policy discussions focused on: (i) assessing completion of June 2023 QTs and RMs; (ii) reviewing progress on meeting December 2023 and June 2024 RMs; (iii) revising existing QTs and agreeing on new RMs for the upcoming reviews to be proposed to the Board; (iv) the request for extension of the current PCI arrangement, and (v) the request for an RSF on the basis of reforms aimed at greening public financial management, enhancing the resilience of the financial system, mobilizing sustainable climate financing, enhancing the sustainable energy sector, and protecting the country's strategic assets.

A. PCI: Macroeconomic Stability and Inclusive Economic Growth

Pillar I (Ensure Macroeconomic Stability and Resilience)

Fiscal Policy

15. Considering revised policy plans, fiscal QTs for December 2023 and June 2024 are proposed to be modified. As explained in ¶7, the end-December 2023 QT for the overall fiscal deficit needs to be increased by about 5,900 billion guaranies (1.8 percent of GDP), and the QT on primary current expenditure would be raised by about 1,550 billion guaranies, or 0.5 percent of GDP (Table 1a of Appendix I, Attachment I). The underlying dynamic of floating debt looks more favorable than previously projected, but the floating debt at end-2023 must now absorb the part of previously unrecorded claims that will be *registered* in 2023 but that will be *paid* only in early 2024 in line with the government's cash plans. QTs for June and December 2024 have been reset to reflect the new government's budget and policy plans for 2024, including to strengthen social assistance given the large informal sector (a key objective of the PCI program).

16. The fiscal consolidation path has been affected by the need to address previously unrecorded claims. To some extent, the emergence of these unrecorded claims reflects under-provisioning for spending on goods and services in previous budgets. The 2024 budget prioritizes spending on health, social transfers, and security and allocates an increase of spending equivalent to 0.3 percent of GDP to purchases of goods and services compared to previous forecasts. Projected interest expense has also been revised upward (by 0.5 percent of GDP) while expected tax revenue is (conservatively) budgeted at 10 rather than 10.4 percent of GDP. The more cautious 2024 tax projection mainly derives from the base effect of lower tax revenue collection in 2023. These three factors largely explain a 2024 fiscal deficit of 2.6 (rather than 1.5) percent of GDP, followed by a targeted deficit of 1.9 percent of GDP in 2025. Convergence to the 1.5 percent of GDP deficit ceiling under the fiscal rule would be achieved by 2026 rather than 2024, as was originally planned. Staff endorses the cautious fiscal policy stance and the continued convergence toward the deficit ceiling, supported by the overall favorable economic environment. However, in the absence of significant revenue measures, which are also needed due to significant gaps in infrastructure and social services, fiscal consolidation will require a gradual compression of spending on public investment. While this will be facilitated by the completion of large roads construction projects, the authorities also plan to increase the reliance on private sector-financed projects, for example through public-private partnerships, while being mindful of associated possible financial risks. In this vein, further strengthening the Public Financial Management (PFM) system will be instrumental including through upcoming technical assistance from FAD.

Monetary and External Policies

17. The central bank plans to continue to gradually reduce its policy rate. The recent rapid reduction in inflation has been in part due to the BCP's proactive policies. Currently, the monetary policy stance remains somewhat tight given a real policy rate of 3–4 percent against a neutral real rate estimated at around 1–2 percent. The BCP continues to emphasize that future policy rate decisions will depend on the evolution of inflation expectations, which so far remain well-anchored around the BCP's target of 4 percent, leaving room for further cuts. Fluid global developments and high interest rates in advanced countries justify the BCP's cautious approach in adjusting its policy stance.

18. A flexible exchange rate remains a key element of the macroeconomic policy framework. The Guarani's performance this year is evidence of the exchange rate's flexibility to respond to external developments, like the recent strengthening of the U.S. dollar at a global level. The authorities have not intervened in the foreign exchange market to counteract disorderly market fluctuations since earlier in the year, and the BCP has limited itself to intermediating hard currency obtained by government entities. The BCP remains committed to maintaining a strong reserve position and fostering transparency in foreign exchange interventions, including by continuing to publish detailed information on its foreign exchange operations.

Structural Reforms

19. RMs under the PCI need to be adapted to the new government's reform priorities. A new version of the pension fund supervision law, which will create a new supervisory agency, has been submitted to Congress (a reform target for December 2023). However, public protests against the draft have prompted the government to put the proceedings in Congress on hold, announcing further consultations with key stakeholders. An agreement with major stakeholders was reached on November 21st. Progress with this reform will help determine the way forward in terms of plans to reform the pension system of public employees ("Caja Fiscal"), an important fiscal vulnerability. Regarding the submission to Congress of a new "Corporate Governance Law", the new government believes that it is more practical at this juncture, given the need to foster consensus on other important reforms, to pursue the same objective (clarifying and strengthening the role of the SOE supervisory board) through issuing a regulation of the existing law (a modified reform target). The proposed new reform targets include (i) conducting an analysis of tax expenditures through special tax regimes (which result in revenue loss and increase administrative and governance costs) with a view to strengthening the corresponding legal frameworks, and (ii) improvements in the implementation of the central government's integrated financial management information system (SIARE) through gradually increasing coverage of various expenditure items at the commitment stage within the Administration System of Goods and Services (SAByS), which should help avoid the recurrence of unrecorded expenditure claims (Table 2 of Attachment I).

Pillar II (Enhance Productivity and Foster Economic Growth)

20. The new government is addressing areas where there is a need for improved governance. The proposal on comprehensive Anti-Corruption Strategy was made available for public consultation with key stakeholders on November 23, which will be concluded by end-2023. Planned measures include the implementation of a new health information system that will increase accountability of health services providers to the public system and centralized information on acts of violence against women, which will allow various state agencies to better track known offenders. The standardization and homogenization of the inconsistent definitions of the ministry of health and the social security institute (IPS) regarding purchases of medicine is expected to allay significant concerns regarding the cost of medicine purchases (proposed new reform target). Other proposed new reform targets include (i) modifications of the law on public-private partnerships, which aims at leveraging private infrastructure investment and would benefit from recommendations of an upcoming C-PIMA mission, and (ii) the development of a plan to enhance the integrity of the public land cadaster, where deficiencies create legal uncertainty and are considered an impediment to foreign investment. Identifying and understanding AML/CFT risks in Paraguay remains a top priority, as the updated NRA will provide a sound and robust basis for the development of national and institutional policies, measures, and controls for mitigate these risks within financial and nonfinancial institutions operating in Paraguay.

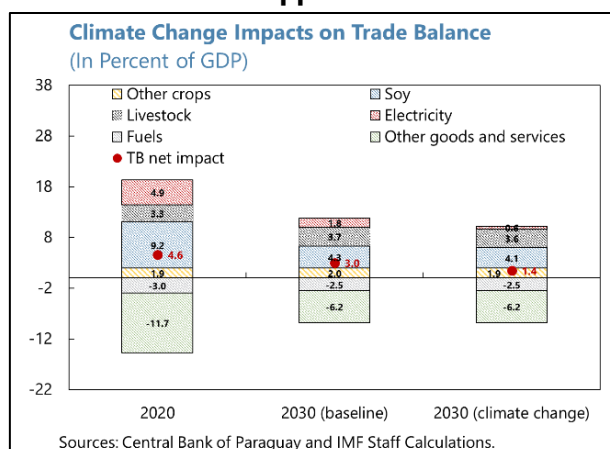
Pillar III (Enhance Social Protection and Inclusiveness)

21. The new government is also changing the approach towards implementing social programs. Most programs will be consolidated under the authority of the Ministry of Social Development. In parallel, the Ministry of Economy and Finance will continue its efforts to improve the information systems of social programs to better monitor their implementation and targeting through the unified beneficiary system of the Pension System (SIPEN). The existing reform targets for December 2023 and June 2024 have been streamlined to provide more clarity about which social programs will be included in the SIPEN (the Coordination of Diverse Obligations of the State (CODE) and the Ministry of Children and Adolescents (MINNA), respectively). Moreover, the December 2023 target's test date will be reset to March 2024. In addition, the government plans to finalize an action plan to operationalize the recently approved National Care Policy to promote caregivers' interests, many of whom are female, and the protection of identified vulnerable groups requiring care.

B. RSF: Building Resilience to Climate Change in Paraguay

22. Paraguay's abundant natural and clean resources offer both opportunities and risks in the face of climate change (Annex I).

On the one hand, the country is prone to droughts and other climate-related natural hazards imposing large costs to the economy and welfare as the 2021/22 drought demonstrated. Heat stress can further impact labor productivity, electricity generation and fluvial transportation for this landlocked country. Staff estimates suggest that annual losses for the agricultural sector due to climate change can range from US\$20 to US\$200 million per year by 2030.^{3,4} The adverse climate change impacts on main agricultural exports (soy, maize, cassava, rice, wheat, and beef production) and on electricity exports (lower supply and higher demand from air conditioning) could result in a deterioration of the trade balance by 1.6 percent of GDP in 2030 compared to the baseline scenario. On the other hand, Paraguay can continue to mobilize its substantial natural assets (e.g., water, hydroelectricity, forests) to help combat climate change and preserve and expand its clean energy mix.



23. The government is committed to enact a series of adaptation and mitigation measures and to further expand generation and exports of green energy. Under the 2017 Framework Law on Climate Change and the Nationally Determined Contribution (NDC) updated in 2021, Paraguay is set to implement a comprehensive set of adaptation and mitigation measures to combat climate

³ With 2020 as a reference year.

⁴ The estimates of production losses for crops under RCP8.5 are from [the Climate Adaptation in Rural Development Assessment Tool](#) and beef production losses under SSP5-8.5 scenario from [Thornton et al \(2022\)](#).

change. The authorities specifically emphasize the need to continue adaptation efforts given the considerable climate-related risks, and the fact that forests (which cover about 40 percent of Paraguay's surface) and clean energy matrix have already contributed substantially to the global mitigation efforts. The new government presents Paraguay as a "green, predictable and profitable investment destination" focusing on further developing its fully sustainable electricity generation capacity, attracting green hydrogen and biofuels industries, and boosting its forestry sector.

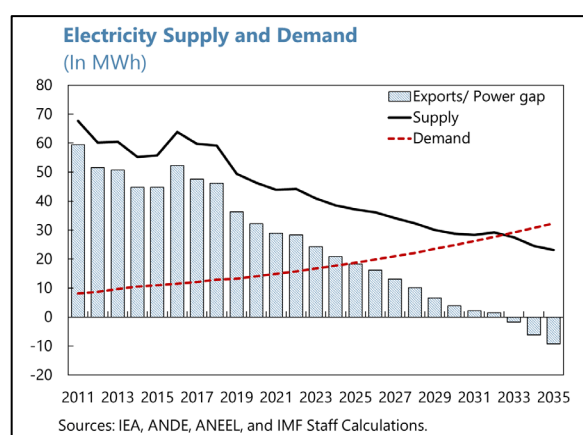
24. The RSF aims to support the authorities' ambitious efforts tackling several key challenges:

a) Improving public investment resilience to climate events. The authorities aim at expanding previous efforts to align their public financial management with green practices. In the recent past, and with support from the World Bank and the Inter-American Development Bank (IADB), the authorities strengthened the assessment of fiscal risks by incorporating the analysis of climate shocks and their potential impact and have started to introduce green tagging to the budget. Going forward, they are committed to amend and publish public investment regulations to incorporate climate aspects at each stage of project development (appraisal, selection, external audit, etc.) (RM1). These efforts will be supported by an upcoming IMF Climate Public Investment Management Assessment (C-PIMA) mission.

b) Enhancement of regulation to finance climate investment. Under the RSF, two reform measures are included in this area: (i) the development and publication of a green taxonomy aligned with the NDC to highlight critical sectors for achieving Paraguay's adaptation and mitigation goals facilitating the mobilization of financial resources to support adaptation and mitigation projects (RM2); (ii) the development by the central bank of climate-related financial risk management tools to contain risks from the substantial exposure of the financial system to vulnerable sectors such as agriculture (RM3). In addition, to promote climate finance mobilization, the authorities plan to enact the regulatory framework for the issuance and trading of green bonds on top of the existing framework for sustainable bonds.

c) Preservation and expansion of the clean electricity matrix. By early next decade, Paraguay will face a shortage of installed electricity capacity due to rising demand for energy. Preservation and expansion of the clean energy mix warrant a multipronged approach:

- The enactment of regulation for the recently approved non-hydro renewable energy law, including well-targeted and sustainable economic incentives and technical procedures, is a first key step for opening the electricity grid for the participation of the private sector (RM4).



- The publication of an external audit of the state electricity supply company (ANDE) by a globally reputable firm together with a technical study for identification of efficient cost components in line with international benchmarks would better inform stakeholders about the situation and prospects of the electricity sector (RM5). This measure can also be considered as an important element in enhancing the governance of the electricity sector where ANDE currently enjoys a monopoly in its various segments of the market.
- The results of the external audit and technical study will underlie adoption of a transparent mechanism of periodical tariff adjustments aligned with the existing legislation. It should reinforce ANDE's financial sustainability, allowing it to undertake necessary investments in generation, transmission, and distribution, as well as help to rationalize demand and promote private renewable electricity generation (RM6).⁵
- The establishment of efficiency standards for key appliances based on international best practices and benchmarks is aimed at raising efficiency in the consumption of electricity in the country (RM7).
- A comprehensive plan to determine and tackle the many aspects of the large technical and non-technical losses in the electricity system will inform the electricity tariff adjustment mechanism in RM6. It will be supported by the continued deployment of smart meters that should enhance monitoring of electricity consumption and facilitate implementation of differentiated hourly rates. The enhancement of monitoring and enforcement mechanisms with additional inspections against electricity theft is aimed at reducing distribution losses (RM8).

d) Carbon emissions from the transport and residential sectors. The adoption of an explicit carbon tax replacing existing excise taxes on liquid fuels would create the institutional framework to contain emissions from the use of liquid fuels by the transportation sector and from the residential use of LPG (RM9) and would not impact prices immediately. Staff welcomes the authorities' commitment to undertake periodic assessments of the carbon tax, which should ensure that the effective carbon price does not decrease relative to the time of its introduction. The regulation of the 2023 electromobility law aims at rationalizing incentives and setting appropriate parameters to reduce emissions from fossil fuel combustion (RM10). This reform would also aim at promoting the electrification of public transportation in the capital Asuncion, the most populous city.

e) Protection of forests. There are several actions contemplated in this area: (i) creation of a registry of industrial biomass users and the establishment of prerequisites for the use of biomass should help contain emissions (RM11); (ii) regulation and implementation of a decree to create joint intervention protocols for the land use change using the National Forest Monitoring System will enhance coordination by responsible agencies to protect forests (RM11); (iii) change the normative framework of the National Forest Institute (INFONA) to strengthen its institutional and financial capacities to protect native forests and respond to deforestation alerts; (iv) creation of a National Directorate for the National Forest Monitoring System to better protect forests, including with the adoption of the emissions' Monitoring, Reporting and Verification system in line with the UNFCCC

⁵ After more than a decade of flat nominal tariffs, they were adjusted last by 20 percent in 2017. The tariff rate is significantly below the Latin America's average while technical and non-technical losses are one of the highest.

standards to increase transparency in emission accounting, including through independent party verification (RM12). Besides the conservation of forests, the regulation of the law that establishes targets aligned with the NDC and incentives for the private sector progressive reutilization of plastic containers would contain methane emissions (RM13).

Table 1. Paraguay: Timeline of the Resilience and Sustainability Facility Reviews

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

Table 2. Paraguay: Resilience and Sustainability Facility Reform Measures

| Key challenge | Reform measures | Availability dates | Diagnostics | IMF CD Input | Development partner role | Climate objective | RM expected outcome |
|---|---|--------------------|---|--------------|--------------------------|---------------------------------|---|
| Public investment is not resilient to climate shocks | 1 MEF to amend and publish the Decree 4436/20 to incorporate climate aspects at each stage of project development of public investment projects (appraisal, selection, external audit etc.) in line with Fund TA recommendations. | November 15, 2024 | PEFA+ +; Roadmap with WB; NDC | IMF C-PIMA | WB TA; IADB TA | Mitigation (M) & adaptation (A) | Improve efficiency of climate-related government spending and taxation. |
| Lack of financial resources to support adaptation and mitigation efforts | 2 MEF and BCP to publish a green taxonomy aligned with Paraguay's NDC. | November 15, 2024 | NDC | | IADB TA | M&A | Facilitate mobilization of climate financial resources. |
| Vulnerability of financial sector to climate shocks | 3 BCP to: (i) establish reporting requirements and a data repository for material climate-related exposures of banks; (ii) adopt a framework to monitor and assess climate-related financial risks for banking sector; and (iii) issue supervisory guidelines for banking sector to incorporate climate-related risks to their risk management frameworks, along with timelines for the adoption of the guidelines. | May 23, 2025 | | | WB TA | M&A | Increase robustness of financial sector to climate-related shocks. |
| Preservation and expansion of clean electricity matrix | 4 MOPC and VMME to enact regulation of the non-conventional renewable energy law 6977/2023, including (1) the specification / rationalization of economic incentives, (2) technical aspects (i.e., requisites to connect to the national interconnection system, detailed criteria for licenses, and conditions that would enable an effective development of non-hydro non-conventional renewable energy through all the defined players (generators, co-generators, self-providers, and exporters)). | June 3, 2024 | Columbia-CAF Energy Sector Report; ANDE Master Plan; IRENA Renewable Readiness Assessment | | WB TA | M&A | Support expansion of renewable energy, improve electricity generation capacity, energy security co-benefit. |
| | 5 ANDE to publish an external audit and a study of international benchmarks for its costs at different segments of its operations and efficiency parameters by an internationally reputed firm. | November 15, 2024 | Columbia-CAF Energy Sector Report; ANDE Master Plan | | WB TA | M&A | Improve governance and encourage efficiency. |
| | 6 ANDE to develop, publish, and gradually adopt transparent and well-specified methodologies for adapting electricity tariffs in line with Law 966/64, accounting for operating costs, the financial costs of projected capital spending needs for preserving and expanding the clean electricity matrix, and efficiency gains on the basis of the results of the external audit and study by an internationally reputed firm (RM5), and the evolution of losses according to the plan in RM8. | May 23, 2025 | Columbia-CAF Energy Sector Report; ANDE Master Plan | | WB TA | M&A | Improve governance and electricity generation capacity, and contain electricity consumption; institutionalize electricity tariff setting. |
| | 7 MOPC/VMME and MIC to establish by decree energy efficiency standards for the three appliances that represent the largest share of household electricity consumption in line with international benchmarks by the International Organization for Standardization. | June 3, 2024 | Columbia-CAF Energy Sector Report; ANDE Master Plan; Paraguay's savings policy | | WB TA | M&A | Increase energy efficiency and reduce electricity demand. |
| | 8 8a. ANDE and MOPC/VMME to develop, publish, and gradually implement a plan for ANDE loss reduction with quantitative targets, to install 20,000 smart meters to reduce non-technical electricity losses. 8b. ANDE to implement progressively hourly/dynamic tariffs. 8c. ANDE to increase inspections against electricity theft by 10 percent above same period in 2023. | November 15, 2024 | WB report on ANDE's loss reduction; Columbia-CAF Energy Sector Report; ANDE Master Plan | | WB TA | M&A | Reduce non-technical losses and improve efficiency of electricity demand by better managing intra-day variations, energy security co-benefit. |
| CO2 emissions from the transport and residential sectors | 9 MEF, in coordination with DNIT, to adopt an explicit carbon tax replacing existing excise taxes on liquid fuels. | May 23, 2025 | | IMF TA | | M | Improve emission targeting. Establish administrative framework to expand emission coverage in the future. |
| | 10 10a. MOPC/VMME-VMT, MIC and MEF to enact regulation of the Electromobility Law 6925/2023, and to adjust fiscal incentives in favor of electric vehicles. 10b. MIC, MOPC/VMT and ANDE to install additional electric public charging infrastructure. VMT to lead the selection of the operational model and develop regulations for electric public transportation in the metropolitan area of Asuncion and set targets for an increased share of electric buses in the metropolitan area of Asuncion. | November 15, 2024 | Columbia-CAF Energy Sector Report; NDC | | WB TA; IADB TA | M | Increase share of EVs and more fuel-efficient vehicles, reduce fuel imports, decrease local air pollution. |
| Conservation of forests | 11 INFONA, MADES, MOPC/VMME, and MAG to replace the Decree 4056 of 2015 to create the registry of industrial biomass users and establish the prerequisites for the use of biomass. INFONA, MADES, National Police and SENAD will regulate and implement a decree to create joint intervention protocols for land use change using the National Forest Monitoring System. The institutions in charge of the protocol will coordinate with other institutions of the Estate, including the Attorney General, to ensure the interventions in the protocol. | June 3, 2024 | Columbia-CAF Energy Sector Report; NDC | | UNEP | M | Reduce deforestation. |
| | 12 INFONA to change its normative framework aiming at strengthening its institutional and financial capacities to protect native forests and respond to deforestation alerts. This includes the creation of a National Directorate for the National Forest Monitoring System. | June 3, 2024 | NDC | | UNEP; GCF; IADB TA | M | Reduce deforestation, improve access to voluntary carbon markets, strengthen the National Forestry Institute. |
| Contain methane emissions | 13 MIC to enact regulation of the law 7014/2022 that promotes the reutilization, recycling, and use of plastic (polyethylene terephthalate) containers. | May 23, 2025 | NDC; National Plan for the Comprehensive Management of Urban Solid Waste | | UNEP; GCF | M | Reduce methane emissions. |

PROGRAM MODALITIES AND CAPACITY DEVELOPMENT

25. It is proposed to extend the duration of the current PCI with continued semi-annual reviews (Table 3, Appendix I, Attachment I). The PCI will be extended by 12 months, shifting the program's conclusion from November 2024 to November 2025. This duration is considered appropriate to provide the new government with sufficient time to execute its economic plans and implement ambitious RSF measures. The PCI is an appropriate instrument to underpin the RSF considering good economic prospects and strong international reserves position forecasted for the duration of the program. Additional conditionality related to QTs and RTs will be fleshed out progressively throughout the program's duration and fine-tuned to align with the priorities of the authorities and their capacity for implementation.

26. Staff recommends an RSF-supported program for Paraguay with an access level of 150 percent of quota (SDR 302.1 million) for a period concurrent with the remaining period of the PCI. Given Paraguay's susceptibility to climate change, the proposed reform agenda includes key actionable measures anticipated to foster significant transformations in the government's policymaking, augmenting resilience against climate shocks (Table 5 of Appendix I, Attachment I). Therefore, there are prospective risks to BoP over the long run given rainfall variability linked to climate change impacting its two key export goods (agriculture and hydro energy) as well as transportation for international trade. RSF reforms will not only enhance the fiscal and financial systems in Paraguay to cope with climate shocks and mobilize resources for adaptation and mitigation to climate change but will also promote reforms to shield the BoP in key sectors: (i) preservation and expansion of its clean energy matrix; (ii) protection of forests as one of the key export industries for the future of Paraguay; (iii) electromobility and recycling of plastic containers will not only mitigate emissions but should reduce imports in the long run. Paraguay is eligible for RSF financing and will use the full disbursements for budget support. Access at 150 percent of quota will be distributed across 13 RMs over the course of three reviews; however, phasing is uneven across RMs to prevent exceeding 50 percent quota access per review. The proposed access level is justified by the strength and ambition of the RSF-supported measures (Tables 1 and 2) and Paraguay's sound capacity to repay the Fund. Furthermore, the suggested reforms align with the critical areas pinpointed in several diagnostic reports (Annex I). While international reserves are forecasted to cover almost 8 months of prospective imports between 2024 and 2026—aligning with the upper end of reserve adequacy measures—the suggested access level is also geared to fortify fiscal and external cushions in the long term. Additionally, considering the substantial investment required for environmental management, the concessional assistance under the RSF is a more viable option compared to more expensive domestic financing, as it also positively impacts public debt dynamics. With developmental partners already engaged in Paraguay's environmental agenda, including through technical assistance, the RSF-endorsed reforms are expected to generate further financing. The proposed reforms are also crucial for enhancing Paraguay's appeal for private-sector investment, and catalyzing public-private collaborations.

27. Risks to program implementation are assessed to be low and Paraguay's capacity to repay the Fund is sound. There is no balance of payments' gap for the next 12 months, and there are good prospects that there will be adequate financing for the remaining program period. Paraguay does not have current credit with the Fund, and its outstanding credit is projected to rise to 150 percent of quota (or 0.8 percent of forecasted GDP) by 2025 once the RSF arrangement is completely disbursed (Table 9a). Paraguay's ability to service this debt is assessed as robust. This assessment is anchored by forecasted steady debt ratios over the medium term, a moderate risk profile concerning external and total public debt distress, and the government's history of implementing reforms and prudent macroeconomic management. Obligations to the Fund are expected to stay at or below 0.3 percent of exports of goods and services, 0.6 percent of government revenue, and 0.5 percent of gross international reserves throughout the repayment period. Importantly, Paraguay's current and prospective obligations to the Fund are well below the median of other GRA-only borrowing countries (Table 9b). The BCP and the Ministry of Economy and Finance stand clear on the respective responsibilities for the timely servicing of the financial obligations with the IMF under the RSF arrangement.

28. Safeguards Assessment. An update of safeguards assessment of the BCP has been initiated. The most recent safeguards assessment was carried out in 2021. The assessment found that the BCP had progressed in strengthening its safeguards framework and autonomy through legal reform and had auditing and financial reporting procedures that are in line with international norms. However, governance arrangements need improvement due to the lack of an independent oversight body. With no Fund credit outstanding, the BCP has not been subject to safeguards monitoring since the 2021 assessment, but the authorities confirmed that they are actively addressing the recommendations outlined in the report. The BCP and Ministry of Economy and Finance have signed a Memorandum of Understanding (MOU) specifying their respective responsibilities for the timely servicing of financial obligations to the Fund under the RSF arrangement.

29. Quantitative and reform targets. The attached Program Statement (PS) details the authorities' policy commitments. The program will continue to be monitored on a semi-annual basis through QTs, standard continuous targets, reform targets (RTs), (Tables 1a, 1b, and 2 of Appendix I, Attachment I) and RMs, as defined in the Memorandum of Technical Understanding (TMU). 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 (Table 1a of Appendix I, Attachment I). Non-accumulation of external debt payment arrears is maintained as a continuous target. Additional standard continuous targets also remain (Table 1b of Appendix I, Attachment I). 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. The quantitative targets for December 2023 and June 2024 on the central government's fiscal deficit and on primary current expenditure and net incurrence of floating debt have been

modified (Table 1a of Appendix I, Attachment I).⁶ A proposed new QTs has a date of December 2024.

30. Capacity development support by the Fund remains closely aligned with the programs' priorities (Annex IV). It focuses, inter alia, on climate public investment management assessment (C-PIMA), revenue administration, and financial stability and integrity, including the AML/CFT regime. The authorities are also committed to strengthening 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).

STAFF APPRAISAL

31. Paraguay has rebounded strongly in 2023 due to more favorable weather and the subsequent pick-up in domestic demand. The external current account balance has reversed into a surplus due to a rebound in agricultural exports. Together with the easing of global commodity prices, the BCP's proactive monetary policy has led to a significant reduction in inflation, which is already below the BCP's inflation target. Paraguay's banking system remains stable and solvent. While the fiscal outcome was weaker than expected, this was a result of one-off factors, and the fiscal position remains sustainable.

32. The new government is committed to fiscal prudence and to persevere with long-standing structural reforms. While risks to debt sustainability are low, fiscal buffers will need to be rebuilt following the increase in deficits and debt in response to several external shocks in recent years. Going forward, the need to ensure the sustainability of the public servants' pension fund ("Caja Fiscal") is imperative. Reforms to improve the efficiency of public enterprises, increase government effectiveness, strengthen governance, and streamline the social assistance programs should also be a priority and will help ensure sustained economic growth. Reforms under the PCI contribute to creating more favorable conditions for both public and private investment.

33. Staff supports the completion of the Second Review under the PCI. This entails a modification of end-December 2023 and end-June 2024 quantitative targets for the fiscal deficit, current primary expenditure, floating debt, a consultation with the Executive Board on the inflation band, and the extension of the PCI by 12 months. The authorities' reform agenda was expanded to include reform targets for December 2024.

34. Staff also supports Paraguay's request for a program under the RSF with maximum access. The authorities are committed to implement an ambitious matrix of climate-related reforms consistent with maximum access (150 percent of quota) under the RSF. The agreed RSF matrix covers measures to increase the resilience of public investments, develop a green taxonomy, contain climate risks to the financial sector, preserve and expand the country's clean electricity matrix, decarbonize its economy, and conserve its forests. Reform measures will be closely coordinated with the international development partners.

⁶ A memo item on social transfers is also monitored.

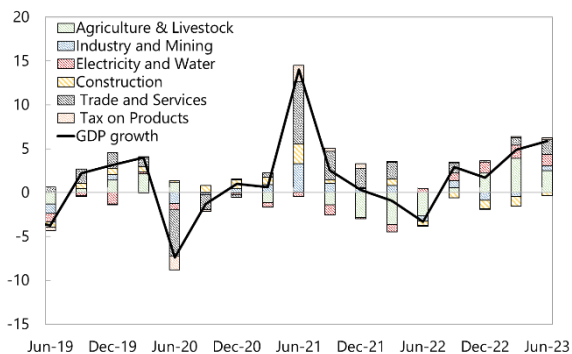
Figure 1. Paraguay: Recent Developments

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

Net exports and public spending bolstered aggregate demand, offsetting the adverse impact of investment.

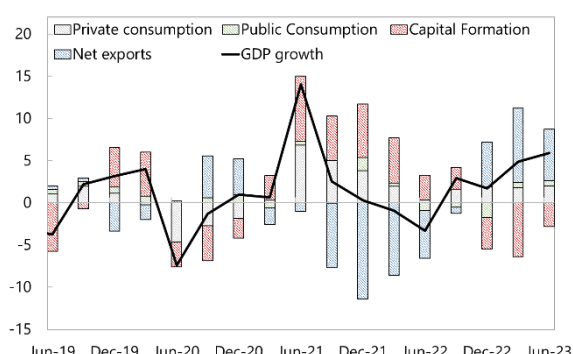
Aggregate Supply Growth Decomposition

(In Percent, Y/Y)



Aggregate Demand Growth Decomposition

(In Percent, Y/Y)

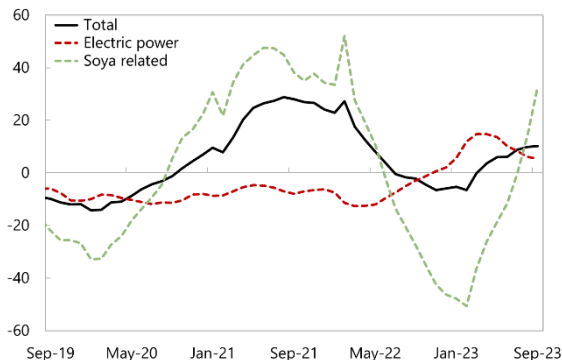


Total exports continued to recover due to the post-drought rebound in key export sectors.

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

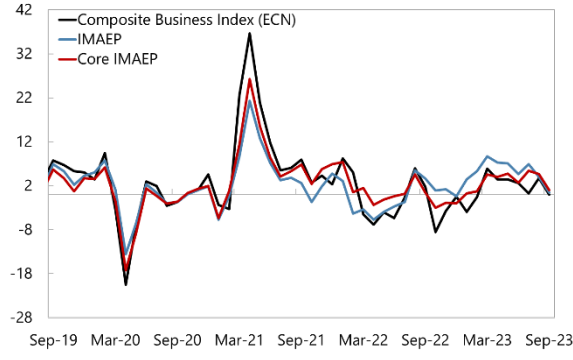
Exports of Goods

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



Monthly Economic Activity Indices

(In Percent, Y/Y)

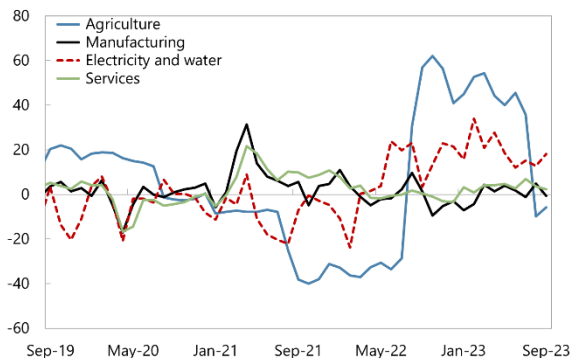


... driven mainly by an exceptional agricultural fall season.

The unemployment rate increased slightly, while employment is still just below its pre-pandemic level.

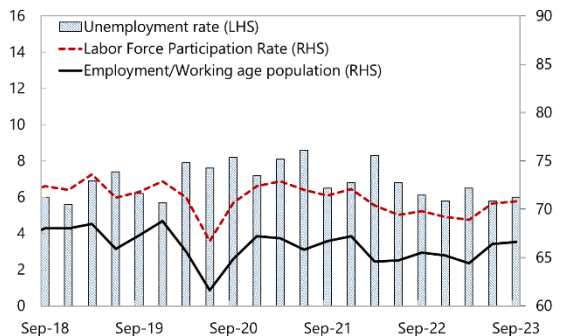
IMAEP by Sector

(In Percent, Y/Y)



Labor Market

(In Percent)



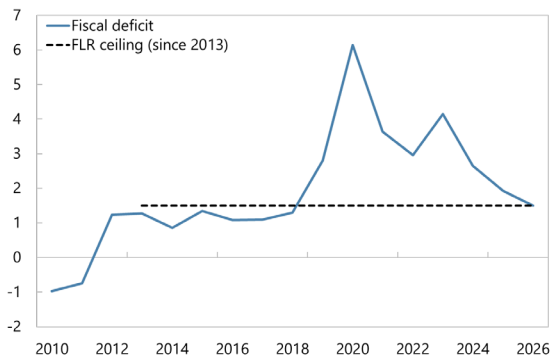
Sources: BCP; Ministry of Economy and Finance; and IMF staff calculations.

Figure 2. Paraguay: Fiscal Developments

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

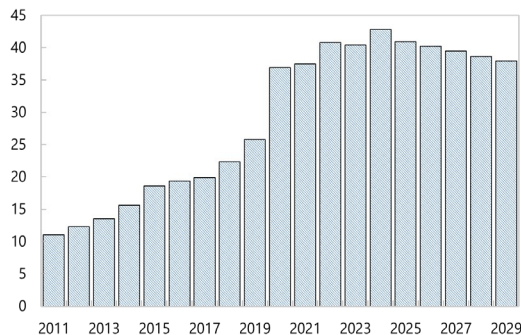
Public debt increased substantially after the pandemic but is stabilizing...

Central Government Fiscal Deficit
(In Percent of GDP)



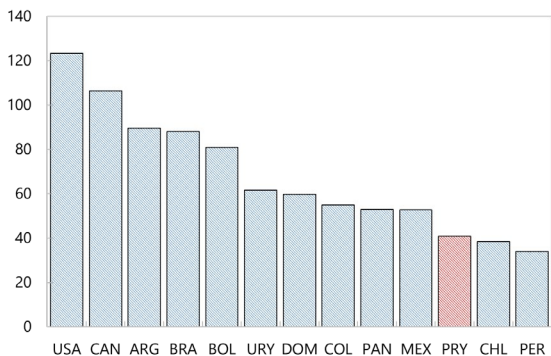
...and is still low compared to other countries in the region.

Public Debt
(In Percent of GDP)



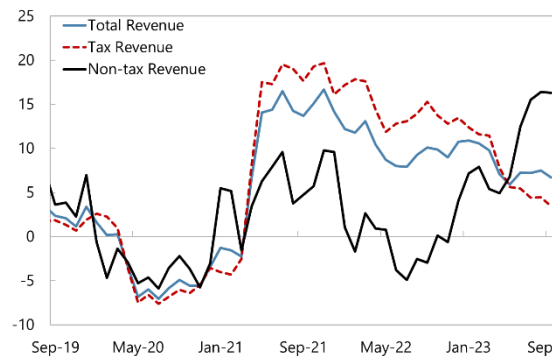
Although non-tax revenue improved in 2023, total revenue has declined due to lower tax collection...

Public Debt, 2023
(In Percent of GDP)



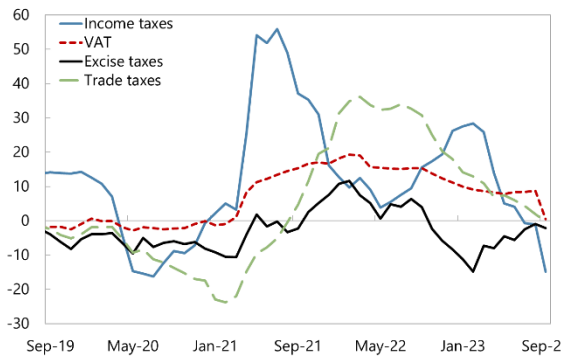
...driven by the weaker performance of income and trade taxes.

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

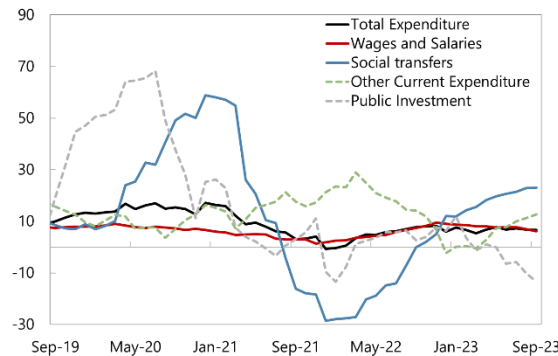


Total expenditure growth is stable as higher social transfers are compensated by lower public investment.

Tax Revenue
(Growth of 12-Month Moving Cumulative Sum)



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

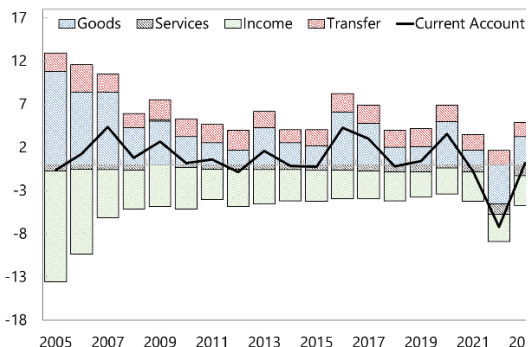


Sources: Ministry of Economy and Finance; WEO; and IMF staff estimates.

Figure 3. Paraguay: External Sector Developments

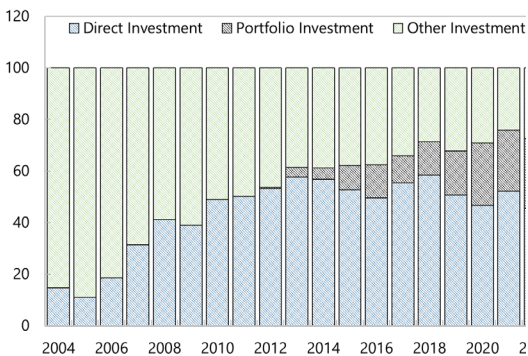
The current account is forecast to notably improve, led by higher exports and reduced fuel costs.

Current Account Balance
(In Percent of GDP)



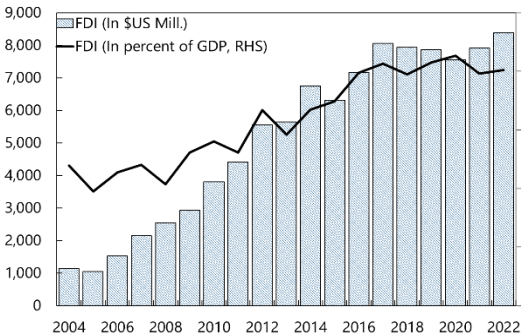
Profit remittances are a major source of outward factor payments while direct investment has slightly declined.

Composition of Outward Factor Payment
(In Percent of Total Outward Factor Income)



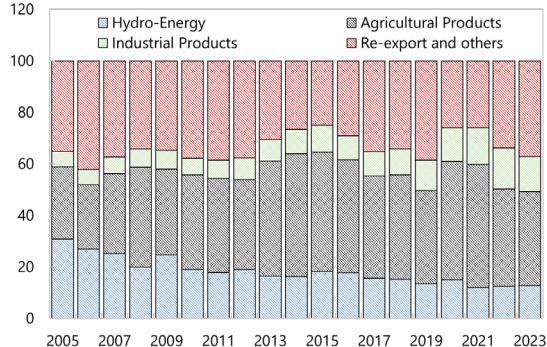
Foreign direct investment has been on the rise over the last decade.

Foreign Direct Investment Stock
(In Millions of \$US Dollars, and in Percent of GDP)



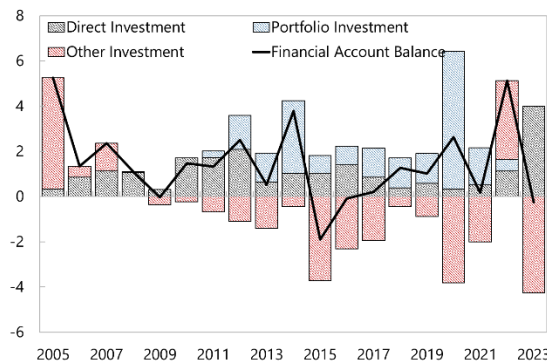
Agricultural products and hydro-energy are the primary sources of export revenue.

Composition of Goods Export Revenues
(In Percent of Total Exports)



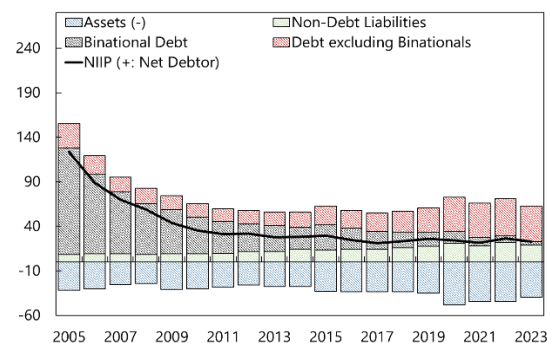
The financial account is expected to deteriorate due to a significant contraction in other investments.

Composition of Financial Account
(In Percent of GDP)



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

Net International Investment Position
(In Percent of GDP)



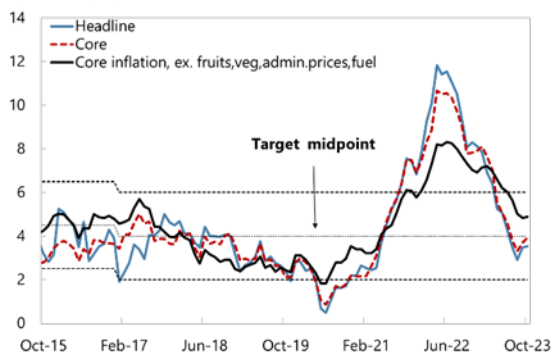
Sources: BCP; and IMF staff calculations.

Figure 4. Paraguay: Monetary Indicators

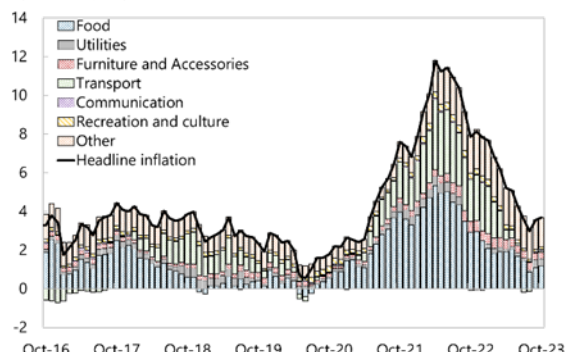
Inflation receded rapidly, and as of October 2023, it stood below the BCP's target midpoint of 4 percent...

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

CPI Inflation
(In Percent, Y/Y)



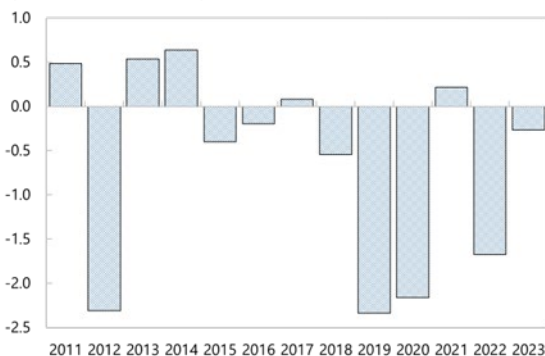
Contributions to Inflation
(In Percent, Y/Y)



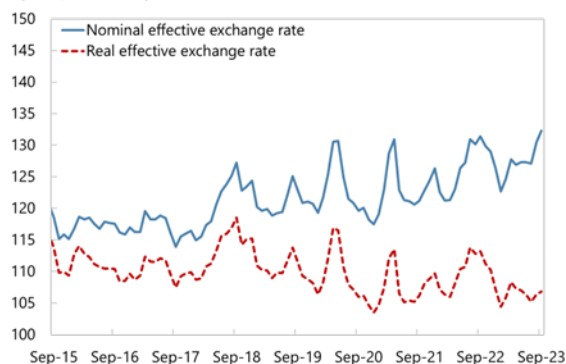
The economy is expected to operate almost at its potential.

The real exchange rate has depreciated slightly since 2022.

Output Gap
(In Percent of Potential GDP)



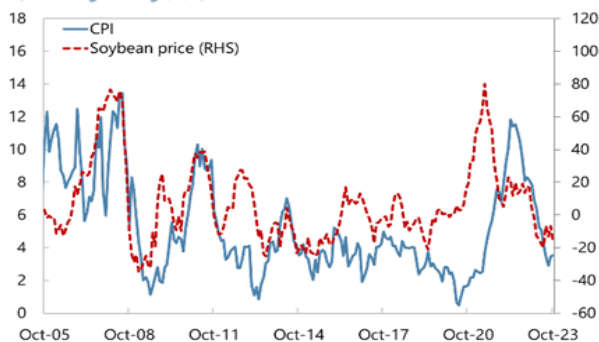
Nominal and Real Effective Exchange Rate
(Index, 2010 = 100)



Given than inflation pressures have quickly subsided...

...the central bank recently reduced its policy interest rate.

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



Monetary Policy Rate
(In Percent)

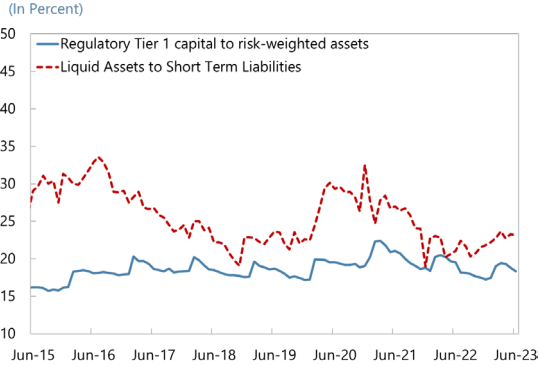


Sources: BCP; Ministry of Economy&Finance; IMF staff calculations.

Figure 5. Paraguay: Financial Sector Developments

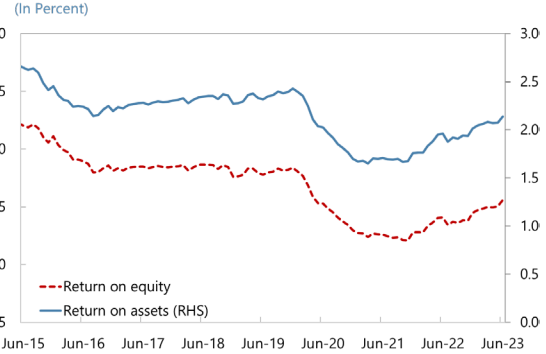
Banks are liquid and well-capitalized.

Capital Adequacy and Liquidity



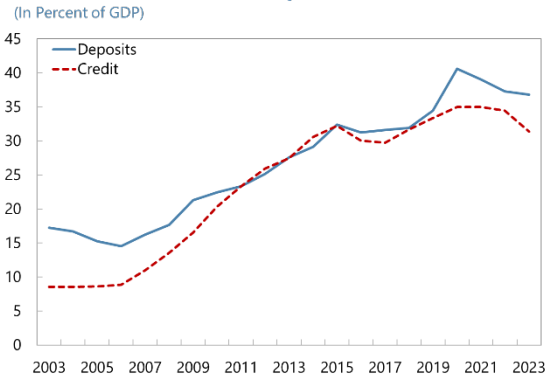
Bank profitability has been on the rise since the pandemic.

Bank Profitability



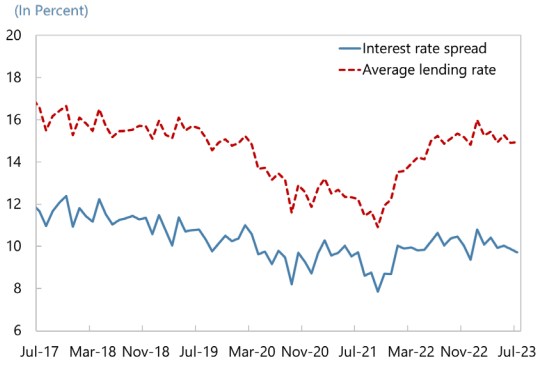
After a sustained increase, private sector credit and deposit growth has recently moderated.

Private Sector Credit and Deposits



Lending rates have risen significantly since 2021, while the interest rate spread has remained stable.

Lending Rate and Interest Rate Spread



Sources: BCP; and IMF staff calculations.

Table 3. 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 | | | | | | | | | | |
| | 2019 | 2020 | 2021 | 2022 | 2023 | | 2024 | | Proj. | |
| | | | | | Proj. | CR 23/207 | Proj. | CR 23/207 | 2025 | 2026 |
| (Annual percent change, unless otherwise indicated) | | | | | | | | | | |
| Income and Prices | | | | | | | | | | |
| Real GDP | -0.4 | -0.8 | 4.0 | 0.1 | 4.5 | 4.5 | 3.8 | 3.5 | 3.8 | 3.5 |
| Nominal GDP | 2.6 | 1.4 | 12.8 | 7.6 | 9.8 | 8.9 | 7.5 | 7.5 | 7.5 | 7.5 |
| Per capita GDP (U.S. dollars, thousands) | 5.3 | 4.9 | 5.4 | 5.6 | 5.8 | 5.8 | 6.1 | 6.1 | 6.3 | 6.7 |
| Consumption (contribution to real GDP growth) | 1.7 | -1.7 | 4.2 | 6.7 | -6.5 | -5.6 | 0.7 | 0.8 | 3.1 | 3.3 |
| Investment (contribution to real GDP growth) | -1.5 | -1.0 | 5.5 | 0.2 | 6.6 | 5.1 | 2.5 | 2.6 | 1.4 | 1.1 |
| Net Exports (contribution to real growth) | -0.6 | 1.9 | -5.6 | -6.8 | 4.3 | 5.0 | 0.6 | 0.1 | -0.6 | -0.8 |
| Consumer prices (end of period) | 2.8 | 2.2 | 6.8 | 8.1 | 4.1 | 4.5 | 4.0 | 4.0 | 4.0 | 4.0 |
| Nominal exchange rate (Guarani per U.S. dollar, eop) | 6,453 | 6,917 | 6,879 | 7,331 | ... | ... | ... | ... | ... | ... |
| Monetary Sector | | | | | | | | | | |
| Credit to private sector 1/ | 9.9 | 7.7 | 10.0 | 11.6 | 7.0 | 7.5 | 10.4 | 8.9 | 7.4 | 8.9 |
| Monetary policy rate, year-end | 4.0 | 0.75 | 5.25 | 8.5 | ... | ... | ... | ... | ... | ... |
| External Sector | | | | | | | | | | |
| Exports (fob, values) | -7.5 | -9.5 | 15.5 | -0.1 | 19.8 | 20.7 | 6.2 | 4.1 | 5.7 | 2.9 |
| Imports (cif, values) | -7.8 | -18.3 | 29.4 | 20.3 | -4.5 | -1.2 | 4.8 | 5.3 | 3.4 | 3.8 |
| Terms of trade | -0.2 | 2.2 | -1.5 | 0.4 | 5.7 | 0.6 | -1.3 | -1.6 | 3.9 | 1.3 |
| Real effective exchange rate 2/ | -3.0 | -1.3 | -1.0 | 1.9 | ... | ... | ... | ... | ... | ... |
| (In percent of GDP, unless otherwise indicated) | | | | | | | | | | |
| External Current Account | 0.4 | 3.6 | -0.8 | -7.2 | 0.2 | 0.2 | 0.5 | -0.3 | 1.5 | 1.3 |
| Trade balance | 1.2 | 4.6 | 0.9 | -5.7 | 2.0 | 1.7 | 2.4 | 1.3 | 3.1 | 2.7 |
| Exports | 33.5 | 32.4 | 33.2 | 31.8 | 36.0 | 36.1 | 36.2 | 35.0 | 36.3 | 34.8 |
| Of which: Electricity | 4.5 | 4.9 | 4.0 | 4.0 | 4.6 | 4.1 | 4.9 | 3.6 | 4.3 | 3.8 |
| Imports | -31.4 | -27.5 | -31.5 | -36.3 | -32.8 | -33.1 | -32.5 | -32.5 | -31.9 | -30.8 |
| Of which: Oil imports | -3.8 | -3.0 | -3.8 | -5.5 | -3.5 | -5.7 | -3.6 | -4.7 | -3.3 | -3.0 |
| Capital Account and Financial Account | 1.4 | 3.1 | 0.7 | 5.5 | 0.1 | 0.1 | 0.7 | 1.5 | -0.3 | -0.2 |
| Of which: Direct investment | 0.6 | 0.3 | 0.5 | 1.1 | 4.0 | 4.0 | 4.4 | 4.4 | 1.4 | 1.0 |
| Gross International Reserves (in millions of U.S. dollars) | 7,496 | 10,014 | 10,051 | 10,154 | 10,304 | 10,304 | 10,854 | 10,854 | 11,404 | 11,954 |
| In months of next-year imports of goods and services | 8.6 | 8.9 | 7.4 | 7.8 | 7.5 | 7.5 | 7.6 | 7.6 | 7.7 | 7.8 |
| Ratio to short-term external debt | 2.1 | 2.5 | 2.5 | 2.5 | 3.4 | 2.5 | 3.9 | 2.7 | 3.5 | 3.5 |
| Gross Domestic Investment | 21.7 | 20.0 | 24.0 | 24.3 | 28.2 | 25.8 | 29.5 | 27.4 | 29.2 | 29.1 |
| Gross Domestic Saving | 22.1 | 23.6 | 23.2 | 17.1 | 28.4 | 26.0 | 30.0 | 27.1 | 30.6 | 30.4 |
| Central Government Revenues | 14.2 | 13.5 | 13.7 | 14.1 | 13.6 | 14.0 | 14.0 | 14.4 | 14.1 | 14.1 |
| Of which: Tax revenues | 10.0 | 9.5 | 9.8 | 10.3 | 9.9 | 10.2 | 10.0 | 10.4 | 10.1 | 10.3 |
| Central Government Expenditures | 17.0 | 19.7 | 17.3 | 17.1 | 17.7 | 16.3 | 16.6 | 15.9 | 16.0 | 15.6 |
| Of which: Compensation of employees | 6.9 | 7.3 | 6.6 | 6.7 | 6.5 | 6.5 | 6.5 | 6.5 | 6.4 | 6.3 |
| Of which: Net acquisition of non financial assets | 2.9 | 3.6 | 2.9 | 2.9 | 2.8 | 2.0 | 1.8 | 2.0 | 1.6 | 1.6 |
| Central Government Net Lending/Borrowing | -2.8 | -6.1 | -3.6 | -3.0 | -4.1 | -2.3 | -2.6 | -1.5 | -1.9 | -1.5 |
| Central Government Primary Balance | -2.0 | -5.1 | -2.5 | -1.7 | -2.5 | -0.9 | -0.7 | -0.1 | -0.1 | 0.1 |
| Public Sector Debt (excl. Central Bank Bills) | 25.8 | 36.9 | 37.5 | 40.8 | 40.4 | 39.6 | 42.8 | 39.1 | 40.9 | 40.2 |
| Of which: Foreign currency | 21.3 | 31.9 | 32.9 | 36.4 | 35.4 | 35.4 | 36.7 | 34.7 | 34.8 | 33.5 |
| Of which: Domestic currency | 4.4 | 5.0 | 4.6 | 4.4 | 5.0 | 4.2 | 6.1 | 4.3 | 6.1 | 6.7 |
| Memorandum Items: | | | | | | | | | | |
| GDP (billions of guaranias) | 236,681 | 239,915 | 270,634 | 291,336 | 319,767 | 317,364 | 343,750 | 341,195 | 369,531 | 397,246 |
| GDP (US\$ billions) | 37.9 | 35.4 | 40.0 | 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.

Table 4a. Paraguay: Operations of the Central Government
(GSFM2001 Presentation) (In billions of Guaranies)

| | 2019 | 2020 | 2021 | 2022 | 2023 | | 2024 | | Proj. | |
|--|---------------|----------------|---------------|---------------|----------------|---------------|---------------|---------------|---------------|---------------|
| | | | | | Proj. | CR 23/207 | Proj. | CR 23/207 | 2025 | 2026 |
| Revenue | 33,633 | 32,494 | 37,102 | 41,094 | 43,454 | 44,465 | 48,089 | 49,104 | 51,962 | 56,055 |
| Taxes | 23,577 | 22,739 | 26,409 | 29,962 | 31,760 | 32,449 | 34,459 | 35,505 | 37,370 | 40,798 |
| Income taxes | 6,013 | 5,970 | 6,934 | 8,753 | 8,593 | 8,988 | 9,513 | 10,049 | 10,227 | 11,157 |
| Excises | 3,026 | 2,775 | 2,985 | 2,736 | 2,993 | 2,934 | 3,250 | 3,245 | 3,372 | 3,551 |
| Value added tax | 11,690 | 11,686 | 13,631 | 15,151 | 16,609 | 17,204 | 17,955 | 18,658 | 19,395 | 20,946 |
| Import duties | 2,421 | 2,000 | 2,423 | 2,858 | 3,066 | 2,941 | 3,207 | 3,145 | 3,801 | 4,526 |
| Other | 427 | 309 | 437 | 463 | 498 | 382 | 535 | 408 | 575 | 618 |
| Social contributions | 2,126 | 2,443 | 2,778 | 3,603 | 3,647 | 3,656 | 4,113 | 4,068 | 4,691 | 5,125 |
| Other revenue | 7,929 | 7,312 | 7,915 | 7,530 | 8,048 | 8,360 | 9,518 | 9,532 | 9,901 | 10,131 |
| Grants | 1,525 | 1,443 | 1,832 | 1,605 | 1,742 | 1,744 | 1,980 | 1,983 | 2,203 | 2,368 |
| Itaipu-Yacyreta | 4,111 | 2,994 | 2,410 | 2,843 | 3,321 | 3,653 | 4,270 | 4,305 | 4,185 | 3,986 |
| Other nontax revenue | 2,293 | 2,875 | 3,673 | 3,081 | 2,985 | 2,963 | 3,268 | 3,244 | 3,513 | 3,776 |
| Expenditure | 40,284 | 47,223 | 46,929 | 49,716 | 56,719 | 51,809 | 57,195 | 54,363 | 59,072 | 61,996 |
| Expense | 33,329 | 38,510 | 39,051 | 41,336 | 47,893 | 45,309 | 51,025 | 47,675 | 53,203 | 55,726 |
| Compensation of employees | 16,432 | 17,512 | 17,841 | 19,466 | 20,643 | 20,701 | 22,305 | 22,023 | 23,777 | 25,032 |
| Purchases of goods and services | 3,120 | 3,461 | 5,414 | 4,496 | 5,872 | 4,424 | 4,905 | 3,911 | 5,225 | 5,480 |
| Interest | 1,962 | 2,554 | 2,962 | 3,614 | 5,370 | 4,463 | 6,671 | 4,895 | 6,562 | 6,253 |
| Grants | 4,723 | 4,562 | 4,769 | 4,738 | 5,045 | 4,955 | 5,420 | 5,345 | 5,575 | 5,993 |
| Social benefits | 5,718 | 9,083 | 6,496 | 7,276 | 9,110 | 9,034 | 9,834 | 9,762 | 10,252 | 11,021 |
| Other expense | 1,375 | 1,338 | 1,568 | 1,746 | 1,853 | 1,732 | 1,890 | 1,739 | 1,812 | 1,948 |
| Gross Operating Balance | 304 | -6,016 | -1,949 | -242 | -4,438 | -844 | -2,936 | 1,430 | -1,240 | 328 |
| Net acquisition of nonfinancial assets | 6,955 | 8,713 | 7,877 | 8,379 | 8,826 | 6,501 | 6,170 | 6,689 | 5,869 | 6,270 |
| Net Lending/Borrowing (Overall Balance) | -6,651 | -14,729 | -9,827 | -8,622 | -13,264 | -7,345 | -9,106 | -5,259 | -7,110 | -5,941 |
| Net Financial Transactions | 6,651 | 14,729 | 9,827 | 8,622 | 13,264 | 7,345 | 9,106 | 5,259 | 7,110 | 5,941 |
| Net Acquisition of Financial Assets | -295 | 6,739 | 1,470 | 4,020 | 0 | 0 | 0 | 0 | 0 | 0 |
| Financial investments | -259 | 5,077 | 775 | 3,389 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net lending | -35 | 1,662 | 695 | 631 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net Incurrence of Liabilities | 5,114 | 25,213 | 11,504 | 11,332 | 13,264 | 7,345 | 9,106 | 5,259 | 7,110 | 5,941 |
| Domestic | -215 | 4,978 | 608 | 3,050 | 5,190 | 861 | 2,592 | 1,061 | 2,515 | 3,311 |
| Debt securities | 470 | -324 | 803 | -330 | 3,547 | 361 | 4,092 | 761 | 2,515 | 3,311 |
| New TB issues | 1,396 | 1,321 | 1,628 | 59 | 5,305 | 1,992 | 5,841 | 2,133 | 4,482 | 4,176 |
| Amortizations | 926 | 1,645 | 826 | 390 | 1,758 | 1,631 | 1,749 | 1,372 | 1,967 | 865 |
| Net credit from the banking system | -1,430 | 4,317 | 390 | 3,069 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net credit from the central bank 1/ | 1,638 | -3,821 | -330 | 649 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net credit from commercial banks | -3,067 | 8,138 | 720 | 2,420 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other accounts payable/floating debt | 745 | 985 | -585 | 312 | 1,643 | 500 | -1,500 | 300 | 0 | 0 |
| Foreign | 5,328 | 20,235 | 10,896 | 8,282 | 8,074 | 6,484 | 6,514 | 4,199 | 4,595 | 2,630 |
| Loans | 5,328 | 20,235 | 10,896 | 8,282 | 8,074 | 6,484 | 6,514 | 4,199 | 4,595 | 2,630 |
| Disbursements | 6,429 | 21,482 | 12,055 | 11,315 | 12,236 | 10,009 | 9,428 | 8,023 | 7,889 | 9,775 |
| of which: RSF disbursement | 0 | 0 | 0 | 0 | 0 | ... | 1,993 | ... | 1,022 | 0 |
| Amortizations | 1,101 | 1,247 | 1,159 | 3,032 | 4,162 | 3,525 | 2,915 | 3,824 | 3,294 | 7,145 |
| Statistical Discrepancy 2/ | 1,243 | -3,744 | -208 | 1,310 | 0 | 0 | 0 | 0 | 0 | 0 |
| Memorandum items: | | | | | | | | | | |
| Primary balance | -4,689 | -12,175 | -6,864 | -5,008 | -7,894 | -2,882 | -2,435 | -364 | -547 | 312 |
| Current primary expenditure | 28,853 | 34,125 | 33,599 | 35,075 | 39,733 | 38,157 | 41,345 | 39,934 | 43,812 | 46,432 |

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 4b. Paraguay: Operations of the Central Government
(In percent of GDP, unless otherwise indicated)

| | 2019 | 2020 | 2021 | 2022 | 2023 | | 2024 | | Proj. | |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | | | | | Proj. | CR 23/207 | Proj. | CR 23/207 | 2025 | 2026 |
| Revenue | 14.2 | 13.5 | 13.7 | 14.1 | 13.6 | 14.0 | 14.0 | 14.4 | 14.1 | 14.1 |
| Taxes | 10.0 | 9.5 | 9.8 | 10.3 | 9.9 | 10.2 | 10.0 | 10.4 | 10.1 | 10.3 |
| Income taxes | 2.5 | 2.5 | 2.6 | 3.0 | 2.7 | 2.8 | 2.8 | 2.9 | 2.8 | 2.8 |
| Excises | 1.3 | 1.2 | 1.1 | 0.9 | 0.9 | 0.9 | 0.9 | 1.0 | 0.9 | 0.9 |
| Value added tax | 4.9 | 4.9 | 5.0 | 5.2 | 5.2 | 5.4 | 5.2 | 5.5 | 5.2 | 5.3 |
| Import duties | 1.0 | 0.8 | 0.9 | 1.0 | 1.0 | 0.9 | 0.9 | 0.9 | 1.0 | 1.1 |
| Other | 0.2 | 0.1 | 0.2 | 0.2 | 0.2 | 0.1 | 0.2 | 0.1 | 0.2 | 0.2 |
| Social contributions | 0.9 | 1.0 | 1.0 | 1.2 | 1.1 | 1.2 | 1.2 | 1.2 | 1.3 | 1.3 |
| Other revenue | 3.4 | 3.0 | 2.9 | 2.6 | 2.5 | 2.6 | 2.8 | 2.8 | 2.7 | 2.6 |
| Grants | 0.6 | 0.6 | 0.7 | 0.6 | 0.5 | 0.5 | 0.6 | 0.6 | 0.6 | 0.6 |
| Itaipu-Yacyreta hydroelectric plants | 1.7 | 1.2 | 0.9 | 1.0 | 1.0 | 1.2 | 1.2 | 1.3 | 1.1 | 1.0 |
| Other nontax revenue | 1.0 | 1.2 | 1.4 | 1.1 | 0.9 | 0.9 | 1.0 | 1.0 | 1.0 | 1.0 |
| Expenditure | 17.0 | 19.7 | 17.3 | 17.1 | 17.7 | 16.3 | 16.6 | 15.9 | 16.0 | 15.6 |
| Expense | 14.1 | 16.1 | 14.4 | 14.2 | 15.0 | 14.3 | 14.8 | 14.0 | 14.4 | 14.0 |
| Compensation of employees | 6.9 | 7.3 | 6.6 | 6.7 | 6.5 | 6.5 | 6.5 | 6.5 | 6.4 | 6.3 |
| Purchases of goods and services | 1.3 | 1.4 | 2.0 | 1.5 | 1.8 | 1.4 | 1.4 | 1.1 | 1.4 | 1.4 |
| Interest | 0.8 | 1.1 | 1.1 | 1.2 | 1.7 | 1.4 | 1.9 | 1.4 | 1.8 | 1.6 |
| Grants | 2.0 | 1.9 | 1.8 | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 | 1.5 | 1.5 |
| Social benefits | 2.4 | 3.8 | 2.4 | 2.5 | 2.8 | 2.8 | 2.9 | 2.9 | 2.8 | 2.8 |
| Other expense | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 |
| Gross Operating Balance | 0.1 | -2.5 | -0.7 | -0.1 | -1.4 | -0.3 | -0.9 | 0.4 | -0.3 | 0.1 |
| Net acquisition of nonfinancial assets | 2.9 | 3.6 | 2.9 | 2.9 | 2.8 | 2.0 | 1.8 | 2.0 | 1.6 | 1.6 |
| Net Lending/Borrowing (Overall Balance) | -2.8 | -6.1 | -3.6 | -3.0 | -4.1 | -2.3 | -2.6 | -1.5 | -1.9 | -1.5 |
| Net Financial Transactions | 2.8 | 6.1 | 3.6 | 3.0 | 4.1 | 2.3 | 2.6 | 1.5 | 1.9 | 1.5 |
| Net acquisition of financial assets | -0.1 | 2.8 | 0.5 | 1.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Financial investments | 0.0 | 0.7 | 0.3 | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net lending | 0.0 | 0.7 | 0.3 | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net incurrence of liabilities | 2.2 | 10.5 | 4.3 | 3.9 | 4.1 | 2.3 | 2.6 | 1.5 | 1.9 | 1.5 |
| Domestic | -0.1 | 2.1 | 0.2 | 1.0 | 1.6 | 0.3 | 0.8 | 0.3 | 0.7 | 0.8 |
| Debt securities | 0.2 | -0.1 | 0.3 | -0.1 | 1.1 | 0.1 | 1.2 | 0.2 | 0.7 | 0.8 |
| New issues | 0.6 | 0.6 | 0.6 | 0.0 | 1.7 | 0.6 | 1.7 | 0.6 | 1.2 | 1.1 |
| Amortizations | -0.4 | -0.7 | -0.3 | -0.1 | -0.5 | -0.5 | -0.5 | -0.4 | -0.5 | -0.2 |
| Net credit from the banking system | -0.6 | 1.8 | 0.1 | 1.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net credit from the central bank 1/ | 0.7 | -1.6 | -0.1 | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net credit from the commercial banks | -1.3 | 3.4 | 0.3 | 0.8 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other accounts payable/floating debt | 0.3 | 0.4 | -0.2 | 0.1 | 0.5 | 0.2 | -0.4 | 0.1 | 0.0 | 0.0 |
| External | 2.3 | 8.4 | 4.0 | 2.8 | 2.5 | 2.0 | 1.9 | 1.2 | 1.2 | 0.7 |
| Disbursements | 2.7 | 9.0 | 4.5 | 3.9 | 3.8 | 3.2 | 2.7 | 2.4 | 2.1 | 2.5 |
| of which: RSF disbursement | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | ... | 0.6 | ... | 0.3 | 0.0 |
| Amortizations | -0.5 | -0.5 | -0.4 | -1.0 | -1.3 | -1.1 | -0.8 | -1.1 | -0.9 | -1.8 |
| Statistical Discrepancy 2/ | 0.5 | -1.6 | -0.1 | 0.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Memorandum Items: | | | | | | | | | | |
| Primary balance | -2.0 | -5.1 | -2.5 | -1.7 | -2.5 | -0.9 | -0.7 | -0.1 | -0.1 | 0.1 |
| Output gap 3/ | -2.3 | -2.2 | 0.2 | -1.7 | -0.3 | -0.2 | 0.2 | -0.1 | 0.5 | 0.5 |
| Cyclically adjusted primary balance 3/ | -1.6 | -4.7 | -2.6 | -1.5 | -2.4 | -0.9 | -0.7 | -0.1 | -0.2 | 0.0 |
| Fiscal Impulse (-Δ Cyclically adjusted primary balance) | 1.1 | 3.1 | -2.1 | -1.1 | 1.0 | -0.6 | -1.7 | -0.8 | -0.5 | -0.2 |
| Central government gross debt | 20.8 | 31.0 | 31.5 | 34.5 | 34.8 | 33.2 | 38.1 | 32.9 | 37.1 | 37.0 |
| Nominal GDP (in billions of Guaranies) | 236,681 | 239,915 | 270,634 | 291,336 | 319,767 | 317,364 | 343,750 | 341,195 | 369,531 | 397,246 |

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

| | 2019 | 2020 | 2021 | 2022 | Proj. | | | |
|--|-------------|--------------|-------------|---------------|------------|------------|-------------|-------------|
| | | | | | 2023 | 2024 | 2025 | 2026 |
| Current Account | 160 | 1,266 | -306 | -3,008 | 90 | 229 | 717 | 672 |
| Trade balance | 464 | 1,640 | 342 | -2,396 | 870 | 1,111 | 1,530 | 1,417 |
| Exports | 12,702 | 11,494 | 13,280 | 13,271 | 15,902 | 16,880 | 17,850 | 18,373 |
| Hydro-Electricity | 1,722 | 1,736 | 1,609 | 1,656 | 2,038 | 2,272 | 2,122 | 1,982 |
| Agricultural products | 4,582 | 5,280 | 6,339 | 5,024 | 5,803 | 6,022 | 6,072 | 6,242 |
| Industrial products and others | 1,502 | 1,502 | 1,893 | 2,110 | 2,157 | 2,239 | 2,320 | 2,404 |
| Unregistered | 1,310 | 907 | 678 | 694 | 813 | 1,006 | 1,078 | 1,149 |
| Re-Export | 3,586 | 2,070 | 2,762 | 3,787 | 5,092 | 5,342 | 6,257 | 6,596 |
| Imports | -11,913 | -9,729 | -12,594 | -15,157 | -14,476 | -15,176 | -15,691 | -16,292 |
| Of which: Fuel products | -1,423 | -1,048 | -1,531 | -2,311 | -1,544 | -1,679 | -1,647 | -1,588 |
| Services (net) | -325 | -125 | -344 | -510 | -556 | -594 | -630 | -664 |
| Transport | -240 | -184 | -282 | -420 | -452 | -478 | -505 | -530 |
| Travel | 40 | -16 | -45 | -72 | -81 | -89 | -95 | -102 |
| Other | -125 | 75 | -17 | -18 | -24 | -27 | -30 | -32 |
| Factor income | -1,099 | -1,068 | -1,344 | -1,309 | -1,518 | -1,661 | -1,634 | -1,627 |
| Transfers | 795 | 694 | 696 | 697 | 737 | 779 | 821 | 882 |
| Capital and Financial Account | 539 | 1,103 | 285 | 2,299 | 60 | 321 | -167 | -122 |
| Capital transfers | 151 | 172 | 217 | 159 | 168 | 177 | 187 | 201 |
| Direct investment | 225 | 120 | 207 | 474 | 1,765 | 2,059 | 710 | 523 |
| Portfolio investment | 500 | 2,161 | 659 | 215 | 0 | 0 | 0 | 0 |
| Other investment | -336 | -1,350 | -798 | 1,452 | -1,872 | -1,915 | -1,064 | -846 |
| Errors and Omissions | -754 | -563 | -573 | 851 | 0 | 0 | 0 | 0 |
| Overall Balance | -55 | 1,805 | -593 | 142 | 150 | 550 | 550 | 550 |
| Financing | | | | | | | | |
| Net international reserves (increase -) | 55 | -1,805 | 593 | -134 | -150 | -550 | -550 | -550 |
| Change in gross reserves | 55 | -1,805 | 593 | -134 | -150 | -550 | -550 | -550 |
| Other factors affecting reserve balance | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net credit from the IMF | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Exceptional financing | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Arrears deferral (+)/clearance (-) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Memorandum Items: | | | | | | | | |
| Current account in percent of GDP 1/ | 0.4 | 3.6 | -0.8 | -7.2 | 0.2 | 0.5 | 1.5 | 1.3 |
| Gross reserves (in millions of U.S. dollars) | 7,496 | 10,014 | 10,051 | 10,154 | 10,304 | 10,854 | 11,404 | 11,954 |
| In months of imports of GNFS | 8.6 | 8.9 | 7.4 | 7.8 | 7.5 | 7.6 | 7.7 | 7.8 |
| External public debt in percent of GDP 1/ | 21.3 | 31.9 | 32.9 | 36.4 | 35.4 | 36.7 | 34.8 | 33.5 |
| Debt service in percent of exports GNFS | 13.3 | 15.2 | 16.2 | 16.8 | 14.7 | 7.9 | 5.9 | 8.1 |
| Export volume (percent change) | -4.1 | -7.6 | 6.9 | -21.0 | 18.0 | 6.7 | 1.9 | 1.9 |
| Import volume (percent change) | -4.5 | -15.4 | 18.9 | 0.0 | 0.8 | 4.1 | 3.6 | 4.2 |
| Terms of trade (percent change) | -0.2 | 2.2 | -1.5 | 0.4 | 5.7 | -1.3 | 3.9 | 1.3 |

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

1/ Based on average exchange rate valuation of GDP.

Table 6. Paraguay: Summary of Accounts of the Central Bank
(In billions of Guaranies; end-of-period)

| | 2019 | 2020 | 2021 | 2022 | Proj. | | | |
|--------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | | | | | 2023 | 2024 | 2025 | 2026 |
| Currency Issued | 14,349 | 17,113 | 18,070 | 18,526 | 19,742 | 21,039 | 22,420 | 23,892 |
| Growth | 4.3 | 19.3 | 5.6 | 2.5 | 6.6 | 6.6 | 6.6 | 6.6 |
| Net International Reserves | 48,022 | 63,883 | 66,132 | 69,438 | 68,858 | 77,051 | 79,883 | 85,530 |
| Net Domestic Assets | -34,575 | -43,764 | -46,637 | -48,048 | -49,116 | -56,013 | -57,463 | -61,639 |
| Net nonfinancial public sector | -7,160 | -10,962 | -11,351 | -10,692 | -10,692 | -10,692 | -10,692 | -10,692 |
| Net credit to the central government | -7,159 | -10,961 | -11,350 | -10,692 | -10,692 | -10,692 | -10,692 | -10,692 |
| Net credit to the banking system | -25,571 | -31,972 | -35,706 | -36,718 | -40,904 | -45,746 | -48,523 | -53,513 |
| Reserve requirements | -12,513 | -9,979 | -16,828 | -16,562 | -26,076 | -29,068 | -30,945 | -33,029 |
| Free reserves | -2,742 | -6,508 | -6,138 | -4,971 | -4,860 | -5,125 | -5,046 | -5,133 |
| Monetary control instruments 1/ | -11,742 | -17,779 | -14,528 | -15,404 | -10,187 | -11,772 | -12,750 | -15,570 |
| Other | 1,426 | 2,294 | 1,788 | 219 | 219 | 219 | 219 | 219 |
| Other assets and liabilities (net) | -1,844 | -830 | -208 | -1,268 | 2,481 | 425 | 1,752 | 2,566 |
| Capital and reserves | -851 | -946 | -918 | -935 | 720 | 937 | 1,541 | 3,193 |
| Other assets net 2/ | -994 | 116 | 709 | -333 | 1,760 | -513 | 211 | -627 |
| Memorandum Items: | | | | | | | | |
| Total stock of IRMs outstanding 1/ | 12,919 | 18,029 | 14,761 | 16,340 | 10,187 | 11,772 | 12,750 | 15,570 |
| Monetary base 3/ | 20,420 | 21,843 | 24,725 | 25,559 | 26,980 | 28,549 | 30,278 | 32,117 |
| Monetary base, annual growth | 3.4 | 7.0 | 13.2 | 3.4 | 5.6 | 5.8 | 6.1 | 6.1 |
| Quasi-fiscal balance | 2,267 | 3,168 | 5,555 | 1,786 | 1,582 | 218 | 534 | 1,611 |
| In percent of GDP | 1.0 | 1.3 | 2.1 | 0.6 | 0.5 | 0.1 | 0.1 | 0.4 |
| Cost of monetary policy operations | 966 | 743 | 327 | 1,180 | 1,288 | 888 | 998 | 1,072 |
| In percent of GDP | 0.4 | 0.3 | 0.1 | 0.4 | 0.4 | 0.3 | 0.3 | 0.3 |

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

| | 2019 | 2020 | 2021 | 2022 | Proj. | | | |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | | | | | 2023 | 2024 | 2025 | 2026 |
| I. Central Bank | | | | | | | | |
| Net International Reserves | 48,022 | 63,883 | 66,132 | 69,438 | 68,858 | 77,051 | 79,883 | 85,530 |
| In millions of U.S. dollars | 7,442 | 9,236 | 9,614 | 9,471 | 9,621 | 10,171 | 10,721 | 11,271 |
| Net Domestic Assets | -34,575 | -43,764 | -46,637 | -48,048 | -49,116 | -56,013 | -57,463 | -61,639 |
| Credit to public sector, net | -7,160 | -10,962 | -11,351 | -10,692 | -10,692 | -10,692 | -10,692 | -10,692 |
| Credit to banking system, net 2/ Credit | -13,828 | -14,192 | -21,178 | -21,313 | -30,717 | -33,974 | -35,772 | -37,943 |
| Deposits | 1,426 | 2,294 | 1,788 | 219 | 219 | 219 | 219 | 219 |
| Central bank securities | 15,254 | 16,486 | 22,966 | 21,532 | 30,936 | 34,193 | 35,991 | 38,162 |
| Other | -12,919 | -18,029 | -14,761 | -16,340 | -10,187 | -11,772 | -12,750 | -15,570 |
| | -848,410 | -948,704 | -916,507 | -931,505 | 2,481 | 425 | 1,752 | 2,566 |
| Currency Issued | 14,349 | 17,113 | 18,070 | 18,526 | 19,742 | 21,039 | 22,420 | 23,892 |
| II. Monetary Survey | | | | | | | | |
| Net Foreign Assets | 43,889 | 69,287 | 67,125 | 64,473 | 64,056 | 71,963 | 74,998 | 80,647 |
| In millions of U.S. dollars | 6,801 | 10,017 | 9,758 | 8,794 | 8,950 | 9,500 | 10,066 | 10,628 |
| Net Domestic Assets | 72,119 | 67,380 | 81,197 | 90,571 | 94,523 | 97,932 | 103,328 | 109,146 |
| Credit to the public sector | -16,234 | -20,517 | -18,752 | -17,716 | -17,712 | -17,690 | -17,687 | -17,674 |
| Credit to the private sector | 112,997 | 121,655 | 133,844 | 149,423 | 159,932 | 176,613 | 189,744 | 206,587 |
| Other | -24,644 | -33,759 | -33,896 | -41,136 | -47,697 | -60,990 | -68,729 | -79,766 |
| Broad Liquidity (M4) | 115,978 | 136,613 | 148,251 | 154,974 | 158,475 | 169,788 | 178,219 | 189,685 |
| Bonds and issued securities | 30 | 54 | 70 | 70 | 69 | 71 | 71 | 71 |
| Other monetary liabilities | 5,990 | 7,176 | 7,978 | 8,966 | 9,158 | 9,874 | 10,322 | 11,000 |
| Central bank securities with private sector | 1,177 | 249 | 233 | 936 | 0 | 0 | 0 | 0 |
| Broad Liquidity (M3) | 108,781 | 129,134 | 139,970 | 145,003 | 149,248 | 159,843 | 167,827 | 178,614 |
| Foreign currency deposits | 41,138 | 49,697 | 54,118 | 55,945 | 56,525 | 62,523 | 64,878 | 69,709 |
| Money and Quasi-Money (M2) | 67,644 | 79,437 | 85,851 | 89,057 | 92,723 | 97,320 | 102,949 | 108,905 |
| Quasi-money | 35,174 | 40,478 | 43,766 | 46,811 | 48,450 | 50,630 | 53,415 | 56,352 |
| Money (M1) | 32,469 | 38,959 | 42,085 | 42,246 | 44,273 | 46,690 | 49,535 | 52,553 |
| (Annual percent change) | | | | | | | | |
| M0 (Currency issued) | 4.3 | 19.3 | 5.6 | 2.5 | 6.6 | 6.6 | 6.6 | 6.6 |
| Credit to the private sector | 9.9 | 7.7 | 10.0 | 11.6 | 7.0 | 10.4 | 7.4 | 8.9 |
| M1 | 9.0 | 20.0 | 8.0 | 0.4 | 4.8 | 5.5 | 6.1 | 6.1 |
| M2 | 7.4 | 17.4 | 8.1 | 3.7 | 4.1 | 5.0 | 5.8 | 5.8 |
| M3 | 9.7 | 18.7 | 8.4 | 3.6 | 2.9 | 7.1 | 5.0 | 6.4 |
| <i>Of which: Foreign currency deposits</i> | 13.7 | 20.8 | 8.9 | 3.4 | 1.0 | 10.6 | 3.8 | 7.4 |
| Memorandum Items: | | | | | | | | |
| Ratio of foreign currency deposits to M3 (percent) | 37.8 | 38.5 | 38.7 | 38.6 | 37.9 | 39.1 | 38.7 | 39.0 |
| Ratio of foreign currency deposits to total private sector deposits (percent) | 39.7 | 40.6 | 40.5 | 40.3 | 41.2 | 42.6 | 42.2 | 42.6 |
| 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 8. Paraguay: Gross External Financing Needs and Sources, 2021-25
(In millions of U.S. dollars, unless otherwise indicated)

| | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|-------------|---------------|-------------|-------------|-------------|
| | | Prel. | | Projection | |
| Gross Financing Requirements | -837 | -3,539 | -421 | -123 | 322 |
| External current account balance | -306 | -3,008 | 90 | 229 | 717 |
| Debt amortization | -531 | -531 | -511 | -351 | -396 |
| Sources of Financing | 265 | 3,867 | 421 | 123 | -322 |
| Foreign direct investment (net) | 207 | 474 | 1,765 | 2,059 | 710 |
| Medium and LT debt disbursements | 1,662 | 2,024 | 1,709 | 1,009 | 914 |
| Public sector | 1,662 | 2,024 | 1,709 | 1,009 | 914 |
| Official creditors (bi-and multilateral) 1/ | 836 | 1,524 | 1,209 | 280 | 450 |
| External sovereign bond financing | 826 | 501 | 500 | 729 | 464 |
| IMF: RSF financing | 0 | 0 | 0 | 0 | 0 |
| Short-term debt disbursement | 0 | 0 | 0 | 0 | 0 |
| Other capital flows (net) | -1,625 | 1,176 | -2,903 | -2,396 | -1,395 |
| Change in gross international reserves | 593 | -134 | -150 | -550 | -550 |
| Net errors and omissions | -573 | 328 | 0 | 0 | 0 |
| Memo: Gross international reserves | 10,051 | 10,070 | 10,304 | 10,854 | 11,404 |
| In percent of ARA metric | 209.3 | 207.5 | ... | ... | ... |
| Gross international reserves (excl'g RSF) | 10,051 | 10,070 | 10,304 | 10,584 | 10,997 |

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

Table 9. Paraguay: Medium-Term Outlook
(In percent of GDP, unless otherwise indicated)

| | 2019 | 2020 | 2021 | 2022 | Proj. | | | | | |
|--|------|------|------|------|-------|------|------|------|------|------|
| | | | | | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 |
| National Accounts and Prices | | | | | | | | | | |
| Real GDP growth (in percent) | -0.4 | -0.8 | 4.0 | 0.1 | 4.5 | 3.8 | 3.8 | 3.5 | 3.5 | 3.5 |
| Output gap 1/ | -2.3 | -2.2 | 0.2 | -1.7 | -0.3 | 0.2 | 0.5 | 0.5 | 0.5 | 0.5 |
| Gross domestic investment | 21.7 | 20.0 | 24.0 | 24.3 | 28.2 | 29.5 | 29.2 | 29.1 | 29.2 | 29.1 |
| Gross domestic savings | 22.1 | 23.6 | 23.2 | 17.1 | 28.4 | 30.0 | 30.6 | 30.4 | 30.5 | 30.4 |
| Consumer prices (end of period; in percent) | 2.8 | 2.2 | 6.8 | 8.1 | 4.1 | 4.0 | 4.0 | 4.0 | 4.0 | 4.0 |
| Public Finances | | | | | | | | | | |
| Central government primary balance | -2.0 | -5.1 | -2.5 | -1.7 | -2.5 | -0.7 | -0.1 | 0.1 | 0.0 | 0.1 |
| Central government net lending/borrowing | -2.8 | -6.1 | -3.6 | -3.0 | -4.1 | -2.6 | -1.9 | -1.5 | -1.5 | -1.4 |
| Central government debt | 20.8 | 31.0 | 31.5 | 34.5 | 34.8 | 38.1 | 37.1 | 37.0 | 36.7 | 36.3 |
| Public sector debt | 25.8 | 36.9 | 37.5 | 40.8 | 40.4 | 42.8 | 40.9 | 40.2 | 39.4 | 38.6 |
| External Sector | | | | | | | | | | |
| Terms of trade (annual percent change) | -0.2 | 2.2 | -1.5 | 0.4 | 5.7 | -1.3 | 3.9 | 1.3 | 1.8 | 1.4 |
| Current account | 0.4 | 3.6 | -0.8 | -7.2 | 0.2 | 0.5 | 1.5 | 1.3 | 1.4 | 1.3 |
| Foreign direct investment | 0.6 | 0.3 | 0.5 | 1.1 | 4.0 | 4.4 | 1.4 | 1.0 | 1.0 | 1.0 |
| Gross international reserves (in US\$ billion) | 7.5 | 10.0 | 10.1 | 10.1 | 10.3 | 10.9 | 11.4 | 12.0 | 12.5 | 13.1 |
| GIR, excluding RSF (in US\$ billion) | 7.5 | 10.0 | 10.1 | 10.1 | 10.3 | 10.6 | 11.0 | 11.5 | 12.1 | 12.6 |

Sources: Central Bank of Paraguay; Ministry of Finance; and IMF staff estimates and projections.
1/ In percent of potential GDP

Table 10. 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*.

Table 11a. Paraguay: Capacity to Repay Indicators, 2023-45
(In Millions of SDR, Unless Otherwise Indicated)

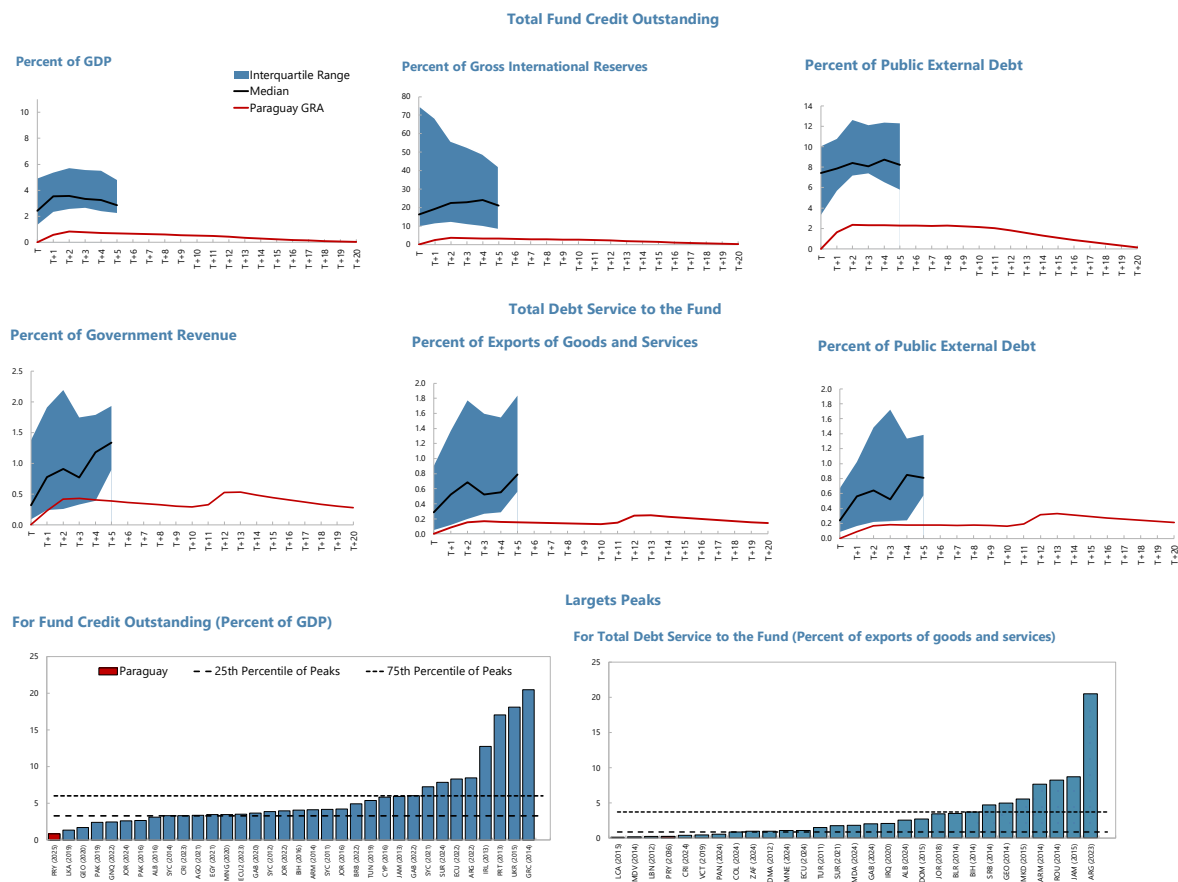
| | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 | 2034 | 2035 | 2036 | 2037 | 2038 | 2039 | 2040 | 2041 | 2042 | 2043 | 2044 | 2045 |
|---|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Fund obligations based on existing credit | | | | | | | | | | | | | | | | | | | | | | | |
| (in millions of SDR) | 0.0 | 8.0 | 8.0 | 8.0 | 8.0 | 8.0 | 8.0 | 8.0 | 8.0 | 8.0 | 8.0 | 8.0 | 8.0 | 8.0 | 8.0 | 8.0 | 8.0 | 8.0 | 8.0 | 8.0 | 8.0 | 8.0 | 8.0 |
| Principal | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Charges and interest | 0.0 | 8.0 | 8.0 | 8.0 | 8.0 | 8.0 | 8.0 | 8.0 | 8.0 | 8.0 | 8.0 | 8.0 | 8.0 | 8.0 | 8.0 | 8.0 | 8.0 | 8.0 | 8.0 | 8.0 | 8.0 | 8.0 | 8.0 |
| Fund obligations based on existing and prospective credit | | | | | | | | | | | | | | | | | | | | | | | |
| In millions of SDR | 0.0 | 11.1 | 20.9 | 23.5 | 23.5 | 23.5 | 23.5 | 23.5 | 23.5 | 23.5 | 23.5 | 28.5 | 48.2 | 51.8 | 50.3 | 48.7 | 47.2 | 45.7 | 44.1 | 42.5 | 41.0 | 34.4 | 13.2 |
| Principal | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 5.0 | 25.2 | 30.2 | 30.2 | 30.2 | 30.2 | 30.2 | 30.2 | 30.2 | 30.2 | 25.2 | 5.0 |
| Charges and interest | 0.0 | 11.1 | 20.9 | 23.5 | 23.5 | 23.5 | 23.5 | 23.5 | 23.5 | 23.5 | 23.5 | 23.5 | 23.0 | 21.6 | 20.1 | 18.5 | 17.0 | 15.4 | 13.9 | 12.3 | 10.8 | 9.2 | 8.2 |
| Total obligations based on existing and prospective credit | | | | | | | | | | | | | | | | | | | | | | | |
| In millions of SDR | 0.0 | 11.1 | 20.9 | 23.5 | 23.5 | 23.5 | 23.5 | 23.5 | 23.5 | 23.5 | 23.5 | 28.5 | 48.2 | 51.8 | 50.3 | 48.7 | 47.2 | 45.7 | 44.1 | 42.5 | 41.0 | 42.4 | 21.2 |
| In millions of US dollars | 0.0 | 14.9 | 28.2 | 31.7 | 31.8 | 31.9 | 31.9 | 31.9 | 31.9 | 31.9 | 31.9 | 38.8 | 65.5 | 70.5 | 68.4 | 66.3 | 64.2 | 62.1 | 60.0 | 57.9 | 55.8 | 57.7 | 28.8 |
| In percent of gross international reserves | 0.0 | 0.1 | 0.2 | 0.3 | 0.3 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.4 | 0.4 | 0.4 | 0.4 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.1 |
| In percent of exports of goods and services | 0.0 | 0.1 | 0.2 | 0.2 | 0.2 | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.1 | 0.1 | 0.1 |
| In percent of debt service | 0.0 | 0.1 | 0.2 | 0.3 | 0.3 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.4 | 0.4 | 0.4 | 0.4 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.1 |
| In percent of government revenue | 0.0 | 0.2 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.5 | 0.5 | 0.5 | 0.4 | 0.4 | 0.4 | 0.3 | 0.3 | 0.3 | 0.3 | 0.1 |
| In percent of GDP | 0.0 | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| In percent of quota | 0.0 | 5.5 | 10.4 | 11.6 | 11.6 | 11.7 | 11.6 | 11.6 | 11.6 | 11.7 | 11.6 | 14.2 | 23.9 | 25.7 | 25.0 | 24.2 | 23.4 | 22.7 | 21.9 | 21.1 | 20.4 | 21.1 | 10.5 |
| Outstanding Fund credit | | | | | | | | | | | | | | | | | | | | | | | |
| In millions of SDR | 0.0 | 201.4 | 302.1 | 302.1 | 302.1 | 302.1 | 302.1 | 302.1 | 302.1 | 302.1 | 302.1 | 297.1 | 271.9 | 241.7 | 211.5 | 181.3 | 151.1 | 120.8 | 90.6 | 60.4 | 30.2 | 5.0 | 0.0 |
| In millions of US dollars | 0.0 | 270.0 | 407.1 | 408.8 | 409.5 | 410.9 | 410.9 | 410.9 | 410.9 | 410.9 | 410.9 | 404.1 | 369.8 | 328.7 | 287.6 | 246.5 | 205.5 | 164.4 | 123.3 | 82.2 | 41.1 | 6.9 | 0.0 |
| In percent of gross international reserves | 0.0 | 2.5 | 3.6 | 3.4 | 3.3 | 3.1 | 3.0 | 2.9 | 2.8 | 2.7 | 2.6 | 2.5 | 2.2 | 1.9 | 1.6 | 1.3 | 1.1 | 0.8 | 0.6 | 0.4 | 0.2 | 0.0 | 0.0 |
| In percent of exports of goods and services | 0.0 | 1.5 | 2.2 | 2.1 | 2.1 | 2.0 | 1.9 | 1.8 | 1.7 | 1.6 | 1.5 | 1.4 | 1.2 | 1.0 | 0.8 | 0.6 | 0.5 | 0.3 | 0.2 | 0.1 | 0.0 | 0.0 | 0.0 |
| In percent of debt service | 0.0 | 19.5 | 36.8 | 26.3 | 24.5 | 32.0 | 24.3 | 23.9 | 23.2 | 18.4 | 17.8 | 16.9 | 15.0 | 12.9 | 11.0 | 9.1 | 7.4 | 5.7 | 4.2 | 2.7 | 1.3 | 0.2 | 0.0 |
| In percent of government revenue | 0.0 | 4.1 | 5.9 | 5.5 | 5.2 | 4.9 | 4.7 | 4.4 | 4.2 | 3.9 | 3.7 | 3.4 | 3.0 | 2.5 | 2.0 | 1.6 | 1.3 | 1.0 | 0.7 | 0.4 | 0.2 | 0.0 | 0.0 |
| In percent of GDP | 0.0 | 0.6 | 0.8 | 0.8 | 0.7 | 0.7 | 0.7 | 0.6 | 0.6 | 0.6 | 0.5 | 0.5 | 0.4 | 0.4 | 0.3 | 0.2 | 0.2 | 0.1 | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 |
| In percent of quota | 0.0 | 100.0 | 150.0 | 150.0 | 150.0 | 150.0 | 150.0 | 150.0 | 150.0 | 150.0 | 150.0 | 147.5 | 135.0 | 120.0 | 105.0 | 90.0 | 75.0 | 60.0 | 45.0 | 30.0 | 15.0 | 2.5 | 0.0 |
| Net use of Fund credit (in millions of SDR) | 0.0 | 201.4 | 100.7 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | -5.0 | -25.2 | -30.2 | -30.2 | -30.2 | -30.2 | -30.2 | -30.2 | -30.2 | -30.2 | -25.2 | -5.0 |
| Disbursements | 0.0 | 201.4 | 100.7 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Repayments and Repurchases | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 5.0 | 25.2 | 30.2 | 30.2 | 30.2 | 30.2 | 30.2 | 30.2 | 30.2 | 30.2 | 25.2 | 5.0 |
| Memorandum items | | | | | | | | | | | | | | | | | | | | | | | |
| Nominal GDP (in millions of US dollars) | 44,142 | 46,667 | 49,186 | 52,829 | 55,735 | 58,796 | 62,005 | 65,347 | 68,870 | 72,591 | 76,513 | 80,647 | 85,005 | 89,597 | 94,438 | 99,541 | 104,919 | 110,587 | 116,562 | 122,860 | 129,498 | 136,495 | 143,870 |
| Exports of goods and services (in millions of US dollars) | 16,590 | 17,600 | 18,606 | 19,165 | 19,892 | 20,682 | 21,449 | 22,268 | 23,141 | 24,070 | 25,113 | 26,207 | 27,354 | 28,558 | 29,822 | 31,149 | 32,543 | 34,007 | 35,545 | 37,161 | 38,859 | 40,419 | 42,043 |
| Imports of goods and services (in millions of US dollars) | -15,719 | -16,490 | -17,076 | -17,749 | -18,404 | -19,183 | -19,905 | -20,655 | -21,420 | -22,215 | -23,008 | -23,830 | -24,682 | -25,566 | -26,483 | -27,434 | -28,421 | -29,444 | -30,506 | -31,607 | -32,750 | -33,967 | -35,229 |
| Gross International Reserves (in millions of US dollars) | 10,304 | 10,854 | 11,404 | 11,954 | 12,504 | 13,054 | 13,604 | 14,154 | 14,704 | 15,254 | 15,804 | 16,354 | 16,904 | 17,454 | 18,004 | 18,554 | 19,104 | 19,654 | 20,204 | 20,754 | 21,304 | 21,854 | 22,404 |
| External Government Debt service (in millions of US dollars) | 2,433 | 1,387 | 1,105 | 1,553 | 1,672 | 1,283 | 1,691 | 1,720 | 1,770 | 2,233 | 2,308 | 2,385 | 2,463 | 2,542 | 2,623 | 2,705 | 2,789 | 2,874 | 2,959 | 3,046 | 3,133 | 3,221 | 3,309 |
| Government revenue (in millions of US dollars) | 5,999 | 6,529 | 6,916 | 7,455 | 7,867 | 8,309 | 8,791 | 9,308 | 9,867 | 10,472 | 11,115 | 11,798 | 12,522 | 13,291 | 14,107 | 14,973 | 15,892 | 16,867 | 17,903 | 19,002 | 20,168 | 21,407 | 22,721 |
| Quota (in millions of SDRs) | 201.4 | 201.4 | 201.4 | 201.4 | 201.4 | 201.4 | 201.4 | 201.4 | 201.4 | 201.4 | 201.4 | 201.4 | 201.4 | 201.4 | 201.4 | 201.4 | 201.4 | 201.4 | 201.4 | 201.4 | 201.4 | 201.4 | 201.4 |

Source: IMF staff estimates and projections

1/ Based on a drawing scenario under the RSF (Resilience and Sustainability Facility).

2/ Paraguay belongs to the RST Interest Group C. Interest based on the RST rate of interest of 5.125 percent as of November 16, 2023.

Table 11b. Paraguay: Capacity to Repay Indicators Compared to GRA-Only Borrowing Countries, All Programs 1/ 2/ 3/ 4/ 5/ 6/ 7/ 8/



1/ T = Date of GRA arrangement approval.
 2/ Red lines/bars indicate the Ctr indicator for the arrangement of interest.
 3/ The median, interquartile range, and comparator bars reflect all RFIs and UCT arrangements approved under the GRA (excluding blending arrangements) between 2008 and 2022.
 4/ Countries in the control group with multiple RFIs and/or GRA arrangements are entered as separate events in the database.
 5/ Comparator series is for GRA arrangements only and runs up to T+5.
 6/ Total Debt Service to the Fund consists of GRA, RST and SDR-related obligations. Reflects prospective payments, including for the current year.
 7/ All charts use data at the time of program approval with the exception of the chart on the right-hand side of section C, which uses ex-post data due to data limitations.
 8/ Paraguay is eligible for the RST and is classified as group C country.

Annex I. Building Resilience to Natural Disasters and Climate Change

Due to its significant reliance on natural resources, Paraguay faces exacerbated risks from climate change. In the coming decades, the country will have to build resilience to deal with increasing pressure on water resources, extreme weather events, and other climate-related challenges. Despite recent policy progress and support from development partners, Paraguay is yet to integrate climate change into its macroeconomic policies' framework. Having a hydropower-dominated electricity mix, Paraguay is well-positioned to fully decarbonize its energy sector. Sustainable energy sector policies will be crucial for achieving mitigation targets, increasing energy security, and meeting growing energy consumption needs. Forestry and agriculture possess substantial potential to contribute to mitigation as well as adaptation objectives. To adapt to climate change and institutionalize the related risks within long-term planning, the authorities should stand ready to strengthen its public financial management, enhance financial sector resilience, and protect strategic natural and physical assets.

A. Climate Change Impact on Paraguay's Economy

1. Paraguay is exposed to the effects of climate change to a large extent due to its reliance on water and land for agriculture and electricity generation. Climate-sensitive water supply from the Rio de la Plata transboundary river basin is key to electricity generation, waterway transportation, farming, as well as the overall well-being of the population and ecosystems. Sectors directly linked to natural resources, such as agriculture and livestock, agro-processing, and hydropower, contribute significantly to the country's economy, accounting for about one-third of GDP, 80 percent of exports, and 40 percent of jobs. Paraguay's hydrology is susceptible to the impact of a natural climate phenomenon (El Niño–Southern Oscillation), a climate phenomenon that leads to substantial fluctuations in temperatures and precipitation patterns with a heterogenous impact across regions. On top of it, active land use changes in Paraguay put additional pressure on the water cycle as deforestation has increased the severity of floods during intense precipitations, while the loss of wetlands reduces water retention capacity.

2. Climate-related natural hazards, particularly droughts, already impact Paraguay's economy. Droughts hinder agriculture output, affecting exports and government revenues. The persistent droughts in both 2019 and 2022 had a significant negative impact on economic activity, further exacerbated by the COVID-19 pandemic. During the period from 2019 to 2022, the economy only grew by a modest 0.7 percent, given the pandemic, in sharp contrast to an average growth of 4.4 percent seen from 2003 to 2018. The soybean harvest, which constitutes 40 percent of all exports, saw a dramatic decline of 70 percent in 2022. These droughts also significantly decreased hydropower production and exports and had adverse impacts on logistics, driving up transportation costs and impeding navigation on the major waterways that are critical for Paraguay being a landlocked country. Between 1965 and 2021, on average, 3 percent, and up to 25 percent of

Paraguay's population were affected by droughts, floods, and other natural disasters in the years they struck.¹

3. Paraguay's central bank assessment based on historical data confirms that the country's business cycle is prone to droughts. Estimates show that a drought shock may lead to significant losses in GDP, consumption, and investment.² In 2001-2020, an increase in the drought index by one standard deviation (0.76 percent) led to average declines in GDP, investment, and consumption of -0.8, -2.4 and -0.6 percent respectively within two quarters after the increase. The effects of the shock are, however, temporary as the activity returns to its trend levels in a short period of time.

4. The agricultural sector's vulnerability to climate change is exacerbated by the lack of advanced technology and prevalence of informal employment (Figure 1). Overall, agricultural products (primarily soybeans, corn, and beef) account for two thirds of the country's export revenues. While the water usage by agriculture is similar to other countries in the region (about 80 percent), the irrigation coverage of agricultural land is one of the lowest in the region (2.8 percent). The sector provides employment to 20 percent of the labor force and contributes 16 percent to GDP. The agriculture sector is dominated by smallholder family farms that are predominantly rain-fed and therefore sensitive to climate change. Most agricultural employment is informal,³ often lacking the resources and technology to adapt, thus exacerbating climate vulnerability.

5. Unfolding climate change will make Paraguay face exacerbated risks related to more frequent and severe extreme weather events intensified with a growing temperature. By 2050, temperatures in Paraguay are projected to grow across all emissions' scenarios in the range of 0.8-2.1°C compared to 1995-2014 reference period depending on scenario and climate model applied (Figure 2). By 2030, the estimated annual losses from projected yield for different agricultural products (soy, maize, cassava, rice, wheat) due to climate change and extreme weather events (such as droughts, frosts, and excessive rainfall) can amount to US\$200 million per year.⁴ Paraguay River and the key watersheds in Chaco will be the most exposed to natural hazards.⁵ Rising temperatures and heat stress may impact labor productivity as well as further raise demand for air conditioning contributing to a growing demand for electricity. Although the projected impact of climate change on precipitations is deeply uncertain, it is likely that the pressure on water resources will increase the volatility of water supply, and hence, the volatility of electricity generation. Furthermore, extreme

¹ See: <https://public.emdat.be/> EM-DAT is a global database with information on occurrence and impacts of over 26,000 mass disasters worldwide from 1900 to the present day. The database is compiled from various sources, including UN agencies, non-governmental organizations, reinsurance companies, research institutes, and press agencies.

² Banco Central del Paraguay. Monetary Policy Report, 2023.

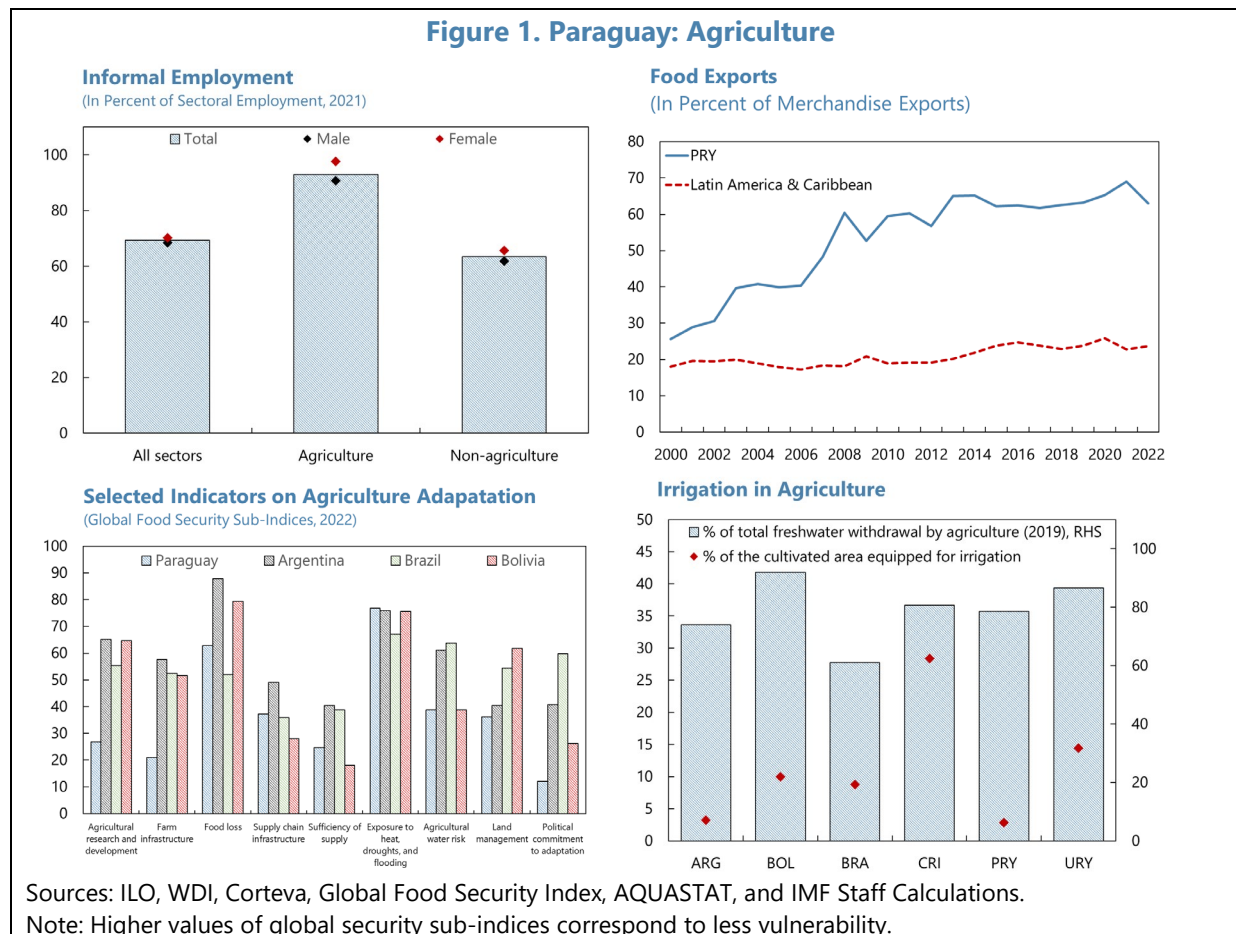
³ Compared to regional peers, the level of agricultural informal employment in Paraguay is relatively high surpassing 90 percent. According to the ILO, the level of informality of agricultural employment in Brazil reaches 76 percent, in Argentina – 29 percent, in Uruguay – 37 percent, in Bolivia – 98 percent.

⁴ The estimates of production losses for crops under RCP8.5 with 2020 as a reference year based on the Climate Adaptation in Rural Development Assessment Tool and beef production losses under SSP5-8.5 scenario are from Thornton et al (2022).

⁵ Climate Risk Profile: Paraguay (2021): The World Bank Group.

weather conditions may further aggravate frequent transmission and distribution failures in Paraguay’s electric system, leading to electricity losses exceeding the already critically high level of 26.2 percent.⁶ Finally, increased temperatures may affect the carrying capacity of electric power cables also contributing to technical losses.

6. Paraguay’s electricity system, leading to electricity losses exceeding the already critically high level of 26.2 percent.⁷ Finally, increased temperatures may affect the carrying capacity of electric power cables also contributing to technical losses.



⁶ According to ANDE, in 2021, out of 26.2 percent losses, 4.7 percent points is lost in transmission and 21.5 - in distribution. About a third of all losses are non-technical, mostly due to illegal connections. Columbia Center on Sustainable Investment (CCSI), Quadracci Sustainable Engineering Lab at Columbia University y Centro de Recursos Naturales, Energía y Desarrollo (CRECE). Evaluación y Planificación del Sector Energético del Paraguay: Vías de Descarbonización. Nueva York: CCSI, octubre de 2021, <http://ccsi.columbia.edu/content/paraguay-energy>.

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B. Paraguay's GHG Emissions, Climate Policy, and Investment Needs

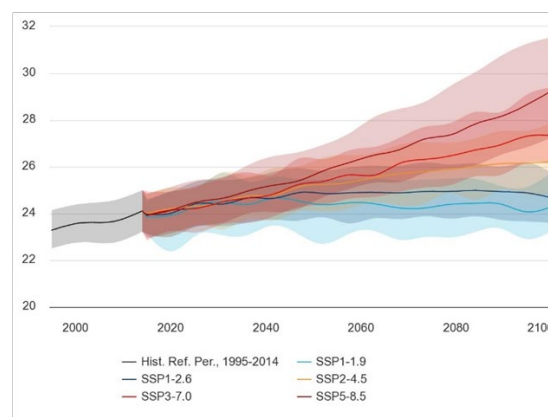
7. Paraguay's economic development has relied on deforestation to expand the territories used for agriculture making the land use change, forestry, and agriculture the main sources of the annual GHG emissions.⁸ About half (47.8 percent) of the Paraguay's greenhouse gas emissions come from land use change and forestry, while about 33.7 percent result from agriculture, particularly cattle ranching and soy production. Energy use accounts for just 8.2 percent, as 99.9 percent of the electricity generation is emissions-free.⁹ Most of the energy emissions (89 percent) come from the transport sector, reliant on fossil fuels imports;

transport sector experienced the highest emissions' growth during recent decades relative to other sectors. Waste and industrial processes account for 8.1 and 2.2 percent, correspondingly (Figure 3). Carbon dioxide is responsible for 55 percent of total annual emissions in the country, while methane, mostly coming from agriculture, accounts for 31.2 percent.

transport sector experienced the highest emissions' growth during recent decades relative to other sectors. Waste and industrial processes account for 8.1 and 2.2 percent, correspondingly (Figure 3). Carbon dioxide is responsible for 55 percent of total annual emissions in the country, while methane, mostly coming from agriculture, accounts for 31.2 percent.

8. Although Paraguay contributes to just a fraction of global GHG emissions, the country's per capita as well as per GDP emissions are relatively high. Paraguay's share in global emissions (accounting for land-use change and forestry) does not exceed 0.2 percent. At the same time, the country's per capita emissions are 2.2 and 1.8 times as high as the world and regional averages, respectively (Figure 4). Paraguay's per GDP emissions are almost 5 times as high as the global average if accounting for land-use and forestry emissions, and 2.6 times higher if not. The latter figures are explained in significant measure by the importance of agriculture and livestock activities and by the relatively small population.

Figure 2. Paraguay: Projected Mean Surface Air Temperature
Multi-Model Ensemble

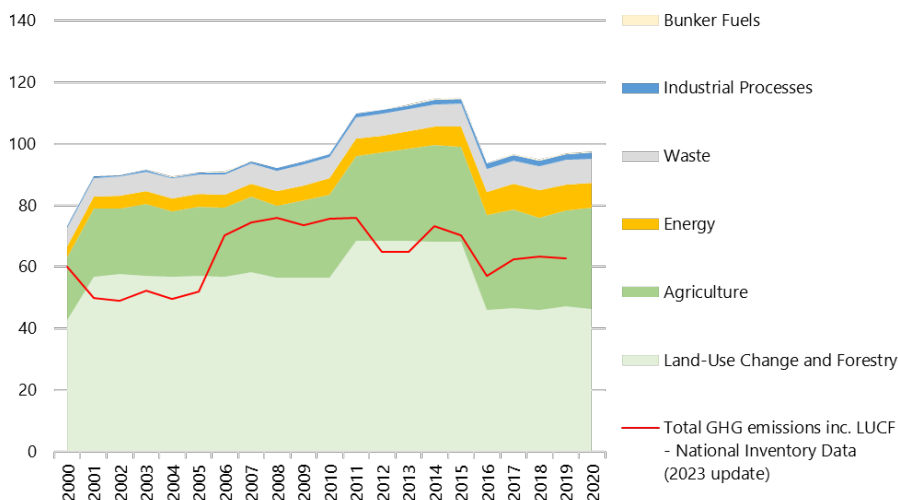


Source: World Bank Climate Change Knowledge Portal

⁸ According to official data, 40 percent of the surface territories are still covered with native forests, while 15 percent of territories are under protection. Current legislation forbids deforestation of the eastern parts of Paraguay and obliges landowners to preserve 25 percent of forests (outside protected areas) in the western side of the country. Land use policy implementation, however, may face monitoring and enforcement challenges as, per INFONA, illegal logging continues in the eastern Paraguay driven by subsistence agriculture, land grabbing, the cultivation of illicit crops such as marijuana and the extraction of fuelwood.

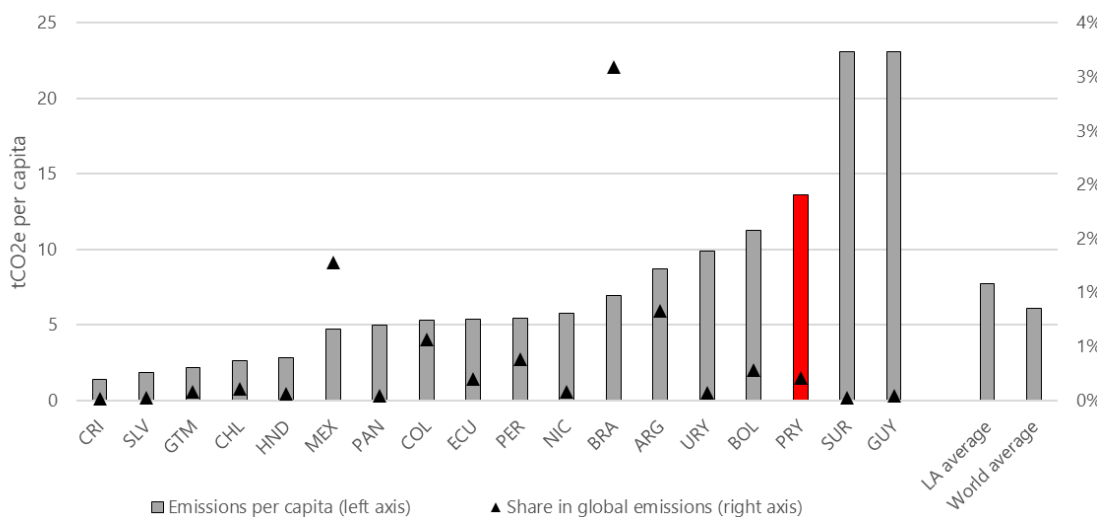
⁹ Most of the electricity is generated by two hydroelectric binational dams, Itaipú and Yacyretá, co-owned with Brazil and Argentina correspondingly.

Figure 3. Paraguay: Historic GHG Emissions (mn t CO₂-eq)



Sources: Climate Watch WRI; National Inventory Data.

Figure 4. Paraguay: Cross-country Comparison of GHG Emission Per Capita and Share in Global Emissions



Source: CAIT.

Note: Emissions data from CAIT may differ from Paraguay national inventory due to difference in emissions accounting methodologies.

9. Paraguay’s authorities have become increasingly concerned about climate change, endorsing several strategic policy initiatives to address the country’s climate-related needs. In 2017, Paraguay approved a Framework Law on Climate Change (Ley Nacional de Cambio Climático –N°5875/2017)¹⁰ complemented by subsidiary laws and presidential decrees. In 2021, the government updated its Nationally Determined Contribution (NDC)¹¹ submitted to the UNFCCC

¹⁰ [Ley N° 5875 / NACIONAL DE CAMBIO CLIMÁTICO](#)

¹¹ [UNFCCC. NDC Registry](#)

covering 25 objectives for adaptation across seven priority sectors¹² as well as outlining climate change mitigation plans and emissions baselines for five sectors.¹³ These objectives align with the broader development agenda formulated in Plan Nacional de Desarrollo (PND) which outlines environmental sustainability as part of strategic pillars of Paraguay's development.¹⁴

10. Paraguay's climate efforts are being supported by multilateral development banks.

The World Bank (WB), Inter-American Development Bank (IADB) and CAF (Development Bank for Latin America and the Caribbean) have provided funding related to adaptation and mitigation needs. WB's activity in Paraguay focuses on public primary health care, transport connectivity, agricultural markets, economic management support, and green and resilient growth with active loans totaling US\$775 million.¹⁵ Priority areas for IADB financing include transport, governance, energy, financial markets, water and sanitation, agriculture and rural development with its active portfolio amounting to US\$2.936 million.¹⁶ CAF's activity in Paraguay focuses on infrastructure, transportation, water and wastewater, energy and productive transformation with an active portfolio of US\$2.206 million.¹⁷

11. Paraguay has developed a vision of maintaining the clean electricity mix within the next decades although it still faces implementation constraints (Figure 5). While this helped bridging the expected gap between limited supply and expanding demand for energy, ANDE projects that by 2033 the country will face an electricity shortage due to increased domestic consumption (primarily due to higher penetration of air conditioning).¹⁸ To close the gap, ANDE's Master Plan proposes new investments in electricity transmission and generation, including in the development of modern renewable energy (solar power plants, electric batteries, small hydroelectric plants). The plan's implementation, however, still requires substantial legislative and enforcement support as well as additional financial resources. According to ANDE's estimations, out of US\$6,512.5 million needed for the Plan's implementation until 2030 only about one third is secured. Importantly, the Plan's implementation is subject to improved governance of ANDE, enhanced transparency of its operations and financial accounting in close cooperation with government entities.

¹² Resilient Communities and Cities; Health and Epidemiology; Ecosystems and Biodiversity; Energy; Agriculture, Livestock, Forestry and Food Security; Water Resources; and Transport.

¹³ Agriculture; Land Use, Land Use Change and Forestry; Use of Industrial Products and Processes; Waste, and Energy.

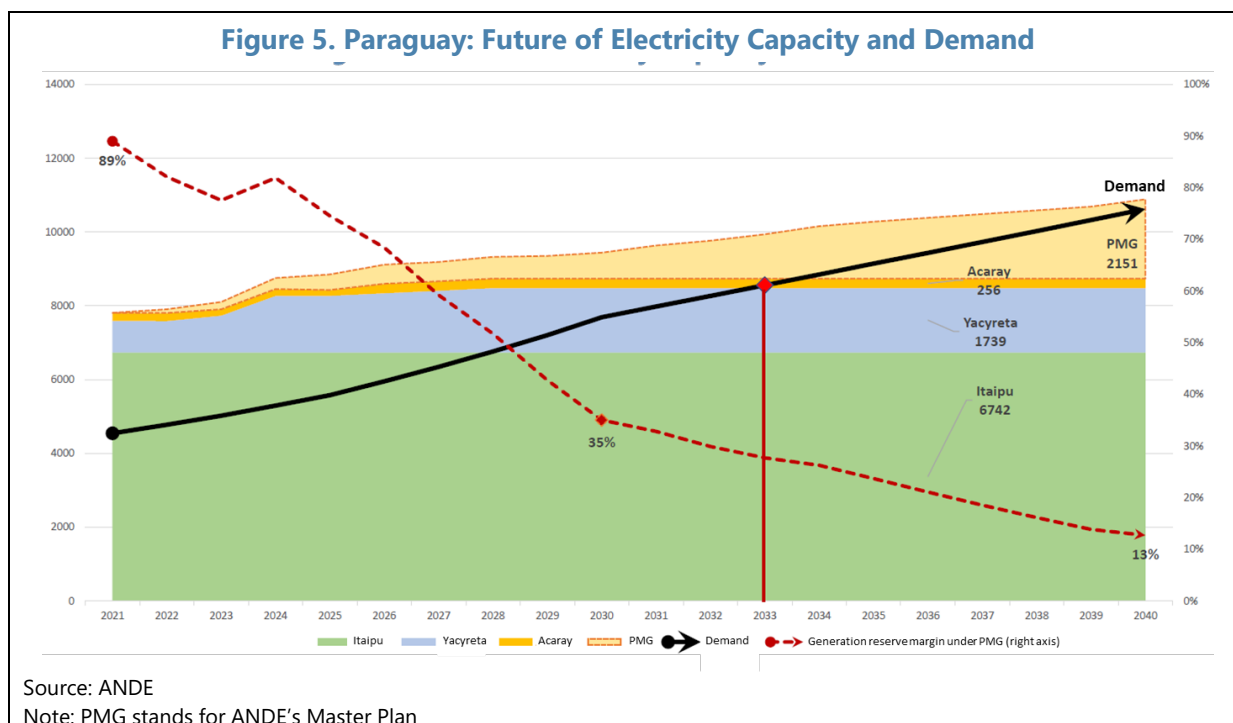
¹⁴ The PND 2030 was structured around three strategic pillars: (i) poverty reduction and social development, (ii) inclusive economic growth, and (iii) the insertion of Paraguay in the world, and four cross-cutting themes: equality of opportunities, transparent and efficient public administration, territorial governance, and environmental sustainability.

¹⁵ [The World Bank in Paraguay.](#)

¹⁶ [Inter-American Development Bank, Paraguay.](#)

¹⁷ [CAF Financial Report for 2023Q2.](#)

¹⁸ ANDE expects the energy system to face a generation reserve margin of 12 percent by 2033, which is too close to the acceptable minimum of 10 percent established by the government of Paraguay.



12. The alternative assessments of investment necessary to maintain existing and build new electricity infrastructure are of a similar scale. This adds to a huge gap in infrastructural investment needed to achieve sustainable development goals (SDGs) by 2030. IADB estimates that improved access to electricity as well as maintenance and expansion of the existing generation and transmission electricity infrastructure will require approximately US\$4 billion (Table 1). Other SDGs-related infrastructure investments needed to improve road transport access, water, sanitation, etc. will require an additional US\$18.6 billion by the year of 2030.

Table 1. Paraguay: Climate Investment Needs (in US\$ billion)

| | New infrastructure^{1/} | Maintenance and asset replacement | Total |
|---|--|--|--------------|
| Road infrastructure | 3.4 | 4.9 | 8.3 |
| Mass transportation infrastructure | - | - | 1.5 |
| Water and sanitation | 2.9 | 1.3 | 4.2 |
| Electricity generation and transmission | 2.9 | 0.2 | 3.1 |
| Electricity access | 0.3 | 0.7 | 0.9 |
| Telecommunication | - | - | 4.5 |
| Total | - | - | 22.6 |

1/ Investment through 2030 needed to expand and maintain the infrastructure necessary to fulfill the SDGs linked to infrastructure services.
 Sources: Brichetti, Juan & Rivas, María Eugenia & Serebrisky, Tomas & Solis, Ben. (2021). IADB, The Infrastructure Gap in Latin America and the Caribbean: Investment needed through 2030 to meet the Sustainable Development Goals.

13. Despite recent progress, the Paraguayan authorities are yet to integrate climate change into the long-term planning, risk management, public finance, and fiscal policies. Implementation of public investment projects does not systematically account for climate change

impacts, while public finance lacks acknowledgement and quantification of climate risks. At present, Paraguay faces limitations in its ability to effectively coordinate responses to climate change due to a lack of institutional emphasis on climate change matters¹⁹ and broader public policy challenges related to the overall effectiveness of the government.

14. National emission reduction targets remain modest while sectoral decarbonization of Paraguay's economy is not a high priority. The updated NDC of Paraguay sets as a target to reduce emissions by 10 percent (or 20 percent conditional upon having access to international finance) by 2030 relative to a business-as-usual scenario. This corresponds to a 3 percent increase (or a 9 percent decrease in case of conditional NDC) in emissions relative to 2021.²⁰ Although the preservation and expansion of its fully renewable electricity matrix and plans to become a hub for the sustainable forestry industry and clean energy production are important, Paraguay is yet to develop a long-term decarbonization strategy and expand its participation in the global climate effort (including eventually joining the Global Methane Pledge).

15. So far, access to reliable public information on climate change, climate-induced risks, and emissions in Paraguay remains limited. Climate policies remain constrained by the lack of transparent and publicly available data on key climate related indicators, risks, and policy implementation. Despite recent important improvements in the GHG inventory, the data on major emitting sectors often does not correspond to data from credible international datasets. To illustrate, the volume of the GHG emissions reported in the national inventory is 1.5 times less compared to the data reported in Climate Watch (Climate Analysis Indicators Tool by World Resource Institute) (Figure 4). The difference between the two data sources is twofold for emissions from land use change and forestry,²¹ the main source of emissions in the country, and 3.8-fold for emissions from waste. The challenge of accessing climate information in Paraguay is made worse by the underdeveloped accountability mechanisms within institutions. This is especially evident at the municipal level, where local authorities often lack the motivation, technical know-how, and resources needed to acquire and oversee environmental data effectively.

¹⁹ The World Bank Group: Paraguay - Diagnóstico Institucional del Cambio Climático (2022).

²⁰ [IMF Climate Change Dashboard](#), IMF staff calculations.

This is the modest target relative to the NDCs of regional peers: Brazil – -38 percent (both conditional and unconditional), Argentina – -20 percent (both conditional and unconditional), Uruguay (-12 percent conditional and -6 percent unconditional), Bolivia -7 percent (both conditional and unconditional).

²¹ The inconsistency of data on emissions from land use and forestry reported by authorities and registered by Climate Watch may be partly explained by the differences in methodologies in emissions accounting, particularly different emissions factors used, accounting for forest fires, as well as differences in the detail of satellite imagery technologies in accounting for changes in land use.

C. Priority Areas for Climate Policy Action

Macro Fiscal, Financial, and Structural Policies

16. To strengthen the macroeconomic resilience to climate change, Paraguay may foster diversification and stimulate structural changes in its economy. This implies higher productivity, reduced dependence on climate-sensitive sectors of the economy (particularly, agriculture), lower informality of employment and enhanced social safety nets. To tackle volatile economic growth and improve resilience of the population and businesses, Paraguay will have to sustain public investment, further deepen the financial sector, and enhance access to public infrastructure and services. Sustainable practices in agriculture, the development of the forest industry, as well as the preservation and expansion of clean energy production capacity may serve the purpose by turning Paraguay into a “green, profitable, and predictable destination for investments” as stated by the new government. This objective, among other steps, could be supported if the country’s authority considered increasing emissions reduction ambition within the next NDC submission to the UNFCCC, accounting at the same time for possible negative impacts on carbon-intensive industries (such as agriculture) critically important for Paraguayan economy and society.

17. To contain climate risks and integrate them into the macroeconomic planning further institutionalization of climate issues is needed within fiscal and public investment policies.

This will require efforts to strengthen the national framework for incorporating climate-related risks into fiscal risks and debt sustainability analyses, developing guidelines and taxonomy for publicly funded climate projects as well as the implementation of comprehensive climate budget tagging. Green public financial management policies may benefit from acknowledging the recommendations from the climate component of the recent PEFA++ analysis (supported by the EU and IADB), the Roadmap for Greening the Fiscal Sector developed by the Ministry of Economy and Finance in consultation with the WB, as well as an upcoming C-PIMA IMF mission.

18. As climate investment needs exceed the amount of public resources available, having a financial system resilient to climate shocks and offering favorable conditions for sustainable climate financing is critical. In this regard, priority policy areas include the incorporation of climate-related risks into financial sector risk assessments (building on preliminary collection of necessary data) and financial sector reporting and disclosure of climate risks (in line with international standards, including those of the International Sustainability Standards Board and the Task Force on Climate-Related Financial Disclosures) to start developing a framework for scenario analysis needed for stress testing by banks, a long term policy goal requiring several important prerequisites in place.²² Developing a green taxonomy, as well as a regulatory framework for the issuance and trading of green bonds on top of the existing framework for sustainable bonds, also represent promising policy actions contributing to a catalytic effect. Policy action in this domain, together with the IMF

²² This includes data collection, capacity building on stress testing, interagency collaboration for conducting climate-related risk assessment, among others.

RSF “signaling” role along a National Climate Finance Strategy, can generate important synergies to attract private capital for climate investment projects within the country.

Decarbonization and Sustainable Energy Policies

19. Paraguay electricity sector is vital for the country’s mitigation policies in the light of growing energy consumption needs. To maintain and expand its clean energy mix, Paraguay will need to reduce technical and non-technical electricity losses through new investments and legal enforcement, increase energy efficiency, and improve transparency and accountability of ANDE in close cooperation with responsible ministries (Ministry of Economy and Finance and Vice ministry of Mines and Energy). To enhance the sustainability of the electricity sector, it will be vital to adopt a transparent methodology for electricity tariffs accounting for operating costs, the financial costs of projected capital spending needs, and efficiency gains in line with international best practices. Importantly, an enhanced tariff policy will be critical to smooth electricity demand peaks and increase incentives for the private non-conventional renewable energy generators to enter the grid in line with ANDE’s Master Plan.

20. The development of non-hydro renewable energy sources can contribute to achieve both climate change mitigation and adaptation objectives. This implies diversification of the energy mix by investing in solar, wind, and battery storage. Together with measures to provide adequate price incentives, a new legislation on modern renewable energy sources will be vital to maintain the country’s clean energy mix in the light of growing demand for energy, increased hydropower variability, and exposure of the electricity sector to natural hazards.

21. Accounting for its minor share in global emissions and reliance on a hydropower-dominated electricity mix, Paraguay is well-positioned to fully decarbonize its energy sector. Recent assessments²³ show that Paraguay can feasibly reach zero emissions in the energy sector by 2050 if an appropriate policy framework is enforced to modernize and expand generation, distribution, and transmission of electricity systems as well as develop modern renewable energy sources. To meet growing energy needs, Paraguay will have to implement policies supporting the electrification of energy use processes, particularly households that still heavily rely on fuel wood and charcoal for cooking and heating in rural areas. Importantly, reduced reliance on traditional biofuels, stimulated by updated and enforced regulation for the use of biomass, can bring significant co-benefits due to decreased local pollution, like contributing to lower mortality rates.²⁴

22. Building on a clean energy mix, decarbonization of transport can serve as an important part of Paraguay’s climate change mitigation and energy security strategies. Electrification of transport (both private and public) can strengthen the country’s energy security by

²³ Columbia Center on Sustainable Investment (CCSI), Quadracci Sustainable Engineering Lab at Columbia University y Centro de Recursos Naturales, Energía y Desarrollo (CRECE). Evaluación y Planificación del Sector Energético del Paraguay: Vías de Descarbonización. Nueva York: CCSI, octubre de 2021 (<http://ccsi.columbia.edu/content/paraguay-energy>).

²⁴ Using the IMF Climate Policy Assessment Tool, it is estimated that biomass used for residential cooking resulted in 2,299 deaths in 2019.

helping reduce dependence on imported oil products and potentially reduce consumer costs in the medium-term. Among other components of the electric mobility policy (e.g., exempting electric vehicles from custom duties and VAT), introduction of additional regulations (e.g., reduction of permissible age of imported cars) or fiscal incentives (for e.g., via explicit carbon taxation or feebates) can play a vital role in this process, although efficiency and feasibility of such mechanisms will likely depend on whether their design could be accurately aligned with the country's development agenda, considering potential negative implications for vulnerable households.

Building Resilience and Protecting Natural Assets

23. The importance of natural and physical assets for the Paraguay's economy makes it critical to develop strong water, forestry, and land use management policies. Exacerbated climate risks require the development of climate change adaptation and disaster risk management plans, improving coordination and covering key natural resource-dependent industries, particularly water-reliant agriculture, transport, and electricity generation sectors. To improve transparency in the forestry industry and in land use, it will be important to enhance the legal framework for land use changes and forestry and strengthen monitoring and enforcement capacities including through the use of the national cadaster data.

24. Accounting for the largest share in Paraguay's emissions, agriculture and forestry should be a focus for mitigation policies. Priority actions in this domain include the enhancement of the government oversight, better legal enforcement, coordination between responsible government entities, and improved data collection. Emissions regulation in land use sectors should build upon a well-functioning and credible monitoring, reporting, and verification (MRV) system supplementing the recently developed National Forest Monitoring System to enhance emissions transparency and accountability. Practices to increase productivity in agriculture (including livestock), such as no-till farming, a practice in which Paraguay is a leader, can contribute to mitigation objectives. They, together with policies aimed to transit from deforestation to afforestation, may help reduce emissions of carbon dioxide as well as methane – a highly potent greenhouse gas which largely originates in agriculture. In the agricultural sector, important co-benefits of these actions include mitigation of future transitional risks related to the enactment of deforestation-free regulations in trading partner countries and regions (such as the EU).

25. Adaptation to climate change will require efforts to improve reliability of water resources and resilience of agriculture production and waterways. A new action plan for the management of this critical natural resource (in line with a newly adopted Law of Water Resources) and improved governance of the sector would serve this purpose. Measures like investments in reservoir and irrigation, conservation of wetlands, and cultivation of drought-resistant crops can soften adverse climate impacts on agriculture. Capital dredging, combined with accumulation of knowledge on the precise structure of riverbeds, can help adapt waterways to future water level fluctuations, while adequate cost-benefit analyses may inform investment needs in water supply and distribution infrastructure. Monitoring climate and hydrological trends and accumulation of climate-related data will be key for tackling variability and uncertainty within long-term climate policy planning across regions and sectors.

26. Nature-based solutions may play an important role in improving water security. Land use projects such as restoration and reforestation projects of key watersheds and conservation and restoration of wetlands and streams can be important parts of the country's climate policy. Adequate implementation of the First National Plan for Forest Restoration is critical. Within cities, the development of green urban corridors (including the ongoing projects in Asuncion's metropolitan area) are also helpful in mitigating the impact of flooding.

27. Nature-based solutions may not only help achieve mitigation and adaptation objectives but also bring new opportunities to the country. In the long run, participation in the global voluntary carbon markets may simultaneously contribute to the forests conservation and raising foreign investment, with Chaco region holding significant economic opportunities for this. This will, however, require tackling greenwashing concerns about projects generating carbon credits by ensuring strong additionality of these projects backed up by reputed international verifiers as well as strong national MRV system to avoid emissions leakage or double counting of emissions' reduction. Without meeting these important prerequisites, the scaling up of carbon credit projects aimed at afforestation and conservation of native forests will be barely possible. Combined with other important policy measures, e.g., development of the existing environmental services legislation, nature-based solutions can help Paraguay build new comparative advantages in the future greener global economy's landscape. Recently announced corporate plans (by Paracel and Atenil Paraguay S.A.) for afforestation and conservation of native forests, grasslands, and wetlands in Paraguay indicate potential to scale-up efforts to restore and preserve the country's ecosystems, although this will require government support and stronger environmental and climate commitment.

D. Engagement with Development Partners

28. The authorities are actively engaged with a range of development partners, including the World Bank Group, on its climate policy agenda. Multilateral partners include the World Bank, IADB, CAF, EU, UNEP and the WWF (Table 2).

29. Increasing resilience to shocks and better management of natural capital and the rural economy were among the objectives of the 2018-2023 World Bank Country Partnership Framework (CPF). This area of engagement sought to improve environmental governance, sustainable land management, and preparedness for extreme weather events. To that end, the World Bank provided technical assistance on the potential establishment of a stabilization fund and studies related to the fiscal instruments for sustainable land use, agriculture risk management, and the value of forests to Paraguay's economy. Recommendations from these reports informed the Paraguay First Economic Management Development Policy Loan (DPL) in 2020 and a forestry investment project which was later dropped at the request of the government due to the COVID-19 pandemic. Consequently, the 2022 Paraguay Green and Resilient DPL supported a program of reforms – both across the economy and in specific sectors – to mainstream climate change in policy decision-making. The World Bank also prepared a climate action roadmap for the Ministry of Economy and Finance at their request.

30. Climate change continues to be a priority for the World Bank and is thus expected to feature prominently in the next CPF period (2023-2028). In 2023, analytical work and technical assistance on sustainable urban mobility, climate-smart agriculture, the bioeconomy, greening the financial sector, renewable energy and energy efficiency are ongoing. These sectoral studies complement the recommendations on adaptation and mitigation in Paraguay's Country Climate and Development Report. On the lending side, the Asuncion Riverfront Urban Resilient Project, approved in November 2022, will help the municipality improve its preparedness for extreme weather events.

| Table 2. Paraguay: Development Partners' Involvement in Climate-Related Issues | |
|---|--|
| Development Partner | Area of Focus |
| World Bank | Green and Resilient DPL in 2022 |
| | Preparation of a climate policy roadmap for MEF and estimates of total carbon pricing |
| | Country Climate and Development Report (CCDR) |
| | Technical assistance to MEF on climate budget tagging and to STP on green PIM |
| | Support to MADES on the costing of NDC adaptation objectives |
| | Technical report on agriculture risk financing options |
| | Adoption of climate-smart agriculture, repurposing agriculture public spending |
| | Technical assistance to ANDE (including for diversification of renewable energy sources and loss reduction plan) |
| | Value chain analysis on the bioeconomy |
| | Analysis on the distributional impacts of green fiscal policies and on the vulnerability of the poor to climate shocks |
| | Technical assistance to BCP on climate risks, green taxonomy, green finance roadmap |
| | Identifying priority green corridors in the Asunción metropolitan area, support for public transport planning, development of transport scenarios for an electric and sustainable future |
| | Development of a self-evaluation system for sustainable meat production (IFC) |
| | Development of the ASIST-CHACO tool (IFC) |
| European Union | PEFA++ Climate Action Plan (with IADB) |
| | Forest for Life Program |
| | Support for sustainable production |
| | EIB supports renewable energy and ANDE Master Plan |
| Inter-American Development Bank | PEFA++ Climate Action Plan (with EU) |
| | Developed strategy and legislation (laws) on electromobility, including on The Green Route |
| | TA to INFONA on strengthening the organizational structure |
| | ANDE Master Plan including plan for 100% electrification in the Chaco regions, and pilot for 5,000 smart meters |
| | IADB-Climate Pilot, including water and wastewater project at Ypacarai Lake with nature-based solutions to contain methane |

| Table 2. Paraguay: Development Partners' Involvement in Climate-Related Issues (continued) | |
|---|--|
| Development Partner | Area of Focus |
| Inter-American Development Bank (continued) | Support for Green Bonds issuance |
| | Pilot plan for a regional landfill in Concepción, including methane reuse |
| | Support water regulator |
| CAF - Development Bank for LAC | Projects in <i>adaptation infrastructure</i> , including: |
| | *Pre-feasibility studies for sanitation systems in intermediate cities |
| | *Construction of a safe water supply system for indigenous communities in the central Chaco |
| | *Pre-feasibility studies for a safe water access system for the Chaco (based on water taken from the Paraguay River) |
| | *Resilient road infrastructure re operation of neighborhood roads and resilient bridges |
| | Projects in <i>renewable energy</i> to contribute to global mitigation objective, including: |
| | *Structured Financing Green Hydrogen Plant - for final production of green fertilizer (ATOME Paraguay) |
| | *Partnership with the Green Climate Fund to promote the implementation of electromobility in the country |
| | *Technical assistance and concessional loans for electric buses and light-duty vehicles and charging stations |
| | Projects in <i>ecosystem preservation and regeneration</i> , including: |
| | *Plantation of 270,000+ hectares of eucalyptus (with Paracel and Silvipar) |
| | *Ecosystem and biodiversity regeneration actions |
| | *Facility with KFW for financing green projects |
| | *Support for the structuring of a green bond issuance program |
| *Support to "Colosos de la Tierra" initiative, which seeks to raise awareness about the importance of preserving native forests and respect for trees | |
| United Nations Environmental Program | Support to various initiatives, including: |
| | *National Forest Strategy for Sustainable Growth (ENBCS) |
| | *National Climate Change Fund--regulation, implementation and operation |
| | *Reduction of vulnerability to climate change in indigenous and rural communities in the Chaco region |
| | *Sustainable value chains of soya and beef in El Chaco and the Atlantic Forest |
| | *Transparent information reporting systems on climate change to meet the requirements of the Paris Agreement |
| | *Water security through strengthening the transboundary water governance of the Pantanal-Upper Paraguay River Basin (shared by Paraguay, Bolivia and Brazil) |

| Table 2. Paraguay: Development Partners' Involvement in Climate-Related Issues (continued) | |
|--|---|
| Development Partner | Area of Focus |
| United Nations Environmental Program (<i>continued</i>) | *National-level institutional and professional capacities towards enhanced desertification monitoring and UNCCD reporting |
| | *Reduction of the use of mercury by the Artisanal and Small-Scale Gold Mining (ASGM) sector in Paraguay |
| | *Protection of the ozone layer and the phasing out of HCFC and similar |
| | *Regulations for the import of safer and cleaner used vehicles |
| | *Reduction of short-lived climate pollutants, mainly methane from landfills |
| World Wildlife Fund | Several programs and projects, including: Contribute to the reduction of Greenhouse Gas (GHG) emissions, through better management of land use and protection of the remnants of forests in the Chaco, working with the productive sector to promote the adoption of best practices for sustainable production, support the strengthening of environmental governance and improve capacities for planning and managing land use at the regional level |
| | Implement a program for jaguar conservation in the Atlantic Forest to new habitats in Brazil and Paraguay |
| | Contribution to national plans on mitigation and adaptation focused on SDG12 by promoting the adaptation within the abri-food sector, involving the private sector (producers and retailers) as well as consumers (on responsible consumption) |
| | Implement actions under an integrated landscape approach, in the transboundary context of the Cerrado. Focus on promoting the adoption of sustainable and climate-smart practices in landscapes and productive systems, promoting conservation through sustainable use of biodiversity and strengthening protected areas' and promoting public and private practices and policies for water and food security, sustainable landscape management and reduction of conversion of natural ecosystems |
| | Increase the conditions for sustainable and climate change-resilient development, with responsible environmental governance and civil participation of indigenous and non-indigenous youth and women, in the District of Carmelo Peralta, Department of Alto Paraguay |
| | Expand and improve domestic public credit and insurance programs, including programs supported by MDBs, that incorporate improved sustainability and DCF standards; and work with BCP to enhance DCF related risk management, disclosure, reporting and mitigation requirements |
| | |

| Table 2. Paraguay: Development Partners' Involvement in Climate-Related Issues (concluded) | |
|--|--|
| Development Partner | Area of Focus |
| World Wildlife Fund (<i>continued</i>) | Pursue reduction on deforestation through actions with private companies involved with cattle and soy products commerce working with downstream the supply chain key actors |
| | Generation of knowledge in the socio-environmental area of infrastructure projects and the implementation of nature-based solutions under the guidelines of the Pantanal Ecoregional Action Plan (WWF Brazil, WWF Bolivia and WWF Paraguay), additionally, improve the speed of response to emergencies and in the prevention, both of fires, and of droughts, floods and pandemics in a Trinational collaboration |
| | Protect the ecological connectivity of the habitat of two emblematic and endangered mammals--the jaguar (<i>Panthera onca</i>) and the Chacoan peccary (<i>Catagonus wagneri</i>)--between two core conservation areas in the Chaco Biosphere Reserve in northern Paraguay |
| | Encourage ranching operations that protect habitat, through financial incentives inherent in ecotourism and payments for environmental services; and promote the use of tested techniques to reduce depredations from jaguars to reduce retaliatory killings |
| | Foster a culture of environmental stewardship in the next generation by designing and providing the local school with an environmental curriculum to instill in students an appreciation of the region's rich biodiversity |
| | Provide the Indigenous People from Huguá Po'í (Mbya-Ava Guarani) with legal and logistical assistance to clarify the status and ownership of their ancestral land as Mbya-Ava Guarani territory |
| | Technical assistance to Financial Institutions that favor DCF (Deforestation and Conversion Free) clients and practices; and to support sustainable finance platforms (Roundtable for Sustainable Finance and the Public-Private Alliance for Sustainable Finance) in Paraguay to incentivize their members to implement tools and practices to promote DCF commitments in the Chaco region |
| | Support conservation of the natural resources of the Chaco Biosphere Reserve (RBCh). The objective of the Project is to consolidate the management of Wild Protected Areas (ASP) of the Chaco Biosphere Reserve by the Ministry of Environment and Sustainable Development (MADES) |
| | Promote solar PV and energy efficiency by influencing policy-making by showcasing to policy makers how the technology works and sparking discussions about relevant legislation/regulatory/technical changes |

31. On the private sector side, the International Finance Corporation has supported commercial agricultural sector to adopt sustainable farming practices. The Sustainable Beef Advisory Services project supported the development of a self-evaluation system called SAGAS (*Sistema de Autoevaluación de Ganadería Sostenible*) for sustainable meat production. IFC also collaborated with the Smithsonian Institution to create ASIST-Chaco, a biodiversity mapping tool to guide sustainable private investments in the Chaco eco-region (expected to be available by September 2024). This tool will make scientific information for land use planning and decision-making purposes more accessible.

Annex II. Sovereign Risk and Debt Sustainability Analysis

After a series of external shocks in the past five years, Paraguay is projected to embark on a fiscal consolidation path that will stabilize and gradually decrease public debt over the next ten years. Various realism assessments do not flag major concerns, and the medium-term risk index conveys a low-risk signal. The long-term assessment modules flag moderate risks from demographics (pensions and health) and from climate adaptation and mitigation costs.

1. Paraguay's public debt is stabilizing under the baseline scenario. The revised fiscal deficit forecasts for 2023 and 2024 will lead to a higher initial debt level (above 40 percent of GDP) than projected in previous years' DSAs. But under the baseline fiscal policy path (adherence to an overall fiscal deficit compliant with the fiscal rule's deficit ceiling of 1.5 percent of GDP from 2026 going forward), the debt-to-GDP ratio will steadily decrease to 39.5 percent in 2028 and 35.3 percent in 2032 (figure 1).

2. The coverage of public debt under IMF methodology is broader than the preferred measure of public debt used in Paraguay. Paraguay's debt definition includes all debt endorsed

by Congress and legally guaranteed by the Paraguayan State. These debt liabilities are recorded under Paraguay's Debt Management and Analysis System (SIGADE). The IMF definition adds further liabilities *not* covered under the SIGADE, such as some

| Measured public debt aggregates | Gs. bn | U.S.\$ mn | % of GDP |
|--|----------------|---------------|-------------|
| I. Public debt recorded and reported under the SIGADE | 105,116 | 15,054 | 36.1 |
| II. Public debt recorded under the IMF methodology | 113,098 | 16,197 | 38.8 |
| Items included in IMF debt not covered by SIGADE: | 7,981 | 1,143 | 2.7 |
| BCP long-term liability with ALADI | 2,928 | 419 | 1.0 |
| ANDE long-term liability with foreign commercial banks | 999 | 143 | 0.3 |
| Historical debt of PETROPAR with PDVSA (Venezuela) | 2,238 | 320 | 0.8 |
| Fiscal use of 2021 SDR allocation | 1,817 | 260 | 0.6 |
| <i>Memo item: Central bank net international reserves</i> | <i>70,798</i> | <i>10,139</i> | <i>24.3</i> |

long-term liabilities of the central bank with ALADI (the Latin American Integration Association); pending commercial debt by the national public petroleum company (PETROPAR) with Venezuela; Paraguay's use of the 2021 SDR allocation; and a few other items (table A4-1). These liabilities are very unlikely to augment repayment risks, and sinking funds have been created for some of them. For further context, Paraguay's international reserves (24 percent of GDP at end-2022, or 63 percent of total debt) provide a high level of protection. While both SIGADE and IMF methodologies yield different debt numbers (by definition, the IMF's measurement of public debt is higher), the underlying data are consistent.

3. Paraguay's debt is predominantly denominated in foreign currency at long maturities.

Sovereign bond issuances in international markets, ranging from 10 to 30 years maturity, have increased since 2013 and now make up the largest share of financing instruments (figure 2). This is closely followed by financing from official (multi- and bilateral creditors). The share of bond financing in domestic currency is expected to increase gradually, as the authorities are taking measures to deepen the domestic capital market and the international market for guaraní-denominated bonds.

4. The outcome of realism analysis (figure 3) shows mixed results, but they are mostly explained by country-specific factors and Paraguay's difficult economic circumstances in the past five years.

- The forecast track record shows a fairly even distribution of weakly pessimistic and optimistic parameters, with exception of the primary deficit where the forecast had been overly pessimistic over the 5-year horizon when compared to the peer group.
- Comparison of debt-creating flows between the past and the next five years reveals a stark difference between these two periods, giving rise to a potential realism concern. Paraguay's economic conditions in the past five years were very unique, as the country was suffering from multiple external shocks (droughts in 2019 and 2022, and the COVID pandemic in 2020 and 2021). In these years real growth was low, primary deficits were high (due to countercyclical policies), and the exchange rate depreciated. With a new government freshly committing to fiscal consolidation, and with auspicious prospects for private investment and growth, the outlook for the next five years is much more favorable.
- The bond issuances tool does not flag realism issues, although it shows moderate volatility in the spread vs. 10-year U.S. treasuries over the next five years. This is mainly due to technical factors, such as the fact that debt with official creditors is long-term, but its interest rate is indexed to short-term rates, which may explain the 2024 spike of the spread, followed by a compression of the spread in 2025–27 as short-term rates are expected to decrease.
- The path of real GDP growth raises no realism concern, although the consistency with the proposed fiscal adjustment path may appear questionable. But the fiscal multiplier in Paraguay is estimated to be low, given the relatively small share of the public sector in the economy.

5. Staff assesses Paraguay's debt as sustainable at an overall low risk level (figure 4). The baseline debt trajectory shows a stabilizing trend, backed up by country authorities' commitment to strengthen fiscal performance and converge to compliance with Paraguay's fiscal rule (deficit ceiling of 1.5 percent of GDP). Paraguay's fundamental economic parameters are auspicious, and the overall medium-term risk assessment assigns Paraguay's public debt a level of low risk. Simulations related to demographics and climate change reveal more profound long-term risks, but they are not too dissimilar to other countries. These modular assessments will be discussed in the following sections.

6. Paraguay's medium-term risk is assessed as low (figure 5). The mechanical fan chart module signals moderate risk. The associated risk index of 1.6 is in the middle between the low-risk boundary (1.1) and the high-risk boundary (2.1). Main contributors to the fan chart results are the width of the fan chart (possibly induced by extraordinary volatility in public debt during the COVID-19 pandemic) and a relatively low score of institutional quality, combined with the debt level predicted for five years ahead. The gross financing needs module (GFN) yields a mechanical low-risk signal, and the combined medium-term risk index is classified as low.

7. Long-term simulation exercises reveal potential contingent fiscal risks. These include modules for fiscal risks arising from demographics (pension, social security, and health care expenditures), long-term debt amortization, and climate change (cost of adaptation) under a long horizon. The long-term projections are complicated by a recent release of the preliminary results of a 2022 population census, which found that previous estimates, based mainly on the 2002 census, had vastly overstated Paraguay's population.¹ For the demographic projections, the long-run model therefore uses data from the ECLAC's Latin American Demographic Center, whose estimates and projections are closer to the 2022 preliminary results than the outdated national estimate.

8. Paraguay's pension and health systems face long-term challenges and risks. As in many other countries, long-term demographic projections reveal that Paraguay's pension financing needs will grow substantially over the next 30 years. If this issue is not addressed, public debt could increase to about 70 percent of GDP in 30 years (figure 6a). Rising healthcare costs with an aging population also poses a long-term fiscal risk. This effect would be compounded when assuming that costs of medical treatment grow excessively (figure 6b).

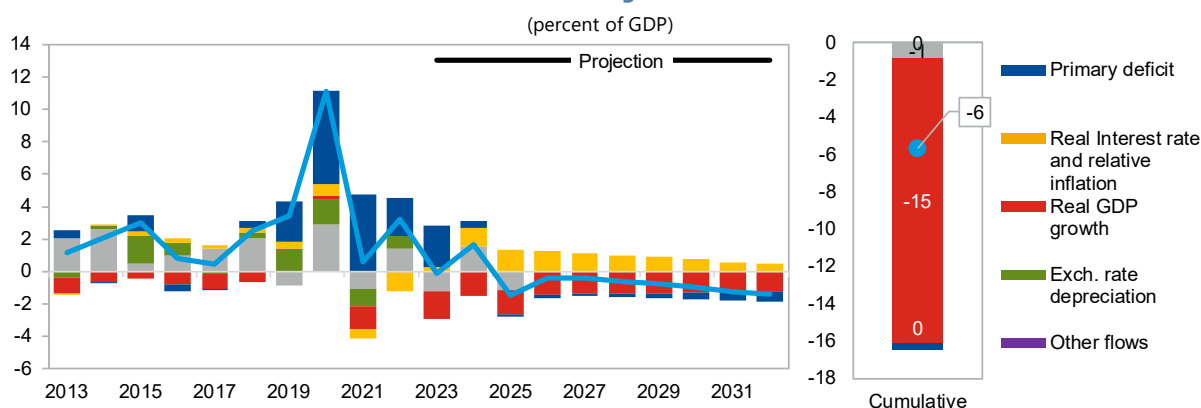
9. Long-term amortization and climate risks. The long-term module for large amortization triggers a risk signal, but it is not entirely clear which factors are driving the process—data for long-term amortization schedules are not available, so the module uses internal amortization and refinancing assumptions (figure 7). As expected, the climate modules also reveal that both adaptation and mitigation investment would have a significant impact on the level of debt (figures 8a and 8b). The simulations shown in these charts are somewhat speculative, as it was not possible to quantify the order of magnitude of adaptation and mitigation costs for Paraguay, but they are instructive in showing the sensitivity to underlying assumptions and trade-offs involved, for example by comparing the impact of different mitigation horizons.

¹ The preliminary census results put Paraguay's 2022 population number at 6.1 million rather than 7.4 million. The age structure is also more mature and less favorable than previously thought.

Figure 1. Paraguay: Public Sector Debt Sustainability Analysis - Baseline Scenario
(Percent of GDP unless indicated otherwise)

| | Actual | Medium-term projection | | | | | | Extended projection | | | | |
|---|--------|------------------------|------|------|------|------|------|---------------------|------|------|------|--|
| | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | |
| Public debt | 40.8 | 40.6 | 42.3 | 40.8 | 40.5 | 40.1 | 39.5 | 38.7 | 37.7 | 36.5 | 35.1 | |
| Change in public debt | 3.3 | -0.1 | 1.7 | -1.4 | -0.4 | -0.4 | -0.6 | -0.8 | -1.0 | -1.2 | -1.4 | |
| Contribution of identified flows | 1.9 | 1.1 | 0.1 | -0.3 | -0.3 | -0.4 | -0.6 | -0.8 | -1.0 | -1.2 | -1.4 | |
| Primary deficit | 2.3 | 2.6 | 0.4 | -0.1 | -0.2 | -0.1 | -0.2 | -0.3 | -0.4 | -0.5 | -0.6 | |
| Noninterest revenues | 19.5 | 19.2 | 19.9 | 20.1 | 19.9 | 19.7 | 19.7 | 19.7 | 19.8 | 19.8 | 19.9 | |
| Noninterest expenditures | 21.8 | 21.8 | 20.4 | 20.0 | 19.7 | 19.6 | 19.5 | 19.4 | 19.3 | 19.3 | 19.2 | |
| Automatic debt dynamics | -0.5 | -1.5 | -0.3 | -0.2 | -0.1 | -0.2 | -0.4 | -0.4 | -0.5 | -0.7 | -0.8 | |
| Real interest rate and relative inflation | -1.2 | 0.3 | 1.2 | 1.4 | 1.3 | 1.1 | 1.0 | 0.9 | 0.8 | 0.6 | 0.5 | |
| Real interest rate | -1.4 | -0.1 | 0.7 | 0.8 | 0.6 | 0.5 | 0.4 | 0.3 | 0.3 | 0.1 | 0.1 | |
| Relative inflation | 0.2 | 0.4 | 0.4 | 0.6 | 0.6 | 0.6 | 0.6 | 0.5 | 0.5 | 0.5 | 0.4 | |
| Real growth rate | 0.0 | -1.7 | -1.5 | -1.5 | -1.4 | -1.4 | -1.4 | -1.3 | -1.3 | -1.3 | -1.2 | |
| Real exchange rate | 0.8 | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | |
| Other identified flows | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| Contingent liabilities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| (minus) Interest Revenues | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| Other transactions | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| Contribution of residual | 1.4 | -1.2 | 1.5 | -1.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| Gross financing needs | 5.2 | 5.8 | 3.5 | 3.8 | 4.5 | 4.9 | 4.4 | 5.7 | 5.9 | 6.1 | 5.4 | |
| of which: debt service | 2.9 | 3.2 | 3.0 | 3.9 | 4.7 | 5.1 | 4.7 | 6.0 | 6.3 | 6.6 | 6.1 | |
| Local currency | 0.6 | 0.4 | 0.4 | 1.1 | 0.9 | 1.1 | 1.6 | 1.8 | 2.1 | 2.4 | 2.7 | |
| Foreign currency | 2.3 | 2.8 | 2.6 | 2.8 | 3.8 | 3.9 | 3.1 | 4.2 | 4.2 | 4.1 | 3.4 | |
| Memo: | | | | | | | | | | | | |
| Real GDP growth (percent) | 0.1 | 4.5 | 3.8 | 3.8 | 3.5 | 3.5 | 3.5 | 3.5 | 3.5 | 3.5 | 3.5 | |
| Inflation (GDP deflator; percent) | 7.6 | 5.1 | 3.6 | 3.6 | 3.9 | 3.9 | 3.9 | 3.9 | 3.9 | 3.9 | 3.9 | |
| Nominal GDP growth (percent) | 7.6 | 9.8 | 7.5 | 7.5 | 7.5 | 7.5 | 7.5 | 7.5 | 7.5 | 7.5 | 7.5 | |
| Effective interest rate (percent) | 3.6 | 4.7 | 5.5 | 5.6 | 5.5 | 5.2 | 5.0 | 4.8 | 4.6 | 4.1 | 4.0 | |

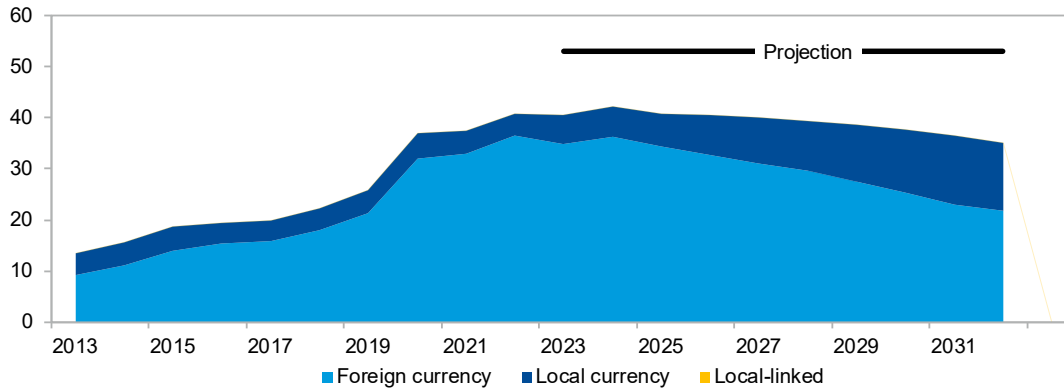
Contribution to Change in Public Debt



Public debt will reach its peak in 2024 and will then decrease continuously, reflecting expectations of a narrowing of primary deficits consistent with the overall fiscal deficit ceiling under the fiscal rule and of continued real growth at the potential rate.

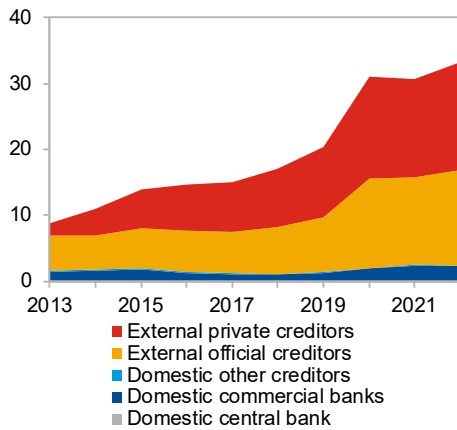
Figure 2. Paraguay: Public Debt Structure Indicators

Debt by currency (percent of GDP)



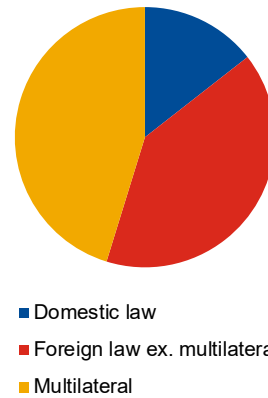
Note: The perimeter shown is consolidated public sector.

Public debt by holder (percent of GDP)



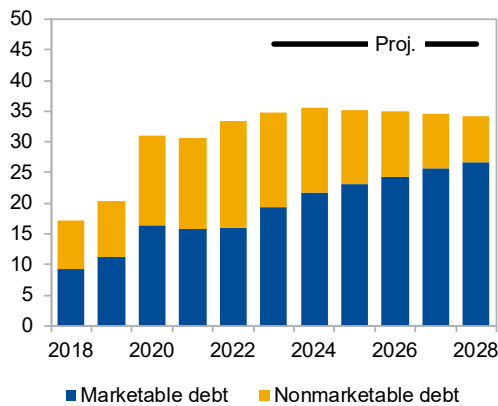
Note: The perimeter shown is general government.

Public debt by governing law, 2022 (percent)



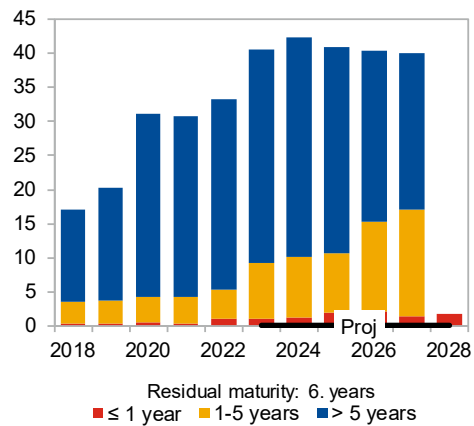
Note: The perimeter shown is general government.

Debt by instruments (percent of GDP)



Note: The perimeter shown is general government.

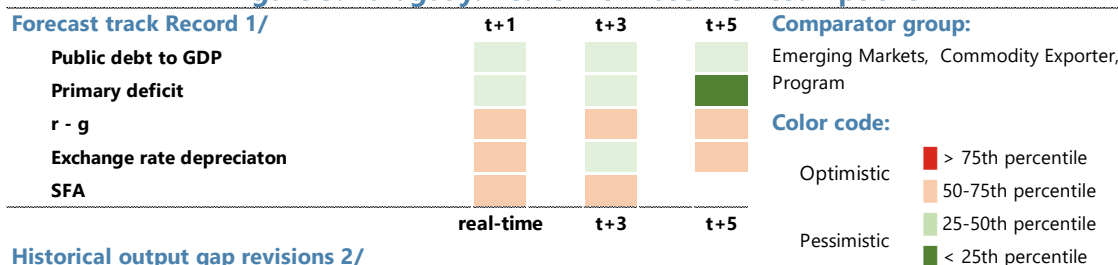
Public debt by maturity (percent of GDP)



Note: The perimeter shown is general government.

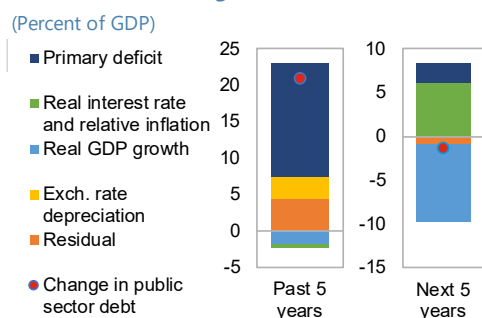
Paraguay's debt is predominantly denominated in foreign currency at long maturities. Sovereign bonds make up the largest share of financing, closely followed by official lending. The share of domestic-currency financing is expected to rise gradually.

Figure 3. Paraguay: Realism of Baseline Assumptions

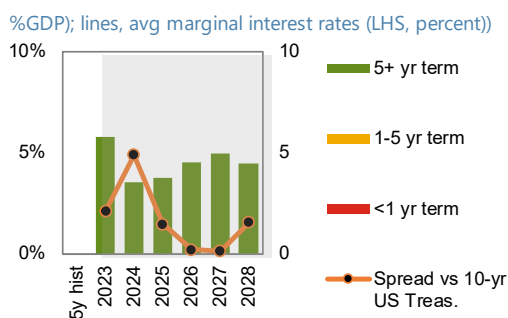


Historical output gap revisions 2/

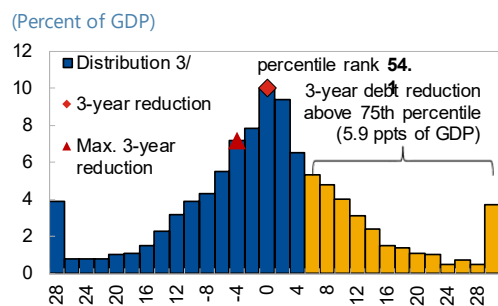
Public Debt Creating Flows



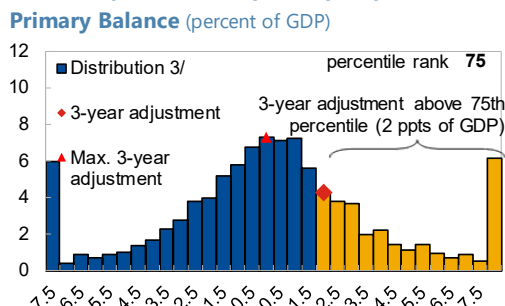
Bond Issuances (bars, debt issuances (RHS,



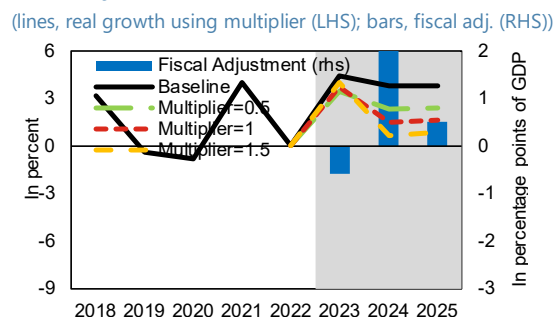
3-Year Debt Reduction



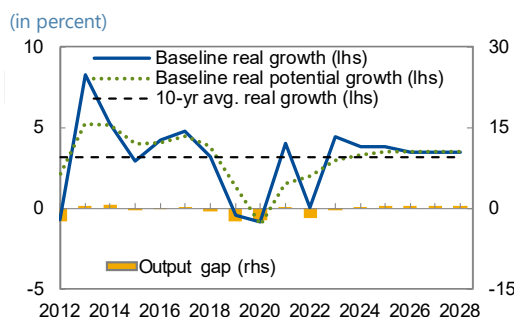
3-Year Adjustment in Cyclically-Adjusted



Fiscal Adjustment and Possible Growth Paths



Real GDP Growth



Paraguay's economy has suffered from serious external shocks in the past five years, negatively affecting growth, the fiscal position, and the exchange rate. As the impacts of these shocks are receding, prospects for an improvement are good. Otherwise, realism analysis does not point to major concerns: past forecast errors do not exhibit any systematic biases, and financing is favorably structured toward medium to long-term debt.

Source : IMF Staff.

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

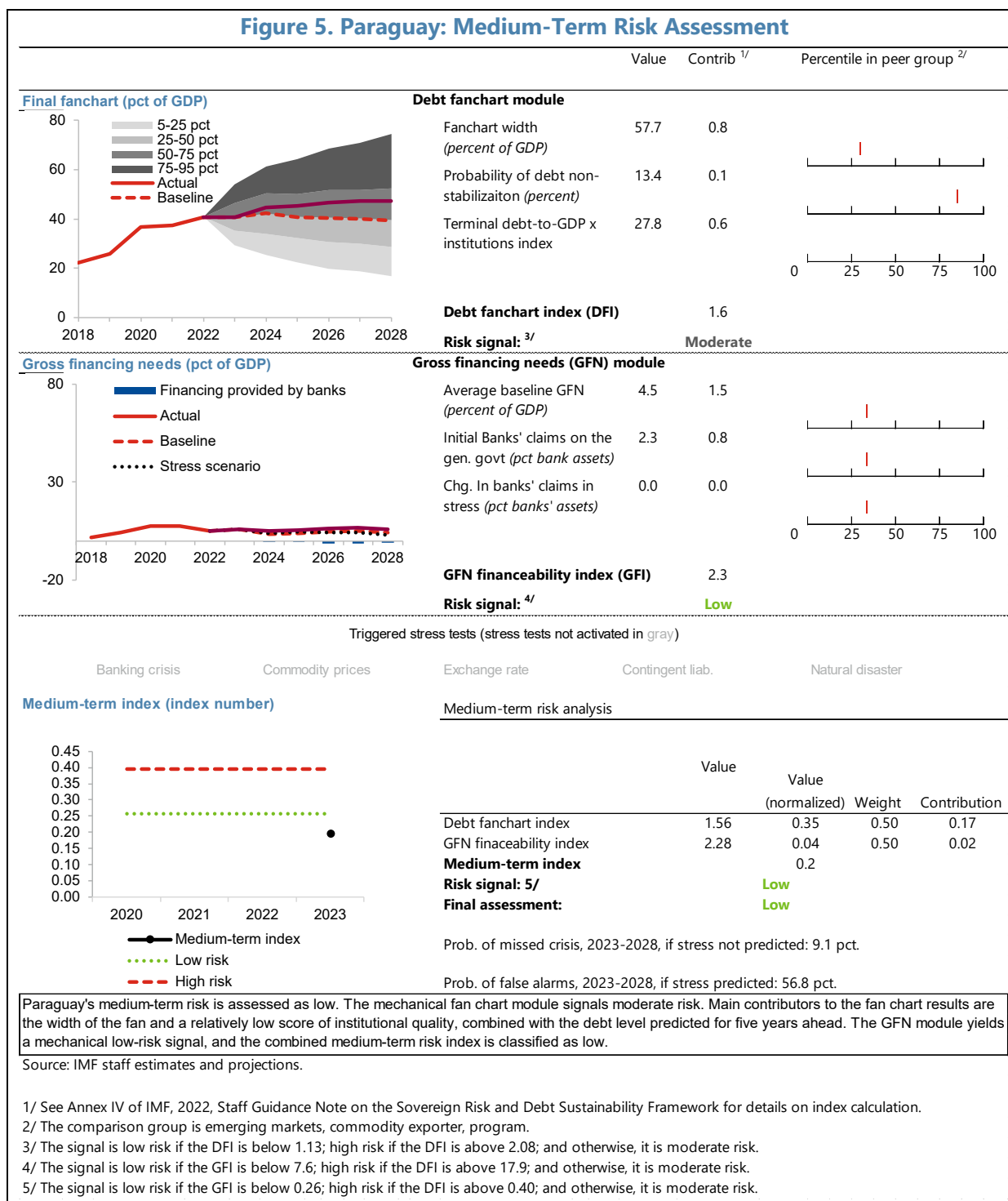
2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates).

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

Figure 4. Paraguay: Risk of Sovereign Stress

| Horizon | Mechanical signal | Final assessment | Comments |
|--|-------------------|------------------|--|
| Overall | ... | Low | Staff assesses Paraguay's debt as sustainable at the overall low risk level. The baseline debt trajectory shows a stabilizing trend. Paraguay's fundamental economic parameters are auspicious, and the overall short-term and medium-term risk assessments assign Paraguay's public debt a level of low risk. |
| Near term 1/ | n.a. | n.a. | Not applicable |
| Medium term | Low | Low | The mechanical Fan chart module (moderate) seems to overstate Paraguay's risks, based on external shocks in the past five year that added to (and went beyond) the COVID pandemic shock: drought, flooding, followed by more severe drought. The aggregate medium-term risk signal is calculated as "low". |
| Fanchart | Moderate | Moderate | |
| GFN | Low | Low | |
| Stress test | Comm. Prices | Low | |
| Long term | ... | Moderate | The long-term modules and simulations reveal significant risks to public debt from expected demographic developments, affecting both pension and health costs. The climate modules for adaptation and mitigation costs also have a potentially significant impact, but the results are highly sensitive to underlying assumptions. |
| Sustainability assessment 2/ | ... | Sustainable | Staff assesses Paraguay's debt as sustainable. |
| Debt stabilization in the baseline | | | Yes |
| DSA summary assessment | | | |
| Staff assesses Paraguay's debt as sustainable, at an overall low risk level. The baseline debt trajectory exhibits a stabilizing trend, backed up by the authorities' commitment to converge to compliance with Paraguay's fiscal rule (deficit ceiling of 1.5 percent of GDP). Paraguay's fundamental economic parameters are auspicious going forward, and the medium-term risk assessment assigns Paraguay's public debt a level of low risk. | | | |
| <p>Source: Fund staff.</p> <p>Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.</p> <p>1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.</p> <p>2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.</p> | | | |

Figure 5. Paraguay: Medium-Term Risk Assessment



1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.

2/ The comparison group is emerging markets, commodity exporter, program.

3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.

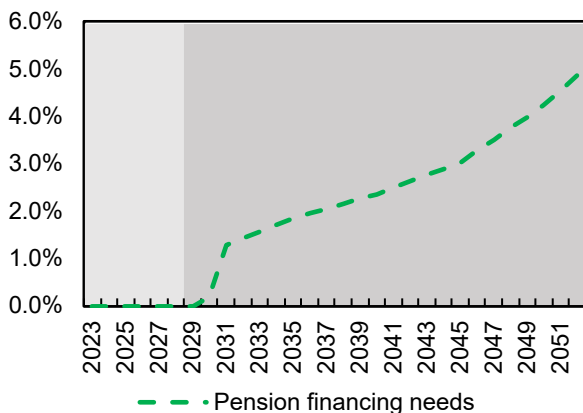
4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.

5/ The signal is low risk if the GFI is below 0.26; high risk if the DFI is above 0.40; and otherwise, it is moderate risk.

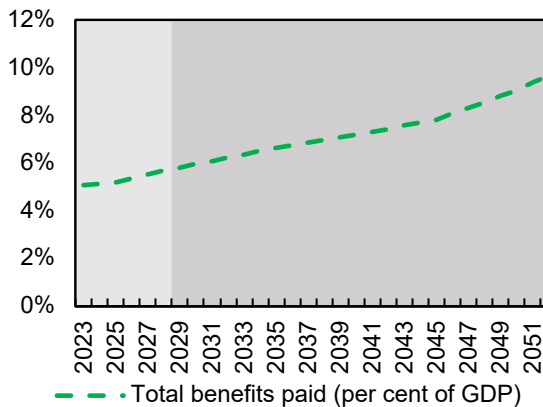
Figure 6a. Paraguay: Demographics – Pensions

| Permanent adjustment needed in the pension system to keep pension assets positive for: | 30 years | 50 years | Until 2100 |
|--|----------|----------|------------|
| (pp of GDP per year) | 2.1% | 4.8% | 8.9% |

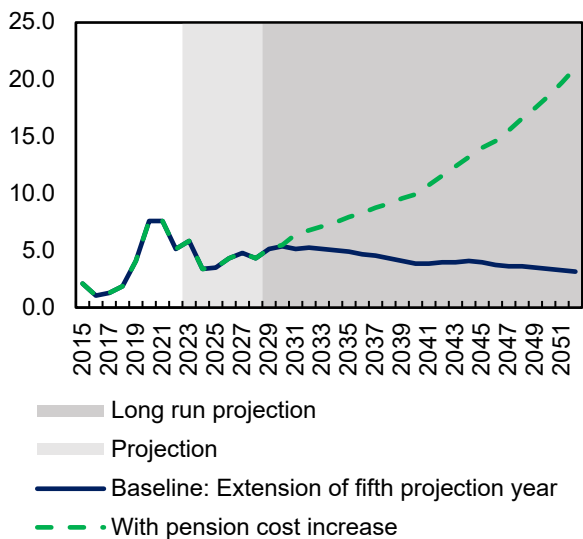
Pension Financing Needs



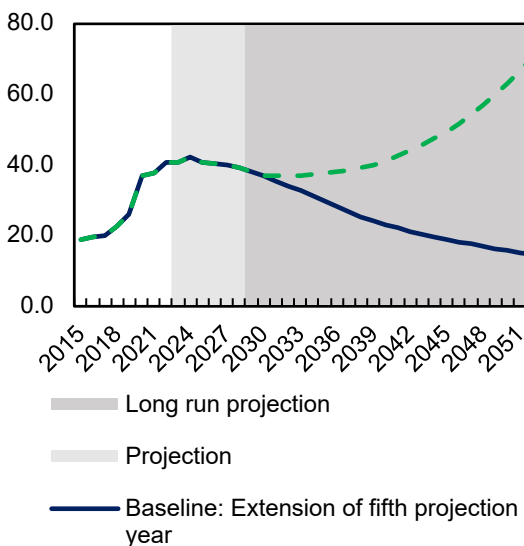
Total benefits paid



GFN-to-GDP ratio



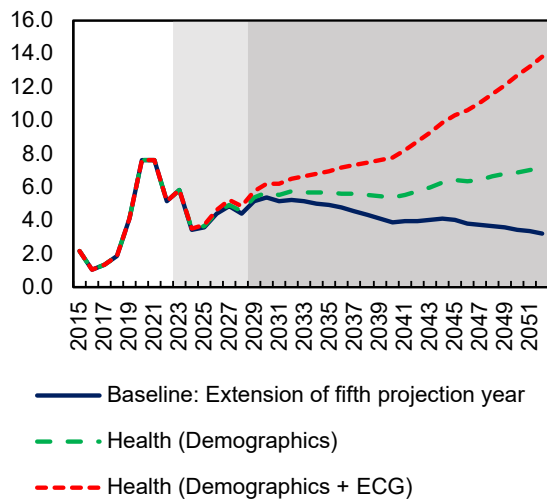
Total public debt-to-GDP ratio



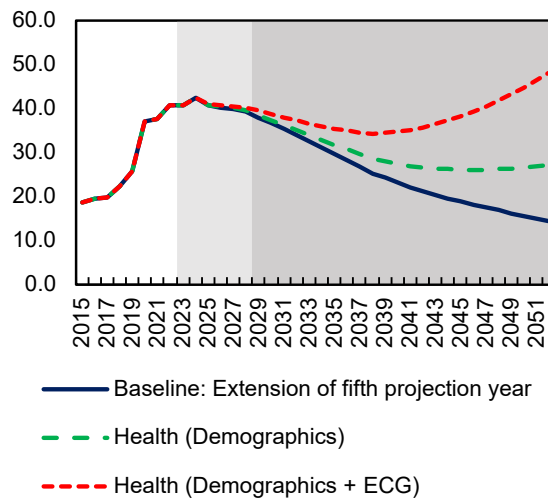
Long-term demographic projections reveal that Paraguay's pension financing needs will grow substantially over the next 30 years. If this issue is not addressed, public debt could increase to about 70 percent of GDP in 30 years.

Figure 6b. Paraguay: Demographics – Health

GFN-to-GDP ratio



Total public debt-to-GDP ratio



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

Figure 7. Paraguay: Long-term risk assessment – Large Amortization

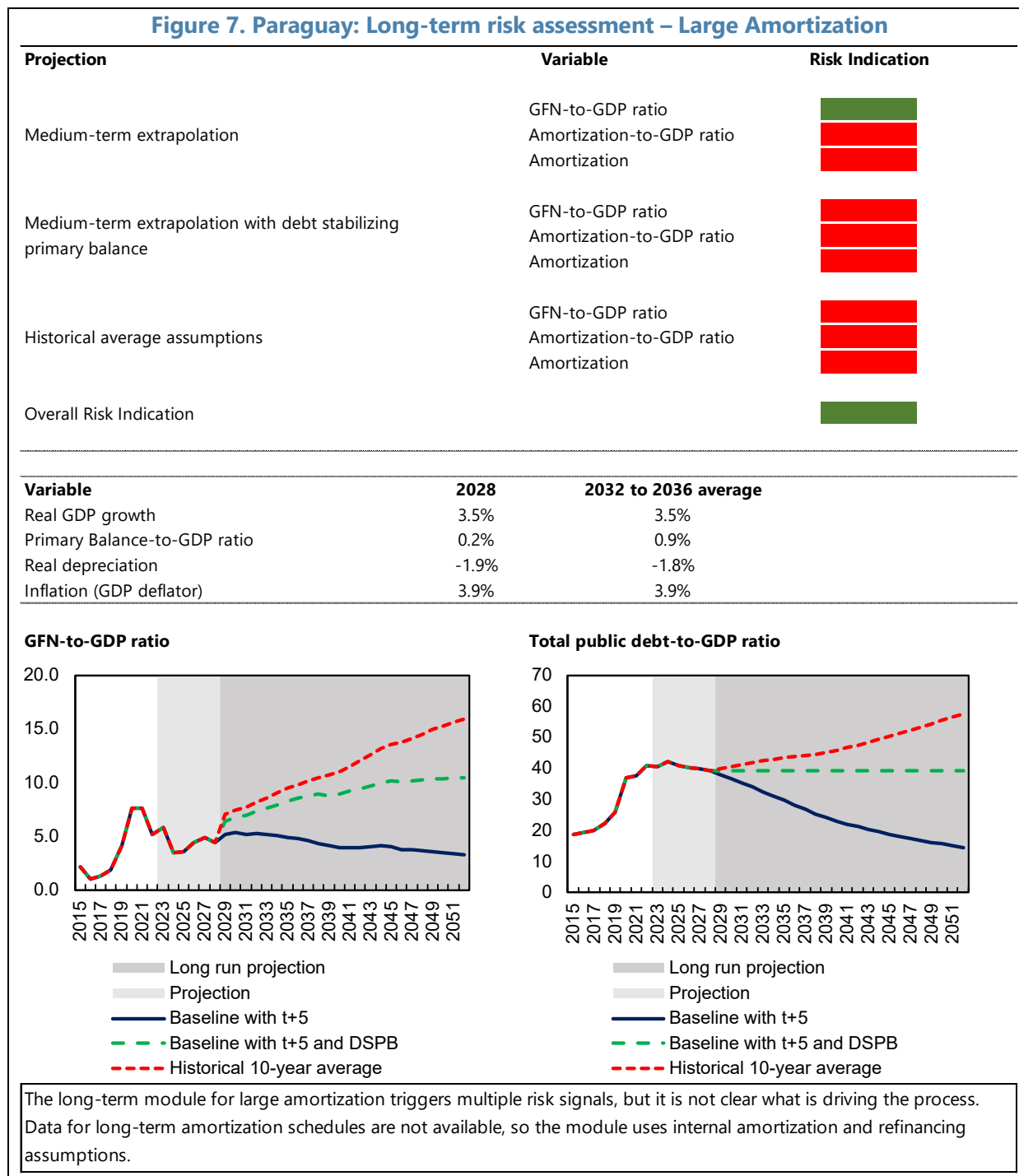
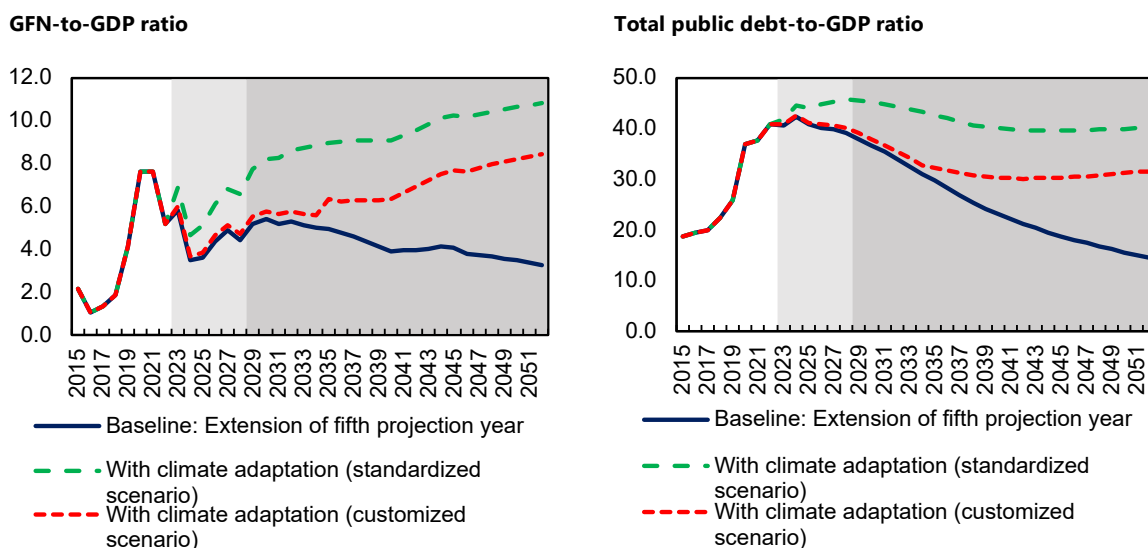
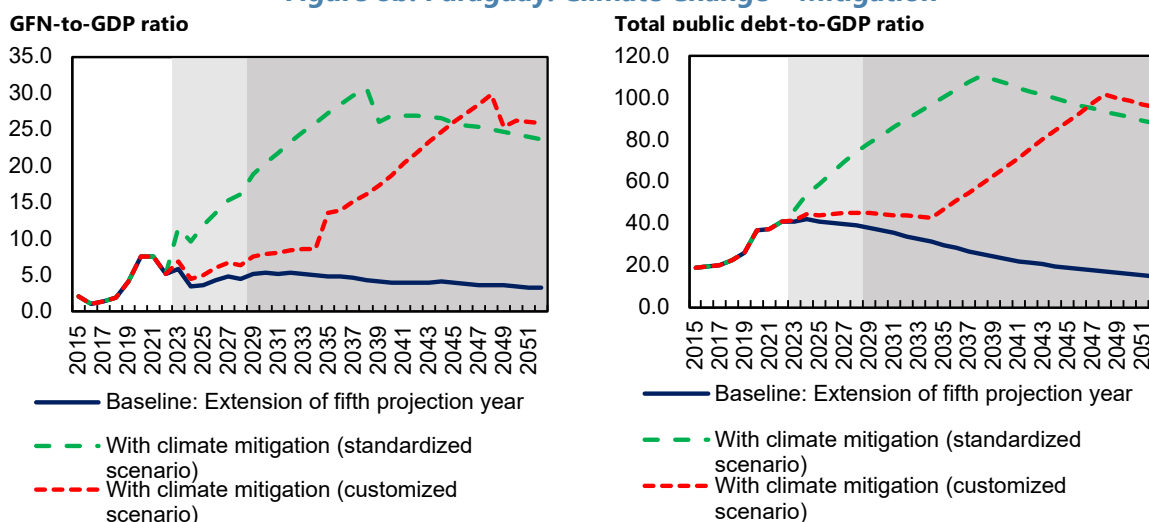


Figure 8a. Paraguay: Climate Change – Adaptation



The standardized scenario envisages additional annual adaptation costs of about 1 percent of GDP, whereas the customized scenario keeps them lower at 0.2 percent through the next 10 years. From 2035 throughout the rest of the projection period, the customized scenario uses the same parameters as the standardized model.

Figure 8b. Paraguay: Climate Change – Mitigation



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

Annex III. Risk Assessment Matrix¹

| Source/nature of risk (Likelihood / Time horizon) | Expected Impact and Recommended Response |
|--|--|
| External Risks | |
| <p>Intensification of regional conflict(s). Escalation 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>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 causing sudden stops in EMDEs. (Medium / ST)</p> <p>Monetary policy miscalibration. Amid high economic uncertainty and financial sector fragility, major central banks pause monetary policy tightening or pivot to loosen policy stance prematurely, de-anchoring inflation expectations, triggering a wage-price spiral and spillovers to financial markets. (Medium / ST)</p> <p>Commodity price volatility. A succession of supply disruptions and demand fluctuations causes recurrent commodity price volatility, external and fiscal pressures in EMDEs, contagion effects, and social and economic instability. (High / ST)</p> | <p>High. Markets of grains and meat might see unexpected volatility. In addition, the war affected the availability and prices of imported fertilizers, key for soy production. The government should continue facilitating access to alternative meat and fertilizer markets.</p> <p>Medium. 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>Medium. The government should continue to implement a successful data-driven inflation-targeting framework and continue to allow the exchange rate to work as an important shock absorber.</p> <p>High. Higher commodity prices would benefit fiscal revenues and trade balance, but supply disruptions could lead to production stoppages. Monetary policy should be calibrated to face scenarios with lower growth and volatile prices.</p> |
| <p>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 and risk premia, and asset repricing amid economic slowdowns and policy shifts trigger insolvencies in countries with weak banks or non-bank financial institutions, causing market dislocations and adverse cross-border spillovers. (Medium / ST)</p> | <p>Medium. Adverse financial conditions may trigger insolvencies in weak banks or non-bank financial institutions, causing market dislocations. The government should continue enhancing financial system supervision and the AML/CFT framework. Monetary policy should continue to allow the exchange rate to work as an important shock absorber.</p> |

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.

| Source/nature of risk (Likelihood / Time horizon) | Expected Impact and Recommended Response |
|--|--|
| External Risks | |
| Extreme climate events. Extreme climate events driven by rising temperatures cause loss of human lives, severe damage to infrastructure, supply disruptions, lower growth, and financial instability. (Medium / ST) | 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. |
| Domestic Risks | |
| Weather-related shocks (Medium to High / ST): The agriculture and energy sector may be adversely impacted by weather. Delayed rains and heat waves during the planting season may affect output and inflation. | 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. |
| Fiscal sustainability (Medium / ST, MT): After the large deficit spike in 2020 and 2021 due to the pandemic, and given numerous downside risks to the economy, returning to the proposed path for returning to the FRL stipulated deficit ceiling in the upcoming years could take longer than planned. | Medium to High. Fiscal stability is the cornerstone of macroeconomic stability in Paraguay, thus deviating from the path longer than planned could significantly impact investor confidence, raise financing costs, and affect growth performance. The government needs to strengthen its ability to raise revenues and control expenditure. There is a need for reforming civil services, public procurement processes, and address pension system imbalances. |

Annex IV. Capacity Development Strategy for FY23/24

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

Background

1. Over the past 15 years the Fund provided advice in the areas of tax reform, revenue administration, establishing a fiscal rule, transitioning to inflation targeting, and development of the statistical system. In 2017, Paraguay undertook an FSSR, which informed MCM's CD measures in the areas of banking supervision, stress testing, and insurance regulation and oversight. Paraguay has a strong track record of absorbing CD, and during the past two decades, the Central Bank and the Ministry of Economy and Finance (main recipients of Fund TA) have upgraded their institutional and operational capacity.

2. Collaboration with other partners has also been strong, particularly with the World Bank and the IADB (e.g., in the 2020 governance diagnostic assessment mission).

CD Priorities Going Forward

3. The CD program prioritizes four areas:

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

Paraguay, this would require improvements to select data, including on the granularity and timeliness of some of the data disseminated in the National Summary Data Page. IMF staff shared with the authorities the list of data missing to move to SDDS, including general government data and monetary and financial statistics.

Consultation with the Authorities

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

Political Appetite for Reforms

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

Appendix I. Program Statement

Asunción, December 4, 2023

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

Madam Managing Director:

Paraguay is recovering strongly from the 2021/2022 drought, and we have continued to address the main macroeconomic challenges while pursuing structural reforms. We expect GDP to grow by 4.5 percent in 2023, driven by agricultural production, electricity generation, services and manufacturing.

Further, the inflationary pressure that peaked in April 2022 was kept under control by the effective monetary policy by the Central Bank of Paraguay. Year-on-year inflation at end-June 2023 was 4.2 percent, which was below the consultation band stipulated for this period in the Policy Coordination Instrument (PCI). The Central Bank of Paraguay (BCP) remains cautious and started to reduce the monetary policy rate beginning in August 2023. The inflation projection for year-end is 3.8 percent, while inflation expectations for 2024, as of October, are well anchored to our inflation target (4.0 percent). In addition, our foreign exchange policy continues to be based on currency flexibility and despite the external challenges, our international reserves remain at adequate levels.

Also, in spite of the challenges faced this year, the fiscal position shows signs of strength and adaptability. We remain committed to transparency and efficiency and intend to regularize the outstanding claims with private contractors. In this context, the budget deficit for 2023 is expected to be 4.1 percent of GDP. We are convinced that these measures will strengthen government transparency and enable us to meet our fiscal rule target (budget deficit of 1.5 percent of GDP) in subsequent years.

This Program Statement describes the progress made to date and sets out the economic policies that the government and the BCP intend to implement during the rest of the program supported by the PCI. Based on this second review, the achievement of the PCI objectives has been varied, with the quantitative targets established for June 2023 being missed, albeit by narrow margins. The central government budget deficit, current primary expenditure, and net floating debt limits were exceeded by small margins. However, the continuous objective of zero accumulation of arrears in foreign debt payments was achieved. The deviation from the floating debt target was minimal and can be explained by temporary treasury liquidity constraints during the last days of June 2023 when

priority expenditures had to be made. We will strive to avoid such minimal deviations in the future by building additional buffers in our quantitative targets. The overshooting of the target of primary current expenditure is chiefly attributable to purchases of prioritized goods and services (such as medicines) ahead of schedule. We have made significant progress with the structural reform agenda. The legislation to set up a national commission tasked with reforming the public sector retirement system (Caja Fiscal) was presented to the National Congress. The number of large and medium-sized taxpayers added to the Integrated National Electronic Invoicing System (SIFEN) at end-June exceeded expectations. The administrative regulation for the new procurement law was enacted in August, and the draft law to reorganize government structure was presented to the National Congress in July. We are working on the updated version of the National Risk Assessment and on a draft law to formalize workers with plans to present and approve these two documents at end-2023. We would like to request to change the quantitative targets (QTs) for end-December 2023 and end-June 2024, as well as the approval of the QTs proposed for end-December 2024 presented in Table 1a. By the same token, we are updating our proposal for reform targets as stipulated in Table 2.

The successful implementation of the PCI encourages us to expand our policy objectives relating to climate change. Given countries' vulnerabilities to climate change, building a more resilient economy is of the utmost importance. We are intensifying our climate-related adaptation and mitigation efforts accordingly to support a transition toward a low-carbon growth trajectory. In this context, we are requesting access under the IMF's Resilience and Sustainability Facility (RSF) to a total of SDR 302.1 million (150 percent of quota) to be disbursed to provide direct support to the budget. The support of the RSF will help us to progress with our climate change adaptation and mitigation policies and to unlock additional official and private-sector financing. At the same time as requesting access to the RSF we would like to apply for an extension of our PCI in 12 months to run alongside our RSF request to underpin our reform efforts to maintain macroeconomic stability, pursue our ambitious reform agenda, and build greater socio-economic resilience.

The Program Statement attached to this letter sets out the economic policies and reform measures that the government and the BCP intend to implement to meet our program objectives supported by the IMF under the PCI and the RSF. This includes policies to continue strengthening our economy in accordance with the three pillars of the PCI: (i) ensuring macroeconomic stability and resilience; (ii) improving productivity and fostering economic growth; and (iii) strengthening social protection and inclusion. In addition, we include in the document a new matrix of reforms that will supplement our climate change adaptation and mitigation policies (Table 4). We have also completed a Memorandum of Understanding (MOU) between the Central Bank of Paraguay and the Ministry of Economy and Finance that clarifies the responsibilities for the timely servicing of the financial obligations with the IMF under the RSF arrangement.

The implementation of our PCI program will continue to be monitored using quantitative targets, continuous standards, and reform objectives, as well as an inflation consultation clause, while it is hoped that the financing under the RSF will be available once the proposed reform measures are implemented as described in the attached Program Statement and the Technical Memorandum of

Understanding (TMU). The PCI reviews will be carried out every six months to assess progress in implementing the program and to agree upon the additional measures needed to achieve its objectives. The program review supported by RSF will also be carried out every six months and will coincide with the PCI reviews. We will consult with the Fund over the adoption of new measures and in advance of any review of the policies contained in this letter and the attached Program Statement, in accordance with IMF consultation policies. Timely information will be provided as necessary to monitor the economic situation and the implementation of policies relating to the programs, as agreed either under the attached TMU or at the request of the IMF.

In keeping with our commitment to transparency, we wish to make this letter publicly available, together with the Program Statement, the Consultation with the IMF Executive Board on the inflation target not met under the PCI framework, and the TMU, as well as the IMF Staff Report on the Second review of the PCI supported program. We therefore authorize their publication on the IMF's website, subject to the approval of its Executive Board. These documents will also be published on the website of the government of Paraguay.

Sincerely yours,

/s/

Carlos Carvallo Spalding
President
Central Bank of Paraguay

/s/

Carlos Fernandez Valdovinos
Minister
Ministry of Economy and Finance

Attachments: Program Statement
Consultation with the IMF Executive Board on the inflation target not met under the
PCI Framework
Technical Memorandum of Understanding

Attachment I. Program Statement November 2023 – November 2025

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 and successfully passed its first review in June 2023. This nonfinancial instrument was welcomed by all economic stakeholders in Paraguay and continues to be supported by the new administration of the central government, the private sector, and civil sector groups.
2. **Our government has an ambitious plan to implement climate change adaptation and mitigation policies.** Accordingly, within this program statement we justify the practical actions that will be supported by access to the Resilience and Sustainability Facility (RSF).
3. **This program statement is adjusted to the new administration’s economic program for the remaining period of the PCI and the beginning of the program under the RSF.** The program will continue to be organized around three pillars: (i) ensuring macroeconomic stability and resilience; (ii) improving productivity and fostering economic growth; and (iii) strengthening social protection and inclusion. To date, progress has been seen in various areas: the process of reforming the public sector retirement system (Caja Fiscal), the scope of implementation of the Integrated National Electronic Invoicing System (SIFEN), the adoption of the regulation of the new procurement law, and the delivery to the congress of the draft law proposing the reorganization of government structure. The achievement of the PCI objectives has been varied, with the quantitative targets established for June 2023 being missed, albeit by narrow margins. In the next stage of the program, we will remain committed to achieving the subsequent targets for the benefit of all the people of Paraguay. With reference to the RSF program we describe below the matrix of reforms that we propose and the objectives that we would aim to meet in the short and medium term.

RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

4. **Paraguay is showing signs of a vigorous recovery in 2023 and positive economic growth is expected for 2024.** GDP growth of 4.5 percent is expected for 2023, based mainly on a rebound in agricultural production and electricity generation after the drought of 2021-2022. Likewise, a positive contribution is expected from the service sector and the manufacturing industry. On the demand front, growth is being driven by a solid performance in exports. However, there is a noticeable moderation in internal demand, attributed in part to a deceleration in investment, while private consumption is expected to grow. For 2024 positive GDP growth is also expected assuming a moderate/strong intensity of climatic phenomenon El Niño at the end of the year. Based on this assumption, it is hoped that the 2023-2024 crop year will continue to drive the primary sector, agro-industries, and trade in 2024.
5. **Annual inflation has declined rapidly in 2023, falling below our target of 4 percent since July.** We recently adjusted our 12-month inflation projections for end-2023 from 4.1 percent

to 3.8 percent, while envisaging 4 percent inflation in 2024. Against this background, the Monetary Policy Committee (MPC) of the BCP has reduced the monetary policy interest rate by 75 basis points since August (three consecutive reductions of 25 basis points) to a level of 7.75 percent.

6. Our fiscal situation reflects strength and ability to adapt. We are firmly committed to transparency and efficiency. At end-October, the annualized budget deficit was 3.2 percent of GDP. Nevertheless, we are adopting proactive measures to manage the outstanding claims with suppliers of the Ministries of Public Works and Health. In this regard, we project a budget deficit of 4.1 percent of GDP for 2023 (against 2.3 percent previously) with an allocation of US\$500 million (1.1 percent of GDP) for the regularization of the aforementioned claims. We hope that these actions will strengthen our economy and will guide us toward meeting our fiscal rule, which stipulates a deficit of 1.5 percent of GDP in the next few years.

7. The nominal exchange rate has remained relatively stable in 2023, in spite of a significant improvement expected in the external current account balance. The BCP reaffirms its commitment to a flexible exchange rate. As of October 2023, gross international reserves had increased by US\$367 million comparing to end-2022. It is hoped that the external current account will show a surplus of 0.2 percent of GDP in 2023 (-7.2 percent in 2022) thanks to the strong recovery in agricultural export volumes following the drought and the decline in global fuel prices.

8. Our country faces a series of international, regional, and local risks that could upset our projections. At the international level, the resilience of the United States' economy and the rebound in energy prices are factors that may slow down the convergence of inflation in that country. In this scenario, the US Federal Reserve could keep its benchmark rates at high levels for a longer time than previously anticipated. For emerging and developing economies, this would imply more restrictive financial conditions and, eventually, capital outflows and pressures on their currencies. Likewise, risk premiums could increase in this context of greater uncertainty. Regarding commodity prices, the global slowdown - particularly in China - could contribute to keeping the prices of agricultural and energy commodities stable or reducing them. However, cuts in global supply and the recent war in the Middle East have increased the volatility of the oil price, with an upward bias. In this sense, in addition to the upward risks in fuel prices, a divergence in the evolution of the prices of energy and food commodities could deteriorate the terms of trade of food exporting countries. Regarding the performance of trading partners, the uncertainty regarding the outcome of the electoral process in Argentina stands out. At the local level, weather conditions continue to be a risk for the economy. The possible occurrence in the coming months of a more intense than expected "El Niño" event could affect sectors such as agriculture, construction, and livestock.

STRATEGIC OBJECTIVES OF OUR REFORM PROGRAM UNDER THE PCI

Pillar I. Ensuring Macroeconomic Stability and Resilience

9. We will continue to implement reforms to reaffirm Paraguay's macroeconomic stability and resilience. Despite the urgent need to regularize expenses associated with services provided by the ministries of public works and health under past administrations, we remain committed to gradually reducing the budget deficit to the original cap of 1.5 percent of GDP under the Fiscal Responsibility Law (LRF) in the medium term. This objective will be achieved through the implementation of a number of fiscal reforms that will help strengthen fiscal governance. Monetary and foreign exchange policies will continue to focus on ensuring low, stable inflation levels and a flexible exchange rate. The new institutional structure of public finances will promote more efficient and better planned administration.

Fiscal Policies

10. We confirm our commitment to fiscal prudence, although we recognize that the goal of achieving a budget deficit of 1.5 percent of GDP, in line with the Fiscal Responsibility Law (LRF), will be postponed to 2026. This revision is due to unexpected challenges and the need to adapt our fiscal strategies to ensure stability and sustainable growth. The National General Budget for fiscal 2024 authorizes a deficit of 2.6 percent of GDP. The pathway toward fiscal consolidation has been affected by the need to address claims previously not recorded by suppliers of the Ministry of Public Works and the Ministry of Health. This has held up the original target of reaching a deficit in line with the fiscal rule (1.5 percent of GDP) for 2024. In the 2024 budget an increase in expenditure equivalent to 0.3 percent of GDP has been allocated for the purchase of goods and services over and above the previous provisions. Projected interest has also been revised upward (by 0.5 percent of GDP) while a quite conservative budget assumption has been made with respect to tax revenue, which has been revised downward to 10.0 percent instead of 10.4 percent of GDP. These three factors explain to a large extent a projected budget deficit of 2.6 percent of GDP in 2024, followed by a deficit of 1.9 percent in 2025. It is hoped that convergence with the fiscal rule deficit cap of 1.5 percent of GDP can be reached for 2026. We are committed to maintaining efficiency in allocation of resources, in particular in critical areas, such as health and education. Our approach is based on a reduction in the growth of public debt in terms of GDP in the medium term, to restore the fiscal buffer. We are also committed to maintaining low levels of net change in the level of 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 set forth in Table 1a.

Structural Fiscal Policies

11. Despite a complex fiscal background, we aim to press ahead with structural fiscal reforms to safeguard macroeconomic stability and enhance the resilience of the country to external and climate shocks, thereby ensuring a path of sustainable development coupled

with social protection and inclusion. Accordingly, we are working hard to create a supervisory body for pension funds, speed up reform of the Caja Fiscal, continue to modernize tax collection tools, and strengthen the regulatory framework of the Council of Public Companies. Similarly, in the medium and long term, we propose a new set of reforms: (i) assessing the fiscal losses due to inefficiencies in the laws governing special tax systems, and (ii) improving the treatment and registration of expenditures within the accounting and reporting system of the Ministry of Economy and Finance.

Institutional Changes

12. In an effort to achieve greater efficiency in public policy planning, design, and implementation we have changed our government structure. We have created the Ministry of Economy and Finance. This new organization incorporates the functions previously assigned to the Ministry of Finance, the Technical Secretariat for Planning (STP), and the Secretariat of the Civil Service. This ministry is structured with a Vice Ministry of Economy and Planning, which takes on the responsibilities of the STP and the Vice Ministry of Finance. In parallel, we have reformed the structure of our tax collection agencies with the establishment of the National Directorate of Tax Revenues (DNIT). The DNIT brings together the functions of the Undersecretariat of State of Taxation and the National Directorate of Customs, thereby strengthening and optimizing our efforts in tax collection and management. This combination also enables the exchange of information between tax revenues generated by the domestic economy and those originating from foreign trade. These reforms are aimed at strengthening the efficacy and efficiency of public administration, ensuring optimal allocation and management of government resources.

13. We are, thus, committed to strengthening the effectiveness of our new institutional structures. Accordingly, we are announcing clear, concise regulations to outline and guide the operations and responsibilities of the Ministry of Economy and Finance and the National Directorate of Tax Revenues (DNIT). These regulations are designed to ensure that both institutions operate with maximum efficiency, transparency, and accountability, ensuring that they are aligned with the country's broadest economic and fiscal objectives. This step reflects our unwavering commitment to the ongoing improvement and adaptability of our management of the economy and national finances.

Reform of the Public Sector Retirement System (Caja Fiscal)

14. We have sent to the National Congress the draft law on “creating the National Commission for the study of the Comprehensive Reform of the Public Sector Retirement and Pension System.” Contributions from the National Teacher’s Union, the Armed Forces, and the National Police are insufficient and result in recurring deficits that must be covered by the treasury or pensions from other sectors in surplus. This challenge highlights a system that is fragmented and unequal. It is urgent and imperative to undertake a comprehensive policy and technical analysis to develop a single regulatory framework in order to eliminate the various differences among existing regulations and standards and safeguard the sustainability of the system, taking into account the needs of active, retired, and pensioned civil servants. The comprehensive reform of the Public Sector

Retirement and Pension System is a significant challenge for the Paraguayan government that requires a widely accepted law to guarantee its effective implementation. In this context, a legislative initiative has been proposed to set up a commission composed of representatives of the three branches of government, civil and noncivil contributory sectors, academia, and the wider public. This commission will be responsible for developing a regulatory framework that addresses the financial and actuarial sustainability of the system, an issue that affects not only its members and beneficiaries, but the whole of society, given that a significant percentage of the deficit is financed by general taxes.

15. We are pursuing our efforts to ensure the establishment of a Superintendency of Retirement and Pensions, a key project that is currently being refined and improved. A specialized team has been allocated to complete the draft law with particular focus on including the lessons learned from previous initiatives and on incorporating useful recommendations to strengthen the regulatory framework. We recognize that the absence of a strong regulatory and supervisory organization has been a significant weakness in our current system, characterized by its fragmentation and the lack of risk diversification, regulation, and control mechanisms with regard to management of investments. These elements are crucial to ensure the availability of resources and the sustainability of the pension funds in the medium and long term. We are committed to a meticulous and collaborative process and expect that the revised and strengthened proposal will be ready for its submission to the National Congress at end-2023. This key step will mark a significant advance in our ongoing reform objective aiming to set up a more just, sustainable, and resilient retirement and pension system for all Paraguayans.

Improving mobilization of national public revenue

16. We are pleased with the significant progress in implementing electronic invoicing. Since April 2022, we have been rolling out e-kuatia, the Integrated National Electronic Invoicing System (SIFEN), an endeavor that we plan to finish in October 2024, with the goal that 80 percent of national invoicing will be carried out using electronic documents. We are pleased to report that we passed the initial target of incorporating at least 750 large and medium-sized taxpayers in the SIFEN by end-June 2023. The expansion and widespread adoption of the SIFEN will not only optimize the invoicing processes, but also strengthen the transparency, efficiency, and traceability of commercial transactions, thereby making a significant contribution to the modernization and digitalization of our economy,

17. We propose an objective of optimizing and modernizing the existing legal framework. We are in a process of reviewing and critically assessing the special tax regimes, including Law 60/90 to improve the alignment of tax incentives with Paraguay's sustainable growth and inclusive development priorities. We recognize that while the current incentive structure has been beneficial in many aspects, it requires a comprehensive review to ensure that it contributes effectively to attracting high quality investment, promoting innovation and competition, and generating good quality employment, without compromising fiscal integrity and sustainability. This review exercise will be carried out with a focus on participation, involving all stakeholders to ensure that the revision

of the law reflects the changing needs of our economy and society, and conforms to international best practice (**new reform target proposed, June 2024**).

Strengthen Fiscal Governance with a Credible and Responsible Convergence Plan

18. The government will implement measures to ensure compliance with the new fiscal convergence plan. A review was proposed in the fiscal convergence plan due to unexpected challenges and the need to adapt our fiscal strategies to ensure stability and sustainable growth. The new plan proposes a gradual convergence to the limit established in the Fiscal Responsibility Law (1.5 percent of GDP) in 2026.

Consolidating the Supervision and Management of Public Enterprises

19. To address contingent fiscal risks, improve public sector efficiency and sharpen strategic focus, we continue to improve the supervision and governance of the nine public enterprises. As we described in our Program Statement from the first review under the PCI, we met the proposed goal for December 2022 and reestablished the dashboard system to measure the performance of companies towards a results-based management model. Additionally, we remain committed to improving the supervision of Public Companies with the implementation of reforms in the Regulation of Law 5058/13 “Creating the National Council of Public Companies (SOEs)” through a new regulatory decree that will clarify and strengthen the role of the National Council of Public Companies, in addition to improving the regulatory framework and operating rules for SOEs. (**reform target, December 2023**)

Consolidating Supplier Payment Processes and Recording of Public Investment

20. We have made progress in recording accrued commitments. In 2022, delays in payments for public works contracts were identified. The contracting companies received payments through a debt assignment mechanism with commercial banks. We are working to strengthen the administration of credits of State Agencies and Entities, ensuring an adequate flow of information and resources to comply with contracts, without compromising the contractual relationship and aligned with the real capacity of the Public Treasury. A first step was already achieved in June when Decree No. 9537/23 was promulgated, which strengthens the control of the economic team over debt assignment operations. In order to avoid similar situations in the future, we also propose to include within the set of structural reforms, an objective that allows improving the management of public resources, including the registration of committed and accrued expenses within the new State Resource Management System (SIARE) (**new reform targets, June and December 2024**).

Monetary and Foreign Exchange Policies

21. We have successfully controlled inflation, which now lies below the inflation consultation band set for this review (Attachment II). Proactive management of the monetary policy rate proved crucial in mitigating inflationary pressures. We are pleased to report that our strategies have been effective and current inflation and medium-term inflation expectations are in

line with our target of 4 percent. We will continue to keep a close watch on the economic indicators to ensure price stability and maintain inflation within the required parameters.

22. We will maintain our commitment to the flexible exchange rate system. We only intervene in the foreign exchange market in exceptional circumstances to dampen extreme short-term volatility in the guaraní. Although exchange rate flexibility has been beneficial for the Paraguayan economy, we are aware of the susceptibility of our currency to real and financial shocks. Our foreign exchange market interventions are focused on preserving financial stability without compromising the flexibility inherent in our system of inflation targets. We will provide greater transparency in these interventions, strengthening the dissemination of relevant information through the Central Bank of Paraguay website, thereby ensuring that all stakeholders are informed about and confident of our monetary policy strategies.

Pillar II: Improving Productivity and Promoting Economic Growth

23. The second pillar is designed to improve productivity and to lay the groundwork for more diversified, inclusive economic growth through structural reforms. For this second PCI review we have met two reform targets. The first relates to the implementation of the administrative regulation for the Law on Public Supply and Procurement recently passed; the second concerns the completion of the draft law proposal to enable the structure of government institutions to be reorganized.

Streamlining Public Expenditure

24. The regulation of the law on the reform of Public Procurement was issued by decree, thereby meeting our commitment to the reform target (Decree 9823 dated August 11, 2023). Based on the recommendations of earlier technical support to improve the quality of public expenditure, the law reorganizing the procurement procedures through a more consistent, centralized approach was enacted; this was Law 7021 on Public Supply and Procurement, which focused on updating the current rules for the whole public procurement system. We are pleased to announce the implementation of a new regulation for this law, which represents a landmark in our ongoing efforts toward excellence in public administration. This set of rules was designed to strengthen the transparency, efficiency, and effectiveness of the procedures for procurement of public works, consultancy, and services. The National Directorate for Public Procurement (DNCP) was appointed to regulate and supervise the preparation of the Annual Procurement Plan (PAC), thereby ensuring that it takes place openly and transparently. We are convinced that this regulation will be instrumental in promoting an environment of integrity, accountability, and trust among the government, suppliers, and people of Paraguay.

Reorganizing Government Structure

25. We also met the target of submitting the draft law regulating the administrative organization of the government. This achievement is part of our ongoing endeavors to transform and optimize public administration, ensuring efficient use of resources and improving the quality of

the services offered to the people of Paraguay. The draft law presented is a key component in a series of legislative initiatives that seek to revitalize and modernize various institutional areas. It is designed to lay down clear rules and principles to guide the efficiency and effectiveness of public administration, in line with international standards and best practice. This draft law is based on the implementation of an efficient administrative organization that responds appropriately to the needs of the population, thereby safeguarding citizens' rights and fiscal sustainability. It introduces significant innovations, including the establishment of legal instruments for the creation and modification of government organizations, the classification of organizational functions, and the regulation of ministerial powers relating to sectoral coordination. In this context of transformation, we reaffirm our commitment to efficiency, transparency, and accountability, and we will continue to work tirelessly to ensure that our public institutions comply with the country's most far-reaching economic and social objectives.

Improving Governance and Reducing Vulnerability to Corruption

26. We will continue to strengthen our anticorruption framework. As part of our ongoing commitment to transparency and integrity in public administration, we are proposing significant initiatives to intensify the fight against corruption based on the National Anti-Corruption Strategy published on November 23. This step reflects our determination to implement deep, effective reforms that not only meet international standards, but also meet the expectations of our people for honest, efficient public administration. We are committed to standardize and homogenize the inconsistent definitions of the ministry of health and the social security institute (IPS) regarding purchases of medicine: making the standards for required medicines more consistent is expected to allay significant concerns regarding the cost of their purchases (**new reform target, December 2024**).

27. We will continue to strengthen the anti-money laundering and combating the financing of terrorism (AML/CFT) framework. The results of the 2021 evaluation of Paraguay's AML/CFT regime conducted by the Latin American Financial Action Task Force of Latin America (Grupo de Acción Financiera de Latinoamérica – GAFILAT) were discussed and presented for approval in July 2022. Paraguay approved the mutual evaluation process, which reflects a sufficient level of technical effectiveness and compliance with regard to combating money laundering, the financing of terrorism, and the proliferation of weapons of mass destruction. Following the approval of the report, Paraguay remains under GAFILAT's intensified monitoring program.

28. The target of finalizing and approving the updated National Risk Assessment was not met within the planned period, but we plan to complete it by June 2024 (new reform target). Despite the significant progress achieved in this project, the approval by the government, which had been expected by end-July 2023, is still pending. The identification and understanding of the risks of ML/FT in Paraguay is crucial, as this will lay a sound basis for the financial and nonfinancial institutions to review and update their risk assessment frameworks and models/matrices. We remain steadfastly committed to making progress in this vital area and we will ensure that robust measures are implemented to mitigate ML/FT risks in our country.

Strengthening the Business Climate

29. We also intend to renew the initiative to reform the legal framework for insolvencies.

We remain focused on the outstanding task of reforming the legal framework for insolvencies. This objective is part of a broader effort that includes the Law on Simplified Shares and the Law on Security Interests, forming a comprehensive set of reforms that, taken as a whole, will mutually boost their efficacy and impact. Despite the fact that an earlier attempt to modernize the law on insolvency was not approved by the Congress, we are committed to resuming our efforts and revitalizing this key initiative. We are using our best endeavors to present a revised and improved draft law to the Congress by June next year (**reform target**) with the aim of having it approved during the course of 2024.

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

In this area we propose a significant revision to the Law on Public-Private Partnerships. We recognize the need to make this law more attractive to the private sector, thereby facilitating more effective cooperation to drive innovation, efficiency, and investment in projects that are critical to the development of our country. We are in the process of preparing specific amendments with the aim of submitting them to the Congress by June 2024 (**new reform target**). We are confident that these changes will not only reinforce the confidence and participation of the private sector, but also accelerate the implementation of key projects, thereby generating employment, promoting innovation, and contributing significantly to the sustainable growth of Paraguay.

31. We propose a comprehensive upgrade of the framework of land ownership rights.

We are committed to developing a robust plan to enhance the integrity of the property register of public land, ensuring accurate and up-to-date documentation and records. This is a new reform target that we propose to meet by December 2024 (**new reform target**). Completion of this initiative will not only provide legal certainty and transparency regarding land ownership but will also boost both domestic and foreign investment by removing associated uncertainties and risks. In addition, a better property register will facilitate more efficient planning and land development, thereby contributing to the sustainable growth and wellbeing of our country.

Pillar III: Improving Social Protection and Inclusion

32. We are moving forward with restructuring the administration of social programs.

A significant restructuring is taking place in the administration of social programs in Paraguay, highlighted by the transfer of the Program for Senior Citizens from the Ministry of Finance to the Ministry of Social Development (MDS). This change, approved with slight changes by the Commission for Social Equity and Gender, is in line with the objective of consolidating and optimizing efforts in the field of social development. The MDS will take on responsibility for supervising and monitoring the implementation of Law 3.728/09, which guarantees a maintenance payment for senior citizens in poverty, thereby ensuring more focused and effective attention to this vulnerable segment of the population.

33. We remain steadfast with regard to the objective of strengthening the most important social programs. The Tekoporã program will see an increase of 25 percent in benefits for vulnerable families and payments to them will be made monthly instead of bimonthly, which will allow a better management of the beneficiaries' household budgets. This measure is designed to ensure that these families can offset the economic losses they suffer due to the increase in the cost of basic goods. The increase will be applied retroactively from July for the current program beneficiaries, with effect from September 1st. Tekoporã, which it is hoped will benefit 183,000 families, is proof of the government's commitment to improving the immediate wellbeing of the people. This policy reaffirms our dedication to breaking the vicious cycle of poverty and ensuring efficient management of resources to provide a decent life for more Paraguayans.

Systems for the Administration of Social Programs

34. The integration and optimization of the social programs is an ongoing priority for the government. Accordingly, we are in the process of implementing the Pension System (SIPEN), a technological tool designed to harmonize the administration of the social programs by end-2023 (**reform target**). Specifically, we propose to extend the step-by-step 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; and (b) Ministry of Childhood and Adolescence (MINNA) (**reform target**). These developments reflect our steadfast commitment to improving efficiency, transparency, and effectiveness of our social programs for the benefit of all Paraguayans.

Strengthening Social Inclusion

35. Social protection policy is a fundamental pillar for progress toward the fulfillment of economic and social rights. As part of our continuing initiatives to enhance social inclusion and protection in Paraguay, we are committed to implementing robust measures to safeguard the wellbeing and development of persons in situations of dependency and of those responsible for their care. The National Care Policy (PNCUPA) – 2030, led and coordinated by the Ministry for Women, is proof of our dedication to guaranteeing access to basic services and promoting a model of co-responsibility among families, government, private sector, and community. This integrated approach not only focuses on providing necessary support to those needing care, but also on safeguarding the employment rights of those, mostly women, who carry out caring roles within the family and social environment. We propose approving the Action Plan for the national care policy by the Interinstitutional Care Commission by June 2024 (**new reform target**).

Formalizing Employment

36. We are committed to continuing our efforts to reduce informal employment activity in Paraguay. To date, the target of achieving progress with the formalization of workers employed in micro-, small, and medium-sized enterprises (MSMEs) and self-employed workers has not been met. Although the technical team of the Ministry of Finance completed the initial draft law and a technical report on its implications for the labor market, the process of discussion among the parties

involved and representatives from the private sector, and its submission to the National Congress was not finished as planned by end-June 2023. We are reviewing the parameters of a new proposal to be submitted to the National Congress by March 2024.

Building Resilience in The Face of Climate Change

37. Paraguay will have to deal with major challenges arising from climate change. As evidenced by the droughts suffered in 2019 and 2022, Paraguay is vulnerable to the climatic shocks that are likely to recur with increasing frequency and intensity as a result of climate change. These droughts had a serious impact on agriculture, which is a key sector of the Paraguayan economy, and which contributes to global food security. They also significantly reduced the generation of renewable energy from the dams that we share with our neighbors Brazil and Argentina, as well as our own (Acaray). Further, droughts make it difficult to navigate the rivers that are the main gateway for international trade to our landlocked country.

38. However, the country also has great opportunities given the abundant wealth of our natural resources and our clean energy. Although we have faced economic challenges due to droughts and other climate-related natural disasters, we are intent on transforming these challenges into opportunities to strengthen our economy and contribute to global efforts to mitigate climate change. Our native forests cover 40 percent of the country's surface area and 15 percent of our surface area is in protected areas. Our laws prohibit deforestation in the eastern region and regulate it in the western region. The laws on carbon credits and environmental services offer market incentives for the preservation and planting of forests. Also, our "First Forest Restoration Plan" will guide our efforts to continue to protect our forests to reduce the global carbon footprint, to which we have barely contributed. Our completely green electrical grid is another environmental asset that has helped to reduce emissions in our country and that of our neighbors for decades. We propose to preserve and expand this grid, including its use for the production of new sustainable energy, such as green hydrogen.

39. As part of the program under the Resilience and Sustainability Facility (RSF) we commit to implement a series of adaptation and mitigation measures. These initiatives will be in line with our Nationally Determined Contribution (NDC) updated in 2021 and the Framework Law on Climate Change of 2017. Given the small contribution of the Republic of Paraguay to global emissions of greenhouse gases and its high vulnerability to climate change, exacerbated by its position as a landlocked country, adaptation to climate change is the national focus of primary importance. Our NDC identifies seven areas for our adaptation efforts: resilient communities and cities; health and epidemiology; ecosystems and biodiversity; energy; agricultural and forestry production and food security; water resources; and transport. In addition, we commit to reducing by 10 percent the projected emissions under the Business as Usual (BAU) scenario for 2030 unconditionally, and a 10 percent additional reduction that is conditioned to international support. To reach these goals, we will work in five key sectors: agriculture; land use; changes in land use change and forestry; use of industrial products and processes; waste; and energy.

40. **The RSF will support our endeavors in four reform areas.**

- First, we will incorporate climate considerations in the management of public investments. Additionally, we will continue our analysis of fiscal risks arising from the impacts of climate and the associated debt sustainability assessments, in conjunction with the classification of national budget expenditures taking into account climate considerations.
- Second, we will strengthen the financial system and the generation of climate-related financing. We will develop our green taxonomy to facilitate the mobilization of national and international financial resources to combat climate change. We will seek to reinforce our financial system by including climate issues in risk management and the presentation of reports by the financial institutions. Further, we will promote the issuance of green bonds and work toward the issuance of sovereign green bonds in 2024.
- Third, we are committed to preserving and expanding the green electricity sector in Paraguay and to mitigating the CO₂ emissions of the transport sector. This will involve regulating and implementing new laws relating to nonconventional renewable energies and electromobility. The role of electromobility in transport will be strengthened by replacing selective taxes on fuels with explicit carbon taxes. We will also reform the operations of the public sector electricity company (ANDE) to reduce its losses and adjust its electricity tariffs following the results of an audit and technical study; additionally, we will introduce energy efficiency standards.
- Finally, we will protect Paraguay's strategic natural and physical assets. This area will include improving forest conservation, enhancing measurement, reporting, and verification (MRV) systems, and reducing methane emissions through sustainable waste management.

41. We are facing a significant challenge, but we are prepared to take specific measures to strengthen Paraguay's climate resilience and sustainability. These reforms, together with our development partners, will not only enhance Paraguay's resilience to climate change, but will also position our country at the forefront of green energy production and export, thereby making a significant contribution to global efforts to combat climate change. In line with these objectives, we propose the following set of reforms (details in Table 4):

Sustainable Management of Public Investment

42. We propose a public investment approach focusing on projects that are economical and environmentally sustainable (RM1). This strategy will ensure that public investments drive economic growth and contribute to the reduction in carbon footprint, strengthening the country's resilience to climate change. To this end, the Ministry of Economy and Finance (MEF) will revise Decree 4436/20 to include aspects relating to climate in the design, selection, and evaluation of public investment projects. The results of these efforts will be published on the MEF website by November 2024 (**reform measure**).

Resilient financial sector and mobilization of financial resources to combat climate change

43. Green taxonomy (RM2). The MEF and the Central Bank of Paraguay (BCP) will implement a Green Taxonomy by November 2024 that will be aligned with our Nationally Determined Contributions (NDCs), which is essential to identify and classify environmentally sustainable economic activities clearly (**reform measure**). This initiative will be crucial for investors, policymakers, and enterprises by promoting transparency and consistency in the financial markets to support the efforts to adapt to and mitigate climate change, as well as enhancing informed decision-making.

44. Inclusion of climate-related risks in the financial sector risk assessment framework (RM3). We will include climate-related risks in the financial sector risk assessment framework. The BCP will, therefore, adopt a climate-related financial risk assessment and monitoring framework for the banking sector, which will include reporting requirements and a data warehouse for these institutions' significant climate-related financial risks. The BCP will also issue supervisory guidelines by May 2025 so that the banks incorporate climate-related risks in their risk management frameworks along with deadlines for their adoption (**reform measure**). This measure will ensure that our financial institutions are prepared to identify, manage, and mitigate environmental risks, thereby protecting the stability and integrity of the sector in the face of changing climatic conditions and developing the capacity to carry out financial stress tests against future climate-related shocks.

Policies for a Sustainable Energy Sector

45. Nonconventional renewable energy (RM4). Ensuring that Paraguay maintains its status as a clean energy producer and exporter is one of our government's key priorities. Paraguay currently has a completely renewable electrical grid and exports surplus energy to neighboring countries, accounting for 4 percent of GDP in 2022. However, it is expected that the surplus production will disappear around 2031-2032 as demand for electricity continues to increase. Given the historical dependence of Paraguay on its three hydroelectric plants, Itaipú, Yacyretá, and Acaray, RM4's objective is to set up the regulatory framework to include alternative sources of renewable energy in the national electricity system, incorporating interconnection rules for different types of agents (generators, cogenerators, autogenerators, and exporters), setting the tariffs to be received for the additional electricity fed into the National Electricity System, establishing tax exemptions for key inputs needed to install solar power plants and wind farms, and specifying permits that will govern the relationship between generators and the public sector electricity company (ANDE) (**reform measure**).

46. Independent audit for ANDE, technical study to determine efficient costs (RM5), and a tariff adjustment mechanism (RM6). To improve sustainability in the energy sector it is necessary to improve governance, set up a transparent tariff adjustment mechanism, reduce losses, and increase efficiency of demand. To this end, an independent audit will be carried out by November 2024 led by an international firm of good standing (**reform measure**). This firm will also provide a study to establish the costs of ANDE by business segment and compare them with similar enterprises. Using this audit and study as inputs, and the results of reform measure RM8 below,

ANDE will develop, publish, and gradually adopt specific, transparent methodologies to adjust electricity tariffs by May 2025 (**reform measure**), in consultation with the Vice Ministry for Mines and Energy and the National Public Enterprise Council. The tariffs will be adjusted accordingly. In the long term, the governance reforms should aim for the separation of the activities of generation, transmission, and distribution, and to establish a manager of the transmission network capable of setting transmission tariffs transparently for private generators. In the short term, however, RM5 aims to attract an international firm of good standing, selected using strict, transparent, and accountable criteria to audit ANDE's financial statements. Our end goal is that ANDE should be able to access the capital markets without needing a sovereign guarantee. It is important to ensure that ANDE is protected from potential negative financial impacts as alternative sources of renewable energy are included, which will probably increase ANDE's average cost, given the low costs of production of the existing hydroelectric plants. The methodology in RM6 should be in force by the time ANDE is obliged to buy variable renewable electricity from generators, so that the electricity tariffs are adjusted accordingly, reflecting the higher average costs.

47. Energy efficiency (RM7). Demand for energy is driven both by relatively low electricity prices and by the need for air conditioning, particularly during the summer. RM7's objective is to increase energy efficiency by announcing and implementing efficiency standards for the electrical household appliances that consume the most energy. The implementation of efficiency standards in the residential sector for lighting, air conditioning, refrigeration, electric transformers, and electric motors could save up to 5,500GWh, equivalent to US\$396 million for 2030.¹ In the long term, we remain committed to supporting households in replacing old electrical appliances with other more efficient ones. The efficiency standards (**reform measure**) will be established by June 2024 by work groups led by the Vice Ministry of Energy and the Ministry of Industry and Commerce who will bring together the National Institute of Technology, Normalization and Methodology, importers, retailers, and producers to join in creating the efficiency standards based on international best practice as established by the International Organization for Standardization (ISO).

48. Reduction of losses and dynamic electricity tariffs (RM8). To manage demand and reduce maximum costs, ANDE may use price signals to spread demand over various time periods. RM8's objective is to develop, publish, and gradually adopt a plan to reduce ANDE's technical and nontechnical losses by November 2024 (**reform measure**). This will include the implementation of at least 20,000 smart meters, which on the one hand, will reduce transmission and distribution losses and, on the other hand, will gradually enable hourly rates to be set. According to estimates by ANDE, the roll out of 350,000 smart meters could reduce losses from 26 percent to 15-18 percent, which could have a significant impact on costs of production, including a lower peak load. The smart meter implementation strategy will prioritize consumers who account for a high percentage of income and consumption of electricity. Further, ANDE will increase its inspections by about

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

10 percent to reduce the theft of electricity. ANDE reported that it carried out about 16,000 inspections in 2022.

Reduction of Residential and Transport Sector Emissions

49. Carbon tax on liquid fuels (RM9). The transport sector accounts for 90 percent of energy-related emissions. To address this source of emissions, RM9 aims to introduce an explicit carbon tax (changing the taxable base from liters to carbon content, by ton of CO₂ equivalent) on liquid fuels by May 2025 (**reform measure**). Through RM9 we will establish a carbon tax based on the level of the current tax on diesel, which will also be applied to gasoline and liquid petroleum gas (LPG). The selective taxes on consumption of gasoline and LPG will be reduced so that the total effective tax rate on each fuel does not change. The carbon tax rate will be reviewed and adjusted according to the result of a published technical analysis from MEF and BCP. This analysis will be conducted periodically to assess changes in the tax, conditional on the state of macroeconomic variables and the initial carbon price when the policy was originally implemented. The tax will be established in accordance with Paraguay's climate ambition..

50. Electrification of private transport and electric public buses (RM10). The electrification of the vehicle population in Paraguay will enable all the benefits of a clean generation system to be retained internally, as well as reducing the balance of payments needs arising from imports of oil and fuel, which accounted for 5.5 percent of GDP in 2022. The government introduced a tariff exemption for electric and hybrid vehicles by way of the Law on Electromobility. RM10 aims to restrict the exemption to electric vehicles, as a way to limit the fiscal cost of promoting the adoption of electric vehicles. In addition, through this measure and in the context of the ordering of public transportation in Asunción, we will start to roll out public charging infrastructure and we will develop regulations to select the operating model for electric public transportation taking into consideration experiences in other cities by November 2024; this work is the responsibility of the Vice Ministry of Transport (VMT) and the work group on electromobility (**reform measure**).

Forest Conservation

51. Register of industrial biomass users and Joint Intervention Protocols (RM11). We estimate that 90 percent of the industrial sector consumes biomass at some point in its value chain, while there are biomass-intensive users among small and medium-sized enterprises in the construction industry. So far, we do not have information on the number of biomass consumers. To address this information gap, RM11 will replace Decree 4056 of 2015 by June 2024 to set up a register of industrial biomass users and to lay down the requirements for the use of biomass (**reform measure**). Further, the National Forestry Institute (INFONA), the Ministry of Environment and Sustainable Development (MADES), the National Police, and the National Anti-Drug Secretariat (SENAD) will regulate and implement a decree to provide joint intervention protocols for change of land use based on the National Forest Monitoring System; this will enable greater coordination among the many public agencies to ensure more effective coordination of the response to illegal change of land use, including coordination with the Public Prosecutor's Office.

52. Institutional reform to strengthen INFONA (RM12). In the past few years, INFONA has played a leading role in the protection of native forests, in processing data and developing a deforestation early warning system. RM12 aims to build the institutional and financial capacity of INFONA to protect native forests and respond to deforestation alerts by changing its structure by June 2024. This includes setting up a National Directorate for the National Forest Monitoring System (**reform measure**) to adopt the system for Measurement, Reporting, and Verification of emissions in accordance with the United Nations Framework Convention on Climate Change (UNFCCC) standards to increase transparency in emissions accounting, including independent third-party verification.

53. Methane emission capture. The law 7014/2022 promotes the reutilization, recycling, and use of plastic (polyethylene terephthalate) containers. It is part of our National Plan for the Comprehensive Management of Urban Solid Waste that we are implementing and have developed with the support of UNDP and GEF. The law establishes targets for the private sector sustainable management and reutilization of plastic containers that are aligned with our NDC as well as economic incentives that will be supported by our national Climate Change Fund. The private sector arm of a regional development bank plans to support these efforts once the law is in force. To facilitate this project and contribute to the better management of waste and contain methane emissions, MIC will enact the regulation of the law 7014/2022 by May 2025 (**reform measure**).

PROGRAM MONITORING

54. 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 proposed for end-December 2023, end-June 2024, and end-December 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 staff also agreed the reform targets shown in Table 2 of this Program Statement and reform measures under the RSF in table 4. The third review is scheduled to be completed by June 1, 2024, the fourth review by November 1, 2024, the fifth review in May 2025, and the sixth review in November 2025. The definitions are provided in the attached Technical Memorandum of Understanding (Attachment III).

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

| | 2022 | | | 2023 | | | 2024 | | | | | |
|---|------------|------------|------------|------------|------------|-----------------------------|------------|-------------|------------|-------------|-------------|--|
| | end-Dec | | | end-Jun | | | end-Dec | | end-Jun | | end-Dec | |
| | Prog. QT | Actual | Status | Prog. QT | Actual | Status | Prog. QT | Proposed QT | Prog. QT | Proposed QT | Proposed QT | |
| I. Quantitative Targets (QT) | | | | | | | | | | | | |
| 1 Ceiling on the central government fiscal deficit (in billions of guaraníes) 2/ 3/ | -8,733 | 1,746 | Met | -4,280 | -4,300 | Not met | -7,345 | -13,264 | -1,484 | -3,249 | -9,106 | |
| 2 Ceiling on current primary expenditure of the central government (in billions of guaraníes) 2/ | 34,746 | 35,075 | Not met | 17,849 | 17,964 | Not met | 38,178 | 39,733 | 18,269 | 18,896 | 41,345 | |
| 3 Ceiling on the net incurrence of floating debt by the central government 4/ | 500 | 738 | Not met | -1,617 | -1,614 | Not met | 500 | 1,643 | -2,117 | -1,800 | -1,500 | |
| II. Continuous Targets | | | | | | | | | | | | |
| 4 Ceiling on accumulation of external debt payment arrears by the central administration (in millions of U.S. dollar) | 0.0 | 0.0 | Met | 0.0 | 0.0 | Met | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| III. Inflation Consultation Band 5/ | | | | | | | | | | | | |
| Upper band limit (2 percent above center point) | 10.8 | ... | | 8.5 | ... | | 6.1 | 6.1 | 6.1 | 6.1 | 6.0 | |
| <i>End of period inflation, center point 6/</i> | <i>8.8</i> | <i>8.1</i> | <i>Met</i> | <i>6.5</i> | <i>4.2</i> | <i>Actual is below band</i> | <i>4.1</i> | <i>4.1</i> | <i>4.1</i> | <i>4.1</i> | <i>4.0</i> | |
| Lower band limit (2 percent below center point) | 6.8 | ... | | 4.5 | ... | | 2.1 | 2.1 | 2.1 | 2.1 | 2.0 | |
| IV. Memorandum Items | | | | | | | | | | | | |
| Social assistance benefits 2/ | 2,906 | 2,921 | Met | 1,434 | 1,466 | Met | 3,338 | 3,376 | 1,666 | 1,817 | 3,975 | |

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 Met |
| 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 Met |
| 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 Reform target rescinded |
| 4a | Strengthen the oversight and strategic management of Public Enterprises | Revise per decree the regulations of 'Law 5058/13 Creating the National Council of Public Companies' to clarify and strengthen the role of the supervisory Council of Public Companies. | End-December 2023 Proposed new reform target (replacing target 4) |
| 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 Met |
| 6 | Mobilize additional revenue by reducing tax expenditure | Prepare an analysis of tax losses due to inefficiencies in the laws of special tax regimes and draft a proposal to minimize these inefficiencies. | End-June 2024 Proposed new reform target |
| 7 | Improve public expenditure control | Implement and put into operation the SAByS submodule of the new Integrated State Resource Management System (SIARE) of the Ministry of Economy and Finance, with coverage of expenses for goods and services in their commitment state. | End-June 2024 Proposed new reform target |
| 8 | Improve public expenditure control | Integrate coverage of public works expenditures in their commitment state to the SAByS submodule of the SIARE system. | End-December 2024 Proposed new reform target |
| Pillar II: Enhance Productivity and Foster Economic Growth | | | |
| 9 | 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 |
| 10 | Rationalize public spending | Complete and enact the administrative regulation for the new procurement law. | End-June 2023 Not met, measure was completed in August 2023 |
| 11 | 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 Met |
| 12 | 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 |
| 13 | Strengthen the AML/CFT regime | Complete and approve the updated version of the National Risk Assessment. | End-July 2023 Not met |
| 13a | Strengthen the AML/CFT regime | Complete and approve the updated version of the National Risk Assessment. | End-June 2024 Proposed new reform target |
| 14 | 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 In progress |
| 15 | Enhance private sector participation in infrastructure investment | Modify the Law on Public Private Partnerships (PPP) to make it more attractive to the private sector and send the amended version to one of the two chambers of Congress. | End-June 2024 Proposed new reform target |
| 16 | Implement the anti-corruption strategy | Standardize the technical specifications of the List of Essential Medicines of the Ministry of Health and the vade mecum of the Social Security Institute (IPS). | End-December 2024 Proposed new reform target |
| 17 | Improve the framework for land property rights | Develop a plan to enhance the integrity of the public land cadaster, ensuring accurate and up-to-date documentation and records. | End-December 2024 Proposed new reform target |

Table 2. Paraguay: Reform Targets for 2022–24 (concluded)

| Pillar III: Enhance Social Protection and Inclusiveness | | | |
|---|---|---|--|
| 18 | 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 Not met. New proposed test date: end-March 2024 |
| 19 | 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 |
| 20 | Integrate the information system for beneficiaries of social programs | Implement the guidelines of decree No. 6833 of March 2022 "SIPEN" (Pension Information System), Article 1, subsection b, to the beneficiaries of the "Coordination of Various State Obligations" (CODE). | End-March 2024 Modified target and modified test date (from Dec 2023) |
| 21 | Integrate the information system for beneficiaries of social programs | Implement the guidelines of decree No. 6833 of March 2022 "SIPEN" (Pension Information System), Article 1, subsection b, to the social program of the Ministry of Children and Adolescents (MINNA). | End-June 2024 Modified target |
| 22 | Enhance social protection of vulnerable groups | Approval of the Action Plan of the National Care Policy of Paraguay 2030 (PNCUPA) by the Interinstitutional Care Commission (CIC). | End-June 2024 Proposed new reform target |

Table 3. Paraguay: Reviews of the Policy Coordination Instrument, 2022–25

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

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

| Key challenge | Reform measures | Review |
|---|---|------------|
| Public investment is not resilient to climate shocks | 1 MEF to amend and publish the Decree 4436/20 to incorporate climate aspects at each stage of project development of public investment projects (appraisal, selection, external audit etc.) in line with Fund TA recommendations. | 4th Review |
| Lack of financial resources to support adaptation and mitigation efforts | 2 MEF and BCP to publish a green taxonomy aligned with Paraguay's NDC. | 4th Review |
| Vulnerability of financial sector to climate shocks | 3 BCP to: (i) establish reporting requirements and a data repository for material climate-related exposures of banks; (ii) adopt a framework to monitor and assess climate-related financial risks for banking sector; and (iii) issue supervisory guidelines for banking sector to incorporate climate-related risks to their risk management frameworks, along with timelines for the adoption of the guidelines. | 5th Review |
| Preservation and expansion of clean electricity matrix | 4 MOPC and VMME to enact regulation of the non-conventional renewable energy law 6977/2023, including (1) the specification / rationalization of economic incentives, (2) technical aspects (i.e., requisites to connect to the national interconnection system, detailed criteria for licenses, and conditions that would enable an effective development of non-hydro non-conventional renewable energy through all the defined players (generators, co-generators, self-providers, and exporters)). | 3rd Review |
| | 5 ANDE to publish an external audit and a study of international benchmarks for its costs at different segments of its operations and efficiency parameters by an internationally reputed firm. | 4th Review |
| | 6 ANDE to develop, publish, and gradually adopt transparent and well-specified methodologies for adapting electricity tariffs in line with Law 966/64, accounting for operating costs, the financial costs of projected capital spending needs for preserving and expanding the clean electricity matrix, and efficiency gains on the basis of the results of the external audit and study by an internationally reputed firm (RM5), and the evolution of losses according to the plan in RM8. | 5th Review |
| | 7 MOPC/VMME and MIC to establish by decree energy efficiency standards for the three appliances that represent the largest share of household electricity consumption in line with international benchmarks by the International Organization for Standardization. | 3rd Review |
| | 8 8a. ANDE and MOPC/VMME to develop, publish, and gradually implement a plan for ANDE loss reduction with quantitative targets, to install 20,000 smart meters to reduce non-technical electricity losses. 8b. ANDE to implement progressively hourly/dynamic tariffs. 8c. ANDE to increase inspections against electricity theft by 10 percent above same period in 2023. | 4th Review |
| CO2 emissions from the transport and residential sectors | 9 MEF, in coordination with DNIT, to adopt an explicit carbon tax replacing existing excise taxes on liquid fuels. | 5th Review |
| | 10a. MOPC/VMME-VMT, MIC and MEF to enact regulation of the Electromobility Law 6925/2023, and to adjust fiscal incentives in favor of electric vehicles. 10b. MIC, MOPC/VMT and ANDE to install additional electric public charging infrastructure. VMT to lead the selection of the operational model and develop regulations for electric public transportation in the metropolitan area of Asuncion and set targets for an increased share of electric buses in the metropolitan area of Asuncion. | 4th Review |
| Conservation of forests | 11 INFONA, MADES, MOPC/VMME, and MAG to replace the Decree 4056 of 2015 to create the registry of industrial biomass users and establish the prerequisites for the use of biomass. INFONA, MADES, National Police and SENAD will regulate and implement a decree to create joint intervention protocols for land use change using the National Forest Monitoring System. The institutions in charge of the protocol will coordinate with other institutions of the Estate, including the Attorney General, to ensure the interventions in the protocol. | 3rd Review |
| | 12 INFONA to change its normative framework aiming at strengthening its institutional and financial capacities to protect native forests and respond to deforestation alerts. This includes the creation of a National Directorate for the National Forest Monitoring System. | 3rd Review |
| Contain methane emissions | 13 MIC to enact regulation of the law 7014/2022 that promotes the reutilization, recycling, and use of plastic (polyethylene terephthalate) containers. | 5th Review |

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

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

Source: IMF staff estimates

Attachment II. Consultation With the IMF Executive Board on the Inflation Target not Met Under the PCI Framework

In June, year-on-year inflation was 4.2 percent, which is below the floor of the consultation band of 4.5 to 8.5 percent agreed in the Policy Coordination Instrument (PCI). This document explains the reasons for this outcome, the monetary policy responses, and the outlook for inflation.

I. DIFFERENTIAL BETWEEN INFLATION AND CONSULTATION BAND

1. The greater-than-expected deceleration of inflation can be explained to a large part by the reduction in both agricultural and energy commodity prices that was passed on to domestic prices. In June 2023, the year-on-year change in the food prices index (excluding fruit and vegetables) was 7.8 percent (15.5 percent in June 2022), as the year-on-year change in fuel prices was -7.1 percent (+48 percent) in June 2022).
2. It is worth noting that the inflation measure that excludes food and energy (IPCSAE - core CPI) developed more in line with that expected under the consultation band. In June, the year-on-year change in the IPCSAE was 5.1 percent, a rate that has been decelerating from 6.2 percent in January 2023.
3. In addition to lower pressures from the external environment, the tight monetary policy stance and inflation expectations in line with target were relevant factors in explaining the deceleration of inflation in Paraguay.

II. POLICY RESPONSES

4. Inflation continued to moderate in the past few months. In October, year-on-year CPI inflation was 3.5 percent, lower than the rate recorded in June (4.2 percent). By the same token, the year-on-year rate of the IPCSAE fell from 5.1 percent to 4.6 percent in this period. Further, inflation expectations have remained in line with the target of 4.0 percent.
5. Taking into account the most favorable scenario for inflation, the Monetary Policy Committee (MPC) decided to reduce the Monetary Policy Rate (TPM) by 25 basis points at its August, September, and October meetings, leading to a rate of 7.75 percent. The MPC thought it was prudent to reduce the reference rate gradually, bearing in mind persistent risks, mainly arising from the external environment, which could potentially have an impact on the behavior of local prices.

III. INFLATION OUTLOOK

6. The inflation forecast for 2023 was changed from 4.1 percent in July to 3.8 percent in October, while it remains at 4.0 percent for 2024. On the domestic front, at the beginning of the third quarter, a more rapid moderation of total inflation continued to be seen, mainly due to the

behavior of food and energy prices. Although a marginal rebound in inflation was recorded in September, explained by specific products in the CPI basket of goods, the data observed were below expectations, leading to a cut in the forecast for year-end.

7. Looking ahead, considering the most probable development of internal and external macroeconomic variables and in the absence of new shocks, inflation should continue its path toward convergence with the center of the target range over the coming months. Accordingly, it is hoped that it will converge around 4 percent from the third quarter of 2024.
8. The main risks to domestic inflation come from the international environment. Slower convergence of global inflation, international interest rates remaining high for longer, lower risk appetite, and uncertainty relating to the development of the oil price are the main risks.
9. The BCP will continue to monitor the impact of its policy measures as well as the development of the global and domestic economies, and it stands ready to take additional measures as necessary to meet its price stability objective.

/s/

Carlos Carvallo Spalding
President
Central Bank of Paraguay

Attachment III. 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, 2025. 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 third review will evaluate the targets at the end of December 2023, the fourth review the targets at the end of June 2024, the fifth review the targets at the end of December 2024, and the last review the targets at the end of June 2025.

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 of PCI

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 PCI

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.

D. Reform Measures of the RSF

19. For all reform measures (RMs), government authorities will share relevant material for the IMF to comment on progress at least 3 months prior to program reviews. The content of measures underpinning the implementation of the agreed RM will be in line with IMF staff technical recommendations, including from Fund or WB TA as applicable.

20. RM5: ANDE's audit shall cover and verify, but not be limited to, ANDE's costs, revenues, administrative and capital expenditures, following standard international accounting practices. This will contribute to a better understanding of the sustainability of the current tariff and the impact of technical and non-technical losses and delays in the recovery of costs. The technical study must cover all costs by business segment: generation, transmission, distribution and marketing. If this methodology is already being implemented, the study will assess the process and identify potential areas for enhancement. In addition, the technical study should provide relevant comparators and determine benchmark of efficient costs by segment, which will be used as input for the tariff adjustment mechanism.

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

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

- *Responsible entity:* a lead agency responsible for the development and implementation processes and establishing procedures to resolve impasses if the involved agencies have opposing views on inputs, methodology, or outcomes.
- *Public availability of inputs:* the methodology would use public and verifiable information to establish fee tiers that consider operating costs, financial costs of projected capital expenditure needs, and efficiency gains.
- *Frequency of adjustment:* quarterly, semi-annual or annual.
- *Smoothing mechanism parameters:* to reduce the impact of cost volatility on final consumers (e.g., those related to investment in transmission lines in a particular year), a smoothing mechanism (moving average) could be applied.
- *Cost efficiency:* the methodology should compare the ANDE's performance with comparators (state-owned enterprises with clean hydroelectric generation) on relevant dimensions, including transmission and distribution losses and administrative costs, and determine cost recovery rates. The methodology should clearly specify the loss reduction trajectory in accordance with RM8,

which will be considered as part of the costs to be recovered through the tariff (e.g., recognize current transmission losses in 2024 and progressively decrease them until ANDE reaches cost efficient targets per line of business in a specific time period).

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

24. RM7: The reform measure will focus on 3 household appliances. In addition, according to UNEP, residential refrigerators, air conditioners and industrial electric motors should be prioritized in terms of energy saving potential.² Efficiency standards should be set through a participatory approach, including the National Institute of Technology, Normalization and Methodology, producers, importers, and retailers, and in line with international best practices established by the International Standardization Agency.

25. RM8: The installation and commissioning of at least 20,000 smart meters by October 1, 2024, which, on the one hand, will reduce transmission and distribution losses, and on the other hand, will allow for the progressive establishment of hourly rates. The smart meter implementation strategy will prioritize consumers who account for a high percentage of electricity sales and consumption. By the same date, ANDE will also progressively establish hourly rates.

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

27. RM9: The carbon tax, that substitutes the current selective taxes on consumption of liquid fuels, will be set at a rate equivalent in local currency to Guarani 250.000 per ton of CO₂-eq. The carbon tax will apply to the following liquid fuels: diesel, gasoline and LPG. The carbon tax rate in local currency will be reviewed periodically considering a technical report that will be published every year by MEF and BCP taking into account the evolution of the PCI, fuel prices, and the exchange rate to inform any review of the carbon tax rate. The draft of the decree should be shared with the IMF in advance.

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

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



PARAGUAY

December 14, 2023

SECOND REVIEW UNDER THE POLICY COORDINATION INSTRUMENT, REQUEST FOR AN EXTENSION OF THE POLICY COORDINATION INSTRUMENT, MODIFICATION OF TARGETS, INFLATION BAND CONSULTATION, AND REQUEST OF ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY—WORLD BANK ASSESSMENT LETTER FOR THE RESILIENCE AND SUSTAINABILITY FACILITY

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

1. Paraguay, an upper-middle-income country, has an economy that is heavily reliant on natural resources, making it susceptible to climate shocks. According to the World Bank (2021) Changing Wealth of Nations data, natural capital wealth constitutes 16 percent of Paraguay's total per capita wealth, twice the average upper middle-income country. Paraguay possesses abundant rainfall, fertile soil, and forests, giving it a comparative advantage in agriculture and livestock. Despite being landlocked, the country has two major rivers that enable waterway transport and hydroelectric power generation. The binational dams, Itaipú and Yacyretá, produce more clean electricity than Paraguay currently consumes. The economy is dependent on natural resources: the primary sector, agroprocessing¹, electricity, and hydropower directly contribute at least a third of GDP and 80 percent of direct exports. As a result, the Paraguayan economy and people are vulnerable to weather-related shocks, including from climate change.

2. Climate change could exacerbate the impact of extreme weather events that have already been affecting the Paraguayan economy. While Paraguay has regularly experienced extreme weather events such as floods and droughts over the past few decades, these events are expected to become more frequent and intense due to climate change, particularly along the Paraguay River (one of the two major waterways) and key watersheds in the Chaco region. Climate change is also projected to result in

¹ Includes the production of oils, grain, sugar, dairy and other food, as well as wood and pulp.

more unpredictable rainfall, which would affect agriculture and hydropower production, and in higher temperature increases than the global average. According to estimates from the World Bank's forthcoming Country Climate and Development Report (CCDR) for Paraguay, climate change could reduce GDP by 0.5 to 3.1 percent from the baseline projection by 2050 in a high global emissions scenario (RCP 8.5), and by 0.1 to 1.1 percent in a low emissions scenario. These estimates could be higher as they exclude the impact of climate change on livestock,² but they could be lower if Paraguay accelerates economic diversification away from commodity exports and invests more in adaptation.

3. Climate change could slow the rate of poverty reduction and affect all Paraguayans' health. The World Bank CCDR estimates that the national poverty rate could be 0.05–1.19 percentage points³ higher than the baseline projection by 2050 due to the impacts of climate change, depending on the climate scenario and the modelling approach. This would primarily occur through crop yield losses from droughts, and through labor productivity losses from heat stress. Already, natural hazards disproportionately impact at-risk populations in the north, southwestern and central departments, and the Chaco. The poor are less equipped to cope with the consequences of climate change as they have relatively few and undiversified assets, less savings, and are more likely to live in flood-prone areas. Moreover, climate change could worsen health outcomes for all Paraguayans by aggravating epidemics, increasing air pollution (from forest fires) and deaths from extreme temperatures.

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

4. The government of Paraguay has become increasingly cognizant of the need to increase resilience to climate change. Since ratifying the Paris Agreement in 2016, the government has developed policies to tackle climate change, emphasizing adaptation. In 2017, Paraguay approved its Framework Law on Climate Change, or *Ley Nacional de Cambio Climático* (5875/2017), paving the way for the creation of an interinstitutional coordination body called the National Climate Change Commission. In July 2021, Paraguay updated its nationally determined contributions (NDC) and submitted them to the United Nations Framework Convention on Climate Change. The NDC includes 25 objectives for adaptation across seven prioritized sectors—(i) resilient communities and cities; (ii) health and epidemiology; (iii) ecosystems and biodiversity; (iv) energy; (v) agriculture, livestock, forestry, and food security; (vi) water resources; and (vii) transport—and six cross-cutting areas: (i) risk management, (ii) normative aspects, (iii) gender vulnerability, (iv) indigenous peoples, (v) actions to empower climate action, and (vi) technology and development. To operationalize these plans, the government published a *Plan Nacional de Adaptación al Cambio Climático* or

² CCDRs underestimate the full impacts of climate change on GDP because the modeling does not take into consideration all the channels – only selected ones.

³ Similarly, the impact of climate change on poverty may be underestimated due to the modeling approaches used, which do not take into account behavioral responses from firms and households, and the fact that the poverty headcount measure is more sensitive to households close to the poverty line.

National Climate Change Adaptation Plan (2022-2030) and a *Hoja de Ruta de Adaptación al Cambio Climático* or 2030 Adaptation Roadmap. The Roadmap identifies strategic actions, a reference schedule for each action and primary implementation needs for each sector.

5. Implementing the adaptation measures listed in Paraguay's NDCs requires investments of US\$ 6.5 billion until 2030.⁴ These investments, which are mostly concentrated in energy, transport, and agriculture, would require increases in public and especially private financing. As discussed in World Bank's forthcoming CCDR, increasing resilience in these sectors by promoting the adoption of climate-smart agricultural technologies, investing in forest restoration and other types of nature-based solutions to protect water resources, adapting waterways to climatic shocks, and increasing the reliability of energy sources are key to improve Paraguay's resilience to climate change. Measures to strengthen social protection, prepare the education and health systems for climate extremes, and promote the diversification of the country's economy could reduce the effects of climate change on Paraguayans.

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

6. In 2019 (latest government data available), Paraguay's net emissions were 62.7 million tons of carbon dioxide equivalent (MtCO₂e). Most of this comes from agriculture (40 percent) and land use, land use change and forestry (LULUCF; 41.2 percent), followed by energy (13.3 percent), waste (3.4 percent), and industrial processes (2.1 percent). Carbon dioxide (CO₂) represented 54.6 percent of 2019 net emissions, while methane accounted for 38 percent. Emissions have been falling since 2010, reflecting decreases in LULUCF emissions, but emissions from agriculture, energy, waste, and industrial processes have increased over the same period. Although Paraguay's electricity generation is fully renewable due to hydropower production, energy emissions have increased almost 60 percent between 2010 and 2019, reflecting the transport sector's reliance on fossil fuels (responsible for 89 percent of total energy emissions).

7. Paraguay has committed to reducing emissions relative to a business-as-usual scenario by 10 percent by 2030 (20 percent conditional on international financing). To attain this objective, the country has formulated Climate Change Mitigation Plans across five sectors: Agriculture, Land Use, Land Use Change and Forestry, Use of Products and Industrial Processes, Waste, and Energy. These plans, outlined in the 2021 Updated NDC, propose 45 specific measures for national climate action, focusing on mitigation efforts.

8. Forest conservation and restoration are essential for the country to decarbonize its economy. To promote investments in these areas, Paraguay recently approved legislation on Carbon Credits (Law 7190) that establishes the basis for the creation of a national carbon credit registry. Coupled with improvements in forest governance, this legislation could induce much-needed private investments in forest conservation and restoration. Other priority areas for

⁴ <http://dncc.mades.gov.py/estudio-para-costear-los-objetivos-de-adaptacion-de-la-ndc-actualizada-de-paraguay>

mitigation are the promotion of plantation forestry for industrial use, the increase of biomass availability for energy, and electromobility.

D. Other Challenges and Opportunities

9. Paraguay has many opportunities to both decarbonize the economy and accelerate economic growth. In the near term, Paraguay could use its surplus clean energy to decarbonize transport and industry, but also to explore opportunities in green hydrogen and ammonia, which could reduce its reliance on imported fertilizer. More widespread adoption of sustainable and climate-smart agricultural practices—such as promoting agroforestry systems and reducing deforestation associated with cattle ranching—can unlock access to export markets that pay a premium for sustainable products. In the longer term, accelerating the transition from raw agriculture and energy commodity exports to more sophisticated manufacturing and services exports would help Paraguay build resilience to climate change, as such shocks would have a smaller impact on a more diversified production structure. This would require boosting the productivity of non-agriculture sectors by reducing barriers to firms' entry, growth, and exit, and by investing more in human capital and infrastructure.

10. Transitioning to this low-carbon, climate-resilient future would require additional investments. The forthcoming World Bank CCDR estimates that annual increases in investments of about 2.1 percent of GDP from now until 2050 are needed to meet Paraguay's sustainable development and climate goals. These volumes are much larger than the total amount of climate finance Paraguay received between 2019 and 2021, estimated at \$181 million or 0.4 percent of GDP by the Ministry of Environment and Sustainable Development (MADES). However, the total projected increase in climate-related investments is small compared to the annual investments required to achieve the infrastructure-related SDG targets by 2030 (Brichetti et al. 2021). While roughly 55 percent of these investments (mostly in public transport) are assumed to be privately financed before 2030, this share increases to 75 percent after 2030, as most are concentrated in land use change and additional renewable energy.

11. Whole-of-economy reforms play an important role in leveraging finance for climate action and in improving resilience to climate shocks. Fiscal and financial sector policies have an important role to play in reducing Paraguay's exposure to shocks and mitigating their impact on households and firms. While public finances alone are insufficient to meet Paraguay's sustainable development and climate goals, Paraguay has the potential to eventually raise more domestic public revenues for climate action through property and environmental taxes, and feebates. To smooth fluctuations in consumption and revenues when climate-related shocks occur, Paraguay could further strengthen the countercyclicality of fiscal policies—for example, by increasing social transfers to poor households during economic downturns. It would also be important to ensure that the fiscal rule helps to sustain higher public investment spending, while maintaining macroeconomic stability. Moreover, given the need for more private climate finance, efforts to deepen and green the financial sector are essential. Although Paraguay's banking sector is sound and highly profitable, credit markets are still shallow, with a lower (51.3 percent in 2022) credit-to-GDP ratio than the median of

regional peers and upper middle-income countries.⁵ Capital markets are also small, in part because tapping institutional investments (pension funds) is currently not possible. Firms thus have limited access to long-term finance, which is critical for the development of sectors such as forestry. Accelerating pension reforms, improving access to finance – particularly for micro, small and medium-sized enterprises – and improving the verification and certification of green investments could unlock more private finance for climate action. Improving the rule of law, protection of property rights, and governance on environmental standards would also increase foreign direct investment in new sectors of the economy. In this context, it is encouraging that the government has recently taken concrete steps to improve the national forest monitoring system and to reform the pension system.

E. World Bank Engagement in the Area of Climate Change

12. Many of the reform measures envisaged under the proposed RSF program have been identified in close coordination with World Bank staff. They build on and complement the extensive World Bank engagement on the climate agenda in Paraguay, which in recent years has focused on:

- **Identifying green growth opportunities.** The forthcoming CCDD not only examines the threats that climate change poses to the country's development goals, but also discusses how Paraguay can benefit from decarbonization. These opportunities include leveraging its surplus hydropower energy to green domestic industries and the transport sector, as well as making waterways and infrastructure more resilient. Building on this analysis, the World Bank is providing technical assistance and advice on how Paraguay can promote more efficient use of energy, climate-smart agriculture, and sustainable urban mobility. An assessment of bioeconomy value chains that could result in new export opportunities for Paraguay is ongoing, and a commercial forestry lending project is in the pipeline.
- **Building resilience across the economy and in key sectors.** The US\$240 million Paraguay Green and Resilient Development Policy Loan (P178285), approved in July 2022, supported reforms aimed at mainstreaming climate risks in fiscal management, improving the management of wildfires and mobilizing climate finance. The US\$105 million "Franja Costera" project, approved in November 2023, aims to make the Asunción coastline more resilient to floods, among other objectives. Recent analytical work provides recommendations on how to boost resilience. Examples include: (i) a chapter of the forthcoming World Bank Country Economic Memorandum, which provides recommendations on boosting agriculture competitiveness and resilience, and (ii) a study on agriculture risk financing mechanisms for family farmers to support the government's National Development Plan for Disaster Risk Management and Adaptation to Climate Change in Paraguay's Agricultural Sector (2016-2022). A follow-up, ongoing study will

⁵ World Bank, World Development Indicators.

identify and analyze options to accelerate the adoption of Climate Smart Agriculture and risk management practices/technologies by family farmers.

- **Mainstreaming climate considerations in public and private finances.** In 2022-2023, at the request of the previous Ministry of Economy and Finance (MEF), the World Bank prepared a climate policy roadmap to help the ministry think strategically about the roles and functions it should take on and the policy levers it can use to promote climate action in Paraguay. As part of this preliminary work, it also estimated the effective carbon price in Paraguay and worked with MADES on a costing exercise of Paraguay's adaptation measures in the NDC. In addition, the World Bank has also worked closely with MEF on integrating climate change budget tagging and analysis of environmental considerations in public investment projects. Work with the Central Bank to quantify the impact of climate change on the financial sector is also ongoing.

13. The World Bank is also finalizing the publication of the Country Climate and Development Report for Paraguay. The report identifies the most impactful actions that Paraguay can take to boost climate change adaptation and maintain low emissions, while delivering on broader development goals.

**Statement by Mr. Herrera and Mr. Corvalan on Paraguay
December 19, 2023**

Paraguay's robust economic recovery in 2023 has been driven by significant growth in agricultural production, electricity generation, services, and manufacturing. Recent data point to the continuation of this positive trend. The new administration, led by President Peña, is keen on harnessing this momentum for impactful structural and climate-focused reforms, positioning Paraguay as a leading green investment hub.

Performance Under the Policy Coordination Instrument (PCI)

The authorities have made significant progress in achieving the targets set in the PCI's second review. Although some quantitative targets (QT) were narrowly missed, primarily due to outstanding claims with private suppliers in Public Works and Health sectors, the government has proactively adjusted its fiscal policy since taking office last August.

The implementation of key reforms targets (RT) in the PCI's second review demonstrates the government's commitment to enhancing economic productivity, investment, and governance. These reforms include increasing transparency, protecting vulnerable groups, and overhauling the public sector retirement system (Caja Fiscal).

The recently established Ministry of Economy and Finance is leading critical fiscal reforms to enhance governance and operational efficiency, with a particular focus on health and education sectors, and to enhance the tax administration.

To support fiscal stability, the government has initiated several measures:

- Congress approved the Superintendency of Retirement and Pensions on December 13.
- Strengthening the supervisory board of state-owned enterprises.
- Enhancing the Central Government's Integrated Financial Management Information System (SIARE) to consolidate expenditure claims.

On revenue mobilization:

- The integrated national electronic invoicing system (SIFEN) notably exceeded its initial goal, successfully incorporating more than 750 large and medium-sized taxpayers.
- Tax incentives are being realigned and special tax regimes reviewed to encourage high-quality investment, innovation, and competition.

On the expenditure side:

- The public procurement law regulation was enacted.

- The draft law regulating the administrative organization of the government has been submitted to Congress.

Following a 2022 IMF-led governance diagnostic assessment, immediate actions were taken to strengthen the National Anti-Corruption Strategy. The AML/CFT framework is continuously updated. Changes to the public-private partnership (PPP) law will be in line with upcoming C-PIMA recommendations, and enhancements to the public land registry office will facilitate more efficient planning and land development.

Regarding social protection and inclusion, the Tekopora program has increased its benefits, expected to benefit around 180,000 families. The SIPEN, a technological tool is expanding rapidly its coverage to most social programs. The national care policy (PNCUPA), coordinated by the Ministry for Women, is committed focuses on wellbeing and development of dependent persons.

Access Request to the Resilience and Sustainability Fund (RSF)

The ambitious RSF program conveys a series of adaptation and mitigation reform measures (RM) to be implemented in the coming years, which are in line with the National Determined Contribution (NDC) and the Framework Law on Climate Change of 2017. In order to do so, the authorities are committed to the following reforms:

- A. Public investments that are economically and environmentally sustainable. To this end, the Ministry of Economy and Finance will include aspects relating to climate in the design, selection, and evaluation of public investments projects.
- B. Mobilization of financial resources to combat climate change. The Green taxonomy will be implemented by the Ministry of Economy and Finance and the Central Bank of Paraguay (BCP), aligned with the NDCs. This reform will prove essential for the identification and classification of environmentally sustainable economic activities. The Central Bank will also issue supervisory guidelines so that banks incorporate climate-related risks in their risk management frameworks.
- C. Energy efficiency improvements: During the RSF program, an independent audit of ANDE, the state-owned company, will set the foundations for a transparent and efficient electricity tariff adjustment mechanism. Additionally, 350,000 smart meters will be installed to cut electricity losses from 26 percent to 18 percent. Simultaneously, households will be encouraged to replace outdated appliances with more energy-efficient models.

- D. Carbon tax on liquid fuels will be implemented, which aims to reduce residential and transport sector emissions. The Ministry of Economy and Finance, in coordination with National Directorate of Tax Revenues, plans to introduce an explicit carbon tax on liquid fuels. Diesel, gasoline, and liquid petroleum gas will be affected by an explicit carbon tax while selective taxes on these items will be reduced to not affect the total effective tax rate. Electrification of private transports and public buses is also in the pipeline; thanks to the electro-mobility law the authorities plan to develop regulations to select the operating model for electric public transportation.
- E. Conservation of the country's forest. Joint intervention protocols to monitor the change of land use is underway, and several government agencies and the Ministry of Environment and Sustainable Development (MADES) are coordinating efforts to set up, among other activities, the register of industrial biomass users and lay down the requirements for the use of biomass. The National Forestry Institute (INFONA) will be strengthened to maintain its leading role in the protection of native forests, in processing data and developing a deforestation early warning system.
- F. The national plan for the comprehensive management of urban solid waste promotes the re utilization, recycling, and use of plastic containers to contribute to the better management of waste and contain methane emissions.

Maximum access to the RSF will amplify Paraguay's climate resilience and sustainability, bolstered by alliances with the InterAmerican Development Bank, World Bank, and UN Environmental Program. These partnerships will advance Paraguay's green energy production and export capabilities.

Macroeconomic Policy and Economic Outlook

Banco Central de Paraguay (BCP) remains committed to maintaining an inflation-targeting regime, with recent data showing inflation within the target range and a stable financial sector. Annual inflation returned to the 2.0-6.0 percent target range in April 2023, and was at 3.2 percent in November 2023, below the 4 percent target. The BCP revised its end-2023 inflation projection from 4.1 to 3.8 percent, aligning with recent surveys, and reduced the policy interest rate from 8.5 to 7.25 percent since August. The 2024 inflation expectation is stable at 4 percent. Future policy rate decisions would be data driven and dependent on the evolution of inflation expectations.

The authorities are also committed to a flexible exchange rate system fostering transparency in foreign exchange interventions and preserving the strong international reserve position.

The projected budget deficit aligns with the fiscal responsibility law, decreasing gradually from 4.1 percent in 2023 to 1.5 percent of GDP by 2026. This extended consolidation from 2024 to 2026 reflect primarily the one-off adjustment in expenses from the Ministries of Public Works and Health in 2023, and the need for caution in fiscal planning amid global uncertainties like high interest rates, fluctuating commodity prices and geopolitical tensions.

Paraguay's GDP is projected to grow by 4.5 percent in 2023, primarily driven by the recovery in agriculture and increased electricity generation. Positive assessments from international rating agencies, such as Fitch and Moody's, reflect this optimistic economic outlook. The resumption of meat exports to the United States after more than two decades is a significant development, further opening global markets to Paraguayan products.

Financial Policy

The financial system remains stable, solvent, and well-capitalized, surpassing minimum regulatory requirements. Liquidity and non-performing loan (NPL) ratios are at healthy levels, and profitability is recovering, though still below pre-pandemic levels. Loan growth in both local and foreign currencies, along with deposits, continued through 2023. The BCP credit survey shows optimism for future loan grants across all economic sectors. Progress is notable in integrated financial system supervision, with the new Securities Superintendency replacing the National Securities Commission to regulate the Stock Market, under the BCP's umbrella.

Regarding the payment system, significant advancements include the interconnection of the Paraguayan Payment System (SIPAP) with the Stock Exchange's Electronic Trading System, enhancing sophistication in local public debt securities trading. Additionally, recent months have seen notable improvements in the Instant Payments System's functionalities.

Finally, we are grateful for the valuable insights and support from Mission Chief Mauricio Villafuerte and his team. Their contributions, along with the ongoing efforts of the Fund's Residence Representative office, are crucial in supporting Paraguay's ambitious socio-economic agenda.