INTERNATIONAL MONETARY FUND

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PARAGUAY

December 2024

FOURTH REVIEW UNDER THE POLICY COORDINATION INSTRUMENT, REQUEST FOR MODIFICATION OF TARGETS, SECOND REVIEW UNDER THE ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY, AND REQUEST FOR REPHASING ACCESS—PRESS RELEASE; AND STAFF REPORT

In the context of the Fourth Review Under the Policy Coordination Instrument, Request for Modification of Targets, Second Review Under the Arrangement Under the Resilience and Sustainability Facility, and Request for Rephasing Access, the following documents have been released and are included in this package:

- A **Press Release**.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on lapse-of-time basis following discussions that ended on November 12, 2024, with the officials of Paraguay on economic developments and policies underpinning the IMF arrangement under the Policy Coordination Instrument and the Resilience and Sustainability Facility. Based on information available at the time of these discussions, the staff report was completed on December 3, 2024.
- World Bank **Assessment Letter** for the Resilience and Sustainability Facility Update

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PRESS RELEASE

PR 24/495

Paraguay: IMF Executive Board Concludes Reviews of Policy Consultation Instrument and the Arrangement under the Resilience and Sustainability Facility

- On December 18, 2024, the IMF Executive Board concluded the fourth review under the Policy Coordination Instrument (PCI) and the second review under the Resilience and Sustainability Facility (RSF) arrangement. This allows for an immediate disbursement of about US$ 245 million (SDR 186.28 million) under the RSF.
- Buoyant activity continues, reflecting high consumer confidence and expanding services and manufacturing sectors. Going forward, it would be essential to maintaining fiscal sustainability and continue with the structural reform efforts.
- Program performance under the PCI has been solid, underpinned by actions to preserve macroeconomic stability to enhance the country's economic growth prospects. Progress on the climate agenda under the RSF remains strong, bolstering Paraguay's resilience to climate shocks.

Washington, DC - December 23, 2024: The Executive Board of the International Monetary Fund (IMF) concluded the fourth review under the PCI arrangement and the second review under the RSF arrangement. The Executive Board's decisions were taken without a meeting on a lapse-of-time basis.[1] With this review, about US$ 245 million (SDR 186.28 million) under the RSF becomes available.

Paraguay's commitment to maintain macroeconomic stability has been rewarded with the first ever sovereign investment grade credit rating. Buoyant activity continues, reflecting high consumer confidence and expanding services and manufacturing sectors. The Banco Central del Paraguay has been appropriately keeping monetary policy on hold, guided by inflation performance and expectations. Paraguay's banking system remains stable and solvent. The 2025 budget proposal is in line with the authorities' commitments on fiscal consolidation.

The authorities are keen on maintaining fiscal sustainability and continuing with the structural reform efforts. Despite a low overall risk of sovereign stress, it is essential to rebuild fiscal buffers in the face of recurrent shocks, large development and infrastructure needs, and potential contingent liabilities. In this context, reforms to boost fiscal revenue and government expenditure efficiency, improve governance and reduce corruption risks, and improve the business climate to encourage green investment should help achieve sustainable and inclusive growth.

Staff supports completion of the fourth review under the PCI and the second review under the RSF arrangement. The authorities remain dedicated to bolstering macroeconomic stability, advancing their structural reform agenda, and sustaining a close policy dialogue with the IMF

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

under the PCI. Staff supports the authorities' request to modify the quarterly target for primary expenditure for end-June 2025 and to incorporate new reform targets on improving tax and customs compliance.

Delivering on commitments to implement a comprehensive set of climate-related reforms, including under the RSF, will open investment opportunities and help build resilient and sustainable economy. Staff supports the authorities' request under the RSF to complete the reform measure on recycling of plastic containers ahead of schedule. Based on the completion of eight reform measures to enhance adaptation and mitigation measures and to preserve and expand Paraguay's green energy matrix, staff supports the authorities' request for disbursement of 92.5 percent of quota, or SDR 186.28 million under the RSF. Delays in the implementation of reform measures on the electricity and transport sectors are justified by circumstances outside of the authorities' control (global supply chain disruptions, time needed to secure an international auditor) and prudence in completing the commitment in the context of a broad reform of public transportation.

INTERNATIONAL MONETARY FUND

PARAGUAY

December 3, 2024

FOURTH REVIEW UNDER THE POLICY COORDINATION INSTRUMENT, REQUEST FOR MODIFICATION OF TARGETS, SECOND REVIEW UNDER THE ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY, AND REQUEST FOR REPHASING ACCESS

EXECUTIVE SUMMARY

Recent developments: Paraguay's economic activity remained strong in 2024. GDP growth is anticipated to reach 4 percent with some upward potential due to favorable performance of financial intermediation, services, and manufacturing. Inflation is firmly under control and expectations are well anchored. Monetary policy is close to its neutral stance. As projected, the current account has shifted into a wider deficit this year reflecting the post recovery adjustment in trade and higher imports. Fiscal consolidation is continuing with the deficit expected to reach the budgeted 2.6 percent of GDP. In the second part of the year, Paraguay has obtained an investment grade status from Moody's for the first time in history.

PCI and RSF program implementation: PCI quantitative targets (QTs) for June were met. Progress has been achieved on the Reform Targets (RTs) and Measures (RMs). One RM of the previous review and three out of five RMs of the current review were completed, and one RM of the next review was completed early. Based on the implementation of those reform measures and three reform measures from the first review after which no disbursement was made, the authorities have requested disbursement of 92.5 percent of quota, or SDR 186.28 million.

Policy recommendations: Paraguay has excelled to sustain macroeconomic stability and is moving forward to address its structural weaknesses. Continuing fiscal consolidation, not least through raising more revenues from taxes, is vital for rebuilding fiscal buffers while safeguarding social and infrastructure investments. Stabilizing the finances of the public pension system should remain a priority. Monetary policy should continue to be guided by data when contemplating further easing. The structural reform implementation should be accelerated in promoting growth and inclusiveness specifically through reforms in labor markets, addressing a high level of informality, and improving governance and addressing corruption. A robust commitment to implementing an ambitious array of climate-related reforms, in close partnership with development agencies, will help ensure sustainable growth and good investment prospects.

Approved By
Ana Corbacho (WHD) and Eugenio Cerutti (SPR)

Discussions were held in Asunción between November 5-12, 2024. The staff team comprised Mauricio Villafuerte (head), Jonas Nauerz, Kei Nakatani, Svetlana Vtyurina (all WHD), Lisa Kolovich (SPR), Maximiliano Appendino (Resident Representative) and Pablo Alonso Mendez (local economist). Diego Gutiérrez and Nicolás Landeta (all WHD) provided research and administrative assistance. Jorge Corvalan (OED) attended the policy meetings. The team met with the Minister of Economy and Finance Carlos Fernandez Valdovinos, Central Bank of Paraguay (BCP) President Carlos Carvallo Spalding, other senior officials from the government, and International Financial Institutions (IFIs).

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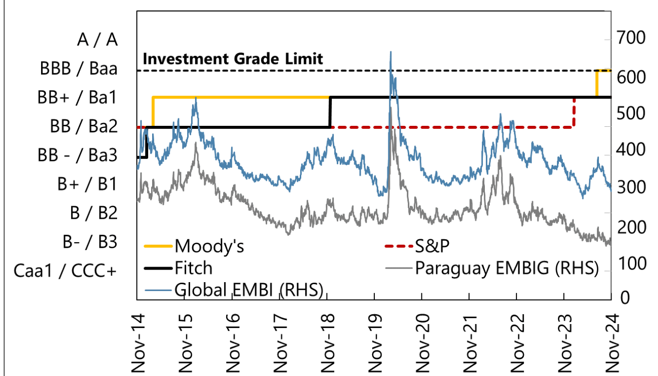
CONTEXT

1. Paraguay's performance under the two IMF programs has been satisfactory. As highlighted in the staff report for the 2024 Article IV consultation, the government has continued to make important efforts to maintain macroeconomic stability in the post-pandemic period and has persevered with the implementation of a reform matrix aimed at making the country a more attractive investment destination. A commendable achievement, and a testament to Paraguay's strong fundamentals, was the attainment of its first ever investment grade credit rating in the second half of 2024 from Moody's. In its pursuit of sustainable growth, the government remains committed to enacting a series of climate adaptation and mitigation measures and to preserve and expand its green energy matrix.

Global and Paraguay EMBI Spreads, and Credit Ratings
(Credit Rating, and Basis Points [RHS])



Sources: Bloomberg LP, and Haver Analytics.
Note: Data as of Nov. 15, 2024.

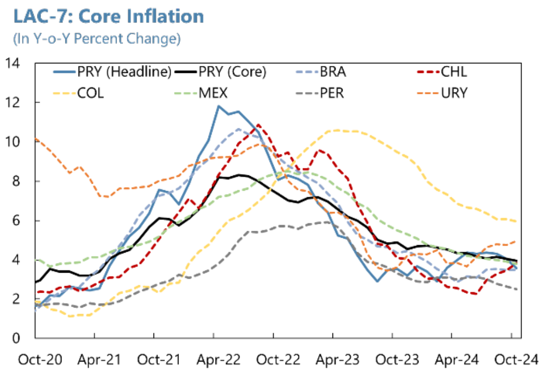
RECENT ECONOMIC DEVELOPMENTS AND PROGRAM PERFORMANCE

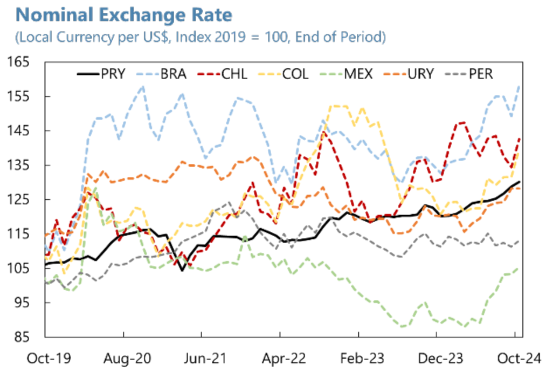
2. Paraguay's activity continued to be buoyant in 2024. GDP growth is projected to be 4 percent this year, with some upward risks given a strong performance of financial intermediation and household and business services, as well as manufacturing. The agricultural sector performance was in line with projections as the activity cooled off after a post-drought surge. This positive performance was partially offset in recent months by lower electricity generation due to low water levels in the Paraná River. Domestic demand remained strong, primarily fueled by robust private consumption, and increased gross fixed capital formation.

3. Inflation has remained on target reflecting both policy measures and economic developments. The 12-month headline inflation stood at 3.4 percent as of end-November and is expected to remain around the central bank's (BCP) target of 4 percent by the end of 2024. Importantly, the underlying inflation stood at 4 percent. The decline in commodity prices, a tight monetary policy stance, and inflation expectations in line with the target contributed to the moderation of inflationary pressures.

4. After improving sharply in 2023, the external current account (CA) has moved into a large deficit in 2024. While export volumes continued to expand, a fall in soybean prices due to global oversupply and lower demand has led to reduced export revenue. Hydroelectricity exports have declined given lower water levels.[1] Imports have also been growing, especially consumer goods. The Guarani depreciated around 6.5 percent, y-o-y, in October. Reserve coverage remains adequate.

5. The banking sector is well supervised and continues to show adequate capitalization and profitability levels. Deposits and credit grew, respectively, 9.6 and 13.6 percent, year-on-year, in September. Non-performing loans were at their lowest level in two years (2.7 percent). The credit market outlook, as depicted by the General Credit Situation survey, remains positive, including due to a reduction in lending rates. Consumer confidence remains in the optimistic zone.





Sources: Central Bank of Paraguay, Haver Analytics; and IMF staff calculations.

6. Program Performance

- **Quantitative Targets (QTs).** June fiscal targets on the budgetary central government's deficit, current primary expenditure, and floating debt were all met. Inflation was within the consultation band.

Text Table 1. Paraguay: Quantitative Targets for 2024

	2024
	June
Quantitative Targets	
Ceiling on the central government fiscal deficit	met
Ceiling on current primary expenditure of the central government	met
Ceiling on the net incurrence of floating debt by the central government	met
Continuous Targets	
Ceiling on accumulation of external debt payment arrears by the central administration	met
Inflation Consultation Band	
Inflation	met
Memorandum Items	
Social assistance benefits	met

Sources: Paraguyan Authorities; and IMF staff calculations.

[1] Paraguay and Argentina reached an agreement on river transit fees for six months starting in September 2024.

- **PCI Reform Targets (RTs).** One out of five RTs was met, one was completed with delay, and one is expected to be completed soon. The RT on an analysis of tax expenditures in special tax regimes was not met. While the study was completed with technical assistance by the Inter-American Development Bank (IDB), a draft proposal to minimize these inefficiencies is still being completed. The RT on the Law on Public Private Partnerships (PPPs) to make it more attractive to the private sector was not met, but modifications were finalized, benefitting from capacity development (CD) support from the Fiscal Affairs and Legal Departments, while Fund CD advice was taken on board only partially. The law was submitted to Congress in early November. The RT on implementation of the integrated system SIGEBYS submodule in pilot entities for expenditure on goods was met.[2] Implementation of guidelines on integration of the social program of the Ministry of Children and Adolescents (MINNA) into SIPEN (Pension Information System) was not met as more time is needed as part of the broader agenda in this area. The RT on the approval of the updated version of the National Risk Assessment was not met but expected by end of the year.

- **RSF Reform Measures (RMs).** One RM corresponding to the last review and three out of five RMs for the current review were completed, and one RM was completed ahead of schedule (Table 4 of the Program Statement). After consulting with the private sector, the government enacted the decree that creates the National Program for Energy Efficiency Labeling that will phase in minimum efficiency standards (RM7). The Ministry of Economy and Finance (MEF) amended the Decree 4436/20 with the Decree 2882 to incorporate climate aspects to public investment projects (RM1). and published a green taxonomy in coordination with the BCP (RM2). ANDE, the public electricity company, published and started the implementation of a loss reduction strategy and enacted a regulation for the implementation of hourly/dynamic tariffs (RM8).[3] RMs 5 and 10 are in progress. The government is drafting the decree that regulates the electromobility law with the support of the IDB, has purchased additional charging infrastructure but the charging stations are expected to be delivered in December due to global supply disruptions, and plans to develop regulations for electric public transportation and set targets for an increased share of electric buses in the metropolitan area of Asuncion in the context of a comprehensive draft law to reform the public transportation system (RM10). ANDE, with the support of the IDB, has advanced significantly with a study of international benchmarks for its costs, the external audit needs more time and RM5 is being implemented for fifth review. The government enacted the ministerial resolution that regulates the law that promotes the recycling of plastic containers (RM13).

[2] The decree approving and providing for the implementation of the government's goods and services management system (SIGEBYS) within the framework of the re-engineering process of the integrated state resources administration system (SIARE) was issued in October.

[3] According to ANDE's estimates, in a conservative scenario where only 10 percent of its customers opt for the dynamic tariff, the reduction in peak load power demand would range from 28.2 to 56.3 MW. In an optimistic scenario, this reduction could potentially triple.

OUTLOOK AND RISKS

7. **Since the last review, the 2024 growth projection has been slightly revised upwards while the medium-term path remains unchanged.** Consumer spending will continue to be a major growth driver, supported by stable inflation and reduced borrowing costs. Sovereign spreads continued to be among the lowest in the region. The external current account deficit is expected to increase sizably in the next few years driven by a spike in imports linked to expected significantly higher foreign direct investment (FDI) inflows into the forestry and manufacturing sectors. This development could last longer if more foreign investments are generated following Paraguay's recently achieved investment grade credit rating.

8. **Risks to the outlook remain balanced.** Recurrent negative geopolitical events are the primary concern in terms of externally generated vulnerabilities (Annex I). On the domestic front, Paraguay is exposed to severe weather occurrences, like droughts and floods, owing to its dependence on water for agricultural and livestock production, river transport, and power generation. A downside risk is the possibility of a drought in Q4 because of La Nina phenomenon. The financial health of the state pension and health funds and other contingent liabilities and debts constitute medium-term risks which could exert strain on fiscal balances.

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

			Act.	Proj.					
	2021	2022	2023	2024	2025	2026	2027	2028	2029
	(In Percent of GDP, unless otherwise indicated)								
Real GDP growth (in percent)	4.0	0.2	4.7	4.0	3.8	3.5	3.5	3.5	3.5
Per capita GDP (U.S. dollars, thousands)	6.0	6.2	6.3	6.4	6.6	7.1	7.4	7.7	8.0
Consumer prices (end of period; in percent)	6.8	8.1	3.7	4.0	4.0	4.0	4.0	4.0	4.0
Terms of trade (annual percent change)	9.6	-6.8	0.6	-4.0	-0.9	0.5	0.3	-0.1	-0.1
External current account	-0.9	-7.1	0.3	-3.0	-2.7	-2.3	-1.7	-1.4	-1.1
Gross international reserves (in US$ billion)	9.7	9.5	9.9	9.5	9.8	10.1	10.4	10.8	11.2
Central government fiscal balance	-3.6	-2.7	-4.1	-2.6	-1.9	-1.5	-1.5	-1.5	-1.5
Public sector debt	37.5	40.5	41.2	43.6	40.9	39.9	39.2	38.6	38.0

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

POLICY DISCUSSIONS

Policy discussions focused on assessing progress with completion of agreed RTs and RMs, introduction of new RTs under the PCI and rephasing of one RM under the RSF, and on the authorities' plans for 2025 and the medium term.

A. PCI: Macroeconomic Stability and Inclusive Economic Growth

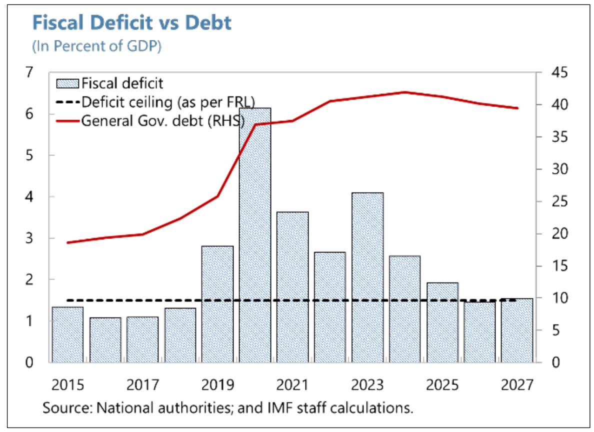
Pillar I (Ensure Macroeconomic Stability and Resilience)

Fiscal Policy

9. Fiscal developments have been in line with commitments under the PCI. Tax revenue grew significantly, by about 21 percent, year-to-date, in October and is expected to exceed 11 percent of GDP for 2024. Continued robust economic activity and administrative efforts led to a large recovery in corporate tax collections from the previous year, which was significantly affected by a series of external shocks, including the 2021-2022 drought. Overall fiscal revenue increased by 17.4 percent, including the one-off settlement of payment arrears on electricity imports by Argentina, while current primary expenditures grew by about 12 percent year-to-date. For the year, the authorities are expected to meet the deficit target set at 2.6 percent of GDP.

10. The draft 2025 budget is in line with medium-term fiscal consolidation objectives. It aims at a fiscal deficit of 1.9 percent of GDP, consistent with the authorities' commitment to bring the deficit down to 1.5 percent of GDP in 2026, a deficit limit set by the Fiscal Responsibility Law. Tax revenue is projected to remain at around 11 percent of GDP with some upside risks from improved synergies in tax collection, including through incorporation of recommendations from IFI-provided CD. On the expenditure side, some reallocation is envisaged to address the government's priorities in education, health, security, and social protection, including the full implementation of the "Zero Hunger" universal school meals program. In addition to the winding down of temporary COVID-19 measures, including one-off payments of unrecorded health expenditures, measures to increase expenditure efficiency are underway through better procurement mechanisms and expenditure monitoring. Public investment would be partly preserved due to additional non-tax revenues.[4] The path of fiscal consolidation is consistent with debt sustainability with a low overall risk of sovereign stress (see staff report for the 2024 Article IV consultation). The authorities have been expanding the issuance of local currency bonds to reduce the risks emanating from a high share of foreign currency-denominated public debt (close to 90 percent of total debt).

[4] Through a recent agreement on Itaipú binational hydropower plant with the Brazilian government, which increased the basic tariff from US$16.71/kWh to US$19.28/kWh up to 2026, Paraguay is expected to continue to benefit from a substantial amount of off-budget spending, including on investment, which could exceed 1 percent of GDP.



11. Work is ongoing to increase tax revenue going forward. The authorities' strategy is to increase efficiency gains in tax collections and trust in public spending while preserving the existing tax rates. Tax collection capacity is expected to be further enhanced by leveraging the recent merger of tax and customs administrations and through a stronger cooperation and information sharing with the Social Security Institute. The analysis revealed that tax expenditure amounts roughly to 1.4 percent of GDP, but specific proposals to address the expenditure including an assessment of the impacts on employment are yet to be formulated **(June 2024 RT)**. The authorities will aim to enhance revenue collections through the implementation of a risk-based compliance improvement plan that addresses key risks for internal tax and customs collection, grounded in a robust compliance risk management framework monitored under a Risk Management Committee (**proposed RT for end-October 2025)**. This approach is expected to lead to greater efficiency in core processes and procedures, as well as the optimization of data usage. Paraguay will be participating on a pilot basis in the Joint IMF-World Bank Domestic Resources Mobilization Initiative, which is expected to enhance the support to the authorities in key reform areas. To adequately address social and investment financing needs and increase fiscal buffers for future external shocks, staff emphasized the need to comprehensively review the existing tax regimes once efficiency gains are exhausted.

12. Enhancing expenditure efficiency and prioritization as well as strengthening public financial management are key to fiscal consolidation, enhanced governance, and effective investment. Efforts targeted at improving the public procurement system through the rollout of the SIGEBYS module are ongoing. To capture line ministries' goods and services expenses more accurately, spending activities at different stages (commitment, accrual, and payment) are going to be fully monitored and recorded through SIGEBYS, which is part of the State Resource Management System (SIARE) (**June and December 2024 RTs).** In addition, the Information System on Pensions (SIPEN) is being expanded to include social programs and improve their harmonization. Based on the recommendations under the recently conducted Climate Public Investment Management Assessment (C-PIMA), the procedural manual for the monitoring and evaluation unit of the National Directorate of Public Investment is being developed and is expected to be published and implemented for a set of pilot investment projects by mid-2025 (**June 2025 RT**). The C-PIMA includes other proposals on how to make best use of limited fiscal resources for public investment, including through the development of more articulated sectoral plans and the provision of financing in a timely manner through multi-year budgeting.

13. Amendments to the Law on PPPs have been submitted to Congress to make it more attractive to the private sector (June 2024 RT). Fund staff provided CD on the PPP legal framework and offered recommendations to revise the draft PPP Law aimed, among other things, at ensuring appropriate assessment and management of fiscal risks associated with PPPs. Despite potential risks emanating out of unsolicited proposals that were flagged by staff in terms of preventing effective competition and aggravating rent-seeking behavior, the authorities opted to allow and incentivize unsolicited proposals to partly compensate for low government capacity to prepare infrastructure projects and build on private sector technical and financial capacities. In addition, the authorities are committed to improve mechanisms for funding project preparation and to expand government technical capacities.[5]

14. Key fiscal structural reforms to enhance long-term fiscal sustainability are slowly moving ahead. The law on reorganizing the structure of the state was approved this year and is expected to contribute to enhancing the efficiency of government operations. After a period of public consultations, the current government presented a revised civil service reform bill to Congress in mid-November, and it was approved by the Senate with modifications. It continues to focus on making the civil service modern and efficient based on meritocracy, with a single salary scale linked to professional development. Securing the sustainability of the public pension funds (Caja Fiscal), including through enhanced supervision, remains an important priority. The consultative Council of Social Security under the Pensions Superintendency, approved in December 2023, is yet to be operational due to lengthy discussions on the appointment of labor unions' representatives. Specific parametric reform proposals to the Caja Fiscal, which require a public consultation process and changes to the existing law, have not yet been determined, but the government aims for their approval sometime in 2025. Finally, to improve the management of risks in the budget associated with climate change and based on IMF CD and analytical work (Box 1), the MEF will carry out its first simulation of the impact of climate shocks on medium- to long-term macroeconomic projections.

Monetary and External Policies

15. After a period of sustained policy rate reductions, the BCP has taken a pause. With the monetary policy rate at 6 percent after its last adjustment in March 2024, the monetary policy stance has been close to its neutral, with a real policy rate of around 2 percent against a neutral real rate estimated in the range of 1–2 percent.[6] At the November meeting, the BCP noted that domestic activity indicators continued to show positive signs and that international risks were balanced. Inflation expectations continue to be well-anchored around the BCP's target of 4 percent. Future policy rate decisions will be guided by the actions of the US Federal Reserve, international commodity prices, and domestic developments.

16. A flexible exchange rate is an important component of the macroeconomic policy strategy. The Guarani's exchange rate vis a vis the U.S. dollar should flexibly adjust in response to changes in external conditions. The BCP has been occasionally present in the market with

[5] Furthermore, since there are some projects which do not fall under the PPP law, it would be beneficial to review the legal framework governing public investment and private financing of public infrastructure through long-term contracts, with the goal of ensuring appropriate controls over such projects and the management of ensuing fiscal risks.

[6] Central Bank of Paraguay; Calderon, D., and D. Wales (2024, forthcoming). "The Natural Real Interest Rate in Small, Open and Dollarized Economies". IMF Working paper.

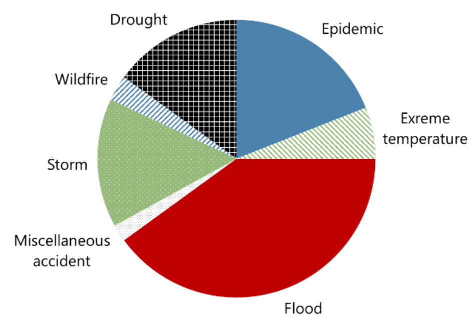
"complementary interventions" to smooth the effects of undue fluctuations in the context of a thin FX market and highly seasonal FX flows. In particular, as per usual policy, the BCP announced interventions of at least USD 15 million per day at end October as the Guarani was under pressure due to external and seasonal factors (such as strong dollar appreciation and demand for dollars for holiday consumer imports). Pressures have abated thereafter and the BCP retreated from its announced interventions. The BCP is maintaining transparency in foreign exchange interventions and strives to preserve robust reserve levels. It regularly publishes a comprehensive account of its foreign exchange activities on its website.

17. Advances have been made in modernizing the payments system. In end-September, a resolution was issued approving the "Regulation of the QR generation standard for electronic payments in Paraguay". This regulation establishes the obligation for all payment service providers (PSPs) that process QR payments to adopt the QR standard based on EMV® QRCPS. This decision is a fundamental step to promote interoperability in the payment ecosystem, which will also allow the promotion of financial inclusion in a more digital and competitive society.

Box 1. Assessing and Addressing Fiscal Risks Associated with Climate Change

Risks stemming from climate change are defined as possible events that cause unforeseen variations between the forecasts of fiscal variables and their actual realization. For example, the 2021 drought caused a drop in hydroelectric and soybean production, which generated lower budget revenues for the government. Climate events also impact the financial performance of public companies, particularly companies in the energy sector (ANDE, Itaipú, and Yacyretá), and therefore government revenues and expenses. Recent Fund's capacity development mission made several proposals in this area:

Average Annual Natural Hazard Ocurrence, 1980-2020
(In Percent)



Source: World Bank.

Data collection: There is a need for more systemic and structured data collection and analysis of climatic variables, integrating and quantifying the effects of climate change in the assessment of fiscal risks, either directly on fiscal balances and/or indirectly through increased macroeconomic risks.

Estimating costs: Fund staff developed a tool to help estimate the climate effect on fiscal variables. The tool is populated with public data, but since it is often scattered across different institutions, the tool can be especially useful as an integrating platform for analyzing the channels of transmission of fiscal risks associated with natural disasters. It would also help lay out different response financing strategies.

Crisis preparedness: The use of budgetary contingencies, contingent debt, and insurance as disaster financing options, following regional and extra-regional examples, should be explored.

Increasing transparency: It would be important to systematize the publication of the report on fiscal risks, which should be periodically presented to Congress. It could be either published independently or be a part of the medium-term fiscal framework (or the public finance report). This also implies developing institutional capacities of the MEF unit in charge of collecting the information and preparing the report. Guidelines should be issued to each institution in charge of monitoring specific fiscal risks. The report should include an assessment of the climate impact on companies in the electricity sector.

Pillar II (Enhance Productivity and Foster Economic Growth)

18. The government is addressing governance weaknesses and corruption. In September, a bill was presented to Congress that establishes the "National Regime of Integrity, Transparency and Prevention of Corruption." The role of the Comptroller General of the Republic will be expanded to cover all state institutions, which will help to unify criteria of transparency, prevention, and denunciation of corruption. Work is ongoing to 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) (**RT December 2024**). A recent CD mission to the social security entity discussed the issue with both the IPS and the Ministry of Health, and they are working towards its implementation.[7] The authorities already advanced with the implementation of pilot projects for the Health Information System in two public hospitals to increase transparency in operations (**June 2025 RT**). Implementation of a pilot on an information exchange system to carry out cross-checking examinations of public officials' net worth declarations is planned to be rolled out next year (**August 2025 RT**). Recognizing and addressing the risks linked to money laundering and the financing of terrorism (ML/TF) continues to be a key government's goal and the authorities should continue towards improving the overall AML/CFT regime. A Fund CD project to help strengthen Paraguay's AML/CFT regime has been well received by the authorities. Progress is underway towards developing a sound and effective AML/CFT risk-based supervisory framework, including through the development of robust risk-based supervisory tools and enhancing the overall capacity of the Financial Intelligence Unit for conducting operational and strategic analysis. The National Risk Assessment (NRA) has been updated and is expected to be approved by end of the year (**June 2024 RT**). This was part of the action plan issued by the President to address GAFILAT recommendations. Implementation of the system for recording the cases of violence against women and establishing a single registry is progressing on time and the software, which will integrate the cases among all agencies involved, is ready (**March 2025 RT**). This is aimed at transparent recording of abusers and preventing bribery in the police. This should lead to the reduction of instances of physical trauma, which also results in women's absence from the place of employment or the labor market altogether.

19. The BCP is making important strides in strengthening its governance structures. Some actions have been taken to address the recommendations from safeguards assessments in the area of governance through the review of Board tasks and increased delegation to enhance decision making. Further work is needed to strengthen the BCP's Audit Committee.

20. Improvements in the business climate are especially necessary for attracting investment. The plan to enhance the integrity of the public land cadaster, deficiencies in which create legal uncertainty and are considered an impediment to foreign investment, should lay ground for further strengthening of the land code. This RT was rescheduled and should be completed in the

[7] Recent IMF CD revealed that the health fund of IPS (the social security institution covering pensions and health insurance of private workers) has faced significant financial pressures and accumulated arrears to private suppliers. Contingent liabilities with the IPS for the budgetary central government would have amounted up to 2 percent of GDP, and IPS' financial soundness should be restored by aggressive reform efforts and financial enhancement including through government transfers.

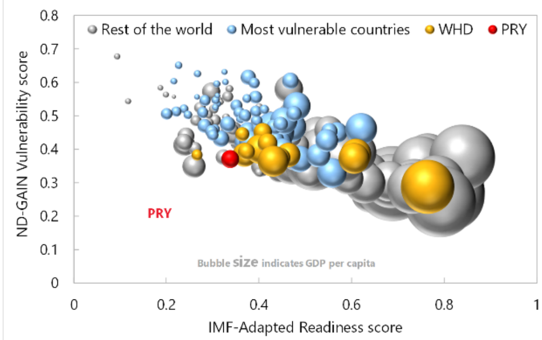
coming months (**March 2025 RT**). In this vein, the authorities are making progress in the simplification and modernization of cadastral procedures. Within this framework, a new guide to technical and documentary requirements has been prepared with the aim of streamlining and simplifying processes through the implementation of electronic files. As a first step, Congress approved in general the bill that creates the National Unified Registry (RUN), which merges the General Directorate of Public Registries (DGRP), the National Cadaster Service (SNC) and the Department of Surveying and Geodesy to work together in a single registry. This bill aims to modernize the registry and cadastral system, streamline procedures, and promote transparency in the country's physical and legal real estate registries. The RUN will be a technical and administrative body of the Judicial Branch, dependent on the Supreme Court of Justice. Cadaster and Public Registries also require significant improvements in technology and greater investment. The work on the Insolvency Law, crucial to ensure timely and transparent business resolution, has not advanced yet as the authorities need more time to reformulate the previous government's draft law to change the framework (**October 2025 RT**).

Pillar III (Enhance Social Protection and Inclusiveness)

21. Efforts to create a comprehensive beneficiary system for social programs continue. The Tekoporã program has increased coverage to around 180,000 families and is now 95 percent mobile. One of the central programs of the current administration is Zero Hunger with the goal of free school meals for all public elementary and middle school students in more than 20 districts, and coverage is being expanded gradually. Paraguay has made important efforts toward integrating social programs administered by various state institutions. After creation of SIPEN, the authorities have been gradually extending it to other social programs run by (i) the Coordination of Diverse Obligations of the State (CODE); (ii) the Ministry of Children and Adolescents (MINNA); and (iii) the Ministry of Social Development. In this vein, the implementation of the guidelines of decree No. 6833 of March 2022 "SIPEN to the social program of MINNA" is being completed (**June 2024 RT**). The Action Plan for the National Care Policy (PNCUPA) is expected to be approved by the Interinstitutional Care Commission by year end (**December 2024 RT**).

Vulnerability and Preparedness for Climate Change

(Score)



Source: IMF staff estimates.
Note: The ND-GAIN index is a global free open-source index, that measures a country's current vulnerability to climate disruptions and assesses a country's readiness to leverage private and public sector investment for adaptive actions.

22. Labor market reform is part of the government's agenda. The authorities intend to have a broad dialogue regarding potential amendments to the Labor Code.[8] The objective of a reform would not only be to generate employment, but also to improve competitiveness and foster greater

[8] A recent technical report by the Ministry of Labor on evaluating job stability revealed that many workers are dismissed before reaching the 10-year employment tenure as this is the threshold when seniority is seen to be expensive by many businesses.

equity in labor relations. The authorities have voiced the idea of creating a National Council of Education and Labor to spearhead policies aimed at expanding the pool of qualified labor needed to meet the demands of the private sector, especially given the potential of new investors' interest. Employers are particularly concerned about a high level of informality that negatively affects the economy.[9] The authorities are also working on a proposal at the Executive Level, and under the auspices of the Social Security Institute, regarding the formalization of independent workers of MSMEs and independent workers in general which should be ready in 2025.

B. RSF: Building Resilience to Climate Change

23. The importance of adaptation initiatives is well recognized in Paraguay considering significant climate-related vulnerabilities. According to ND-GAIN index, Paraguay lags its regional peers in climate change preparedness. With an investment grade credit rating, Paraguay is now even better positioned to adapt to climate change by attracting green, predictable, and profitable investments.

24. A new Energy Policy was rolled out recently. On September 22, President Peña signed Decree No. 2553 which rolls out a new Energy Policy for Paraguay until 2050. It replaces a decree from 2016 and proposes a strategic sustainable development framework based on the responsible use of natural and energy resources, and, importantly, through enhanced regional integration. The strategy focuses on expanding alternative energy sources and reducing dependence on hydrocarbons, transitioning to greater energy efficiency, including through the promotion of biofuels and the introduction of hydrogen as a fuel. In this vein, progress is already being made in implementing the "National Green Hydrogen Strategy," which aims to create a competitive framework for green hydrogen production, fostering innovation, investment, and partnerships in the energy sector. This initiative places Paraguay at the forefront of the energy transition in Latin America, with the potential to attract significant investments and generate new opportunities for sustainable growth.

25. The RSF provides a platform for Paraguay's ambition to become a leading green investment destination. The reform agenda supported by the RSF signals the authorities' commitment to climate action and helps to catalyze financial resources from both development partners, such as the World Bank and the IDB, and the private sector. On the one hand, adopting eco-friendly practices in traditional sectors, such as no-till farming and sustainable cattle ranching, should enhance access to international markets and attract green capital thanks to a green taxonomy framework and improved forest protection. Furthermore, recent policies that increase the minimum biodiesel content are expected to bolster the downstream biofuel industry, thereby reducing Paraguay's reliance on imported fossil fuels. On the other hand, the emergence of new green sectors may help diversify Paraguay's economy. Capitalizing on its fertile soil, Paraguay has seen significant advancements in the forestry sector, including foreign investments to set up the country's emerging pulp mill industry. Paraguay's public development bank (AFD) is actively

[9] Only 3 to 4 out of 10 workers are formal (World Bank, 2024; National Institute of Statistics (INE)).

developing financial products tailored for this sector and the Forestry Institute (INFONA) is generating valuable information from satellite images to aid investment decisions and has commenced a participatory process for formulating the National Forest Policy to establish a sustainable development framework for this dynamic sector.

26. The RSF continues to support the authorities' ambitious efforts tackling several key challenges (Table 2):

- **Public investment resiliency.** With the support of Fund C-PIMA missions, the authorities amended the Decree 4436/20 with Decree 2882 to incorporate climate aspects at each stage of public investment projects' development, including their design, selection, and evaluation **(RM1)**. Further refinements of manuals' procedures will follow to enhance the implementation of this RM including from IMF technical assistance as well as from the IDB in the context of the IDB Climate pilot.
- **Mobilization of financial resources for adaptation and mitigation efforts.** After extensive consultations with stakeholders and experts and with the support of the IDB, the MEF and the BCP published a green taxonomy, a classification system that defines which economic activities and assets are "green" or environmentally sustainable, covering five key sectors: energy, construction, agriculture, cattle ranching, and forestry. In addition, the financial sector and public investment are transversal to all these economic sectors. This taxonomy includes an implementation plan and anticipates its future extension towards other economic sectors **(RM2)**. Furthermore, the Superintendency of Banks has produced with the World Bank (WB) an analysis of climate-related risks in the financial sector to inform its ongoing work with the technical assistance of the WB to incorporate those into its risk assessment framework by mid-2025 **(RM3)**.
- **Preservation and expansion of the clean electricity matrix.** After consulting with market participants, the government enacted the Decree 2853 launching the National Program for Energy Efficiency Labeling. The program will inform consumers about efficiency parameters of appliances in the Paraguayan market and will progressively impose minimum efficiency standards to the three appliances that consume the most electricity as originally scheduled for the previous review **(RM7)**. The state electricity company (ANDE) has: (i) published a plan with quantitative targets to reduce its technical and non-technical losses and started its implementation, (ii) installed 27,760 smart meters by the end of September 2024 among major consumers that will support the progressive implementation of Regulations 49887 and 49888 on dynamic tariffs, and (iii) increased inspections in 2024 against electricity tariffs to 18,356 as of end of September, significantly more than ten percent above the same period last year **(RM8)**. With the assistance from the IDB, ANDE has advanced significantly with a study of its costs against regional benchmarks, and the external audit by an international firm that has already started is expected to be finalized by early 2025 **(RM5)**. All these actions support the development of the methodologies for the fine-tuning of electricity tariffs identified for next review **(RM6)**, and the implementation will secure the funding of investment needs of ANDE, including for the loss reduction plan. This will further support the expansion of the green energy regulation of the non-conventional renewable energy law, regulation for which was introduced earlier this year **(RM4)**. In consultation with the WB, the government is refining this law that promotes private participation in renewable energy to attract investors.

- **Greenhouse gas emissions.** The government is developing the regulatory decree of the Electromobility Law 6925/2023 and refining the specification of fiscal incentives in favor of electric vehicles. ANDE stands ready to install 30 rapid charging units, however, the delivery will happen as soon as global supply disruptions are solved. The government plans to develop regulations for electric public transportation and set updated targets for an increased share of electric buses in the metropolitan area of Asuncion **(RM10)**. In addition, after extensive consultations with stakeholders, the government plans to submit to Congress a comprehensive draft law to reform the country's public transportation system that will set the stage for the increasing electrification of public transportation in Asuncion. Fund CD is supporting the design of an explicit carbon tax on liquid fuels that will replace existing selective taxes on the consumption of diesel, gasoline, and LPG for the next review **(RM9)**. Besides the containment of CO2 emissions from transport and household sectors, the Ministry of Industry and Trade enacted the resolution 1025 that regulates the law 7014/2022 that promotes the reutilization, recycling, and use of plastic (polyethylene terephthalate) containers to help to contain methane emissions from waste management **(RM13)**.

- **Forest preservation.** The government is working on establishing the necessary control systems to start the effective implementation of biomass certification process in 2026. It is also enhancing the coordination for the effective implementation of intervention protocol for land use change based on the National Forest Monitoring System established by Decree 1746 (**RM11**). INFONA is developing the Directorate of the National Forest Monitoring System **(RM12)** to enhance its capacities to protect forests and monitor land use change, including with additional budget allocations next year. The government's rapid reaction to the wildfires last September contributed to containing them, and INFONA's monitoring systems allowed the authorities to identify and prosecute those responsible for starting those fires.

PROGRAM MODALITIES AND CAPACITY DEVELOPMENT

27. Access and duration. The PCI and RSF (amounting to SDR 302.1 million or 150 percent of quota) are in place until November 2025. Both will continue to be monitored on a semi-annual basis through QTs, standard continuous targets, RTs, ICC for the PCI, and RMs for the RSF (Policy Statement), as defined in the Technical Memorandum of Understanding (TMU). The last PCI review date is June 30, 2025. The authorities are requesting modification to end-December 2024 and end-June 2025 QTs ceilings on primary expenditure given that larger than expected revenue would allow for more expenditures while maintaining capital spending and the fiscal deficit. RM13 is being rephased to account for early implementation without affecting the strength of the program and the sequencing of reforms.

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

29. Safeguards Assessment. The 2024 update of the safeguards assessment of the BCP has been completed. It identified that the BCP maintained a sound system of operational controls and enhanced its transparency in financial reporting through adoption of International Financial Reporting Standards. However, legal reforms remain necessary to strengthen aspects of the BCP's autonomy and governance arrangements. On the latter, vulnerabilities resulting from the lack of an independent oversight body persist and should be addressed through interim avenues pending legal reform. Other key recommendations pertain to strengthening internal audit as an assurance function and align its practices with international standards.

30. Capacity development and data: Fund CD support remains closely aligned with the programs' priorities. It focuses, inter alia, on domestic revenue mobilization, follow-up support on fiscal risks and a recently completed C-PIMA, and financial stability and integrity, including the AML/CFT regime. The authorities are also working to strengthen balance of payments and national accounts statistics. In this vein, on October 28, 2024, Paraguay subscribed to the IMF's SDDS, joining 48 other countries currently subscribed to the SDDS. Subscription to the SDDS is expected to improve the country's capacity on data compilation and dissemination, facilitate the macro-economic policy making process, help build up market confidence on the country's institutional capacity, and contribute to the economic and financial stability.

STAFF APPRAISAL

31. Paraguay's commitment to maintain macroeconomic stability has been rewarded with the first ever sovereign investment grade credit rating. Buoyant activity continues, reflecting high consumer confidence and expanding services and manufacturing sectors. The BCP has been appropriately keeping monetary policy on hold, guided by inflation performance and expectations. Paraguay's banking system remains stable and solvent. The 2025 budget is in line with the authorities' commitments on fiscal consolidation.

32. The authorities are keen on maintaining fiscal sustainability and continuing with the structural reform efforts. Despite a low overall risk of sovereign stress, it is essential to rebuild fiscal buffers in the face of recurrent shocks, large development and infrastructure needs, and potential contingent liabilities. In this context, reforms to boost fiscal revenue and government expenditure efficiency, improve governance and reduce corruption risks, and improve the business climate to encourage green investment should help achieve sustainable and inclusive growth.

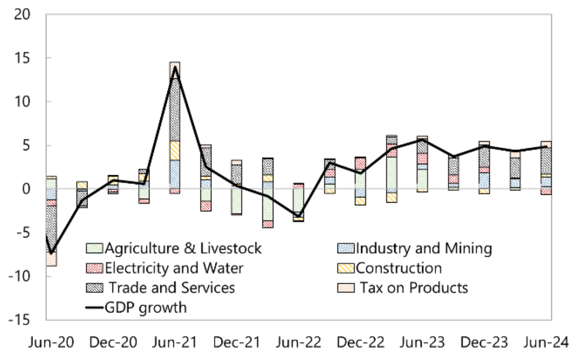
33. Staff supports completion of the fourth review under the PCI and second review under the RSF arrangement. The authorities remain dedicated to bolstering macroeconomic stability, advancing their structural reform agenda, and sustaining a close policy dialogue with the IMF under the PCI. Staff supports the authorities' request to modify the QT for the primary expenditure set for end-December 2024 and end-June 2025 as well as incorporate two new RTs. Staff also supports the authorities' request under the RSF to rephase to the 2nd RSF review the disbursement associated with one reform measure originally envisaged for the 3rd RSF review and completed ahead of schedule. Delivering on commitments to implement a comprehensive set of climate-related reforms, including under the RSF, will open investment opportunities and help build resilient and sustainable economy. Based on the completion of RMs 4, 7, 11, and 12 (third review), RMs 1, 2 and 8 (fourth review), and RM13 (ahead of fifth review), staff supports the authorities' request for disbursement of 92.5 percent of quota, or SDR 186.28 million under the RSF.[10] Delays in the implementation of RM5, and RM10 are justified by circumstances outside of the authorities' control (global supply chain disruptions, time needed to secure an international auditor) and prudence in completing the commitment (in the context of a broad reform of public transportation).

[10] The request for a disbursement above the standard 50 percent of quota per review follows the guidance in the "Proposal to Establish a Resilience and Sustainability Trust," the Resilience and Sustainability Facility – Operational Guidance Note," and the "Interim Review of the Resilience and Sustainability Trust and Review of Adequacy of Resources." The authorities may request i) a disbursement for RMs completed in the first review of the RSF during the second review (access associated with this delayed review would not count towards the 50 percent access limit per review), and ii) an early disbursement for a completed RM provided that RSF access stays at or below 50 percent of quota per review.

Figure 1. Paraguay: Recent Developments

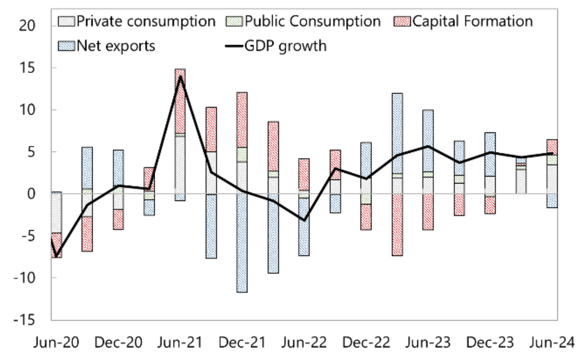
Economic activity continues to be robust in 2024.

Aggregate Supply Growth Decomposition
(In Percent, Y/Y)



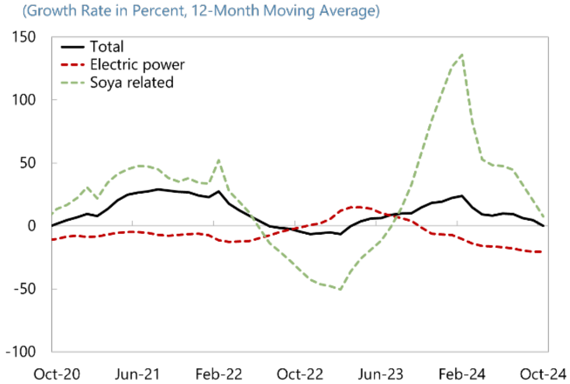
Consumption is a strong driving force while investment is picking up.

Aggregate Demand Growth Decomposition
(In Percent, Y/Y)



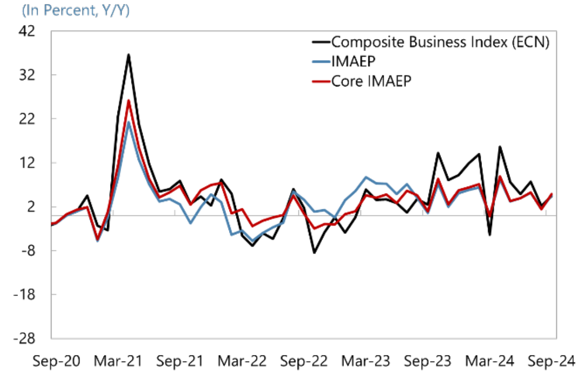
Exports are leveling off after post drought recovery.

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



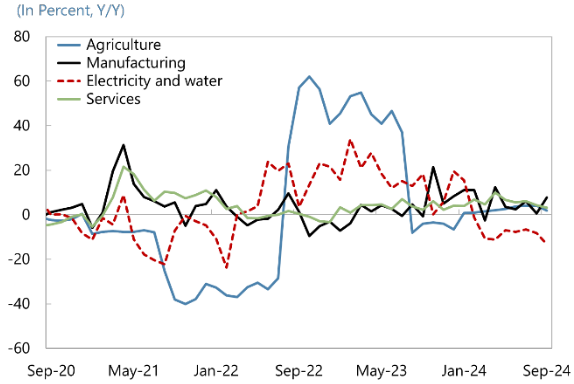
Monthly economic indicators point to multi sector expansion…

Monthly Economic Activity Indices
(In Percent, Y/Y)



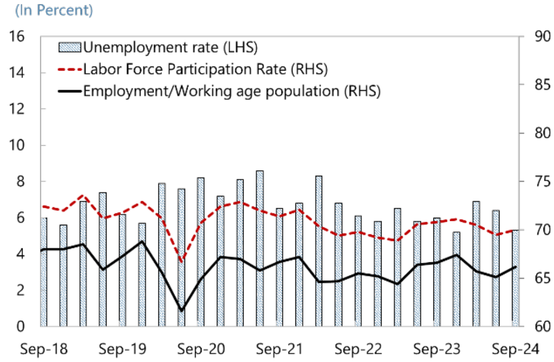
… agricultural sector growth is leveling off.

IMAEP by Sector
(In Percent, Y/Y)



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

Labor Market
(In Percent)

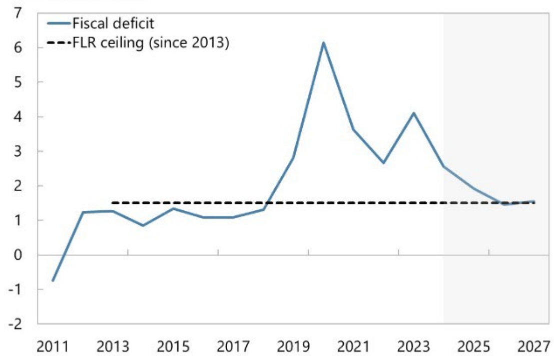


Sources: BCP; Ministry of Economy and Finance; and IMF staff calculations.

Figure 2. Paraguay: Fiscal Developments

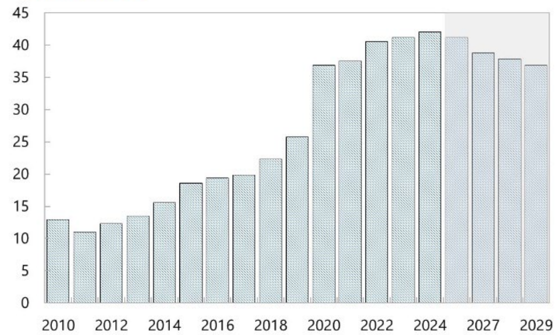
Paraguay aims to reach the FRL ceiling by 2026, with the 2023 deficit affected greatly by the settling of previously unrecorded claims.

Central Government Fiscal Deficit
(In Percent of GDP)



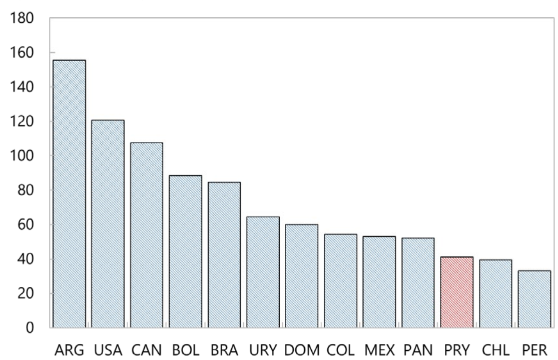
Public debt increased substantially after the pandemic but is expected to stabilize….

Public Debt
(In Percent of GDP)



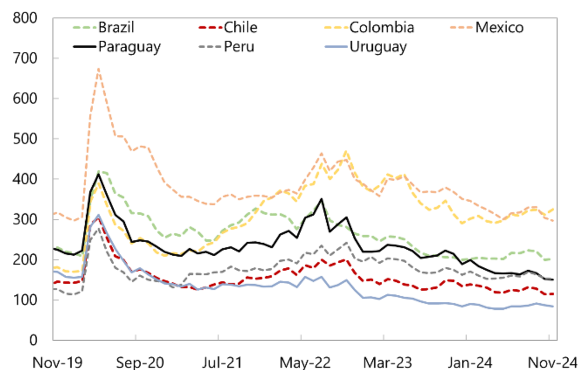
… and is still low compared to other countries in the region.

Public Debt, 2023
(In Percent of GDP)



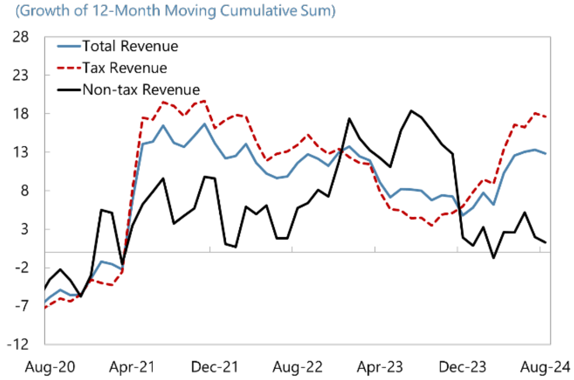
Paraguay's credit spreads have been converging towards other investment grade countries.

Sovereign Spreads
(In Basis Points)



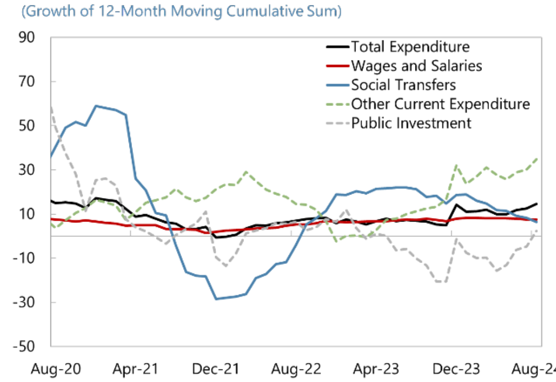
Supported by strong tax collections, total revenue has been sharply increasing in 2024.

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



Higher expenditure growth if offset by lower public investment.

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

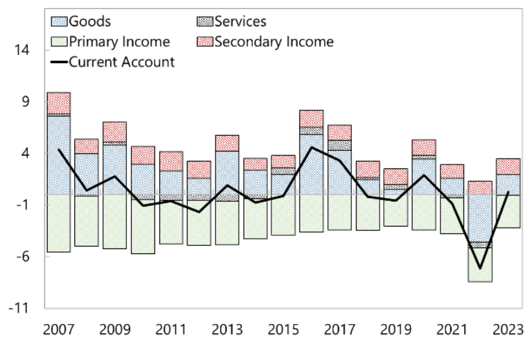


Sources: Ministry of Economy and Finance; Bloomberg; WEO; and IMF staff estimates.

Figure 3. Paraguay: External Sector Developments

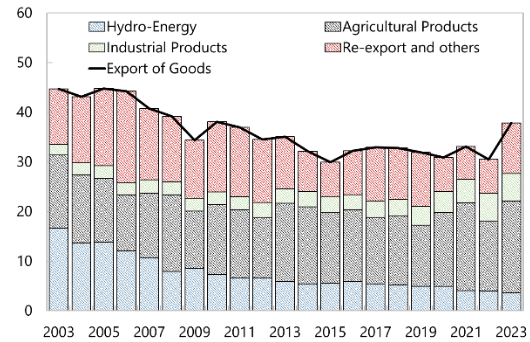
The current account notably improved in 2023, led by higher exports and reduced fuel costs.

Current Account Balance
(In Percent of GDP)



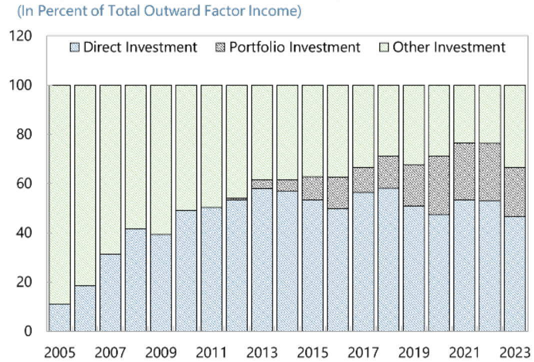
Agricultural products are the primary sources of export revenue.

Composition of Goods Export Revenues
(In Percent of GDP)



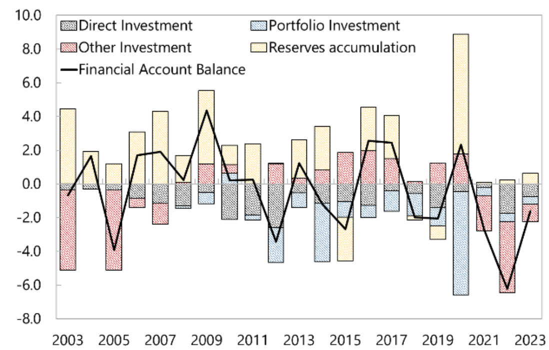
Debt is a major source of outward factor payments while direct investment has slightly declined.

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



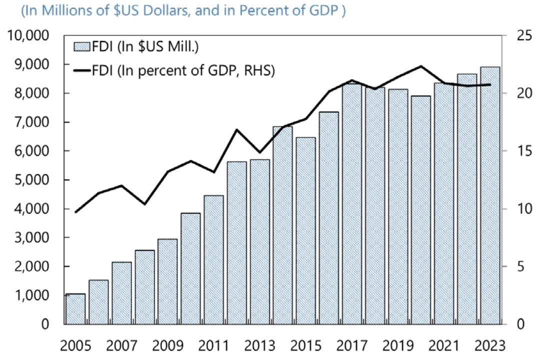
The financial account has been volatile.

Composition of Financial Account
(In Percent of GDP)



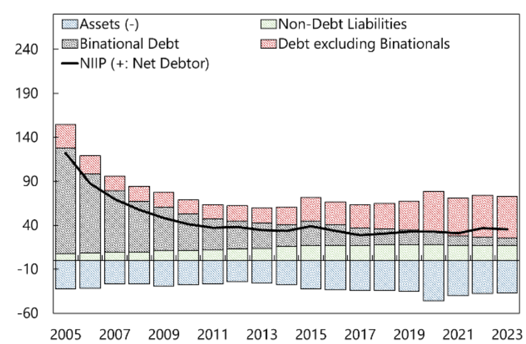
Foreign direct investment has been plateauing in the recent past.

Foreign Direct Investment Stock
(In Millions of $US Dollars, and 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)

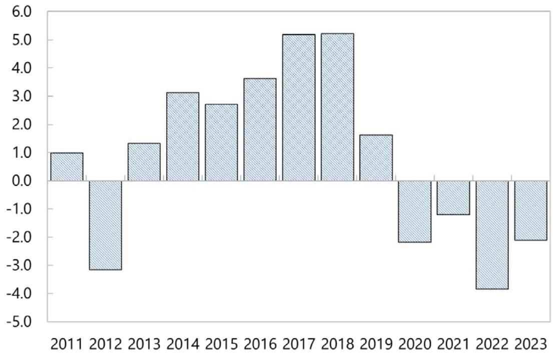


Sources: BCP; and IMF staff calculations.

Figure 4. Paraguay: Monetary Indicators

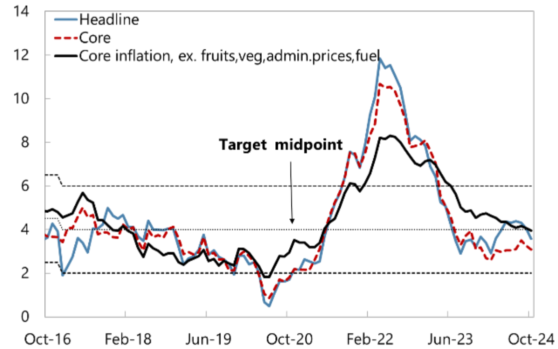
The economy was operating close to the potential in 2023.

Output Gap
(In Percent of Potential GDP)



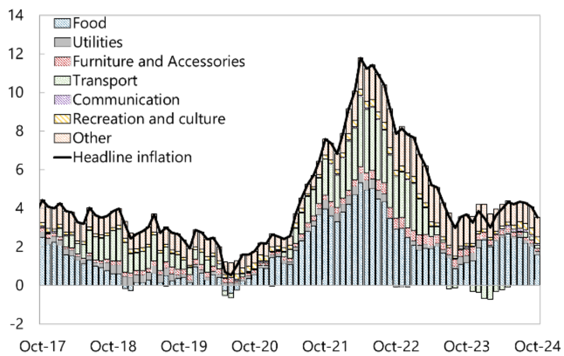
Inflation receded rapidly and is now well within the band…

CPI Inflation
(In Percent,Y/Y)



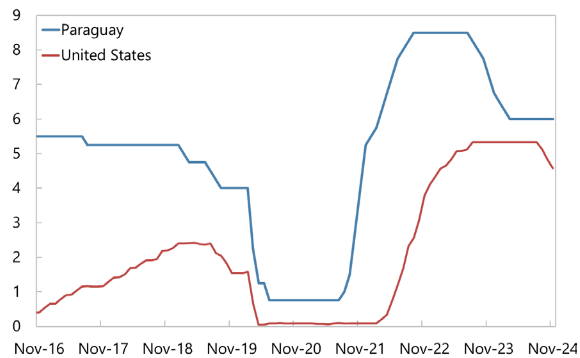
…led by significantly lower food and fuel prices…

Contributions to Inflation
(In Percent, Y/Y)



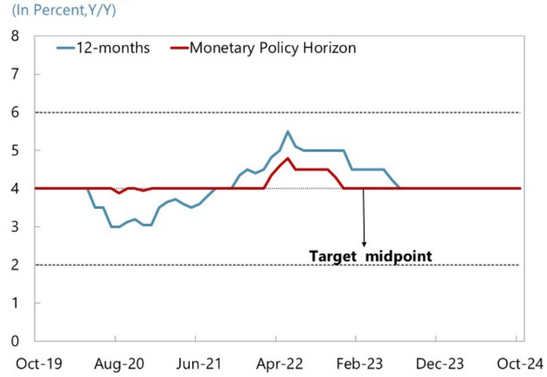
Allowing the BCP to hold the policy rate.

Monetary Policy Rate
(In Percent)



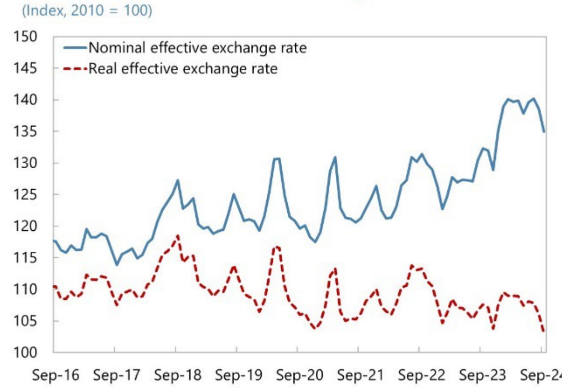
Inflation expectations remain stable.

Inflation Expectations
(In Percent,Y/Y)



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

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

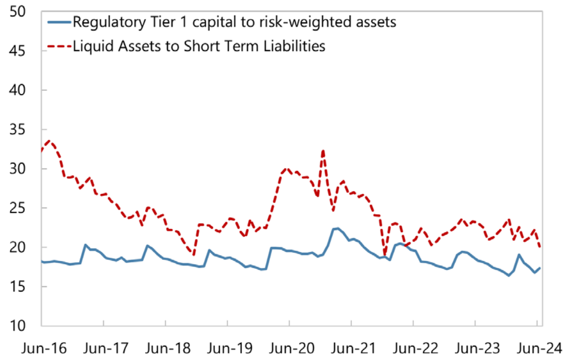


Sources: BCP; Ministry of Economy and Finance; IMF staff calculations.

Figure 5. Paraguay: Financial Sector Developments

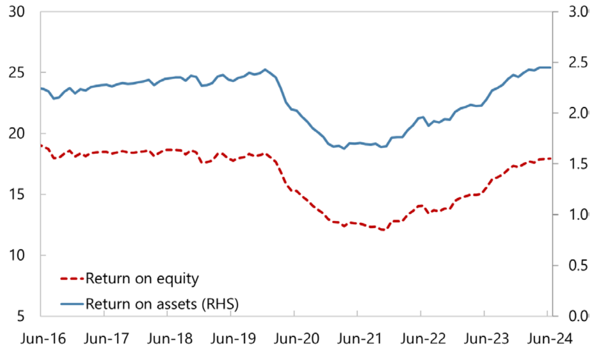
Banks remain liquid and well-capitalized.

Capital Adequacy and Liquidity
(In Percent)



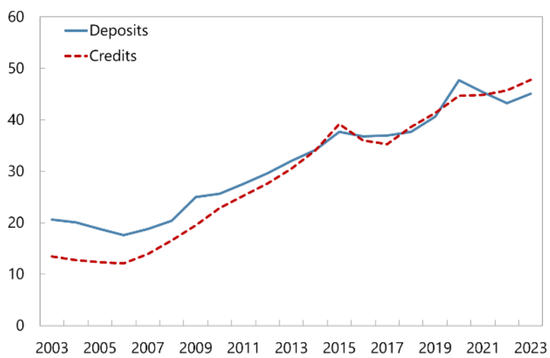
Bank profitability has been on the rise since the pandemic.

Bank Profitability
(In Percent)



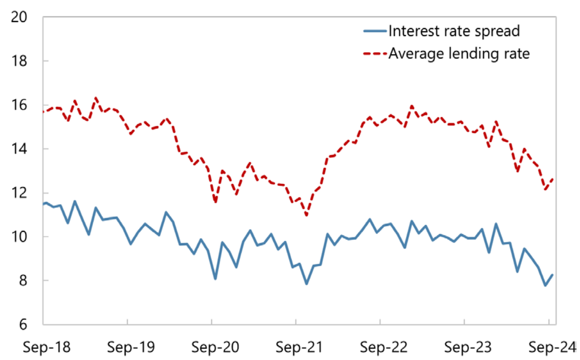
After a sustained increase, both deposits and credit remained stable as a percent of GDP.

Deposits and Credit
(In Percent of GDP)



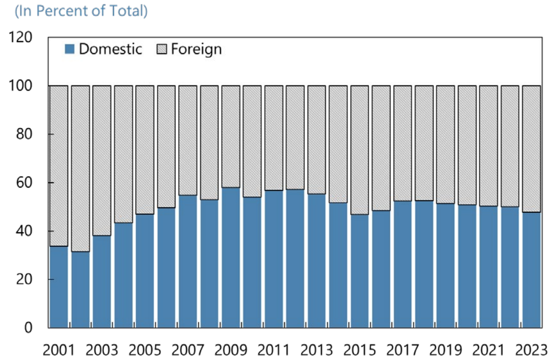
Lending rates started to come down following policy rate cuts, while the interest rate spread has remained stable.

Lending Rate and Interest Rate Spread
(In Percent)



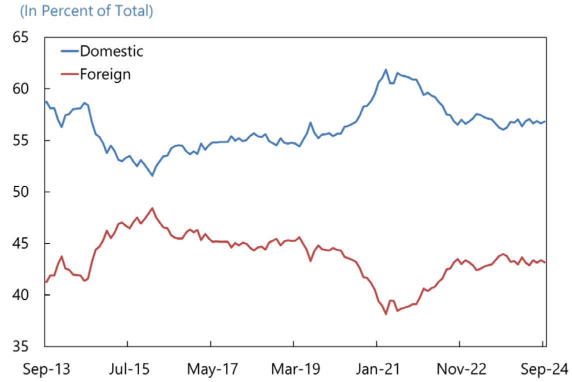
The level of dollarization of deposits and loans has been stable over the past decade…

Deposits
(In Percent of Total)



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

Bank Credit by Currency
(In Percent of Total)



Sources: BCP; and IMF staff calculations.

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

Dec 2023 RSF Approval	June 2024 RSF 1st Review	Dec 2024 RSF 2nd Review	May 2025 RSF 3rd Review
Key Challenge 1: **Public investment is not resilient to climate shocks**		**Met** **RM1:** MEF to amend and publish the Decree 4436/20 to incorporate **climate aspects** at each stage of project **development of public investment projects** (appraisal, selection, external audit etc.) in line with Fund TA recommendations.	
Key Challenge 2: **Lack of financial resources to support adaptation and mitigation efforts**		**[Met]** **RM2:** MEF and BCP to publish a **green taxonomy** aligned with Paraguay's NDC.	
Key Challenge 3: **Vulnerability of financial sector to climate shocks**			**RM3:** BCP to: (i) establish reporting requirements and a data repository for material climate-related exposures of banks; (ii) adopt a framework to monitor and assess **climate-related financial risks** for banking sector; and (iii) issue **supervisory guidelines for banking sector to incorporate climate-related risks** to their risk management frameworks, along with timelines for the adoption of the guidelines.
Key Challenge 4: **Preservation and expansion of clean electricity matrix**	**Met** **RM4:** MOPC and VMME to enact **regulation of** the non-conventional **renewable energy law** 6977/2023, including (1) the specification / rationalization of economic incentives, (2) technical aspects (i.e., requisites to connect to the national interconnection system, detailed criteria for licenses, and conditions that would enable an effective development of non-hydro non-conventional renewable energy through all the defined players (generators, co-generators, self-providers, and exporters)).	**In progress** **RM5:** ANDE to publish an **external audit and a study of international benchmarks** for its costs at different segments of its operations and efficiency parameters by an internationally reputed firm.	**RM6:** ANDE to **develop, publish, and gradually adopt transparent and well-specified methodologies for** adapting **electricity tariffs** in line with Law 966/64, accounting for operating costs, the financial costs of projected capital spending needs for preserving and expanding the clean electricity matrix, and efficiency gains on the basis of the results of the external audit and study by an internationally reputed firm (RM5), and the evolution of losses according to the plan in RM8.
	Met **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.	**[Met]** **RM8:** ANDE and MOPC/VMME to **develop, publish, and gradually implement a plan for ANDE loss reduction** with quantitative targets, to install 20,000 smart meters to reduce non-technical electricity losses. 8b. ANDE to implement progressively hourly/dynamic tariffs. 8c. ANDE to increase inspections against electricity theft by 10 percent above same period in 2023.	
Key Challenge 5: **C02 emissions from the transport and residential sectors**		**In progress** **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.	**RM9:** MEF, in coordination with DNIT, to adopt an **explicit carbon tax** replacing existing excise taxes on liquid fuels.
Key Challenge 6: **Conservation of forests**	**Met** **RM11:** INFONA, MADES, MOPC/VMME, and MAG to replace the Decree 4056 of 2015 to create the **registry of industrial biomass users and establish the prerequisites for the use of biomass**. INFONA, MADES, National Police and SENAD will regulate and implement a decree to create **joint intervention protocols for land use change using the National Forest Monitoring System**. The institutions in charge of the protocol will coordinate with other institutions of the Estate, including the Attorney General, to ensure the interventions in the protocol.		
	Met **RM12:** INFONA to change its normative framework aiming at strengthening its **institutional and financial capacities to protect native forests and respond to deforestation alerts**. This includes the creation of a National Directorate for the National Forest Monitoring System.		
Key Challenge 7: **Contain methane emissions**			**Met** **RM13:** MIC to enact regulation of the law 7014/2022 that promotes the **reutilization, recycling, and use of plastic** (polyethylene terephthalate) **containers**.

Table 2. Paraguay: Selected Economic and Social Indicators

Population 2023 (millions)	6.9	Gini index (2022)	45.1
Unemployment rate (2023)	5.9	Life expectancy at birth (2021)	70
(of which, female: 7.1; male: 4.6)		Adult literacy rate (2020)	94.5
Percentage of population below the poverty line (2022)	24.7	(of which, female: 94.2; male: 94.9)	
Rank in UNDP development index (2022)	102 of 193	GDP per capita (US$, 2023)	6,316

						2024		2025			Proj.		
	2019	2020	2021	2022	2023	Proj.	CR 24/200	Proj.	CR 24/200	2026	2027	2028	2029
	(Annual percent change, unless otherwise indicated)												
Income and Prices													
Real GDP	-0.4	-0.8	4.0	0.2	4.7	4.0	3.8	3.8	3.8	3.5	3.5	3.5	3.5
Nominal GDP	2.6	1.4	12.8	8.2	6.9	6.2	6.7	7.5	7.5	7.5	7.5	7.5	7.5
Per capita GDP (US$ thousands)	5.9	5.4	6.0	6.2	6.3	6.4	5.9	6.6	6.0	7.1	7.4	7.7	8.0
Consumption (contribution to growth)	1.7	-1.7	4.2	1.2	2.2	2.8	2.3	2.3	2.3	2.4	2.5	2.7	2.8
Investment (contribution to growth)	-1.5	-1.0	5.5	2.5	-4.1	2.1	2.7	1.0	3.6	1.1	0.7	0.7	0.4
Net exports (contribution to growth)	-0.6	1.9	-5.6	-3.6	6.5	-0.9	0.1	0.5	-2.1	0.0	0.3	0.1	0.3
Consumer prices (end of period)	2.8	2.2	6.8	8.1	3.7	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Nominal exchange rate (LC$/US$, eop)	6,453	6,917	6,879	7,331	7,274	...	...	...	...	...	...	...	...
Monetary Sector													
Credit to private sector 1/	9.9	7.7	10.0	11.6	10.1	15.4	9.2	8.5	8.5	9.4	8.3	8.2	7.9
Monetary policy rate, year-end	4.0	0.8	5.3	8.5	6.8	...	...	...	...	...	...	...	...
External Sector 2/													
Goods exports	-8.1	-9.6	20.7	-3.1	26.8	-5.3	6.5	3.3	3.3	3.7	3.9	3.6	2.9
Goods imports	-5.5	-18.3	29.4	17.1	4.7	1.9	4.7	3.0	9.2	2.7	1.6	3.6	1.8
Terms of trade	-0.4	2.4	9.6	-6.8	0.6	-4.0	0.3	-0.9	0.1	0.5	0.3	-0.1	-0.1
Real effective exchange rate 3/	-3.0	-1.3	-1.0	1.9	-3.0	...	...	...	...	...	...	...	...
	(In percent of GDP, unless otherwise indicated)												
Current account balance	-0.6	1.9	-0.9	-7.1	0.3	-3.0	-0.5	-2.7	-2.4	-2.3	-1.7	-1.4	-1.1
Trade balance	1.0	3.8	1.3	-5.2	1.9	-0.8	2.0	-0.7	-0.1	-0.5	-0.1	0.0	0.2
Exports	37.8	34.8	37.1	35.7	43.6	40.9	44.0	40.4	43.8	38.8	38.0	37.5	36.5
Of which: Electricity	5.0	4.9	4.1	4.0	3.6	2.8	3.3	2.7	3.0	2.5	2.4	2.3	2.2
Imports	36.8	31.0	35.8	40.9	41.7	41.7	42.0	41.1	43.8	39.3	38.2	37.5	36.3
Of which: Oil imports	3.8	3.0	3.8	5.5	4.4	4.3	4.4	3.8	4.1	3.5	3.4	3.3	3.3
Capital account (net)	0.4	0.5	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Financial account (net)	-1.2	-4.8	-2.8	-6.5	-2.2	-1.7	-0.8	-2.9	-2.9	-2.5	-2.0	-1.7	-1.4
Of which: Direct investment (net)	-1.4	-0.4	-0.2	-1.7	-0.8	-0.8	-1.5	-1.8	-2.2	-1.7	-1.6	-1.0	-0.8
Gross international reserves (in US$ millions)	7,394	9,201	9,657	9,521	9,893	9,493	10,781	9,793	11,231	10,093	10,443	10,818	11,218
In months of next-year imports of goods and services	8.1	7.7	6.8	6.4	6.5	6.0	6.3	6.0	6.4	6.0	6.0	6.1	6.1
Ratio to short-term external debt	1.9	2.4	2.4	2.1	2.0	2.1	3.2	2.1	2.9	2.0	2.0	2.0	2.0
Saving and Investment													
Gross domestic investment	21.7	20.0	24.0	27.7	19.6	23.0	22.9	23.2	25.4	23.4	23.2	23.1	22.7
Gross domestic saving	21.1	21.9	23.1	20.6	19.9	20.0	22.4	20.5	23.1	21.1	21.5	21.6	21.6
Central government finances													
Revenues	14.2	13.5	13.7	14.3	14.0	15.2	14.6	15.2	14.6	15.2	15.3	15.3	15.3
Of which: Tax revenues	10.0	9.5	9.8	10.2	10.1	11.3	10.5	11.3	10.6	11.3	11.4	11.4	11.4
Expenditures	17.0	19.7	17.3	17.0	18.1	17.8	17.2	17.1	16.5	16.7	16.8	16.8	16.8
Of which: Compensation of employees	6.9	7.3	6.6	6.5	6.6	6.6	6.6	6.6	6.5	6.5	6.5	6.4	6.5
Of which: Net acquisition of non financial assets	2.9	3.6	2.9	2.9	2.6	1.7	1.5	1.8	1.8	1.8	1.8	1.9	1.9
Net lending/borrowing	-2.8	-6.1	-3.6	-2.7	-4.1	-2.6	-2.6	-1.9	-1.9	-1.5	-1.5	-1.5	-1.5
Primary balance	-2.0	-5.1	-2.5	-1.4	-2.4	-0.5	-0.6	0.1	0.1	0.4	0.5	0.5	0.4
Public sector debt (excl. Central Bank bills)	25.8	36.9	37.5	40.5	41.2	43.6	42.8	40.9	42.5	39.9	39.2	38.6	38.0
Of which: Foreign currency	21.3	31.9	32.9	36.2	36.0	39.3	37.0	37.0	36.5	36.3	34.9	34.4	33.2
Of which: Domestic currency	4.4	5.0	4.6	4.3	5.2	4.3	5.8	3.8	6.0	3.6	4.3	4.2	4.8
Memorandum Items:													
GDP (billions of guaranies)	236,681	239,915	270,634	292,947	313,095	332,570	334,026	357,513	359,078	384,326	413,151	444,137	477,448
GDP (US$ billions)	37.9	35.4	40.0	42.0	43.0	...	...	...	...	...	...	...	...

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

1/ Includes local currency credit and foreign currency credit.

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

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

Table 3a. Paraguay: Operations of the Central Government

(GSFM2001 Presentation) (In billions of Guaranies)

						2024		2025		Proj.			
	2019	2020	2021	2022	2023	Proj.	CR 24/200	Proj.	CR 24/200	2026	2027	2028	2029
					(In billions of Guaranies, unless otherwise indicated)								
Revenue	**33,633**	**32,494**	**37,102**	**41,923**	**43,942**	**50,424**	**48,661**	**54,399**	**52,401**	**58,321**	**63,169**	**67,982**	**73,229**
Taxes	23,577	22,739	26,409	29,962	31,750	37,575	35,177	40,411	38,059	43,397	47,140	50,792	54,627
Income taxes	6,013	5,970	6,934	8,753	8,165	11,060	10,893	11,890	10,689	12,692	13,646	14,669	15,768
Excises	3,021	2,775	2,985	2,736	3,139	3,622	3,358	3,820	3,594	4,161	4,530	4,965	5,462
Value added tax	11,695	11,686	13,631	15,151	16,963	18,879	18,654	20,348	20,921	21,836	23,693	25,454	27,318
Import duties	2,421	2,000	2,423	2,858	2,980	3,375	3,122	3,598	3,769	3,895	4,397	4,765	5,070
Other	427	309	437	463	502	639	-850	756	-914	813	874	939	1,010
Social contributions	2,126	2,443	2,778	4,431	3,710	3,222	4,148	3,449	4,385	3,653	3,928	4,225	4,547
Other revenue	7,929	7,312	7,915	7,530	8,483	9,626	9,336	10,539	9,957	11,271	12,101	12,965	14,055
Grants	1,525	1,443	1,832	1,605	1,810	2,033	2,042	2,262	2,272	2,432	2,615	2,811	3,022
Itaipu-Yacyreta	2,084	1,544	1,662	1,805	2,213	2,062	3,539	2,331	3,648	2,396	2,524	2,688	2,861
Other nontax revenue	4,320	4,325	4,421	4,120	4,460	5,531	3,755	5,946	4,036	6,442	6,962	7,467	8,172
Expenditure	**40,283**	**47,223**	**46,929**	**49,716**	**56,770**	**59,032**	**57,303**	**61,274**	**59,215**	**64,250**	**69,444**	**74,835**	**80,364**
Expense	**33,329**	**38,510**	**39,051**	**41,336**	**48,506**	**53,300**	**52,215**	**54,755**	**52,668**	**57,434**	**62,199**	**66,602**	**71,180**
Compensation of employees	16,432	17,512	17,841	19,021	20,524	21,930	22,130	23,478	23,391	24,817	26,664	28,650	30,807
Purchases of goods and services	3,120	3,461	5,414	4,496	6,111	6,766	6,403	5,340	4,431	5,230	5,629	6,059	6,522
Interest	1,962	2,554	2,962	3,614	5,217	6,942	6,777	7,208	7,180	7,399	8,462	8,887	9,171
Grants	4,723	4,562	4,769	4,738	5,172	5,958	5,274	6,359	5,425	6,691	7,147	7,637	8,160
Social benefits	5,718	9,083	6,496	7,721	9,162	9,732	9,774	10,462	10,244	11,246	12,091	12,998	13,972
Other expense	1,374	1,338	1,568	1,746	2,321	1,972	1,857	1,908	1,996	2,051	2,205	2,370	2,548
Gross Operating Balance	**304**	**-6,016**	**-1,949**	**586**	**-4,564**	**-2,877**	**-3,553**	**-355**	**-267**	**887**	**971**	**1,380**	**2,049**
Net acquisition of nonfinancial assets	6,955	8,713	7,877	8,379	8,264	5,732	5,089	6,519	6,548	6,816	7,245	8,233	9,184
Net Lending/Borrowing (Overall Balance)	**-6,651**	**-14,729**	**-9,827**	**-7,793**	**-12,828**	**-8,608**	**-8,642**	**-6,875**	**-6,814**	**-5,928**	**-6,274**	**-6,852**	**-7,135**
Net Financial Transactions	**6,651**	**14,729**	**9,827**	**7,793**	**12,828**	**8,608**	**8,642**	**6,875**	**6,814**	**5,928**	**6,274**	**6,852**	**7,135**
Net Acquisition of Financial Assets	**-295**	**6,739**	**1,470**	**1,702**	**-527**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Financial investments	-258	5,079	778	1,071	-1,278	0	0	0	0	0	0	0	0
Net lending	-37	1,660	692	631	751	0	0	0	0	0	0	0	0
Net Incurrence of Liabilities	**6,006**	**14,608**	**11,893**	**6,468**	**10,131**	**8,608**	**8,642**	**6,875**	**6,814**	**5,928**	**6,274**	**6,852**	**7,135**
Domestic	677	-5,626	997	-1,819	624	213	2,224	1,282	878	1,561	4,237	1,336	4,248
o/w: Debt securities	-7	-324	803	-330	1,957	609	2,224	886	878	1,561	4,237	1,336	4,248
Issuances of TB	550	1,321	1,628	59	2,503	633	2,248	1,662	1,647	1,668	4,449	3,340	5,076
Amortizations	558	1,645	826	390	546	24	24	776	769	107	211	2,004	828
Foreign	5,328	20,235	10,896	8,287	9,507	8,396	6,418	5,593	5,936	4,367	2,037	5,516	2,887
Disbursements	6,429	21,482	12,055	11,319	10,869	11,703	9,668	8,554	8,869	9,262	9,833	10,019	10,614
of which: RSF disbursement	0	0	0	0	0	1,866	0	1,189	3,111	0	0	0	0
Amortizations	1,101	1,247	1,159	3,032	1,362	3,307	3,250	2,961	2,932	4,895	7,796	4,503	7,728
Statistical Discrepancy 1/	350	6,860	-597	3,028	2,170	0	0	0	0	0	0	0	0
Memorandum items:													
Primary balance	-4,689	-12,175	-6,864	-4,180	-7,611	-1,666	-1,865	334	366	1,471	2,187	2,035	2,037
Current primary expenditure	30,361	35,164	34,883	36,402	41,723	45,026	42,476	46,254	42,548	48,648	52,252	56,122	60,301

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

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

Table 3b. Paraguay: Operations of the Central Government

(In percent of GDP, unless otherwise indicated)

						2024		2025		Proj.			
	2019	2020	2021	2022	2023	Proj.	CR 24/200	Proj.	CR 24/200	2026	2027	2028	2029
					(In percent of GDP, unless specified otherwise)								
Revenue	**14.2**	**13.5**	**13.7**	**14.3**	**14.0**	**15.2**	**14.6**	**15.2**	**14.6**	**15.2**	**15.3**	**15.3**	**15.3**
Taxes	10.0	9.5	9.8	10.2	10.1	11.3	10.5	11.3	10.6	11.3	11.4	11.4	11.4
Income taxes	2.5	2.5	2.6	3.0	2.6	3.3	3.3	3.3	3.0	3.3	3.3	3.3	3.3
Excises	1.3	1.2	1.1	0.9	1.0	1.1	1.0	1.1	1.0	1.1	1.1	1.1	1.1
Value added tax	4.9	4.9	5.0	5.2	5.4	5.7	5.6	5.7	5.8	5.7	5.7	5.7	5.7
Import duties	1.0	0.8	0.9	1.0	1.0	1.0	0.9	1.0	1.0	1.0	1.1	1.1	1.1
Other	0.2	0.1	0.2	0.2	0.2	0.2	-0.3	0.2	-0.3	0.2	0.2	0.2	0.2
Social contributions	0.9	1.0	1.0	1.5	1.2	1.0	1.2	1.0	1.2	1.0	1.0	1.0	1.0
Other revenue	3.4	3.0	2.9	2.6	2.7	2.9	2.8	2.9	2.8	2.9	2.9	2.9	2.9
Grants	0.6	0.6	0.7	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Itaipu-Yacyreta hydroelectric plants	0.9	0.6	0.6	0.6	0.7	0.6	1.1	0.7	1.0	0.6	0.6	0.6	0.6
Other nontax revenue	1.8	1.8	1.6	1.4	1.4	1.7	1.1	1.7	1.1	1.7	1.7	1.7	1.7
Expenditure	**17.0**	**19.7**	**17.3**	**17.0**	**18.1**	**17.8**	**17.2**	**17.1**	**16.5**	**16.7**	**16.8**	**16.8**	**16.8**
Expense	**14.1**	**16.1**	**14.4**	**14.1**	**15.5**	**16.0**	**15.6**	**15.3**	**14.7**	**14.9**	**15.1**	**15.0**	**14.9**
Compensation of employees	6.9	7.3	6.6	6.5	6.6	6.6	6.6	6.6	6.5	6.5	6.5	6.5	6.5
Purchases of goods and services	1.3	1.4	2.0	1.5	2.0	2.0	1.9	1.5	1.2	1.4	1.4	1.4	1.4
Interest	0.8	1.1	1.1	1.2	1.7	2.1	2.0	2.0	2.0	1.9	2.0	2.0	1.9
Grants	2.0	1.9	1.8	1.6	1.7	1.8	1.6	1.8	1.5	1.7	1.7	1.7	1.7
Social benefits	2.4	3.8	2.4	2.6	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9
Other expense	0.6	0.6	0.6	0.6	0.7	0.6	0.6	0.5	0.6	0.5	0.5	0.5	0.5
Gross Operating Balance	**0.1**	**-2.5**	**-0.7**	**0.2**	**-1.5**	**-0.9**	**-1.1**	**-0.1**	**-0.1**	**0.2**	**0.2**	**0.3**	**0.4**
Net acquisition of nonfinancial assets	2.9	3.6	2.9	2.9	2.6	1.7	1.5	1.8	1.8	1.8	1.8	1.9	1.9
Net Lending/Borrowing (Overall Balance)	-2.8	-6.1	-3.6	-2.7	-4.1	-2.6	**-2.6**	-1.9	**-1.9**	-1.5	-1.5	-1.5	-1.5
Net Financial Transactions	**2.8**	**6.1**	**3.6**	**2.7**	**4.1**	**2.6**	**2.6**	**1.9**	**1.9**	**1.5**	**1.5**	**1.5**	**1.5**
Net acquisition of financial assets	**-0.1**	**2.8**	**0.5**	**0.6**	**-0.2**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Financial investments	-0.1	2.1	0.3	0.4	-0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net lending	0.0	0.7	0.3	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Incurrence of Liabilities	**2.5**	**6.1**	**4.4**	**2.2**	**3.2**	**2.6**	**2.6**	**1.9**	**1.9**	**1.5**	**1.5**	**1.5**	**1.5**
Domestic	0.3	-2.3	0.4	-0.6	0.2	0.1	0.7	0.4	0.2	0.4	1.0	0.3	0.9
o/w: Debt securities	0.0	-0.1	0.3	-0.1	0.6	0.2	0.7	0.2	0.2	0.4	1.0	0.3	0.9
Issuances of TB	0.2	0.6	0.6	0.0	0.8	0.2	0.7	0.5	0.5	0.4	1.1	0.8	1.1
Amortizations	-0.2	-0.7	-0.3	-0.1	-0.2	0.0	0.0	-0.2	-0.2	0.0	-0.1	-0.5	-0.2
Foreign	2.3	8.4	4.0	2.8	3.0	2.5	1.9	1.6	1.7	1.1	0.5	1.2	0.6
Disbursements	2.7	9.0	4.5	3.9	3.5	3.5	2.9	2.4	2.5	2.4	2.4	2.3	2.2
of which: RSF disbursement	0.0	0.0	0.0	0.0	0.0	0.6	0.0	0.3	0.9	0.0	0.0	0.0	0.0
Amortizations	-0.5	-0.5	-0.4	-1.0	-0.4	-1.0	-1.0	-0.8	-0.8	-1.3	-1.9	-1.0	-1.6
Statistical Discrepancy 1/	0.1	2.9	-0.2	1.0	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum Items:													
Primary balance	-2.0	-5.1	-2.5	-1.4	-2.4	-0.5	-0.6	0.1	0.1	0.4	0.5	0.5	0.4
Output gap 2/	0.7	-2.7	-1.4	-3.9	-2.0	-1.0	0.3	-0.2	0.6	0.2	0.2	0.2	0.2
Cyclically adjusted primary balance 2/	-2.1	-4.6	-2.3	-0.8	-2.1	-0.3	-0.6	0.1	0.0	0.3	0.5	0.4	0.4
Fiscal Impulse (-Δ Cyclically adjusted primary balance)	0.9	2.5	-2.3	-1.5	1.3	-1.7	-1.8	-0.5	-0.6	-0.2	-0.2	0.1	0.0
Central government gross debt	20.8	31.0	31.5	34.3	34.9	38.2	36.8	36.2	36.6	35.9	35.4	34.9	34.4
Nominal GDP (in billions of Guaranies)	236,681	239,915	270,634	292,947	313,095	332,570	334,026	357,513	359,078	384,326	413,151	444,137	477,448

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

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

2/ In percent of potential GDP.

Table 4. Paraguay: Balance of Payments 1/
(In millions of U.S. dollars)

	2019	2020	2021	2022	2023	Proj. 2024	2025	2026	2027	2028	2029
	(In millions of U.S. dollars, unless otherwise indicated)										
Current account balance	**-216**	**669**	**-347**	**-2,993**	**110**	**-1,328**	**-1,250**	**-1,145**	**-909**	**-796**	**-657**
Goods and services	365	1,357	505	-2,171	805	-344	-319	-248	-67	-1	91
Goods balance	203	1,226	629	-1,929	825	-331	-302	-160	224	238	433
Credit	12,116	10,955	13,223	12,815	16,256	15,389	15,897	16,481	17,126	17,751	18,260
Hydroelectricity	1,884	1,736	1,629	1,662	1,549	1,209	1,235	1,238	1,243	1,261	1,279
Agricultural products	4,646	5,295	7,057	5,951	7,955	7,459	7,510	7,675	7,872	7,998	8,065
Industrial products and others	1,438	1,488	1,885	2,335	2,365	1,571	1,653	1,696	1,748	1,812	1,842
Unregistered	1,148	907	757	810	912	971	1,036	1,107	1,181	1,259	1,341
Re-exports	3,586	2,070	2,762	3,108	4,377	4,179	4,462	4,765	5,084	5,421	5,733
Debit	11,913	9,729	12,594	14,744	15,431	15,720	16,199	16,641	16,902	17,514	17,827
Registered Imports	11,755	9,485	12,525	14,606	15,082	15,560	16,034	16,470	16,724	17,328	17,634
Consumption Goods	3,633	2,963	3,500	4,016	4,225	4,749	4,792	4,989	5,284	5,498	5,639
Intermediate Goods	3,670	3,087	4,412	5,643	4,788	4,984	5,009	5,066	5,216	5,366	5,421
Capital Goods	4,451	3,434	4,613	4,947	6,068	5,827	6,234	6,416	6,223	6,465	6,574
Unregistered Imports	496	551	561	604	730	161	165	171	178	185	194
Services (net)	161	131	-124	-242	-20	-12	-16	-89	-291	-239	-342
Credit	2,203	1,384	1,598	2,155	2,455	2,603	2,726	2,860	2,844	3,031	3,074
Debit	2,041	1,252	1,722	2,398	2,476	2,616	2,743	2,949	3,135	3,270	3,416
Primary income (net)	-1,158	-1,211	-1,386	-1,364	-1,371	-1,628	-1,608	-1,626	-1,612	-1,607	-1,604
Secondary income (net)	577	523	534	542	676	644	676	730	770	812	857
Capital account (net)	**151**	**172**	**217**	**159**	**171**	**191**	**200**	**216**	**228**	**241**	**254**
Financial account (net)	**-469**	**-1,693**	**-1,112**	**-2,716**	**-964**	**-737**	**-1,350**	**-1,229**	**-1,031**	**-930**	**-803**
Direct investment (net)	-534	-159	-89	-725	-327	-345	-812	-841	-862	-535	-459
Portfolio investment (net)	-409	-2,169	-181	-215	-192	-853	-456	-248	44	-456	-122
Financial derivatives (net)	0	0	0	0	0	0	0	0	0	0	0
Other investment (net)	474	634	-842	-1,776	-445	461	-82	-139	-213	60	-221
Net errors and omissions	**-707**	**-727**	**-526**	**-18**	**-872**	**0**	**0**	**0**	**0**	**0**	**0**
Gross official reserves	**-303**	**1,807**	**457**	**-137**	**372**	**-400**	**300**	**300**	**350**	**375**	**400**
	(In percent of GDP, unless otherwise indicated)										
Memorandum items:											
Current account balance 2/	-0.6	1.9	-0.9	-7.1	0.3	-3.0	-2.7	-2.3	-1.7	-1.4	-1.1
Exports of goods and services	37.8	34.8	37.1	35.7	43.6	40.9	40.4	38.8	38.0	37.5	36.5
Imports of goods and services	36.8	31.0	35.8	40.9	41.7	41.7	41.1	39.3	38.2	37.5	36.3
Gross Reserves (in US$ Millions)	7,394	9,201	9,657	9,521	9,893	9,493	9,793	10,093	10,443	10,818	11,218
Gross official reserves (in percent imports of goods and services)	8.1	7.7	6.8	6.4	6.5	6.0	6.0	6.0	6.0	6.1	6.1
External public debt in percent of GDP 2/	21.3	31.9	32.9	36.2	36.0	39.3	37.0	36.2	34.7	34.1	32.9

Sources: Central Bank of Paraguay, and IMF Staff Calculations.
1/ BOP is prepared under BPM6 since 3rd review of the PCI onwards.
2/ Based on average exchange rate valuation of GDP.

Table 5. Paraguay: Summary of Accounts of the Central Bank

(In billions of Guaranies; end-of-period)

					Act.	Proj.					
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Currency Issued	**14,349**	**17,113**	**18,070**	**18,526**	**19,549**	**20,832**	**22,200**	**23,658**	**25,211**	**26,866**	**28,630**
Growth	4.3	19.3	5.6	2.5	5.5	6.6	6.6	6.6	6.6	6.6	6.6
Net International Reserves	**47,669**	**58,500**	**63,123**	**64,443**	**67,339**	**69,624**	**70,003**	**73,705**	**77,881**	**82,376**	**87,202**
Net Domestic Assets	**-33,700**	**-46,798**	**-48,063**	**-50,912**	**-52,055**	**-48,792**	**-47,803**	**-50,047**	**-52,670**	**-55,510**	**-58,573**
Net nonfinancial public sector	-7,160	-10,962	-11,351	-10,692	-8,862	-9,231	-8,862	-8,862	-8,862	-8,862	-8,862
Net credit to the central government	-7,159	-10,961	-11,350	-10,692	-8,862	-9,231	-8,862	-8,862	-8,862	-8,862	-8,862
Net credit to the banking system	-25,582	-31,983	-35,714	-36,733	-38,411	-37,952	-41,625	-49,105	-56,478	-65,813	-75,037
Reserve requirements	-12,525	-9,990	-16,836	-16,577	-19,093	-20,841	-21,423	-22,662	-23,971	-25,357	-26,825
Free reserves	-2,742	-6,508	-6,138	-4,971	-5,390	-5,807	-5,654	-5,760	-5,865	-5,971	-6,077
Monetary control instruments 1/	-11,742	-17,779	-14,528	-15,404	-14,432	-11,810	-15,054	-21,188	-27,147	-34,990	-42,639
Other	1,426	2,294	1,788	219	505	505	505	505	505	505	505
Other assets and liabilities (net)	-958	-3,854	-1,626	-4,116	-5,417	-1,608	2,684	7,920	12,670	19,165	25,327
Capital and reserves	24	-3,981	-2,344	-3,798	-4,990	-2,541	1,788	6,999	11,724	18,193	24,330
Other assets net 2/	-982	127	718	-318	-428	933	896	921	946	971	997
Memorandum Items:											
Total stock of LRMs outstanding 1/	12,919	18,029	14,761	16,340	15,693	11,810	15,054	21,188	27,147	34,990	42,639
Monetary base 3/	20,431	21,854	24,733	25,574	27,590	29,178	30,934	32,802	34,787	36,899	39,144
Monetary base, annual growth	3.5	7.0	13.2	3.4	7.9	5.8	6.0	6.0	6.1	6.1	6.1

Sources: Central Bank of Paraguay; and IMF staff estimates and projections.
1/ Includes overnight-deposit facility and central bank bills (LRM). A fraction of LRM is held by non-bank institutions.
2/ Includes LRM held by the non-banking sector.
3/ Monetary base comprises currency issued plus legal reserve requirement deposits in guaraní held at the BCP.

Table 6. Paraguay: Summary Accounts of the Financial System 1/

(In billions of Guaranies; end-of-period)

					Act.	Proj.					
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
						I. Central Bank					
Net International Reserves/2	**47,669**	**58,500**	**63,123**	**64,443**	**67,339**	**69,624**	**70,003**	**73,705**	**77,881**	**82,376**	**87,202**
In millions of U.S. dollars	7,387	8,458	9,176	8,790	9,258	8,858	9,158	9,458	9,808	10,183	10,583
Net Domestic Assets	**-33,700**	**-46,798**	**-48,063**	**-50,912**	**-52,055**	**-48,792**	**-47,803**	**-50,047**	**-52,670**	**-55,510**	**-58,573**
Credit to public sector, net	-7,160	-10,962	-11,351	-10,692	-8,862	-9,231	-8,862	-8,862	-8,862	-8,862	-8,862
Credit to banking system, net 3/	-13,840	-14,203	-21,186	-21,329	-23,978	-26,143	-26,571	-27,917	-29,331	-30,823	-32,398
Credit	1,426	2,294	1,788	219	505	505	505	505	505	505	505
Deposits	15,266	16,497	22,974	21,548	24,484	26,648	27,076	28,422	29,836	31,328	32,903
Central bank securites	-12,919	-18,029	-14,761	-16,340	-15,693	-11,810	-15,054	-21,188	-27,147	-34,990	-42,639
Other	-848,398	-948,693	-916,499	-931,489	-931,403	-1,608	2,684	7,920	12,670	19,165	25,327
Currency Issued	**14,349**	**17,113**	**18,070**	**18,526**	**19,549**	**20,832**	**22,200**	**23,658**	**25,211**	**26,866**	**28,630**
						II. Monetary Survey					
Net Foreign Assets	**43,536**	**63,904**	**64,115**	**59,478**	**61,185**	**66,156**	**66,664**	**70,276**	**74,364**	**78,771**	**83,507**
In millions of U.S. dollars	6,747	9,239	9,320	8,113	8,412	8,417	8,721	9,018	9,365	9,737	10,134
Net Domestic Assets	**121,407**	**121,402**	**132,727**	**151,689**	**174,711**	**186,024**	**191,452**	**200,346**	**209,416**	**218,899**	**228,825**
Credit to the public sector	-16,234	-20,517	-18,752	-17,716	-15,697	-16,011	-15,655	-15,633	-15,611	-15,589	-15,567
Credit to the private sector	112,997	121,655	133,844	149,423	164,503	189,843	206,008	225,404	244,192	264,324	285,185
Other	24,644	20,263	17,635	19,982	25,906	12,192	1,099	-9,425	-19,165	-29,836	-40,793
Broad Liquidity (M4)	**146,976**	**167,867**	**179,764**	**191,397**	**211,677**	**226,007**	**232,663**	**244,674**	**257,339**	**270,733**	**284,895**
Bonds and issued securities	31,027	31,308	31,583	36,492	41,861	43,814	43,095	43,590	44,082	44,579	45,079
Other monetary liabilities	5,990	7,176	7,978	8,966	10,181	11,043	11,440	12,127	12,851	13,618	14,429
Central bank securities with private sector	1,177	249	233	936	1,261	0	0	0	0	0	0
Broad Liquidity (M3)	**108,781**	**129,134**	**139,970**	**145,003**	**158,374**	**171,150**	**178,128**	**188,957**	**200,406**	**212,536**	**225,387**
Foreign currency deposits	41,138	49,697	54,118	55,945	62,037	70,056	71,196	75,849	80,765	85,983	91,521
Money and Quasi-Money (M2)	**67,644**	**79,437**	**85,851**	**89,057**	**96,337**	**101,094**	**106,932**	**113,108**	**119,641**	**126,553**	**133,866**
Quasi-money	35,174	40,478	43,766	46,811	52,701	55,073	58,102	61,297	64,669	68,226	71,978
Money (M1)	32,469	38,959	42,085	42,246	43,635	46,021	48,830	51,810	54,973	58,328	61,888
						(Annual percent change)					
M0 (Currency issued)	4.3	19.3	5.6	2.5	5.5	6.6	6.6	6.6	6.6	6.6	6.6
Credit to the private sector	9.9	7.7	10.0	11.6	10.1	15.4	8.5	9.4	8.3	8.2	7.9
M1	9.0	20.0	8.0	0.4	3.3	5.5	6.1	6.1	6.1	6.1	6.1
M2	7.4	17.4	8.1	3.7	8.2	4.9	5.8	5.8	5.8	5.8	5.8
M3	9.7	18.7	8.4	3.6	9.2	8.1	4.1	6.1	6.1	6.1	6.0
Of which: Foreign currency deposits	13.7	20.8	8.9	3.4	10.9	12.9	1.6	6.5	6.5	6.5	6.4
Memorandum Items:											
Ratio of foreign currency deposits to M3 (percent)	37.8	38.5	38.7	38.6	39.2	40.9	40.0	40.1	40.3	40.5	40.6
Ratio of foreign currency deposits to total private sector deposits (percent)	39.7	40.6	40.5	40.3	40.7	30.5	30.4	30.9	31.5	32.0	32.5

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

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

2/ In 2024,historical series was revised as one account was reclassified to other nonresident deposits, in accordance with the recommendation made by the IMF Safeguards Mission 2022. In addition, another account was reclassified to non-resident securities as this is a transitory account and is not yet part of the BCP Reserve Assets.

3/ Excludes LRM held by the banking sector.

Table 7. Paraguay: Gross External Financing Needs and Sources, 2021-25

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

	Prel.			Proj.	
	2021	2022	2023	2024	2025
Gross Financing Requirements	**879**	**3,524**	**386**	**1,800**	**1,666**
External current account deficit	347	2,993	-110	1,328	1,250
Debt amortization	531	531	495	472	416
Sources of Financing	**879**	**3,524**	**386**	**1,800**	**1,666**
Direct investment (net)	89	725	327	345	812
Medium- and long-term debt disbursements	1,769	2,024	1,628	1,547	1,103
Public sector	1,769	2,024	1,628	1,300	950
Official creditors (bi-and multilateral) 1/	944	1,524	1,128	53	297
External sovereign bond financing	826	501	500	1,000	500
IMF: RSF financing	0	0	0	247	153
Other capital flows (net), including E&Os	-523	639	-1,198	-491	51
Change in gross international reserves	**-457**	**137**	**-372**	**400**	**-300**
Memorandum Items:					
Gross international reserves	9,657	9,521	9,893	9,493	9,793
In percent of ARA metric	195	191	198	…	…
Gross international reserves (excl'g RSF)	9,657	9,521	9,646	9,246	9,393

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

Table 8. Paraguay: Financial Soundness Indicators

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

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

Table 9. Paraguay: Capacity to Repay Indicators, 2024-45 1/ 2/

(In Millions of SDR, Unless Otherwise Indicated)

	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045
Fund obligations based on existing credit																						
(in millions of SDR)	7.6	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5
Principal	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Charges and interest	7.6	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5
Fund obligations based on existing and prospective credit																						
In millions of SDR	8.5	16.4	19.7	19.7	19.7	19.6	19.7	19.7	19.7	19.6	19.7	43.9	48.6	47.3	46.0	44.6	43.3	42.0	40.7	39.4	38.0	12.4
Principal	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	24.4	30.2	30.2	30.2	30.2	30.2	30.2	30.2	30.2	30.2	5.8
Charges and interest	8.5	16.4	19.7	19.7	19.7	19.6	19.7	19.7	19.7	19.6	19.7	19.5	18.4	17.1	15.7	14.4	13.1	11.8	10.5	9.2	7.8	6.7
Total obligations based on existing and prospective credit																						
In millions of SDR	8.5	16.4	19.7	19.7	19.7	19.6	19.7	19.7	19.7	19.6	19.7	43.9	48.6	47.3	46.0	44.6	43.3	42.0	40.7	39.4	44.5	18.9
In millions of US dollars	11.4	22.1	26.6	26.6	26.7	26.7	26.7	26.7	26.7	26.7	26.7	59.7	66.1	64.3	62.5	60.7	58.9	57.1	55.3	53.5	60.5	25.7
In percent of gross international reserves	0.1	0.2	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.4	0.4	0.4	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.1
In percent of exports of goods and services	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1
In percent of debt service	0.1	0.2	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.4	0.4	0.4	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.1
In percent of government revenue	0.2	0.3	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.2	0.2	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	0.0	0.0	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	4.2	8.1	9.8	9.8	9.8	9.8	9.8	9.8	9.8	9.8	9.8	21.8	24.1	23.5	22.8	22.2	21.5	20.9	20.2	19.5	22.1	9.4
Outstanding Fund credit																						
In millions of SDR	186.3	302.1	302.1	302.1	302.1	302.1	302.1	302.1	302.1	302.1	302.1	277.7	247.5	217.3	187.1	156.8	126.6	96.4	66.2	36.0	5.8	0.0
In millions of US dollars	249.7	407.1	408.8	409.5	410.9	410.9	410.9	410.9	410.9	410.9	410.9	377.7	336.6	295.5	254.4	213.3	172.2	131.2	90.1	49.0	7.9	0.0
In percent of gross international reserves	2.6	4.2	4.1	3.9	3.8	3.7	3.5	3.4	3.2	3.1	3.0	2.7	2.3	1.9	1.6	1.3	1.0	0.8	0.5	0.3	0.0	0.0
In percent of exports of goods and services	1.4	2.2	2.1	2.1	2.0	1.9	1.8	1.7	1.6	1.5	1.5	1.3	1.1	0.9	0.8	0.6	0.5	0.3	0.2	0.1	0.0	0.0
In percent of debt service	11.6	19.1	16.9	14.2	16.6	14.3	14.1	14.4	18.2	17.1	16.3	15.0	13.3	11.7	10.1	8.4	6.8	5.2	3.6	1.9	0.3	0.0
In percent of government revenue	3.7	5.8	5.4	5.1	4.8	4.6	4.3	4.1	3.9	3.7	3.5	3.0	2.6	2.1	1.8	1.4	1.1	0.8	0.5	0.3	0.0	0.0
In percent of GDP	0.6	0.9	0.8	0.8	0.7	0.7	0.7	0.6	0.6	0.6	0.5	0.5	0.4	0.3	0.3	0.2	0.2	0.1	0.1	0.0	0.0	0.0
In percent of quota	92.5	150.0	150.0	150.0	150.0	150.0	150.0	150.0	150.0	150.0	150.0	137.9	122.9	107.9	92.9	77.9	62.9	47.9	32.9	17.9	2.9	0.0
Net use of Fund credit (in millions of SDR)	186.3	115.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-24.4	-30.2	-30.2	-30.2	-30.2	-30.2	-30.2	-30.2	-30.2	-30.2	-5.8
Disbursements	186.3	115.8	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	24.4	30.2	30.2	30.2	30.2	30.2	30.2	30.2	30.2	30.2	5.8
Memorandum items																						
Nominal GDP (in millions of US dollars)	43,951	46,118	49,793	52,519	55,412	58,477	62,122	65,471	69,002	72,723	76,644	80,777	85,132	89,723	94,561	99,661	105,035	113,269	119,376	125,813	132,597	139,747
Exports of goods and services (in millions of US dollars)	17,992	18,623	19,342	19,970	20,783	21,334	23,395	24,450	25,559	26,723	27,947	29,233	30,585	32,006	33,500	35,072	36,726	38,466	40,297	42,216	44,226	46,331
Imports of goods and services (in millions of US dollars)	18,336	18,942	19,590	20,037	20,784	21,243	22,121	23,035	23,989	24,983	26,021	27,102	28,230	29,406	30,633	31,913	33,248	37,758	38,571	39,400	40,248	41,114
Gross International Reserves (in millions of US dollars)	9,493	9,793	10,093	10,443	10,818	11,218	11,718	12,218	12,718	13,218	13,718	14,218	14,718	15,218	15,718	16,218	16,718	17,218	17,718	18,218	18,718	19,218
External Government Debt service (in millions of US dollars)	2,155	2,137	2,417	2,893	2,476	2,871	2,906	2,862	2,255	2,396	2,525	2,525	2,525	2,525	2,525	2,525	2,525	2,525	2,525	2,525	2,525	2,525
Government revenue (in millions of US dollars)	6,664	7,017	7,556	8,030	8,482	8,969	9,481	10,046	10,585	11,186	11,786	12,419	13,086	13,788	14,528	15,309	16,130	16,996	17,909	18,870	19,884	20,951
Quota (in millions of SDRs)	201.4	201.4	201.4	201.4	201.4	201.4	201.4	201.4	201.4	201.4	201.4	201.4	201.4	201.4	201.4	201.4	201.4	201.4	201.4	201.4	201.4	201.4

Source: IMF staff estimates and projections

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

2/ Paraguay belongs to the RST interest Group C. Interest based on the RST rate of interest of 4.368 percent as of November 14, 2024.

Annex I. Risk Assessment Matrix[1]

Source/nature of risk (Likelihood / Time horizon)	Expected Impact and Recommended Response
External Risks	
Intensification of regional conflicts. Escalation or spread of the conflict in Gaza and Israel, Russia's war in Ukraine, and/or other regional conflicts or terrorism disrupt trade (e.g., energy, food, tourism, supply chains), remittances, FDI and financial flows, payment systems, and increase refugee flows. (**High / ST**)	**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.
Deepening geoeconomic fragmentation. Broader conflicts, inward-oriented policies, and weakened international cooperation result in a less efficient configuration of trade and FDI, supply disruptions, protectionism, policy uncertainty, technological and payments systems fragmentation, rising shipping and input costs, financial instability, a fracturing of international monetary system, and lower growth. (**High/ST**)	**High.** Markets of grains and meat might see unexpected volatility. In addition, fragmentation affects the availability and prices of imported goods which are inputs for exports. The government should continue facilitating access to alternative meat and fertilizer markets.
Commodity price volatility. Supply and demand fluctuations (e.g., due to conflicts, export restrictions, OPEC+ decisions, and green transition) cause recurrent commodity price volatility, external and fiscal pressures and food insecurity in EMDEs, cross-border spillovers, and social and economic instability. (**High / ST**)	**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.
Slowdown. Growth slowdown in major economies, including due to supply disruptions, tight monetary policy, rising corporate bankruptcies, or a deeper-than-envisaged real estate sector contraction, with adverse spillovers through trade and financial channels, triggering sudden stops in some EMDEs. (**Medium / ST**)	**Medium.** Global financial tightening, possibly combined with volatile commodity prices, could lead to spiking risk premia, widening external imbalances, and fiscal pressures. It may dampen external demand, foreign inflows, and border trades. Monetary policy should balance the impact of lower activity with volatile prices.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). 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. "Short term (ST)" and "medium term (MT)" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

External Risks	
Monetary policy calibration. Amid high uncertainty and data surprises, major central banks' stances turn out to be too loose, hindering disinflation, or too tight for longer than warranted, which stifles growth and triggers increased capital-flow and exchange-rate volatility in EMDEs. (**Medium / ST**)	**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.
Systemic financial instability. High interest rates and risk premia and asset repricing amid economic slowdowns and elevated policy uncertainty (including from elections) trigger market dislocations, with cross-border spillovers and an adverse macro-financial feedback loop affecting weak banks and NBFIs. (**Medium / ST**)	**Medium.** Adverse financial conditions may increase 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.
Social discontent. High inflation, real income loss, spillovers from conflicts (including migration), and worsening inequality stir social unrest, drive populist policies, and increase resistance to reforms, especially in the context of polarized or disputed elections. This exacerbates imbalances and weakens growth prospects, leading to policy uncertainty and market repricing. (**High / ST, MT**).	**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.
Climate change. Extreme climate events driven by rising temperatures cause loss of life, damage to infrastructure, food insecurity, supply disruptions, lower growth, and financial instability. A disorderly transition to net-zero emissions and regulatory uncertainty lead to stranded assets and low investment. (**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, construction 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 and construction affect GDP growth, export performance and exchange rate, and the financial sector due to banks' agricultural lending. Shocks to the energy sector would lessen government revenue. The exchange rate could absorb some of the shocks.
Fiscal sustainability (**Medium / ST, MT**): After a series of continued large deficits due to the pandemic and unrecorded claims, and given numerous downside risks to the economy, including the worsening position of the Caja Fiscal, returning to the proposed path of the FRL stipulated deficit ceiling in the upcoming years could take longer than planned.	**Medium** to **High**. Fiscal stability is the cornerstone of macroeconomic stability in Paraguay, thus deviating from the path longer than planned could significantly impact investor confidence, raise financing costs, and affect growth performance. The government needs to strengthen its ability to raise revenues and control expenditure. There is a need for reforming civil services, public procurement processes, and address serious pension system imbalances.

Appendix I. Program Statement

Asunción, December 2, 2024

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, D.C. 20431
United States

Dear Ms. Georgieva:

Growth momentum continued in Paraguay during the first half of 2024, with real GDP forecast to increase by 4 percent driven mainly by services, manufacturing, livestock, and construction. The Central Bank of Paraguay (BCP) has kept inflation under control and within the established inflation band, while the monetary policy rate has remained at 6 percent since March 2024. The free-floating Guaraní has depreciated since the beginning of the year in line with global conditions, while international reserves remained at sufficient levels. Fiscal consolidation began with the authorized budget deficit of 2.6 percent of GDP, moving towards the target set for 2024. Finally, Paraguay has achieved an important milestone this year by being recognized as an investment grade country by Moody's. This constitutes recognition of the continued efforts of governments to maintain macroeconomic stability and implement structural reforms that have positioned the country as a reliable and profitable destination for investment.

All quantitative targets of the fourth review under the Policy Coordination Instrument (PCI) have been met. We have continued to make further progress on the structural reform agenda, and most of the reform targets will have been met by the time of the Board meeting.

We are making decisive progress in implementing the reform measures (RMs) under the Resilience and Sustainability Facility (RSF) as they are part of our long-term green development strategy. A delayed RM from the previous review, and three out of five RMs from the current review were completed; an RM from the following review – Ministry of Industry and Commerce Resolution 1025 regulating the law promoting the reuse of plastic packaging – was enacted ahead of schedule. After consultation with the private sector, the Government enacted Decree 2853 creating the National Energy Efficiency Labeling Program, which will gradually introduce minimum efficiency standards as originally scheduled for the previous review. Although the National Electricity Administration (ANDE), with the support of the Inter-American Development Bank (IDB), has prepared a study of the international benchmarks for its costs, the external audit needs more time, and therefore the associated RM will be met by a later date. ANDE published and will initiate the implementation of its loss reduction strategy, to prioritize the measures in its strategy and to initiate the progressive implementation of hourly rates according to Regulations 49887 and 49888. The draft of the decree that regulates the electromobility law is advanced; the acquisition of charging stations is delayed due to the supplier's failure to comply with the contract, and more time is required for them to be delivered and installed. Likewise, the development of a plan for the electrification of public transport in the Asunción area will be prepared in the context of the draft law for the comprehensive reform of public transport that will be presented soon to Congress, so this RM will also be fully implemented by a later date. The Ministry of Economy and Finance (MEF) amended Decree 4436/20 with the Decree 2882 to incorporate climate aspects into public investment projects, and published a green taxonomy with the BCP. On the basis of the implementation in this review of one measure that was expected to have been completed during the previous review of the RSF, of the three RMs under the current review of the RSF, the advancement of one reform measure of the next review of the RSF, and the three RMs of the previous review, after which no disbursement was made, we requested the disbursement of SDR 186.28 million. Rephasing of RM13 is also requested.

The Program Statement attached to this letter details the economic policies and RMs of the past 12 months. This includes policies to continue strengthening our economy under the three pillars of the PCI: i) ensuring macroeconomic stability and resilience; (ii) improving productivity and fostering economic growth; and (iii) strengthening social protection and inclusion. A matrix of specific reforms under the RSF complements the general policies on climate change adaptation and mitigation of the Government.

The implementation of the PCI program will continue to be subject to monitoring through modified quantitative targets, continuing targets, and modified reform targets, while funding will be available under the RSF once the proposed RMs have been implemented, as outlined in the attached Program Statement and the Technical Memorandum of Understanding. Reviews will continue to take place every six months. We will consult with the International Monetary Fund (IMF) in advance of any revision of the policies included in this letter and the accompanying Program Statement, in accordance with the IMF's policies on consultations. Timely information needed to monitor the economic situation and the implementation of policies relevant to the programs will be provided.

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

Sincerely,

/s/	/s/
Carlos Carvallo Spalding	Carlos Fernández Valdovinos
Chair	Minister
Central Bank of Paraguay	Ministry of Economy and Finance

Attachments: Program Statement

Technical Memorandum of Understanding

Attachment I. Program Statement
December 2024–November 2025

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

RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

1. **For 2024–2025, positive economic growth and low inflation are expected.** Growth of 4 percent is expected in 2024, driven mainly by strong domestic demand. In 2024, inflation has been moderate and inflation expectations remained well anchored. Inflation is expected to remain around 4 percent. In this context, the BCP's Monetary Policy Committee (MPC) reduced the monetary policy interest rate to 6 percent in March 2024. The current interest rate is within the neutral range.

2. **Our commitment to fiscal consolidation is evidenced by the reduction of the budget deficit in 2024.** By the end of 2024, the annualized budget deficit of the Central Government is projected to be 2.6 percent of GDP. Throughout the year, tax collection performed particularly well due to the rebound in agricultural production and the services sector in 2023, but also due to better collection and law enforcement practices, partly also explained by the improvement in tax management since the creation of the National Directorate of Tax Revenues (DNIT).

3. **Our level of debt is prudent and the commitment to sustainability is supported by the fiscal convergence plan.** The reduction of public debt is estimated in the medium term in accordance with the fiscal path set out, which foresees a gradual reduction of the deficit to 1.5 percent of GDP in 2026. The expected evolution of the debt-to-GDP ratio will be supported by the improvement in the primary balance considering the positive prospects for economic growth, as also mentioned by the IMF in its report in the framework of the consultation on Article IV - Report No. 24/200.

4. **The current account balance is expected to register a deficit of about 3 percent of GDP due to the solid recovery and demand for imports, as well as lower international soybean prices.** Due to the international context, the Guaraní experienced depreciation pressures. Net international reserves have remained above 6 months of import coverage.

5. **While Paraguay's economic outlook looks promising, there are notable risk factors that need to be taken into account.** The main concerns are the prospects of a reduction in external demand, encouraged by a more significant global slowdown than anticipated, coupled with the unpredictability of oil prices amid the ongoing conflicts. Adverse weather conditions and geopolitical unrest can also raise international food prices. On the upside, domestic activity has been very strong, supported by low inflation and benign borrowing conditions. Higher investment is expected in the medium term thanks to the fact that investment grade has been reached.

STRATEGIC OBJECTIVES OF THE REFORM PROGRAM UNDER THE PCI

Pillar I: Ensuring Macroeconomic Stability And Resilience

Fiscal Policies

Ensuring Consolidation

6. **Prudent fiscal management will continue.** The National General Budget for fiscal year 2025 authorizes a deficit of up to 1.9 percent of GDP for the central administration. The trajectory of the deficit towards the maximum ceiling of the fiscal rule of 1.5 percent of GDP for 2026 is consistent with the restoration of fiscal reserves by reducing the public debt-to-GDP ratio in the medium term. The corresponding quantitative targets for the fiscal deficit, primary current expenditure, and net changes in floating debt are described in Table 1a.

Improving Control of Public Expenditure and Investment Management

7. **We have made progress in the recording of accrued expenditure commitments.** We are making progress in the implementation of the submodule of the Goods and Services Management System (SIGEBYS) of the Integrated System of the Administration of State Resources (SIARE) for expenditure on goods in the phases of commitment, accrual and payment order to all entities dependent on the Executive Branch, and pilot services **(reform target by December 2024).** We continue to improve the management of public resources by integrating the coverage of public works expenditures in their commitment phase into the Integrated Goods and Services System (SIABYS) submodule of the SIARE, and we hope to complete this project in the first half of 2025.

8. **We are committed to improving the monitoring and evaluation of public investment projects.** We are actively implementing the recommendations of the IMF's Public Investment Management Evaluation/Climate Change Public Investment Management Evaluation (PIMA/C-PIMA) to strengthen public investment management. Specifically, in addition to the incorporation of climate aspects in the formulation and evaluation of projects, we are preparing a procedural guide for the monitoring and follow-up unit of the General Directorate of Public Investment. We aim to publish this handbook and start applying it to a selection of pilot investment projects by June 2025 **(reform target by June 2025).**

9. **We continue working to modernize the existing tax framework and optimize the tax management of the DNIT.** A study on tax expenditures focused on VAT was completed and we are in the process of reviewing and critically evaluating special tax regimes, such as those for free zones and the maquila regime and Law 60/90, to improve the alignment of tax incentives with Paraguay's sustainable growth and inclusive development priorities **(reform target by June 2024).** We continue to work to optimize the tax administration after the first year of operation of the DNIT. To this end, we plan to create the Risk Management Committee that operates on a regular basis,

supported by the tax and customs subcommittees, to institutionalize compliance risk management **(reform target by June 2025)**. We will also develop and begin to implement a risk-based compliance improvement plan to address at least one key risk to customs collection **(reform target by October 2025)**.

Reform of the Public Sector Retirement System (Caja Fiscal)

10. Work is under way to ensure the sustainability of the public sector retirement and pension system. Currently, we are focusing our efforts on finalizing the actuarial study with the aim of reviewing and designing the parameters for a legislative proposal that establishes comprehensive RMs, aimed at ensuring the sustainability of the Public Sector Retirement and Pension System ("Caja Fiscal").

Monetary and Exchange Rate Policies

11. Inflation has been fully under control and remains within the inflation consultation band. Proactive management of the monetary policy rate proved crucial in order to mitigate inflationary pressures. Current inflation and medium-term inflation expectations remain in line with our 4 percent target. We remain dedicated to closely monitoring economic indicators to maintain price stability and ensure inflation remains within the desired range.

12. The flexible exchange rate system has underpinned Paraguay's macroeconomic stability. While exchange rate flexibility has had a positive impact on the Paraguayan economy, we recognize that our currency is vulnerable to both real and financial shocks. Our foreign exchange market interventions focus on moderating sharp fluctuations that do not respond to economic fundamentals, and at the same time do not undermine the flexibility built into our inflation targeting framework. We are fully transparent with regard to these interventions, through the provision of relevant information on the BCP website.

Pillar II: Improving Productivity and Fostering Economic Growth

Strengthening the Business Climate

13. We remain focused on the ongoing task of reforming the legal framework for bankruptcies. This objective is part of a broader effort that includes the law on simplified procedures (which has already been approved) and the law on movable collateral (which is currently under consideration by Congress), forming a comprehensive set of reforms that will collectively enhance their individual effectiveness and impact. We are working diligently to submit a revised and improved draft law to Congress by October 2025, as we had to substantially refine the legal and technical issues of the existing draft **(reform target revised date by October 2025).**

14. In our continued commitment to improving and optimizing infrastructure and public services, we are preparing a significant revision of the Public-Private Partnerships Act. We recognize the need to make this law more attractive to the private sector, thus facilitating more effective collaboration that drives innovation, efficiency, and investment in projects critical to national development. We have prepared concrete reforms of the law. In June, we sent the IMF a version of the draft law agreed upon with the private sector, the Ministry of Public Works and Communications (MOPC) and specialized legal firms. In response, the IMF organized a legal mission from July 22 to August 2. Some of the key recommendations and observations of the IMF mission were incorporated into the current version of the draft law. In addition, in August, the IDB sent its comments and suggestions, which were also carefully evaluated and incorporated to further strengthen the draft ahead of its presentation to Congress. The draft was sent to Congress on November 6**.** We are confident that these modifications will not only strengthen the confidence and participation of the private sector, but will also accelerate the implementation of essential projects, creating jobs, fostering innovation, and contributing significantly to Paraguay's sustainable economic growth.

15. We propose a comprehensive reform of the regulatory framework that governs the processes of the General Directorate of the National Cadaster to guarantee more agile internal procedures. After completing a process of public consultations, we have proposed to review at least 30 percent of the regulatory standards in force in the Directorate, which depend on the General Management, and which are the responsibility of the MEF (**reform target by March 2025**). Additionally, we propose taking the necessary steps to renew the current technological infrastructure in order to reduce the processing time of all institutional processes by at least 20 percent in order to meet the deadlines established for each type of procedure. The implementation of these initiative will not only provide legal certainty and transparency to the proceedings, but will also encourage investment, both domestic and international, by eliminating uncertainties and reducing wait times and associated risks. We hope that these improvements will contribute to the enhanced functioning of the new National Unified Registry (RUN) that will unify the General Directorate of Public Registries, the General Directorate of National Cadaster Services, and the Department of Surveying and Geodesy, once the law that creates the RUN has been approved; it received preliminary approval in October 2024.

Improving Governance and Reducing Corruption Vulnerabilities

16. We will continue to strengthen our anti-corruption framework. As part of our ongoing commitment to transparency and integrity in public administration, we commit to standardizing and harmonizing the inconsistent definitions of the Ministry of Health and the Institute of Social Forecasting regarding the procurement of medicines: the harmonization of standards for essential medicines is expected to allay serious concerns regarding the cost of their procurement **(reform target for December 2024).** The National Anti-Corruption Strategy (ENCC) also promotes the implementation of the Health Information System (HIS), which will allow for the efficient administration of pharmaceutical inventories in the Paraguayan health system. The Ministries of Health and Information and Communication Technologies commit to completing pilot programs at two public hospitals in the Asunción area by June 2025 **(reform target for June 2025).** These pilot programs will be of vital importance for implementation of the system throughout the public health network that the ENCC projects for the beginning of 2026.

17. Strengthening public accountability and integrity. The Office of the Comptroller General of the Republic and the Ministry of Information and Communication Technologies will create an information-sharing system for the performance of reviews to verify the consistency of information on the wealth of public officials, in order to efficiently combat illicit enrichment, which is a legal category that will be in force in Paraguay in 2026. A first pilot program of this information-sharing system will be launched in August 2025 to cross-check the asset information of public officials **(reform target for August 2025).**

18. We will continue to strengthen the anti-money laundering and combating the financing of terrorism (AML/CFT) framework. We have made considerable progress in the process of finalizing the update of the National Risk Assessment and we hope to publish it before the end of 2024 following Decree 2463 of September 2024 (**reform target for June 2024**). Identifying and understanding AML/CFT risks in Paraguay is crucial, as this will lay a solid foundation for financial and non-financial institutions to review and update their risk assessment frameworks and models/matrices. We remain firmly committed to making progress in this vital area and ensuring that robust measures are in place to mitigate AML/CFT risks.

19. We will continue to strengthen the BCP's strong governance. The BCP is currently reviewing the policy on the selection and engagement of external auditors. The new version will include more rigorous technical criteria on experience and suitability in audits of central banks and will establish the role of the Audit Committee in the selection process of external auditors. In addition, it will introduce a strict regime of restrictions and incompatibilities regarding non-audit services that contracted external auditors may provide to the institution. We also consider that there is room for improvement in the constitution of the BCP Audit Committee. To this end, we are committed to evaluating technical solutions for this purpose with the support of the International Monetary Fund.

Pillar III: Improving Social Protection and Inclusion

Social Program Administration System

20. The integration and optimization of social programs is an ongoing priority for the Government. In this regard, we are successfully implementing the Pension System (SIPEN), a technological tool designed to harmonize the administration of social programs. We have given technological coverage to the Ministry of Social Development, the new authority for the application of the pension for the elderly, implementing the SIPEN in that ministry, giving predictability to the more than 300,000 beneficiaries. We will continue to make progress in the implementation of SIPEN, to improve data cross-referencing, with dependencies within the Ministry of Economy and Finance or other State Agencies, and we will continue to work with the Ministry of Children and Adolescents (MINNA) to include its programs (**reform target by June 2024**). These advances reflect our firm commitment to improving the efficiency, transparency, and effectiveness of our social programs for the benefit of all Paraguayans.

Strengthening Social Inclusion

21. The social protection policy is a fundamental pillar for progress toward guaranteeing the fulfillment of economic and social rights. As part of our ongoing initiatives to strengthen social protection and inclusion in Paraguay, the Inter-Institutional Care Commission will approve the Action Plan for the National Care Policy before the end of the year (**reform target by December 2024**).

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

Formalization of Employment

23. We are committed to continuing to work to reduce the informal labor market in Paraguay. Given the potential negative impact on social security, the new Government has reassessed the targeting of this measure. In this regard, Law No. 4457/12 "For Micro-, Small and Medium-sized Enterprises (MSMEs)" is under review in order to strengthen the sector and promote business formalization in Paraguay. The proposed amendment seeks to simplify procedures, facilitate access to financing and improve the legal categorization of MSMEs. This will allow access to benefits and facilities that stimulate their development, facilitating the interconnection between the agencies and entities of the State that participate in the process of formalization and registration for the opening and operation of these companies. On the other hand, the Government has made progress in the creation of new financial products aimed at guaranteeing credit operations for working capital and investment, as well as renegotiations or purchase of debts of MSMEs through the Development Finance Agency and the National Development Bank. Likewise, the development of similar financial products focused on MSMEs and independent workers in the agricultural sector is underway through the Development Finance Agency and the Agricultural Empowerment Credit.

BUILDING CLIMATE CHANGE RESILIENCE

24. Paraguay faces challenges related to climate change, as do other countries in the region. As a result of climate change, climate shocks are expected to recur with greater frequency and intensity. These disturbances can include climatic events such as droughts and floods that negatively impact Paraguay's economy through agriculture; the generation of clean and renewable hydroelectric energy from the dams shared with Brazil and Argentina; and the navigability of rivers, which are the main gateway for international trade to our landlocked country. These disturbances also put our forests at risk, as demonstrated by the recent drought-aggravated forest fires in the Chaco region.

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

Sustainable Management of Public Investment

26. We are working towards a public investment approach focused on economically and environmentally sustainable projects (RM1). To this end, the MEF received a C-PIMA mission at the end of 2023 and a second technical assistance mission in October on the integration of climate-related aspects in the design, selection and evaluation of public investment projects. These missions informed the revision of Decree 4436/20, with the promulgation of the new Decree 2882 in November 2024 **(reform measure).**

Resilient Financial Sector and Mobilizing Financial Resources for Climate Change

27. Green Taxonomy (RM2). The MEF and the BCP, with the support of the IDB, and after a process that included technical roundtables with specific actors and consultations with the general public, have published a Green Taxonomy aligned with Paraguay's Nationally Determined Contributions (NDCs) in November 2024 **(reform measure).** The taxonomy enables clear identification and classification and uses eligibility criteria based on science and economic activities, which meet environmental objectives. The sectors addressed in the first phase are energy, construction, agriculture, livestock, and forestry, with the financial sector and public investment as cross-cutting sectors. The taxonomy has established a timeline for implementation and for the incorporation of the remaining sectors of the economy in future editions.

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

Policies for a Sustainable Energy Sector

29. Non-conventional renewable energy (RM4). To ensure that Paraguay maintains its status as a producer and exporter of clean and renewable energy, in February 2024 the MOPC, through the Vice Ministry of Mines and Energy (VMME), enacted the regulation of Law 6977/2023 on non-conventional renewable energies by Decree 1168/2024 for the previous review of the RSF **(reform measure)** and continues, together with the World Bank, to work on additional modifications to the law that facilitate the preparation of specifications for the tender for the first photovoltaic power plant in the Chaco and other private investment projects in the sector.

30. Independent audit for ANDE, technical study to establish cost efficiency (RM5), and a rate adjustment mechanism (RM6). A renowned international firm has been selected, which will carry out an audit of ANDE's financial statements for 2022 and 2023 in accordance with strict, transparent, and responsible criteria. The IDB and a group of internationally recognized consultants will prepare a study to establish ANDE's costs by business segment, considering similar companies in the region. However, it should be noted that the complexity of the auditing firm's hiring process has required a longer timeframe than originally planned, so it estimates conclusion of the audit and its publication together with the cost study in early 2025 **(reform measure)**. Using this audit and study as inputs, and the results of RM8 below, ANDE will develop, publish, and gradually adopt specific and transparent methodologies to adjust electricity rates by May 2025 **(reform measure)**, in consultation with the VMME and the National Council of State-Owned Enterprises. In the long term, governance reforms should be aimed at the separation of generation, transmission, and distribution activities, and at establishing a transmission system operator capable of setting transparent transmission rates for private generators. In addition, ANDE should be able to access capital markets without the need for a sovereign guarantee.

31. Energy efficiency (RM7). After consultations with the private sector for effective design and implementation, the MOPC (through the VMME) and the Ministry of Industry and Commerce (MIC) issued Decree 2853 in November 2024 that creates the National Energy Efficiency Labeling Program and the gradual application of minimum energy performance standards on the three electrical appliances for domestic use with the highest consumption **(reform measure)**. The National Energy Efficiency Committee will be responsible for implementation of the labeling program, through coordination by the VMME. In addition, this committee will identify the electrical appliances for domestic use with the highest consumption and will coordinate with the competent institutions in the preparation, development, and implementation of the necessary technical regulations within a timeframe established for the effective implementation of the minimum efficiency standards in the Paraguayan market.

32. Loss reduction and dynamic electricity rates (RM8). To manage demand and reduce maximum costs, ANDE will use price signals to distribute demand over different periods of time with the progressive implementation of the regulations or on hourly rates in the Regulations 49887 and 49888 of November 2024. This initiative is supported by the more than 20,000 smart meters installed to date (27,760 at the end of September 2024) whose installation has been concentrated on those consumers who represent a high percentage of ANDE's revenues. In addition, ANDE is gradually adopting a plan for the reduction of its technical and non-technical losses. It should be noted that ANDE has increased its inspections by much more than 10 percent compared to 2023 to reduce electricity theft (18,356 at the end of September 2024) and has worked with the powers of the State to strengthen penalties against electricity theft including clandestine cryptomining **(reform measure)**. In this regard, the Executive Branch has enacted Law 7.300 "Which protects the integrity of the electricity system, provides for the seizure and confiscation of property associated with said punishable act and modifies Article 173 of Law No. 1160/1997 of the Penal Code". The main objective of this Law is to protect the integrity of the country's electricity system, establishing more severe penalties for those who engage in the illegal theft of electricity, raising the expectation of imprisonment from 3 to 10 years and establishing the seizure and confiscation of assets used for these illicit activities.

Reducing Emissions from the Transport and Residential Sector

33. Carbon tax on liquid fuels (RM9). To tackle emissions from the transport sector, RM9 aims to introduce an explicit carbon tax (changing the tax base from liters to carbon content, per ton of CO_2 equivalent) on liquid fuels by May 2025 **(reform measure).** Through RM9, we will establish a carbon tax equivalent to the level of current diesel taxes, which will also apply to gasoline and liquefied petroleum gas (LPG). Selective taxes on the consumption of gasoline and LPG will be reduced so that the total effective tax rate imposed on each does not change. The carbon tax rate will be reviewed and adjusted in accordance with the result of a technical analysis published by the MEF and BCP. This analysis will be conducted periodically to assess changes in the tax, conditional on the state of macroeconomic variables and the initial carbon price when the policy was originally implemented. The tax will be established in consultation with IMF staff, whose technical assistance we began receiving in November.

34. Electrification of private and public transport (RM10). We are working on the preparation of the decree that will regulate the Electromobility Law and that will restrict tax exemptions and fees to hybrid and electric vehicles. We are in the process of acquiring 30 rapid charging units that will be installed throughout the country as soon as they are delivered, to facilitate the use of electric vehicles. Since May 2024, the Government, through the Vice Ministry of Transport (VMT) of the MOPC, has begun to work on a proposal for a comprehensive reform of public transport, which materialized in the draft that is soon to be presented to Congress. This draft law includes the regulation of public transport in Asunción, the development of regulations to define the operating model of incrementally electric public transport considering international experience and the technical work with which the VMT has already begun **(reform measure**). To finalize the regulation of the Electromobility Law acquire and install the charging units and incorporate the observations collected in public consultations on the Comprehensive Public Transport Reform draft law, which will serve as a framework for the selection of the operational model and the development of regulations for electric public transport in the metropolitan area of Asunción along with objectives to increase the percentage of electric buses in this area, the implementation of this reform measure will be delayed.

Forest Conservation and Methane Emissions Capture

35. Industrial biomass user registry and joint intervention protocols (RM11). We continue to work on the progressive implementation of Decree 1788, approved in May 2024, on the registration of industrial users of biomass. We are prioritizing resources for the implementation of the platform that will be used for the implementation of the biomass certification process from 2026. In addition, Article 4 of Decree 6797/2022 will be regulated and formalized, through an inter-institutional operating regulation for the procedure for the use of firewood from land use plans in the scheme of the National Biomass Program, which is used as a complement to certified biomass. We are also working on the implementation of the joint intervention protocol for land use change based on the National Forestry Monitoring System established by Decree 1746 of May 2024 to ensure the efficient joint work of the National Forestry Institute (INFONA), the Ministry for the Environment and Sustainable Development (MADES), the National Police, and the National Anti-Drug Secretariat (SENAD), in addition to coordination with the Public Prosecutor's Office **(reform measure).** The authorities' quick reaction to the recent fires in the Chaco demonstrates that these efforts have been worthwhile.

36. Institutional reform to strengthen INFONA (RM12). INFONA is implementing Decree 1745, approved in May, to strengthen its institutional and financial capacity to continue protecting native forests and responding to deforestation alerts with the creation of the Directorate of the National Forestry Monitoring System **(reform measure).** The new Directorate will contribute towards adoption of the measurement, reporting, and verification of emissions system in accordance with the standards of the United Nations Framework Convention on Climate Change (UNFCCC) in order to increase transparency in emissions accounting, including independent third-party verification, and thus continue to generate high-quality information on land use changes in Paraguay for use by the local and international community to support adequate protection of our forests, which are one of our country's most important natural resources.

37. Capture of methane emissions. To facilitate the reuse, recycling, and use of plastic packaging (polyethylene terephthalate), contribute to better waste management and contain methane emissions in line with our National Plan for the Integrated Management of Urban Solid Waste and NDCs, the MIC enacted Resolution No. 1025 in October 2024 which regulates Law 7014/2022 **(reform measure).** The regulations will establish a legal framework to support the implementation of the Circular Economy Packaging Roadmap.

PROGRAM MONITORING

38. 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. Quantitative targets have been set for end-December 2024 and end-June 2025, along with targets to be monitored on an ongoing basis (Tables 1a and 1b of this Program Statement). We are requesting modification to end-December 2024 and end-June 2025 QTs ceilings on primary expenditure given larger than expected revenue would allow more expenditure while maintaining capital spending and the fiscal deficit. The fifth review is scheduled to be completed in May 2025, and the sixth in November 2025. The definitions are provided in the attached Technical Memorandum of Understanding (Annex III).

Table 1a. Paraguay: Quantitative Targets for the PCI, 2024-2025 1/

	2024					2025	
	end-Jun			end-Dec		end-Jun	
	QT	Actual	Status	QT	Proposed QT	QT	Proposed QT
I. Quantitative Targets (QT)							
1 Ceiling on the central government fiscal deficit (in billions of guaraníes) 2/ 3/	-3,249	-911	Met	-9,106	-9,106	-2,322	-2,322
2 Ceiling on current primary expenditure of the central government (in billions of guaraníes) 2/	19,945	19,833	Met	42,398	43,374	19,999	20,673
3 Ceiling on the net incurrence of floating debt by the central government 4/	-1,800	-3,484	Met	0	0	-1,800	-1,800
II. Continuous Targets							
4 Ceiling on accumulation of external debt payment arrears by the central administration (in millions of U.S. dollar)	0.0	0.0	Met	0.0	0.0	0.0	0.0
III. Inflation Consultation Band 5/							
Upper band limit (2 percent above center point)	6.1			6.0	6.0	6.0	6.0
End of period inflation, center point 6/	4.1	4.4	Met	4.0	4.0	4.0	4.0
Lower band limit (2 percent below center point)	2.1			2.0	2.0	2.0	2.0
IV. Memorandum Items							
Social assistance benefits 2/	1,590	1,661	Met	3,742	3,742	1,689	1,689

1/ As defined in the Program Statement and the Technical Memorandum of Understanding.
2/ Cumulative since the beginning of a calendar year.
3/ Refers to the negative of net lending/borrowing (overall balance) as per the GFSM 2001 definition.
4/ Cumulative change since the start of each year.
5/ Board consultation is required upon breach of the band limits.
6/ Defined as the change over 12 months of the end-of-period consumer price index, as measured and published by the Central Bank of Paraguay.

Table 1b. Paraguay: Standard Continuous Targets

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

Table 2. Paraguay: Reform of Targets for 2024-25

Policy Objective	Reform Targets	Target Date	Status
Pillar I: Ensure Macroeconomic Stability and Protect the Fiscal Policy Framework			
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	Not met
Improve public expenditure control	Implementation of the Goods and Services Management System (SIGEBYS) submodule of the SIARE system in pilot entities for expenditure on goods in the commitment, accrual, and payment order stages.	End-June 2024	Met
Improve public expenditure control	Extend the implementation of the Goods and Services Management System (SIGEBYS) submodule of the SIARE system for expenditure on goods in the commitment, accrual, and payment order stages to all entities dependent on the Executive Branch. Development of SIGEBYS for services for pilot entities.	End-December 2024	In progress
Improve public expenditure control	Preparation and publication of the procedures manual for the monitoring and evaluation unit of the National Directorate of Public Investment and implementation for a set of pilot investment projects.	End-June 2025	In progress
Improve tax and customs compliance	Establish an institutional framework for compliance risk management through a regularly functioning Risk Management Committee, supported by the tax and customs subcommittees.	End-June 2025	Proposed new RT
Improve tax and customs compliance	Develop and implement a risk-based compliance improvement plan to address at least one key risk to customs.	End-October 2025	Proposed new RT
Pillar II: Enhance Productivity and Foster Economic Growth			
Strengthen the AML/CFT regime	Complete and approve the updated version of the National Risk Assessment.	End-June 2024	Not met
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	Not met/ Implemented with delay
Improve the business climate	Complete work on the new version of the Insolvency Law and submit the draft to one of the two chambers of Congress.	End-October-2025	Postponed, in progress
Implement the anti-corruption strategy	Standardize the technical specifications of the List of Essential Medicines of the Ministry of Health and the vade mecum of the Social Security Institute (IPS).	End-December 2024	In progress
Improve the framework for land property rights	Partial review of the regulatory standards of the General Directorate of the National Cadastre Service within the framework of the comprehensive reform of its regulatory framework.	End-March 2025	Revised target date from December 2024
Implement the anti-corruption strategy	Implementation of pilot projects of the Health Information System in two public hospitals.	End-June 2025	In progress
Implement the anti-corruption strategy	Implementation of a pilot of an information exchange system to carry out cross-checking examinations of public officials' net worth information.	End-August 2025	In progress
Pillar III: Enhance Social Protection and Inclusiveness			
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	Not met
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-December 2024	In progress
Enhance protection of vulnerable groups	Implementation of the system for receiving complaints about violence against women and establishing a single registry of those complaints.	End-March 2025	In progress

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

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

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

Key challenge		Reform measures	Review	Assessed
Public investment is not resilient to climate shocks	1	MEF to amend and publish the Decree 4436/20 to incorporate climate aspects at each stage of project development of public investment projects (appraisal, selection, external audit etc.) in line with Fund TA recommendations.	4th Review	Met
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	Met
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	Met
	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	In progress
	6	ANDE to develop, publish, and gradually adopt transparent and well-specified methodologies for adapting electricity tariffs in line with Law 966/64, accounting for operating costs, the financial costs of projected capital spending needs for preserving and expanding the clean electricity matrix, and efficiency gains on the basis of the results of the external audit and study by an internationally reputed firm (RM5), and the evolution of losses according to the plan in RM8.	5th Review	
	7	MOPC/VMME and MIC to establish by decree energy efficiency standards for the three appliances that represent the largest share of household electricity consumption in line with international benchmarks by the International Organization for Standardization.	4th Review	Met
	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	Met
C02 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	
	10	10a. MOPC/VMME-VMT, MIC and MEF to enact regulation of the Electromobility Law 6925/2023, and to adjust fiscal incentives in favor of electric vehicles. 10b. MIC, MOPC/VMT and ANDE to install additional electric public charging infrastructure. VMT to lead the selection of the operational model and develop regulations for electric public transportation in the metropolitan area of Asuncion and set targets for an increased share of electric buses in the metropolitan area of Asuncion.	4th Review	In progress
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	Met
	12	INFONA to change its normative framework aiming at strengthening its institutional and financial capacities to protect native forests and respond to deforestation alerts. This includes the creation of a National Directorate for the National Forest Monitoring System.	3rd Review	Met
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	Met

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
November 1, 2024	25.16	12.50	Completion of RSF review of reform measure 13 implementation[1/]
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
Total	**302.10**	**150.00**	
Memorandum Item:			
Quota	201.40		

Source: IMF staff estimates

1/ RM13 is proposed to be rephased to November 1, 2024.

Attachment II. Technical Memorandum of Understanding

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

A. Definitions

1. Unless otherwise indicated, in this TMU "government" refers to the budgetary central government of the Republic of Paraguay. It excludes the central bank, financial and non-financial state-owned enterprises, and governments at the departmental and municipal levels.

2. Unless otherwise noted, in this TMU "public sector" refers to the government, local governments, and all entities owned, or majority controlled by the government.

B. PCI Program Targets

Cap on the Central Government Fiscal Deficit (Program Definition)

3. Definition. For the purposes of the program, the net lending/borrowing ratio, or the overall fiscal balance (also referred to as "net lending/borrowing"), is the difference between total government revenues and total government outlays (total obligated expenditure (*gasto total obligado*) plus net acquisition of nonfinancial assets). The definition of revenues and expenditures is broadly consistent with that of the *Government Finance Statistics Manual 2001* (*GFSM*). Obligated government expenditure is defined on the basis of a payment order accepted by the Treasury, as well as those executed with external resources.[1]

4. Reporting requirements. During the program period, the authorities will report to IMF staff, on a monthly basis, provisional data on the overall fiscal balance (program definition) and its components, with a lag of no more than 30 days after the end of the month. The revenue and expenditure data included in the calculation of the overall fiscal balance will be drawn mainly from

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

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

Cap on Central Government Primary Current Expenditure (Program Definition)

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

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

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

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

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

Cap On the Accumulation of Arrears On Foreign Debt Payments By The Central Government

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

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

Inflation Consultation Band Linked to Current Central Bank Of Paraguay Projections

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

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

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

Social Assistance Benefits

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

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

C. Additional Information for PCI Monitoring Purposes/Reporting Requirement

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

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

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

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

- The monthly amount of expenditures committed, certified, or for which payment orders have been issued;

- The four-monthly report by the General Directorate of Public Investment (DGIP), based on the National Public Investment System (SNIP), on investment projects, with their progress and execution;

- The complete monthly picture of the financial situation of the central government based on the Treasury accounts (SITUFIN), including the breakdown of tax revenues by type of tax;

- The monthly statistical report of public debt included in the Debt Management and Financial Analysis System (DMFAS), by creditor category, and separating debt service into amortization and interest payments, providing this information no later than six weeks after the close of the month;

- A quarterly update of projected public debt service, separating amortization and interest payments by creditor category (domestic debt: loans, treasury bonds, and others (if any); external debt: multilateral, bilateral, treasury bonds, and others (if any));

- A monthly report on the price structure of fuel products, including an estimate of subsidies involved, if any.

c) The final data will be provided as soon as the final balances of the Treasury accounts are available, but no later than one month after the communication of the provisional data.

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

- The central bank's monthly balance sheet, with a maximum lag of one month;

- The monthly consolidated balance sheet of the banks, with a maximum lag of two months;

- The depository corporations' outlook (consolidated monetary outlook), quarterly, with a maximum lag of two months;

- Commercial banks' lending and deposit interest rates, on a monthly basis; and

- The prudential supervision and financial soundness indicators of banking financial institutions, on a quarterly basis, with a maximum delay of two months.

D. RSF Program Reform Measures

18. For all the reform measures (RMs), government authorities will share relevant material at least three months prior to the program reviews so the IMF can comment on progress. The content of the measures underpinning the implementation of the agreed RMs will be in line with the technical recommendations of IMF staff, including technical assistance from the IMF or the World Bank, as appropriate.

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

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

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

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

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

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

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

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

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

Fuel	**Tax per liter (Guarani per liter)**	**Proposal**		
		Carbon tax (Guarani per ton of CO_2-eq)	**Carbon tax (Guarani per liter)**	**Supplementary tax (Guarani per litre)**
Diesel	680	**250,000**	*680*	**0**
Naphtha up to 88 octane	828	**250,000**	*680*	**148**
Supernaphtha (between 88 and 96 octane)	2516	**250,000**	*680*	**1836**
LPG	1100	**250,000**	*680*	**420**

[2] Paraguay - United for Efficiency (united4efficiency.org)

PARAGUAY

December 4, 2024

FOURTH REVIEW UNDER THE POLICY COORDINATION INSTRUMENT, REQUEST FOR MODIFICATION OF TARGETS, SECOND REVIEW UNDER THE ARRANGEMENTS UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY, AND REQUEST FOR REPHASING ACCESS—WORLD BANK ASSESSMENT LETTER FOR THE RESILIENCE AND SUSTAINABILITY FACILITY UPDATE

This update to the RSF Assessment Letter for Paraguay highlights relevant changes that have occurred since the issuance of the second Assessment Letter in June 2024.

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

1. **In recent months, dry conditions in parts of Paraguay have suppressed the levels of its main waterways, affecting trade, transport, and electricity production.** A landlocked country, Paraguay relies heavily on the Paraguay[1] and Paraná rivers, which carry 80 percent of its trade. In 2024, these river levels have recorded historically low levels along certain segments, leading barges to reduce their loads and to higher transportation costs. Low river levels have also suppressed electricity generation from the binational Itaípú and Yacyreta dams and therefore reduced electricity exports by half over January to September 2024 compared to the same period last year. Electricity exports make up about 7 percent of total value added, 15 percent of direct exports and 7 percent of central government revenues. While the short-term outlook for the Paraguayan economy remains robust, climate conditions remain a key downside risk given that the expected La Niña phenomenon tends to bring below-average rainfall to South America.

2. **Dry conditions, coupled with illegal activity, have prompted wildfires that have affected human health and livelihoods.** According to reports from the National Forestry Agency (INFONA), the number of active wildfires that occurred from

[1] The Paraguay river is part of the Pantanal biome, one of the largest tropical wetlands in the world, which has been suffering from extreme drought conditions prompted by the El Nino phenomenon.

June to September exceeded the 2019-2023 average[2]. The semi-arid Western region (*Chaco Paraguayo*[3]), which has been experiencing drought conditions for a third consecutive year, has been particularly affected. Over 180,000 ha of native forests have been burned, including a part of the Cerro Chovoreca national park, which is home to several threatened species and other fauna[4]. Given the lack of adequate infrastructure, the drought has led to the destruction of crops and livestock for subsistence farmers in the region, which is also home to the majority of Paraguay's indigenous population. The World Bank Paraguay Poverty Assessment estimates that drought shocks tend to lead to short-term increases in rural and urban poverty by 2.4 and 1.8 percentage points, respectively (Janz et al., 2024, cited in Rubiano et al., 2024). Moreover, the pollution generated by wildfires has significant effects on human health. Background studies for the World Bank Country Climate and Development report for Paraguay indicate that mortality associated with fire smoke could increase by 3,500 annual deaths by 2100 (Borchers-Arriagada, et al., 2024).

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

3. Paraguay has been actively responding to its climate-related challenges. The Joint Paraguayan-Argentine Commission of the Paraná River (COMIP) has been coordinating on actions to address the low levels of the waterway, including dredging work in critical areas. In September, the Paraguay Ministry of Public Works and Communications (MOPIC) launched a national public tender for emergency maintenance dredging of the river over the next two years. To tackle the lack of drinking water in vulnerable areas, the Secretariat of National Emergency has been transporting potable water to communities in need. The water utility company, ESSAP, has also begun efforts to repair a US$130 million aqueduct in the Chaco that has been defunct since 2022.

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

4. In October 2024, the Ministry of Environment and Sustainable Development (MADES) recently launched a National Strategy for Short-lived Climate Pollutants, financed by the Green Climate Fund. The strategy includes the establishment of an inventory of such pollutants and outlines priority sectors for reducing them. This inventory could inform efforts to reduce emissions in the transport and waste sectors (RMs 10 and 13).

5. In early 2024, MADES reported its Fourth National Communication with a national GHG inventory until 2019. MADES is also currently preparing its first biennial transparency report (BTR) on climate change, including a national inventory of GHG emissions, as required by parties' signatory to the Paris agreement. The BTR will provide an update on progress towards achieving

[2] Source: INFONA. https://infona.gov.py/infona-revela-datos-de-afectacion-por-incendios-forestales-de-los-meses-de-septiembre-y-octubre/
[3] Source: La Nación, 19 March 2024.
[4] Source: ABC, 16 September 2024.

Paraguay's Nationally Determined Contributions and on adaptation efforts taken so far. The BTR will be finalized in December 2024.

6. Separately, the government is also working on efforts to improve the traceability of its agriculture production. The National Service of Animal Quality and Health (SENACSA) is drafting a decree to implement Law 7221/2023 which establishes a national traceability system for livestock. The Ministry of Industry and Commerce, together with MADES, is also advancing work on a national platform to improve the traceability of exports. MADES also continues to prepare the regulations for its Carbon Credits law, approved in 2023.

D. Other Challenges and Opportunities

7. No notable updates since the publication of the updated assessment letter in May.

E. World Bank Engagement in Climate Change

8. The World Bank continues to support Paraguay's efforts to be better prepared for climate-related shocks and to decarbonize. The government has requested support from the World Bank Group in the following areas: scaling up commercial forestry and improving land administration, a budget support loan with a climate focus, and technical assistance to the Ministry of Social Development on the development of a social protection strategy for adaptation to climate change and risk management, focused on the poor and vulnerable in high-risk areas. Technical assistance is also being provided on updates to a guide for incorporating environmental criteria into the selection of public investment projects (linked to RM1). The International Finance Corporation (IFC) is finalizing a Country Private Sector Diagnostic (CPSD) that identifies barriers to private investment in renewable energy, forestry, sustainable agriculture, and light manufacturing.