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PARAGUAY

July 2025

FIFTH REVIEW UNDER THE POLICY COORDINATION INSTRUMENT, REQUEST FOR MODIFICATION OF A QUANTITATIVE TARGET AND RESETTING OF REFORM TARGETS, THIRD REVIEW UNDER THE ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY, REPHASING OF REFORM MEASURES, AND REQUESTS FOR EXTENSION OF THE POLICY COORDINATION INSTRUMENT AND THE RESILIENCE AND SUSTAINABILITY FACILITY ARANGEMENT—PRESS RELEASE; AND STAFF REPORT

In the context of the Fifth Review Under the Policy Coordination Instrument, Request for Modification of a Quantitative Target and Resetting of Reform Targets, Third Review Under the Arrangement Under the Resilience and Sustainability Facility, Rephasing of Reform Measures, and Requests for Extension of the Policy Coordination Instrument and the Resilience and Sustainability Facility Arrangement, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 27, 2025, following discussions that ended on May 13, 2025, with the officials of Paraguay on economic developments and policies underpinning the IMF arrangements 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 June 12, 2025.
- A **World Bank Assessment Letter** for the Resilience and Sustainability Facility Update.

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

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Washington, D.C.

PRESS RELEASE

PR 25/224

IMF Executive Board Concludes Fifth Review Under the Policy Coordination Instrument (PCI) and the Third Review Under the Arrangement Under the Resilience and Sustainability Facility of Paraguay

FOR IMMEDIATE RELEASE

- On June 27, 2025, the IMF Executive Board concluded the fifth review under the Policy Coordination Instrument (PCI) and the third review under the Resilience and Sustainability Facility (RSF) arrangement.
- The Paraguayan economy remains robust underpinned by buoyant domestic demand. Staying the course with the fiscal consolidation plan and structural reforms will be critical to preserve macroeconomic stability.
- Program performance under the PCI and RSF remains very satisfactory, underpinned by a strong commitment to pursue prudent macroeconomic policies and structural reforms to enhance the country's prospects for long-term sustainable and inclusive growth.

Washington, DC: The Executive Board of the International Monetary Fund (IMF) today completed the fifth review under the PCI arrangement and the third review under the RSF arrangement. The completion of the reviews provides the authorities with access to approximately US$ 285 million (SDR 211.46 million) under the RSF, of which the authorities have requested disbursement of US$ 195 million (SDR 146 million).

The Paraguayan economy remains resilient, with real GDP growing 4.2 percent in 2024. Buoyant private consumption and gross fixed capital formation outweighed a negative contribution from net exports owing mainly to lower electricity production and exports. Economic activity continued its strong momentum in early 2025 with real GDP expected to expand 3.8 percent this year. Headline inflation remains contained within the central bank's tolerance range.

Fiscal consolidation is progressing, with the fiscal deficit falling to 2.6 percent of GDP in 2024, down from 4.1 percent in 2023, supported by a substantial increase in tax revenue. The fiscal deficit is projected to decline further to 1.9 percent of GDP in 2025. The current account deficit widened to 3.7 percent of GDP in 2024, from 0.4 percent in 2023, primarily due to lower export revenues, driven in large part by lower soybean prices and a drop in hydroelectricity exports because of low river water levels. Foreign reserves remain comfortably above standard adequacy metrics.

At the conclusion of the Executive Board's discussion, Mr. Nigel Clarke, Deputy Managing Director, and Acting Chair, made the following statement:

"The Paraguayan economy remains resilient, owing to its strong macroeconomic fundamentals and the authorities' continued prudent macroeconomic management. The outlook is favorable, with growth expected to remain robust, but is subject to elevated global risks and to adverse weather shocks. Against this backdrop, staying the course with prudent macroeconomic management continues to serve as a cornerstone of macroeconomic stability.

"With inflation contained within the central bank's tolerance range, monetary policy should remain data driven. The exchange rate should continue to serve as a shock absorber. The banking sector is well capitalized, liquid, and profitable, and the authorities plan to deepen and modernize capital markets. Further strengthening AML/CFT frameworks, including by promptly finalizing the National Risk Assessment, is essential.

"The authorities remain resolute in advancing the fiscal consolidation plan, aiming to reduce the deficit to 1.5 percent of GDP by 2026—the ceiling established by the Fiscal Responsibility Law. Efforts to bolster tax revenues and improve the efficiency of public expenditure should continue to support fiscal consolidation goals.

"Addressing the sustainability of the public employees' pension fund is essential to mitigate medium-term fiscal risks. The overall risk of sovereign stress is low, and ongoing efforts to gradually decrease the proportion of debt denominated in foreign currency would help further strengthen the risk profile of public debt.

"Policy reforms under the Policy Coordination Instrument and the Resilience and Sustainability Facility are further strengthening macroeconomic stability and resilience. Sustained progress on the reform agenda—including continuing efforts to reduce informality, strengthen governance and anti-corruption frameworks, and enhance resilience to natural disasters—will further improve the business environment, boost Paraguay's appeal as an investment destination, and reinforce macroeconomic stability."

INTERNATIONAL MONETARY FUND

PARAGUAY

June 12, 2025

FIFTH REVIEW UNDER THE POLICY COORDINATION INSTRUMENT, REQUEST FOR MODIFICATION OF A QUANTITATIVE TARGET AND RESETTING OF REFORM TARGETS, THIRD REVIEW UNDER THE ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY, REPHASING OF REFORM MEASURES, AND REQUESTS FOR EXTENSION OF THE POLICY COORDINATION INSTRUMENT AND THE RESILIENCE AND SUSTAINABILITY FACILITY ARANGEMENT

EXECUTIVE SUMMARY

Context and outlook. Paraguay's economic activity remains robust, bolstered by ongoing reforms and sound macroeconomic fundamentals. Inflation is within the central bank's tolerance range, and both public debt and the external position are sustainable. While the outlook is favorable, it remains subject to elevated global risks and vulnerable to adverse weather shocks. The authorities have reaffirmed their strong commitment to the fiscal consolidation plan—an essential anchor of macroeconomic stability. Paraguay's sovereign debt trades with one of the lowest risk spreads in the region.

PCI and RSF Program Implementation. All end-December 2024 PCI quantitative targets (QTs) were met. Three Reform Targets (RTs) were met (one ahead of time), two were not met but one was implemented with a delay, and two are proposed to be reset to a later date. There are significant advances on all remaining Reform Measures (RMs) under the RSF, with one RM completed in this review. The authorities have requested a modification of one June-2025 QT; the resetting of two RTs; the rephasing of four RMs; the extension of the PCI and RSF arrangements through February 2026; and, based on the past completion of six selected RMs, a disbursement of 72.5 percent of quota, or SDR 146 million.

Policy Recommendations. Staying the course on fiscal consolidation remains essential to mitigate external risks, including those arising from shifts in international trade policies and uncertainty. Continued efforts to strengthen tax administration and enhance the efficiency of public spending are critical to create space for priority social and infrastructure investments while meeting consolidation objectives. Ensuring the long-term sustainability of the public pension system is imperative. With inflation contained, monetary policy should continue to be data driven. Maintaining the momentum on structural reforms—with a focus on reducing informality, enhancing governance, combating corruption, and increasing resilience to natural disasters—is vital to foster inclusive and sustainable growth.

Approved By
Dora Iakova (WHD) and Eugenio Cerutti (SPR)

Discussions were held in Asunción between May 5-13, 2025. The staff team comprised Fabian Valencia (head), Keiichi Nakatani, Svetlana Vtyurina (all WHD), Lisa Kolovich (SPR), Maximiliano Appendino (Resident Representative) and Pablo Alonso Mendez (local economist). Diego Gutiérrez and Geraldine Cruz (both 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, private sector, banks, and International Financial Institutions (IFIs).

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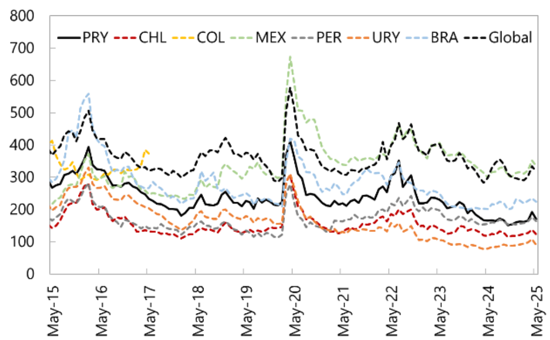
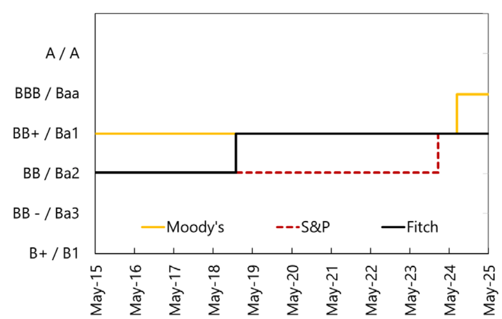
CONTEXT

1. **Program performance remains broadly satisfactory.** Policy reforms under the Policy Coordination Instrument (PCI) are helping to further strengthen macroeconomic stability and resilience. Fiscal consolidation is progressing as planned, inflation expectations remain well-anchored, and foreign reserves are adequate. Reforms are helping enhance social protection and inclusiveness, and fostering productivity and economic growth, including by improving government efficiency and addressing governance and corruption vulnerabilities. Moreover, reform measures under the Resilience and Sustainability Facility (RSF) arrangement are helping increase the country's resilience to climate shocks. Attesting to its prudent macroeconomic management, sustained economic growth, and track record of institutional reforms, Moody's reaffirmed Paraguay's investment grade status, Standard & Poor's upgraded the outlook to positive, and the country continues to access international markets at favorable terms.

EMBI Spreads
(In Basis Points)



Paraguay: Credit Rating
(Rating)



Sources: Bloomberg LP, and Haver Analytics.
Note: Data as of May 13, 2025.

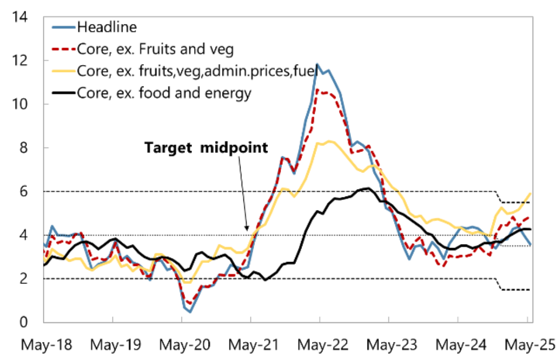
RECENT ECONOMIC DEVELOPMENTS

2. **Paraguay grew at one of the fastest rates among Latin American countries.** In 2024, real GDP grew 4.2 percent, underpinned by strong performance of services, manufacturing, livestock, and construction. On the expenditure side, buoyant private consumption and gross fixed capital formation outweighed a negative contribution from net exports owing mainly to lower electricity production and exports. Economic activity, excluding agricultural production and electricity, grew 5.6 percent. The unemployment rate remained low at 4.6 percent at end-2024. Economic activity continued its strong momentum in early 2025 with the monthly economic indicator growing 5.5 percent year-on-year through March.

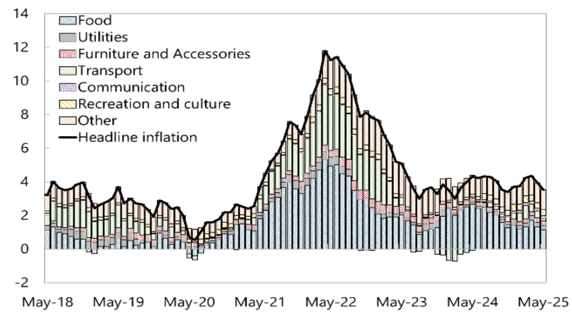
3. **Inflation stayed in line with the target in 2024 and inflation expectations remain well-anchored.** The 12-month headline and core inflation (excluding fruits and vegetables) rates stood at 3.8 percent and 4.5 percent, respectively, as of end-December, broadly in line with the inflation target of 4 percent. In December, the Central Bank adjusted the headline inflation target to 3.5 percent, to be reached within the monetary policy horizon (18-24 months). In May 2025,

headline year-on-year inflation reached 3.6 percent, as lower fuel and fruit and vegetables prices were partially offset by increases in durable goods prices. The latter contributed to slight increases in core inflation measures (text figure). Services year-on-year inflation stood at 3.8 percent as of May. 24-month-ahead inflation expectations remain well anchored around the new inflation target.

CPI Inflation
(In Percent, Y/Y)



Contributions to Inflation
(In Percent, Y/Y)



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

4. **The external position in 2024 was broadly in line with the level implied by medium-term fundamentals and desirable policy settings.** The current account deficit widened to 3.7 percent of GDP in 2024, from 0.4 percent in 2023, primarily due to lower export revenues, driven in large part by lower soybean prices and a drop in hydroelectricity exports because of low river water levels. Imports grew, especially consumer and intermediate goods, reflecting buoyant private domestic demand. The Guarani depreciated 7.6 percent vis-à-vis the U.S. dollar by end-December, in year-on-year, nominal terms. The real effective exchange rate (REER) appreciated in 2024 by 0.4 percent, largely driven by inflation differentials with trading partners and lower commodity prices. Foreign reserves remain adequate under IMF metrics (Annex I).

5. **The fiscal deficit for 2024 was in line with the budget**. The deficit fell to 2.6 percent of GDP, down from 4.1 percent in 2023. Tax revenue grew substantially, by about 20 percent year-on-year with the tax-to-GDP ratio reaching 11.4 percent of GDP (from 10.1 percent of GDP in 2023). This outcome reflects a rebound in corporate tax collection after the 2022 droughts and improvements in tax administration, including through merging custom and tax agencies, promoting digitalization, tightening control over the border areas, and expanding taxpayer base by promoting formalization. Current primary expenditures grew by about 11 percent, year-on-year. While increasing by around 4 percentage points of GDP in 2024, public debt remains low at 44.8 percent of GDP.

6. **Financial soundness indicators suggest that the banking sector remains well capitalized, liquid, and profitable.** Liquid assets reached 24.6 percent of total liabilities by March 2025 while capital adequacy ratios, at 17.8 percent and 12.5 percent, comfortably exceeded the

minimum requirements.[1] The ROA and ROE stood at 2.2 percent and 18.6 percent, respectively. Total assets, mainly loans, have continued to grow as the economy expanded, unemployment remained low, and interest rates broadly stable. Total bank credit increased 17 percent and consumer credit 20 percent, year-on-year as of March 2025. Credit quality indicators for total and consumer credit have improved, with the nonperforming-to-total loans ratio declining to 2.3 percent and 4.7 percent from 3 percent and 6 percent, year-on-year in March 2025, respectively. Loans to services, agriculture, wholesale trade and industrial sectors constitute the largest shares in banks' loans portfolios.

PERFORMANCE UNDER THE ARRANGEMENTS

7. **Quantitative Targets:** End-December 2024 fiscal targets on the budgetary central government's deficit, current primary expenditure, and floating debt were met. Inflation was within the consultation band (Text Table 1). Targets on social assistance benefits and on non-accumulation of external debt payment arrears, as well as standard continuous targets were also met.

Text Table 1. Paraguay: Quantitative Targets

	2024
	December
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.

8. **PCI Reform Targets (RTs).** Two of 5 RTs scheduled to be assessed in this review have been met, 2 were not met but one was implemented with a delay, and 1 was not met but is proposed to be reset. One June 2025 RT, scheduled for the final review, has been completed ahead of time (Program Statement, Table 2). RTs on (1) extending the implementation of the Goods and Services Management System (SIGEBYS) submodule of the state resources administration system SIARE for expenditure on goods in the commitment, accrual, and payment order stages to all entities under the executive branch, and (2) development of SIGEBYS for services for pilot entities (**December 2024**);[2] and the standardization of the technical specifications for the List of Essential Medicines of

[1] Minimum requirements on total capital and Tier 1 capital to risk-weighted assets and contingent liabilities are set at 12 percent and 8 percent, respectively.

[2] The decree approving and providing for the implementation of the SIGEBYS within the framework of the re-engineering process of SIARE was issued in October 2024.

the Ministry of Health and the vade mecum of the Social Security Institute (IOS) (**December 2024**) were met. The RT on the partial review of the regulatory standards of the General Directorate of the National Cadaster Service (**March 2025**) was not met. The RT on the Action Plan for the National Care Policy (PNCUPA) to be approved by the Interinstitutional Care Commission (**December 2024**) was not met but the policy was approved in April, marking an important step in improving the national strategy on social policies. Finally, the RT on the implementation of the system for recording the cases of violence against women and establishing a single registry (**March 2025**) was not met (see Pillar III below) and is proposed to be reset to **September 2025**. The authorities have implemented the Health Information System in more than 900 public health facilities to increase transparency and efficiency in operations, including two public hospitals in the area of Asuncion (**June 2025** RT). The RT on the preparation and publication of the procedures' manual for the National Directorate for Public Investment is proposed to be reset from **June 2025** to **September 2025**.

9. RSF Reform Measures (RMs). The authorities made significant progress on all remaining RMs (two pending from the 4th review and three scheduled for the 5th review) and met RM3, which focused on reducing the vulnerability of the financial sector to climate-related financial risks. Completion of the remaining four RMs (RM5, RM6, RM9, and RM10) is expected for the next review. The independent cost study for ANDE, the state electricity supply company, has been finalized and its external audit is well advanced (RM5). ANDE will use the inputs from RM5 for refining methodologies for adapting electricity tariffs (RM6) that have advanced in parallel to RM5. The Ministry of Economy and Finance (MEF), in coordination with the National Tax Revenue Directorate (DNIT), drafted a law for an explicit carbon tax that will replace excise taxes on liquid fuels (RM9). The draft law is under technical evaluation of its implementation challenges, in the context also of an ambitious legislative agenda that includes critical reforms such as to the public sector pension system (Caja Fiscal, ¶17). Regarding RM10, the authorities are evaluating options to adjust fiscal incentives in favor of electric vehicles. Charging stations for electrical buses were received and will be installed, and first buses were delivered. The authorities are developing a white paper that will reflect their plans for an incrementally electric public transport.

10. Past RTs Update. The June 2024 RT included a preliminary analysis of tax expenditures in special tax regimes, which was conducted by the IADB in 2024. The authorities have requested technical assistance from the Fund's Fiscal Affairs Department to evaluate special tax regimes. The 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 by June 2024, however, the largest social programs are now implemented by the Ministry of Social Development whose programs have already been integrated into SIPEN. The update of the National Risk Assessment (NRA) has faced some delays (June 2024 RT) as it required additional technical work, but the authorities noted they plan to finalize it and get it approved this year.

OUTLOOK AND RISKS

11. Growth is expected to moderate but would remain robust at 3.8 percent in 2025 and end-year inflation to be close to the target. The additional tariffs (10 percent) on Paraguayan exports to the United States, announced on April 2, will have a limited direct effect given that only about 4 percent of total exports go to the U.S. market. Global uncertainty is expected to slow FDI flows somewhat, however private consumption and investment are projected to drive growth, bolstered by expected inflation stability, low unemployment, and continued access to credit. Monetary policy is geared towards facilitating the convergence of inflation to the target, supported also by lower commodity prices. Sovereign spreads should remain among the lowest in the region, reflecting a favorable debt risk profile. The external current account is anticipated to result in a smaller deficit in 2025 mainly as electricity exports recover and beef exports increase but will remain negative over the medium term, primarily due to expected large imports associated with large-scale foreign direct investment (FDI) projects.

Text Table 2. Paraguay: Medium-Term Outlook for Selected Macroeconomic Indicators
(In percent of GDP, unless otherwise indicated)

			Act.	Proj.					
	2022	2023	2024	2025	2026	2027	2028	2029	2030
	(In Percent of GDP, unless otherwise indicated)								
Real GDP growth (in percent)	0.2	5.0	4.2	3.8	3.5	3.5	3.5	3.5	3.5
Per capita GDP (U.S. dollars, thousands)	6.2	6.3	6.5	6.5	6.8	7.1	7.4	7.7	8.1
Consumer prices (end of period; in percent)	8.1	3.7	3.8	3.7	3.5	3.5	3.5	3.5	3.5
Terms of trade (annual percent change)	-6.8	-3.2	-4.2	-0.2	0.7	0.1	0.2	0.3	-0.2
External current account	-7.0	-0.4	-3.7	-2.4	-2.8	-2.1	-1.8	-1.4	-1.2
Gross international reserves (in US$ billion)	9.5	9.9	9.6	9.8	10.1	10.4	10.7	11.0	11.3
Central government fiscal balance	-2.7	-4.1	-2.6	-1.9	-1.5	-1.5	-1.5	-1.5	-1.5
Public sector debt	40.5	41.1	44.8	44.1	43.0	42.1	41.2	40.5	39.9

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

12. Risks to the outlook are tilted to the downside and highly influenced by the external environment (Annex II). Given that Paraguay's main export markets are its regional trading partners, an escalation of global trade tensions and the resulting deceleration in global demand could impact Paraguay mainly through second-round effects. These could include fluctuations in commodity and other tradeable goods prices that could lead to a deterioration in terms of trade. Increased global policy uncertainty could further slow FDI flows into the country, while a further tightening in global financial conditions could reduce investment and increase sovereign borrowing costs, ultimately impacting growth. Domestically, Paraguay faces significant risks from extreme weather events such as droughts and floods, which can affect agriculture production and exports, transport, and hydroelectric power generation and exports. The financial situation of the public pension system and health funds of the social security institute, along with other contingent liabilities, poses medium- to long-term fiscal risks. The overall balance of risks is mitigated by upside risks from a stronger-than-expected growth of services and construction sectors whose continuing momentum could result in higher real GDP growth than projected, larger- and faster-than-expected

FDI flows if the financing for large-scale projects materializes sooner than expected, potential expansion of export markets (e.g., meat exports to Asia), and trade diversion from other exporters of agricultural commodities facing higher tariffs than Paraguay. Weather shocks in other jurisdictions could also lead to temporarily higher exports of agricultural commodities.

POLICY DISCUSSIONS

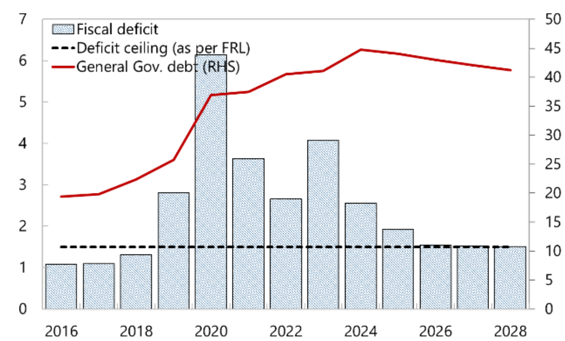
A. PCI: Ensuring Stable and Inclusive Economic Growth

Pillar I (Ensure Macroeconomic Stability and Resilience)

Fiscal Policy

13. The 2025 budget execution is on track and in line with the medium-term fiscal consolidation strategy. The fiscal deficit is budgeted at 1.9 percent of GDP, down from 2.6 percent of GDP in 2024. Fiscal consolidation this year is expected to be driven by both continued revenue gains from improvements in tax administration and expenditure control, striking a good balance between strengthening fiscal sustainability and meeting social spending needs. Data through April 2025 showed cumulative tax revenue growing 10.5 percent, while primary expenditure growing by 5.8 percent, year-on-year. On the expenditure front, prioritization along with increased spending efficiency would help contain current spending even with the implementation of the flagship "Zero Hunger" program, which provides free meals at schools. The authorities' strategy includes proceeding cautiously with within-year budget execution, contingent on revenue collection. This strategy provides room for maneuver through expenditure restraint while prioritizing spending on health, education, security, and social protection, in particular if downside risks were to materialize and impact revenues. Their strategy also involves a smoother within-year budget execution of capital spending than in the past, thereby helping protect public investment if downside risks materialize. Under the authorities' fiscal convergence plan, the fiscal deficit would decline further to 1.5 percent of GDP in 2026, the limit set by the Fiscal Responsibility Law.

Fiscal Deficit vs Debt
(In percent of GDP)



Source: National authorities; and IMF staff calculations.

14. Paraguay's overall risk of sovereign stress is assessed to be low, and its debt is sustainable (Annex II). Public debt is expected to gradually decline and stabilize at low levels under the planned fiscal consolidation path backed by strong economic prospects and prudent debt management. The authorities aim at gradually reducing the share of FX debt (currently around 85 percent). Following its first global local-currency bond issuance in February 2024, Paraguay placed an additional US$600 million in February 2025.[3] They also intend to increase issuance of bonds in the local debt market and develop the domestic financial markets.

15. Improvements in tax administration are producing tangible results and additional gains are possible. The authorities' strategy for revenue mobilization aims first at exhausting efficiency gains in tax collection. The increase in tax collection in 2024 is partly attributable to improvements in tax administration (Annex IV). Further, with support from the IADB and the IMF, the authorities seek to improve tax collection by enhancing efficiency and optimizing data usage. This will be done through the implementation of a robust compliance risk management framework monitored under a Risk Management Committee (**October 2025 RT)**, after putting in place a proper institutional framework **(June 2025 RT)**. These improvements in tax administration could further boost tax collections. Nonetheless, once efficiency gains are exhausted a review of the tax regimes should be considered to attend to Paraguay's social and infrastructure spending needs.

16. Improving the efficiency of expenditures and bolstering public financial management are important objectives. The authorities have rolled out the SIGEBYS modules targeted to improve the procurement process. The line ministries' goods and services expenses at different stages (commitment, accrual, and payment) have been fully monitored and recorded through SIGEBYS, which is part of the State Resource Management System (SIARE) (**June and December 2024 RTs).** The remaining RT is the publication of the procedural manual for the monitoring and evaluation unit of the National Directorate of Public Investment and its implementation for a set of pilot investment projects. However, staff propose to reset this RT from **June 2025** to **September 2025** as the authorities need additional time to complete it. The authorities are addressing challenges in the health fund within the Social Security Institute (IPS).[4] Law No. 7446/24, enacted late last year, aims to strengthen the sustainability of the IPS. The law includes direct transfers of employers' contribution to the health fund instead of the government, and a parametric reform of the pension system for private sector employees (Program Statement ¶9).[5]

17. Enhancing the long-term sustainability of the public sector pension system (Caja Fiscal) as well as supervision of all pension systems remains critical. Spending related to Caja Fiscal has increased by around 0.5 ppt of GDP over the past 10 years to 1.5 percent of GDP in 2024. The authorities have finalized an actuarial study which will inform a legislative proposal for a parametric reform of Caja Fiscal. Progress in digitally registering the pension fund's participants to account for most of the beneficiaries is welcome (Program Statement ¶10). Forming and

[3] The issuance was part of a US$1.2 billion placement, half of which was in US dollars with a 30-year maturity and an interest rate of 6.65 percent, and the rest in Guaraníes at a 10-year maturity with a rate of 8.5 percent.

[4] See Staff Reports for the 4th Review of the PCI/2nd Review of the RSF, December 2024.

[5] The IPS pension scheme could pose significant fiscal risks in the long-term. While the IPS pension deficit is currently under control owing to a rise in contributors and low coverage, as the population ages and more contributors become eligible for pension benefits, costs will escalate, risking a depletion of reserves.

operationalizing the Council of Social Security to oversee the Pensions Superintendency is progressing (Program Statement, ¶11).

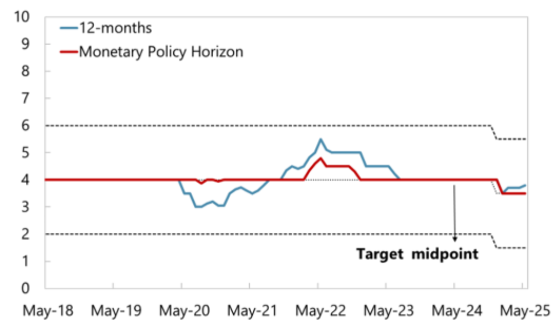
18. The new Public-Private Partnership (PPP) law seeks to create a more attractive environment for private investment. President Peña promulgated the Law 7452 in late 2024, which updates and modernizes the infrastructure investment promotion framework in Paraguay (**June 2024 RT**). Among the changes, the new law extends the project execution periods (maximum term of contracts); requires tender specifications and PPP contracts to comply with the risk allocation methodology to be developed by the MEF; and clarifies key aspects, such as that PPP projects could include complementary works. The authorities have identified potential projects in infrastructure, including roads.

19. The new civil service law aims to increase efficiency and fairness. The recently promulgated law defines clear rules, guarantees admission by merit, promotes objective evaluations, and encourages transparency (**December 2022 RT**). Legal protection will be granted to those hired through a merit-based competition.

Monetary and Financial Policies

20. The current monetary policy stance remains appropriate. The BCP has kept the policy rate at 6 percent since March 2024. With inflation expectations at the 18–24-month horizon well-anchored around the new inflation target of 3.5 percent, the ex-ante real policy rate is close to the estimated neutral level (1-2 percent). Given heightened global uncertainty, still solid economic performance, and the risk of increased volatility in commodity and import prices, the pace of interest rate adjustments should remain data driven.

Inflation Expectations
(In percent, Y/Y)



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

21. The exchange rate should remain an instrumental shock absorber in facilitating the economy's adjustment to changes in external conditions. The BCP intervenes in the foreign exchange market to avoid excessive volatility in the exchange rate, in the context of a shallow FX market subject to highly seasonal flows.[6] The BCP is committed to transparency regarding its foreign

[6] On March 26, the BCP announced daily FX sales of at least USD 15 million starting on March 27. A similar strategy was last announced in October 2024.

exchange operations. It consistently publishes detailed reports of its foreign exchange activities on its website.

22. Planned reforms to develop capital markets and to modernize its architecture are welcome. While the capital market has grown over the past decade, challenges remain in deepening liquidity, strengthening technological and operational infrastructure, increasing transparency, and broadening the investor base. To modernize and consolidate the legal framework, the authorities plan to submit the Securities Bill to Congress this year, prepared with the support of Fund's capacity development (CD). It will regulate the securities and investment products market, services, and activities to protect investors, promote and ensure a fair, honest, efficient, and transparent market, and reduce systemic risk.

Pillar II (Enhance Productivity and Foster Economic Growth)

23. The authorities are addressing weaknesses in government procurement systems and governance and reducing corruption vulnerabilities. Law 7389/24 was enacted to establish the National Regime for Integrity, Transparency, and Prevention of Corruption (Program Statement ¶20). Under this new law, the new National Anti-Corruption Council will be formed by representatives of all branches of government facilitating coordination, which was more difficult for the previous anticorruption secretariat under the executive branch. The council will monitor progress in the implementation of the National Strategy to Combat Corruption (ENCC) and expand its scope with new initiatives. Several RTs are closely related to the ENCC. For instance, the authorities have strengthened the technical specifications of the List of Essential Medicines of the Ministry of Health and the handbook (vade mecum) of the IPS to keep health-related fiscal costs in check and enhance their effectiveness (December 2024 RT). The authorities executed pilot projects for the Health Information System in two public hospitals to increase transparency in operations (June 2025 RT), and in more than 900 public health facilities (Program Statement ¶16). The implementation of a pilot on an information exchange system to carry out cross-checking examinations of public officials' net worth declarations is progressing **(August 2025 RT)**.

24. The authorities are making progress in addressing weaknesses in the AML/CFT framework and efforts should continue. With IMF support, SEPRELAD (Paraguay's Financial Intelligence Unit) is enhancing its capacity to conduct operational and strategic analysis, and the agencies with AML/CFT supervisory responsibilities are strengthening their AML/CFT risk-based supervisory framework. The finalization and approval of the National Risk Assessment (NRA) has undergone some delays as it required additional technical work. Its completion and approval should be accelerated. The authorities should also address remaining technical deficiencies in the legal framework (AML Law 1015) to bring it in line with the international standard and ensure that notaries, gaming operators and lawyers are supervised for AML/CFT purposes. Additionally, the authorities should reassess the list of reporting entities; strengthen the oversight of natural persons conducting currency exchange; reallocate supervisory responsibilities for money remitters under the

Superintendency of Banks of Central Bank of Paraguay; and ensure that SEPRELAD is adequately resourced to fulfill both its FIU and supervisory functions.

25. The BCP is working on the recommendations from the safeguards assessment. In the area of governance structure, the BCP will prepare a proposal for an institutional delegation framework, to be subsequently assessed by the BCP's Legal Unit, and the Chief Auditor will be excluded from the Audit Committee. Further work is needed to strengthen the composition of the Audit Committee. With respect to the selection of external auditor, the review of the draft policy to ensure alignment with leading practices is nearing completion. The BCP is in the process of hiring a consultancy to analyze gaps in the conformity of the activities of the Internal Audit function with international standards.

26. Efforts to improve the business climate are underway:

- **Progress is being made in improving land registration**. The authorities have revised the current regulatory standards at the National Directorate of Cadastral Services. While the RT was not met, the authorities plan to approve the revised regulatory standards through a Resolution by early 2025Q3 with the goal of enhancing the National Cadaster Service at MEF (**March 2025 RT**). Moreover, the authorities are pursuing a more comprehensive reform under the law promulgated by the Executive Branch in January 2025 for the establishment of the National Unified Registry (RUN). The RUN will be a cadastral and registry system, which merges the General Directorate of Public Registries (DGRP), the National Cadaster Service (SNC), and the Department of Surveying and Geodesy into a single registry. The RUN seeks to have a single system for surveying, cadaster and real estate registry services, simplifying procedures and responding to the overlapping of titles. Furthermore, an inter-institutional cooperation agreement was signed between the Ministries of Information and Communication Technologies (MITIC), MEF, DGRP and the Judiciary. The agreement aims for the integration of the technological systems of the institutions that will be part of the RUN. In the event of overlaps, the law leaves the resolution of conflicts in the hands of the Judiciary. The agreement is the first step for the implementation of the RUN, which is expected to be operational in January 2026.
- **The work on the Insolvency Law to ensure timely and transparent business resolution** is ongoing (Program Statement ¶15), with the authorities planning on completing this RT by the target date **(October 2025 RT).**

Pillar III (Enhance Social Protection and Inclusiveness)

27. Efforts to reduce labor informality are welcome and should continue. A labor regularization campaign led by the Ministry of Labor allowed workers to register without incurring a penalty and formalized 27,875 workers and 9,372 productive units in just six months (July 2024 to January 2025). This regularization represents a 47 percent increase in the number of formalized workers compared to the same period one year earlier. For instance, the participation in the Zero Hunger program is premised on providers registering their employees. On May 1, the authorities launched the "Youth Employment" program whereby the government committed to subsidize social security contributions of young employees for a year to encourage former employment. Given the still high levels of informality (around 70 percent), actions in this area should continue. Moreover, the Ministry of Industry and Commerce (MIC) is working on the regulation for the regulation of recent modifications to the Law for Micro, Small, and Medium-Sized Enterprises (MSMEs) which, inter alia, intends to promote their formalization (Program Statement ¶22).

28. Further inroads have been made in expanding financial inclusion.[7] The Financial inclusion strategy is being updated. The payment system (SIPAP) operates efficiently and competitively. The BCP continued to support progress and modernization of the system with new projects and regulations, including the adoption of QR payment standardization to enhance interoperability and payment security. The BCP especially promotes the utilization of the electronic payment system in micro-, small- and medium-sized companies through the "Digital Economy" program, with the aim of reducing transaction costs and increasing the formalization of the sector. The BCP has made efforts to boost women's access to finance, including through regulations on basic savings accounts (e.g., Resolution 05/13, July 2024) and the collection and publication of sex-disaggregated data on financial access and usage. The latest BCP data suggest that the gender gap in formal account ownership has been largely closed; however, women are still less likely to have access to credit.

29. The social protection and inclusion policies serve as a crucial foundation in supporting economic and social rights. To enhance protection and inclusion in Paraguay, following extensive public consultations, the authorities have designed an Action Plan for the National Care Policy, which was approved in April 2025 **(December 2024 RT)**. Significant progress in including school children into the Zero Hunger Program has been made towards the authorities' goal of universal coverage—of more than one million students—with 963,975 of them already benefiting as of April 2025. Women's economic empowerment is also an important priority for the government. The RT on the launch of the system for recording the cases of violence against women and establishing a single registry (**March 2025 RT**) was not met, and staff propose to reset this RT to **September 2025.** The additional time would enable authorities to complete administrative procedures to facilitate the institutional coordination needed to create a single registry. This system will also reduce opportunities for corruption in law enforcement as there will be an online registry of offenders.

B. RSF: Building Resilience[8]

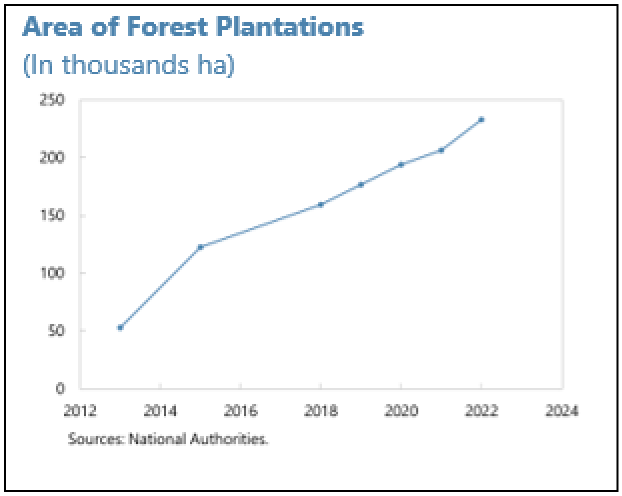
30. Considering significant macroeconomic vulnerabilities to natural disasters, the government is fully committed to adaptation initiatives and attracting investment. The authorities incorporated revisions at each stage of public investment projects' development, including their design, selection, and evaluation to make them resilient to natural disasters (**RM1**).[9]

[7] For background and recommendations see Annex VI: Financial Inclusion: Marking 10 Years of Progress, Staff Report 2024.

[8] Table 2 provides details on the prospective Balance of Payments-related risk reduction of RMs.

[9] See Decree 2882.

This framework aims at progressively making public infrastructure more capable of withstanding frequent and severe shocks.



31. Public and private solutions to assist the economic sectors most affected by natural disasters are still developing. Agriculture suffers from droughts and floods, which have a profound effect on growers' incomes, while financial support is limited.[10] Staff analysis suggests that expanding insurance coverage could substantially enhance agricultural productivity, enhance the financial resilience of the sector, and reduce the broader financial and macroeconomic stability impacts from droughts. International practice suggests that a combination of private insurance and targeted public support to farmers could help (Annex V). Improving land ownership registry and increasing financial literacy would help support the development of insurance options. Developing these tools over time would reduce the need to rely on temporary regulatory measures.

32. Paraguay has a fully renewable energy matrix and is actively working on its preservation and expansion. Paraguay is one of the largest exporters of clean energy globally. However, as the domestic demand for electricity continues to grow, the surplus available for export from the binational dams may disappear within the next ten years. The authorities are actively working to expand generation capacity in accordance with ANDE's master plan, which includes diversifying the country's clean electricity matrix. Specifically, the government is collaborating with the World Bank on additional modifications to the renewable energy law, whose regulation was supported by the RSF (**RM4**). The modifications aim to facilitate private sector participation, including through the extension of maximum length of power purchasing agreements, before the first tenders in photovoltaic power plants. Well-financed investments in transmission and distribution are essential to maintain and enhance electricity provision in this context and to reduce sustainably ANDE's significant technical and non-technical losses, including with the initiatives specified in the loss reduction plan (**RM8**). Efficiency gains from high- consumption domestic appliances, resulting from the implementation of the National Program for Energy Efficiency Labeling (**RM7**) may further bolster these efforts.

33. Progress under the RSF has contributed to positioning Paraguay as a green investment destination. Late last year, the MEF and BCP published a green taxonomy that enables the identification and classification of economic activities meeting environmental objectives based on scientific eligibility criteria (**RM2**). Abundant clean energy may attract manufacturing projects, such as green hydrogen and fertilizer producers, that have already signed Power Purchase Agreements (PPAs) with ANDE. While construction, agriculture, and cattle ranching already represent about a

[10] Estimates of the impact from this season's drought suggest losses of about 15 percent of agricultural output, mostly soy, while the loss from the 2021-22 drought reached 60 percent of agricultural output.

fifth of the economy, the taxonomy may allow these large sectors to access greater and more diverse financing. The implementation of the National Forest Policy, alongside the implementation of RSF reform measures for forest conservation (**RM11** and **RM12**), fosters sustainable development of this sector, diversifies the economy, its energy sources and exports, and attracts foreign investment in an emerging pulp mill industry.[11] The promulgation of the regulation of the Carbon Credits Law in February 2025 may help mobilize additional financial resources for protecting forests. Finally, the taxonomy includes plans for updates and expansion to support the sustainability of other sectors. The authorities are already working on diverse issues, including under the RSF, as is the case with sustainable waste management in commerce (**RM13**).[12]

34. The remaining reform measures under the RSF further support this sustainable policy framework:

- **Resilient banking sector.** The Superintendency of Banks of the BCP has been working with the World Bank (WB) on incorporating climate-related exposures into its risk assessment framework. Amendments to the resolution governing data collection of the credit registry to ensure banks provide geographic information on loan portfolio and associated collateral have been published.[13] The development of the framework to monitor and assess climate-related financial risks and the supervisory guidelines for the banking sector to incorporate climate-related risks to their risk management frameworks were also completed in June 2025 **(RM3)**.
- **ANDE's financial sustainability for the preservation and expansion of the clean electricity matrix.** ANDE has received a comparative study of its costs against regional benchmarks prepared by the IDB and a regional consulting firm. The external audit of ANDE's financial statements for 2022 and 2023 is well advanced and expected to be completed in June **(RM5)**. The cost study and the external audit along with ANDE's loss reduction plan (**RM8**) will support the development, publication and gradual implementation of transparent methodologies for adapting ANDE's electricity tariffs **(RM6)**. This in turn will help buttress ANDE's financial sustainability and the funding of its investment needs as well as support the expansion of the clean energy matrix in the country.
- **Containing the consumption of imported fossil fuels.** Supported by Fund CD, the authorities advanced with a draft law, currently under technical evaluation, for an explicit carbon tax on liquid fuels that will replace existing selective taxes on the consumption of diesel, gasoline, and LPG **(RM9)**. The electrification of private and public transportation, powered by abundant domestic clean electricity has the potential to significantly reduce the economy's reliance on imported fossil fuels. The government thus will continue working to adjust tax incentives in favor of electric vehicles while minimizing tax expenditures. Eight charging units for electric buses have been received and will be installed which will support a pilot program with 30 public electric buses in the metropolitan area of Asunción. The regulatory framework for the private

[11] See Decree 1746 and Decree 1788 for RM11, and Decree 1745 for RM12.

[12] See Resolution 1025.

[13] Superintendency of Banks' Resolutions 22/2025 and 23/2025, and Circular 61/2025.

sector operation of the government's charging units and buses in this pilot will inform the plans for increasing overall electrification of public transport. The authorities are working on a white paper that will reflect these plans and set targets for an increased share of electric buses in the metropolitan area of Asuncion **(RM10)**.

PROGRAM MODALITIES AND CAPACITY DEVELOPMENT

35. Access and monitoring. The PCI expires on November 22, 2025, with November 1, 2025, as the last review date. The PCI will continue to be monitored on a semi-annual basis through QTs, standard continuous targets, RTs, and the inflation consultation clause. The authorities are requesting a modification to the end-June 2025 QT ceiling on primary expenditure to align it with the approved budget and resetting two RTs. The requested modification to the end-June 2025 QT is in line with the authorities' priorities and justified by a continued increase in tax collections in 2025 with the fiscal deficit target kept unchanged. The RSF arrangement also expires in November 2025. Pending RMs will be assessed at the time of the last PCI review (RSF amounts to SDR 302.1 million or 150 percent of quota). The authorities requested the rephasing of the RMs 5, 6, 9, and 10.[14] No disbursements have been requested after the completion of two previous RSF reviews and based on the completion of RMs up to the second review, 92.5 percent of quota, or SDR 186.28 million remain available for disbursement. The authorities did not request a disbursement following the first review as the relevant domestic legislation was only approved in December 2024. Since then, the authorities have prioritized borrowing in local currency to improve the currency composition of public debt, leveraging favorable market appetite boosted by the recently obtained investment grade status. This prudent policy decision has reduced the space to access the available RSF funds under the legal limits to new borrowing imposed by the 2025 budget law. Based on the completion of RM4, RM7, RM8, RM11, RM12 and RM13, the authorities have requested a disbursement of 72.5 percent of quota, or SDR 146 million, upon the completion of this review.

36. Program duration and extension. Paraguay's two-year program under the PCI was approved in November 2022, and then extended by 12 months in December 2024 as the new government took office and requested an RSF arrangement. Four PCI and two RFS reviews have been completed. The authorities request a 3-month extension through February 2026 of the PCI and RSF arrangements. The requested extension will provide additional time to conclude the sixth and final review under the PCI. The requested extension of the RSF would also facilitate the completion of RMs whose implementation requires more time.

37. Financing assurances and capacity to repay the Fund. The program is fully financed for the next 12 months. Paraguay's capacity to repay the Fund is adequate. Paraguay's outstanding credit is projected to rise to 72.5 percent of quota (or 0.4 percent of GDP) by 2025 and subsequently

[14] These four RMs are requested to be rephased to November 1, 2025 (Program Statement, Table 5), with an expected IMF Executive Board date in December 2025. The actual disbursements are expected to take place in early 2026 reflecting the new timeline and the authorities' 2025 borrowing constraints. The macroeconomic framework and the capacity to repay calculations (Table 9) reflect these disbursement expectations.

to 150 percent of quota (or 0.8 percent of GDP) by 2026 if the RSF arrangement is completely disbursed (Table 10). The assessment is anchored in debt ratios forecasted to decline and then stabilize over the medium term, an overall low risk of sovereign stress, and the government's track record of implementing reforms and prudent macroeconomic management. Obligations to the Fund are expected to stay at or below 0.2 percent of exports of goods and services, 0.5 percent of government revenue, and 0.4 percent of gross international reserves throughout the repayment period.

38. Safeguards Assessment. Progress in addressing the recommendations from the 2024 update safeguards assessment has been gradual. Efforts are underway to enhance decision-making through increased delegation, including initial steps to improve the composition of the Audit Committee (referenced in paragraph 25). However, further efforts are required to transform it into a truly independent oversight body. Additionally, legal reforms remain necessary to strengthen aspects of the BCP’s autonomy and governance arrangements. Other key outstanding recommendations pertain to strengthening the internal audit function as an assurance mechanism and aligning its practices with international standards.

39. Capacity development and data. Fund CD support remains closely aligned with the programs’ priorities and the authorities’ reform objectives. It focuses, inter alia, on domestic revenue mobilization, cybersecurity, macroprudential policies, national accounts, and balance of payments. Last year Paraguay subscribed to the IMF’s Special Data Dissemination Standard (SDDS) which will help improve the country’s capacity on data compilation and dissemination.

STAFF APPRAISAL

40. Paraguay is confronting the current context of elevated global risks from a position of strength. Real GDP is expected to moderate somewhat but economic activity would remain robust in 2025 driven by buoyant domestic demand. Although the outlook is favorable, it remains subject to elevated global risks and vulnerable to adverse weather shocks. Paraguay’s sound macroeconomic fundamentals and continued prudent macroeconomic management should help mitigate risks. With inflation contained within the central bank’s tolerance range, monetary policy decisions should remain data driven. The banking sector is well-capitalized, liquid, and profitable and the external position is broadly in line with medium-term fundamentals and desirable policy settings.

41. The authorities remain firmly committed to the fiscal consolidation plan. They are progressing with the planned reduction of the fiscal deficit towards the limit of 1.5 percent by 2026 set by the fiscal responsibility law. Continued adherence to the plan is critical to preserve macroeconomic stability, including through further strengthening revenues and enhancing the efficiency of public spending. Taking steps to ensure the sustainability of the public pension system is vital to contain medium-term fiscal risks. Efforts to gradually reduce the share of debt denominated in foreign currency are welcome as they would help further strengthen the risk profile of public debt. The overall risk of sovereign stress is low, and debt is sustainable.

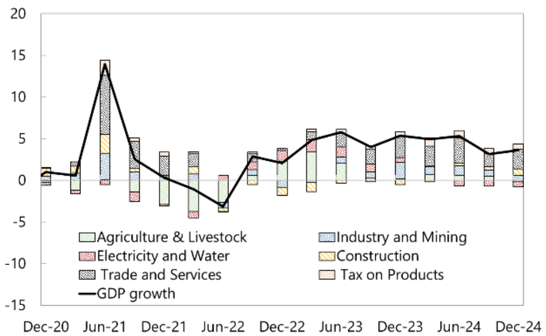
42. The authorities are committed to continue advancing structural reforms. A range of reforms has been completed, inter alia, to reduce informality, enhance governance, combat corruption, and increase resilience to natural disasters. It is vital to maintain the reform momentum in these areas to promote a supportive business environment for investment and foster inclusive and sustainable growth

43. Staff supports completion of the fifth review under the PCI and third review under the RSF arrangement. Staff supports the authorities' request to modify the end-June 2025 QT ceiling on primary expenditure to align it with the approved budget and reset two RT completion dates. Staff also supports the authorities' request for a 3-month extension through February 2026 of the PCI and RSF arrangements. Staff supports the authorities' request for rephasing four RMs and, based on the completion of past six selected RMs, the disbursement of 72.5 percent of quota, or SDR 146 million under the RSF.

Figure 1. Paraguay: Recent Developments

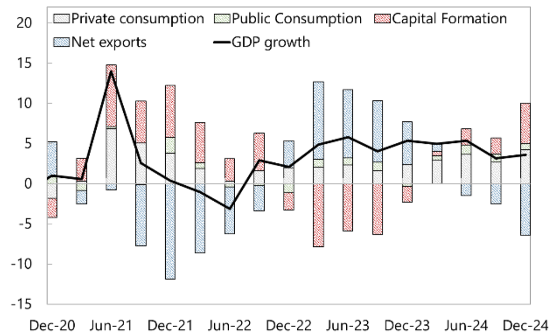
Economic activity continued to be robust in 2024.

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



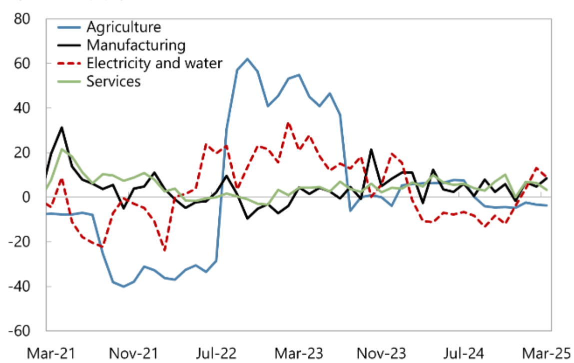
Consumption and investment were a strong driving force.

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



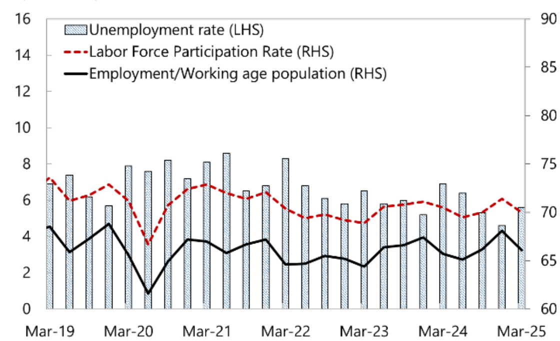
… agricultural sector growth leveled off.

IMAEP by Sector
(In Percent, Y/Y)



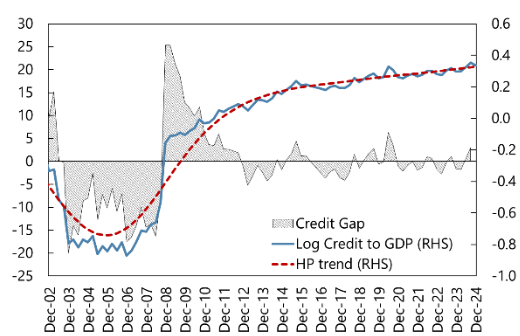
The unemployment rate declined, while employment was back to its pre-pandemic level.

Labor Market
(In Percent)



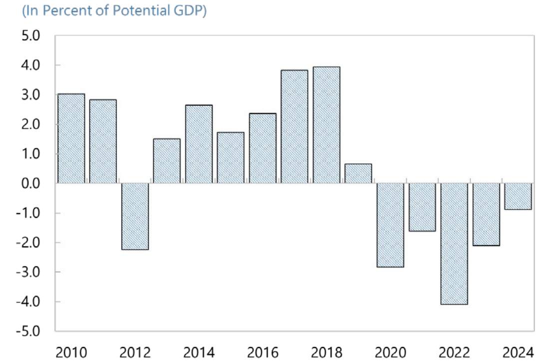
Strong credit growth supported consumption, and the credit gap was slightly positive.

Credit to GDP Gap
(Percent)



The economy was operating close to the potential in 2024.

Output Gap
(In Percent of Potential GDP)

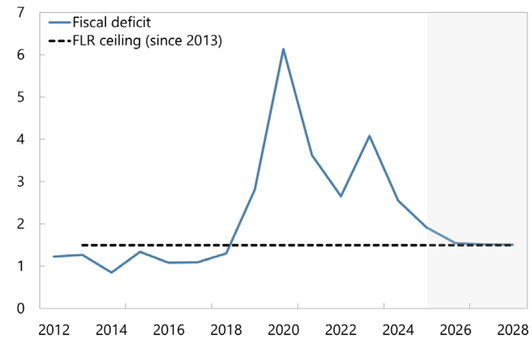


Sources: BCP; Ministry of Economy and Finance; and IMF staff calculations.

Figure 2. Paraguay: Fiscal Developments

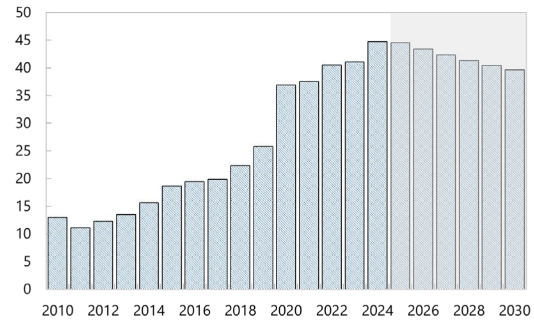
Fiscal consolidation aims to reduce the deficit to the Fiscal Responsibility Law ceiling by 2026.

Central Government Fiscal Deficit
(In Percent of GDP)



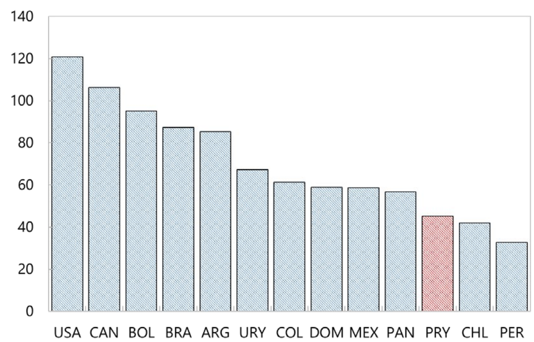
Public debt increased substantially after the pandemic but is expected to gradually decline....

Public Debt
(In Percent of GDP)



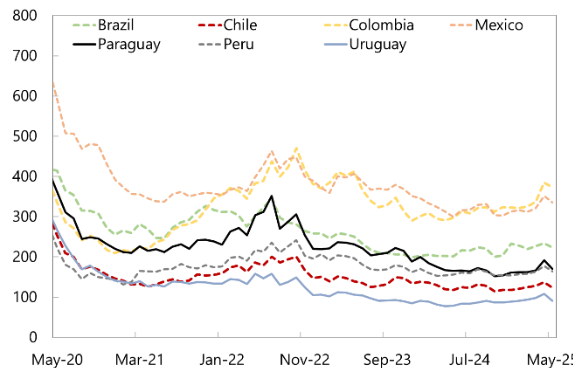
... and is still low compared to other countries in the region.

Public Debt, 2024
(In Percent of GDP)



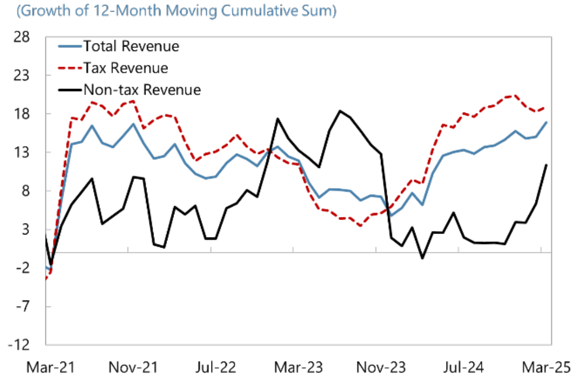
Paraguay's credit spreads have been converging towards other investment grade countries.

Sovereign Spreads
(In Basis Points)



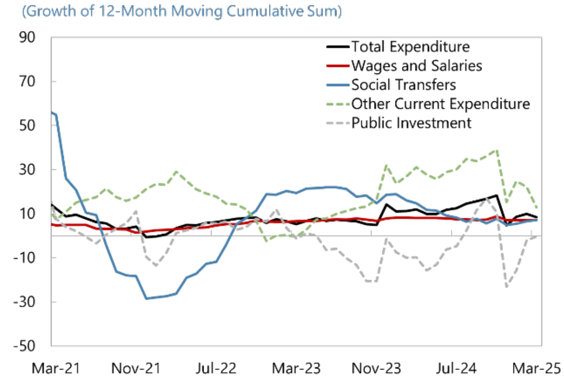
Supported by strong tax collections, total revenue increased sharply in 2024.

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



Higher expenditure growth was offset by lower public investment.

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

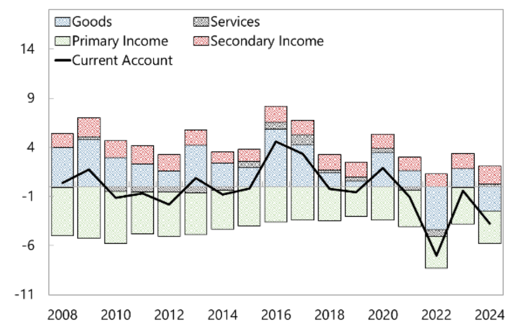


Sources: Ministry of Economy and Finance; Bloomberg; WEO; and IMF staff estimates.

Figure 3. Paraguay: External Sector Developments

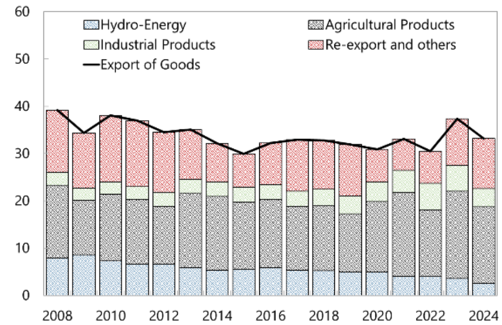
The current account deficit in 2024 resulted from lower exports and higher imports.

Current Account Balance
(In Percent of GDP)



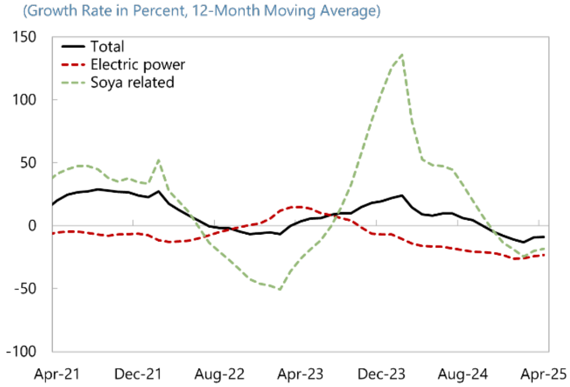
Agricultural products remained the primary source of export revenue.

Composition of Goods Export Revenues
(In Percent of GDP)



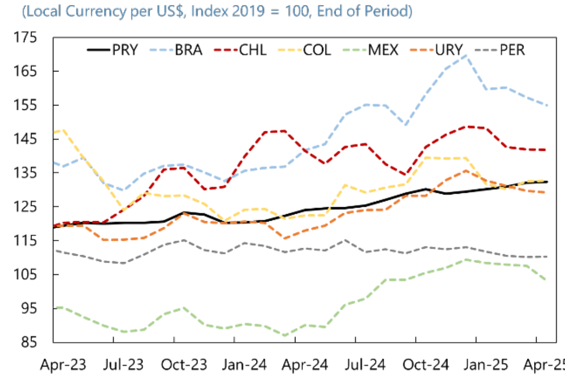
Exports are leveling off after post drought recovery.

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



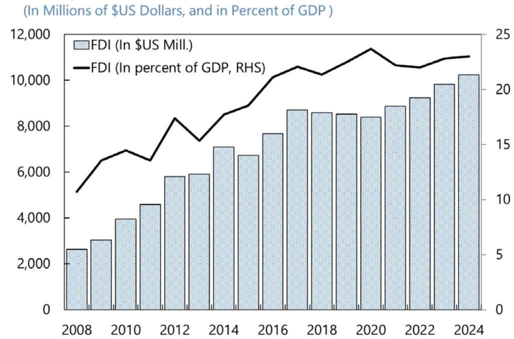
The nominal exchange rate depreciated in 2024.

Nominal Exchange Rate
(Local Currency per US$, Index 2019 = 100, End of Period)



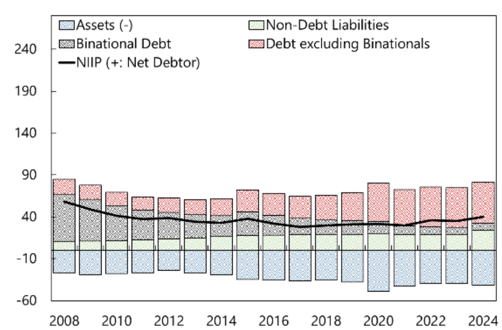
Foreign direct investment increased slightly.

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



The net international position remained stable.

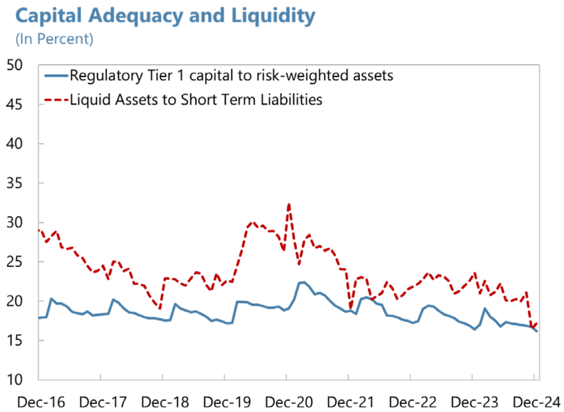
Net International Investment Position
(In Percent of GDP)



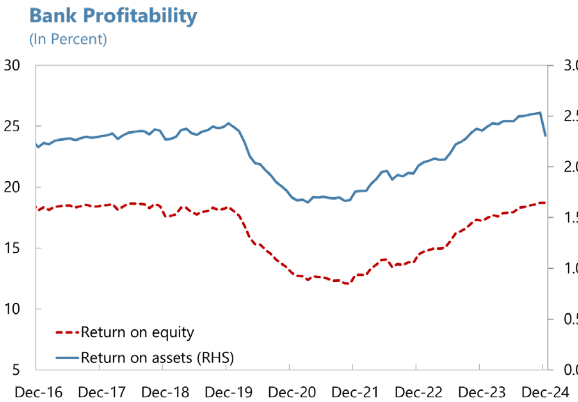
Sources: BCP; and IMF staff calculations.

Figure 4. Paraguay: Financial Sector Developments

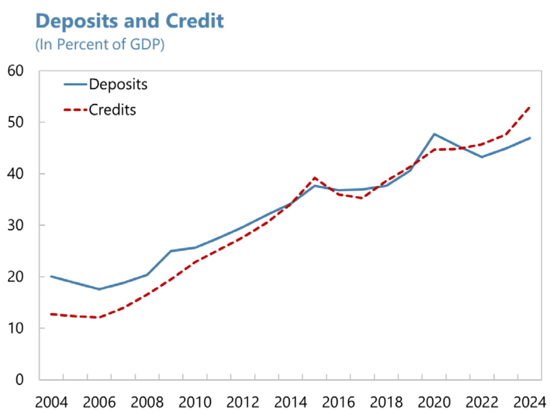
Banks remain liquid and well-capitalized.



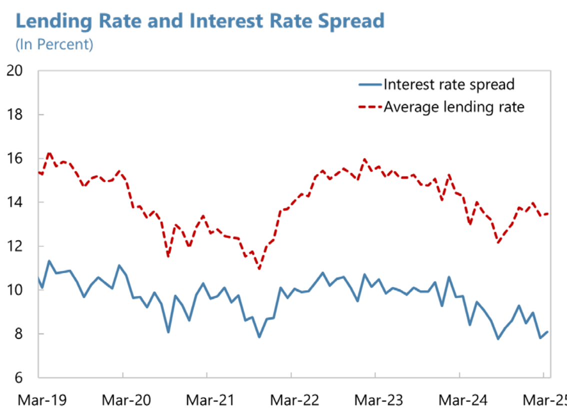
Bank profitability has recovered to close to pre-pandemic levels.



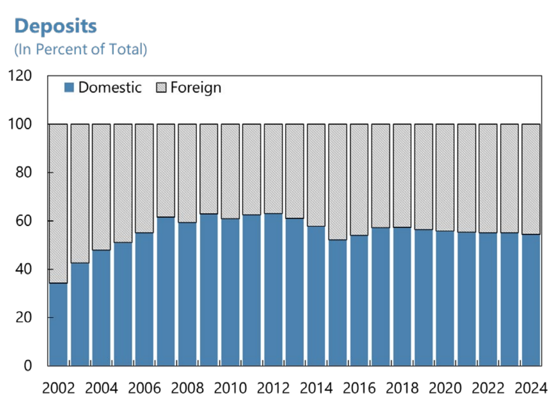
Deposits and credit have continue to expand.



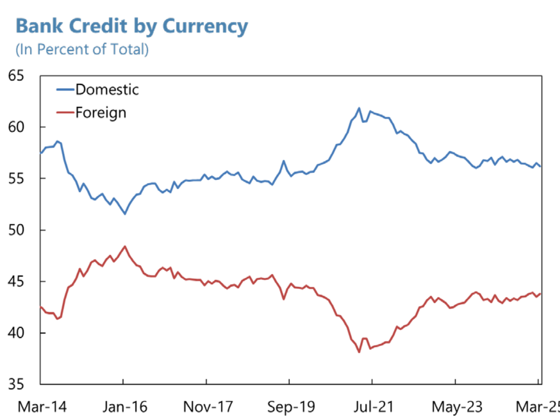
Lending rates dipped further in 2024, while the interest rate spread has remained stable.



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



… and lending broadly mirrored the currency composition of deposits.



Sources: BCP; and IMF staff calculations.

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

	Dec 2023	June 2024	Dec 2024	May 2025	November 2025
	RSF Approval	RSF 1st Review	RSF 2nd Review	RSF 3rd Review	RSF 4th 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				Met **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 - rephased **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.
		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.		In progress - rephased **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.
Key Challenge 5: C02 emissions from the transport and residential sectors					In progress - rephased **RM9:** MEF, in coordination with DNIT, to adopt an **explicit carbon tax** replacing existing excise taxes on liquid fuels.
					In progress - rephased **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.
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: Reform Measures Under the Resilience and Sustainability Facility

Reform Area	Key challenge		Reform measures	Review	Assessed	Prospective BOP Risk Reduction
Green PIMA	**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	*Improved fiscal and external sustainability* Reduces (i) fiscal costs when natural disasters materialize and (ii) the need for external financing and import demand for reconstruction. It also facilitates a quick recovery of growth and net exports in the aftermath of a climate shock.
Financial sector reforms	**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	*Investment promotion* Enables the identification of sustainable investment projects for a more resilient economy in key sectors such as energy, construction, agriculture, and forestry. Improved availability and transparency of information can boost investor confidence and reduce uncertainty, contributing to attracting external capital inflows.
	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	Met	*Financial sector resilience* Help to better measure risks and to reduce losses when those risks materialize, lowering recapitalization needs for banks.
Energy sector reforms	**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	*Fiscal and external sustainability* Improved financial sustainability of ANDE reduces fiscal costs and the need for external financing Promotes investments through lower counterparty risks, and increased regulatory certainty. *Fiscal and BOP resilience* Reduces fiscal risks from the impact of increased droughts on hydropower Increased productivity, growth, investment, net exports thanks to increased and reliable supply of electricity in the face of soaring demand.
		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.	6th 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.	6th Review	In progress	
		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	
Mitigation: promoting energy conservation and clean investments	**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.	6th Review	In progress	*BOP resilience* May promote net exports in the long term, including by reducing dependence on fossil fuel imports and petroleum products. *Growth and investment promotion* Supports the momentum of the forestry sector and downstream industries. Can attract ongoing and prospective large FDI projects that may contribute substantially to economic and export diversification, supporting the BOP.
		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.	6th 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 3. Paraguay: Selected Economic and Social Indicators

Population 2024 (millions)	6.9	Gini index (2022)	45.1
Unemployment rate (2024)	5.8	Life expectancy at birth (2022)	70.5
(of which, female: 7.4; male: 4.6)		Adult literacy rate (2020)	95.0
Percentage of population below the poverty line (2022)	24.7	(of which, female: 94.0; male: 95.0)	
Rank in UNDP development index (2022)	102 of 193	GDP per capita (US$, 2024)	6,456

			2024		2025				Proj.		
	2022	2023	Act.	CR 24/367	Proj.	CR 24/367	2026	2027	2028	2029	2030
	(Annual percent change, unless otherwise indicated)										
Income and Prices											
Real GDP	0.2	5.0	4.2	4.0	3.8	3.8	3.5	3.5	3.5	3.5	3.5
Nominal GDP	8.2	7.3	6.9	6.2	6.4	7.5	7.0	7.0	7.0	7.0	7.0
Per capita GDP (US$ thousands)	6.2	6.3	6.5	6.4	6.5	6.6	6.8	7.1	7.4	7.7	8.1
Consumption (contribution to growth)	1.2	2.7	4.2	2.8	2.0	2.3	2.2	2.5	2.6	2.6	2.6
Investment (contribution to growth)	2.5	-5.5	2.4	2.1	0.4	1.0	1.6	0.4	0.8	0.7	0.7
Net exports (contribution to growth)	-3.6	7.7	-2.4	-0.9	1.4	0.5	-0.3	0.6	0.1	0.2	0.2
Consumer prices (end of period)	8.1	3.7	3.8	4.0	3.7	4.0	3.5	3.5	3.5	3.5	3.5
Nominal exchange rate (LC$/US$, eop)	7,331	7,274	7,828	...	...	...	...	...	...	...	...
Monetary Sector											
Credit to private sector 1/	11.6	10.1	17.4	15.4	16.5	8.5	15.0	12.1	11.7	8.0	7.1
Monetary policy rate, year-end	8.5	6.8	6.0	...	...	...	...	...	...	...	...
External Sector 2/											
Goods exports	-3.1	25.8	-8.6	-5.3	5.9	3.3	3.6	4.6	4.3	3.6	4.0
Goods imports	16.7	4.6	3.2	1.9	2.3	3.0	3.0	1.8	3.6	2.4	2.7
Terms of trade	-6.8	-3.2	-4.2	-4.0	-0.2	-0.9	0.7	0.1	0.2	0.3	-0.2
Real effective exchange rate 3/	1.9	-3.0	0.4	...	...	...	...	...	...	...	...
	(In percent of GDP, unless otherwise indicated)										
Current account balance	-7.0	-0.4	-3.7	-3.0	-2.4	-2.7	-2.8	-2.1	-1.8	-1.4	-1.2
Trade balance	-5.0	1.7	-2.2	-0.8	-0.9	-0.7	-0.9	-0.3	-0.2	0.0	0.1
Exports	35.7	43.1	39.1	40.9	40.6	40.4	39.5	38.8	38.1	37.3	36.6
Of which: Electricity	4.0	3.6	2.7	2.8	3.0	2.7	2.9	2.7	2.5	2.4	2.3
Imports	40.7	41.4	41.3	41.7	41.5	41.1	40.4	39.1	38.3	37.3	36.5
Of which: Oil imports	5.5	4.3	4.6	4.3	3.9	3.8	3.6	3.5	3.5	3.5	3.5
Capital account (net)	0.4	0.4	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Financial account (net)	-6.7	-2.2	-3.8	-1.7	-2.5	-2.9	-2.9	-2.2	-1.9	-1.5	-1.2
Of which: Direct investment (net)	-1.9	-0.8	-0.8	-0.8	-0.8	-1.8	-1.6	-1.5	-1.5	-1.1	-1.1
Gross international reserves (in US$ millions)	9,520	9,893	9,568	9,493	9,818	9,793	10,093	10,393	10,693	10,993	11,293
In months of next-year imports of goods and services	6.4	6.5	6.1	6.0	6.1	6.0	6.1	6.1	6.1	6.1	6.3
Ratio to short-term external debt	2.1	2.0	1.8	2.1	2.1	2.1	2.0	2.0	1.9	1.9	1.9
Saving and Investment											
Gross domestic investment	27.7	20.2	22.8	23.0	22.4	23.2	23.2	22.8	22.8	22.7	22.7
Gross domestic saving	20.7	19.7	19.1	20.0	20.0	20.5	20.4	20.7	21.0	21.3	21.5
Central government finances 4/											
Revenues	14.3	14.0	15.1	15.2	15.3	15.2	15.3	15.4	15.4	15.4	15.5
Of which: Tax revenues	10.2	10.1	11.4	11.3	11.6	11.3	11.7	11.8	11.9	11.9	12.0
Expenditures	17.0	18.1	17.7	17.8	17.2	17.1	16.8	16.9	16.9	16.9	17.0
Of which: Compensation of employees	6.5	6.5	6.5	6.6	6.5	6.6	6.4	6.3	6.2	6.1	6.0
Of which: Net acquisition of non financial assets	2.9	2.6	1.9	1.7	1.7	1.8	1.7	1.8	1.9	1.9	2.0
Net lending/borrowing	-2.7	-4.1	-2.6	-2.6	-1.9	-1.9	-1.5	-1.5	-1.5	-1.5	-1.5
Primary balance	-1.4	-2.4	-0.6	-0.5	0.2	0.1	0.6	0.6	0.5	0.5	0.4
Public sector debt (excl. Central Bank bills)	40.5	41.1	44.8	43.9	44.1	41.1	43.0	42.1	41.2	40.5	39.9
Of which: Foreign currency	36.2	35.9	38.1	39.3	37.0	37.0	35.9	34.8	34.3	33.6	32.8
Of which: Domestic currency	4.3	5.2	6.7	4.7	7.1	4.1	7.1	7.3	6.9	7.0	7.1
Memorandum Items:											
GDP (billions of guaranies)	292,947	314,282	336,114	332,570	357,554	357,513	382,583	409,268	437,917	468,571	501,371
GDP (US$ billions)	42.0	43.1	44.5	...	...	...	...	...	...	...	...

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.
4/ RM 5, 6, 9, and 10 are requested to be rephased to November 1, 2025 (Program Statement, Table 5), with an expected IMF Executive Board date in December 2025. The actual disbursements are expected to take place in early 2026 reflecting the new timeline and the authorities' 2025 borrowing constraints. The macroeconomic framework and the capacity to repay calculations reflect these disbursement expectations.

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

			2024		2025		Proj.				
	2022	2023	Act.	CR 24/367	Proj.	CR 24/367	2026	2027	2028	2029	2030
					(In billions of Guaranies, unless otherwise indicated)						
Revenue	**41,923**	**43,942**	**50,882**	**50,424**	**54,607**	**54,399**	**58,548**	**62,938**	**67,608**	**72,380**	**77,622**
Taxes	29,962	31,750	38,210	37,575	41,398	40,411	44,597	48,281	52,098	55,958	60,226
Income taxes	8,753	8,165	10,631	11,060	11,648	11,890	12,708	13,816	15,025	16,340	17,769
Excises	2,736	3,139	3,721	3,622	3,983	3,820	4,238	4,629	5,087	5,589	6,048
Value added tax	15,151	16,963	19,385	18,879	21,037	20,348	22,714	24,469	26,126	27,905	29,876
Import duties	2,858	2,980	3,680	3,375	3,886	3,598	4,033	4,401	4,826	5,018	5,349
Other	463	502	794	639	844	756	904	967	1,034	1,107	1,184
Social contributions	4,431	3,710	3,240	3,222	3,430	3,449	3,649	3,926	4,226	4,548	4,894
Other revenue	7,530	8,483	9,432	9,626	9,779	10,539	10,302	10,730	11,284	11,874	12,502
Grants	1,605	1,810	1,937	2,033	2,132	2,262	2,282	2,441	2,612	2,794	2,990
Itaipu-Yacyreta	1,805	2,213	2,501	2,062	3,022	2,331	3,124	3,145	3,232	3,322	3,417
Other nontax revenue	4,120	4,460	4,995	5,531	4,625	5,946	4,896	5,144	5,441	5,757	6,095
Expenditure	**49,716**	**56,770**	**59,463**	**59,032**	**61,473**	**61,274**	**64,452**	**69,133**	**74,227**	**79,239**	**85,091**
Expense	**41,336**	**48,506**	**53,104**	**53,300**	**55,559**	**54,755**	**58,124**	**61,954**	**65,757**	**70,177**	**74,893**
Compensation of employees	19,021	20,524	21,993	21,930	23,280	23,478	24,303	25,663	27,106	28,631	30,241
Purchases of goods and services	4,496	6,111	6,679	6,766	5,864	5,340	5,656	6,058	6,489	6,951	7,447
Interest	3,614	5,217	6,633	6,942	7,578	7,208	8,256	8,530	8,892	9,161	9,483
Grants	4,738	5,172	5,998	5,958	6,341	6,359	6,738	7,249	7,803	8,453	9,158
Social benefits	7,721	9,162	9,608	9,732	10,630	10,462	11,374	12,532	13,410	14,779	16,209
Other expense	1,746	2,321	2,193	1,972	1,866	1,908	1,797	1,922	2,057	2,201	2,355
Gross Operating Balance	**586**	**-4,564**	**-2,222**	**-2,877**	**-952**	**-355**	**424**	**984**	**1,850**	**2,203**	**2,730**
Net acquisition of nonfinancial assets	8,379	8,264	6,358	5,732	5,914	6,519	6,328	7,179	8,470	9,062	10,198
Net Lending/Borrowing (Overall Balance)	**-7,793**	**-12,828**	**-8,580**	**-8,608**	**-6,866**	**-6,875**	**-5,904**	**-6,195**	**-6,619**	**-6,859**	**-7,469**
Net Financial Transactions	**7,793**	**12,828**	**8,580**	**8,608**	**6,866**	**6,875**	**5,904**	**6,195**	**6,619**	**6,859**	**7,469**
Net Acquisition of Financial Assets	**1,702**	**-527**	**-36**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Financial investments	1,071	-1,278	-763	0	0	0	0	0	0	0	0
Net lending	631	751	727	0	0	0	0	0	0	0	0
Net Incurrence of Liabilities	**6,468**	**10,131**	**15,005**	**8,608**	**6,866**	**6,875**	**5,904**	**6,195**	**6,619**	**6,859**	**7,469**
Domestic	-1,819	624	4,501	213	882	1,282	2,493	3,004	517	2,102	
o/w: Debt securities	-330	1,957	1,425	609	882	886	2,493	3,004	517	2,102	2,680
Issuances of TB	59	2,503	1,460	633	1,952	1,662	2,678	3,244	2,498	2,498	4,891
Amortizations	390	546	35	24	1,070	776	184	240	1,980	396	2,211
Foreign	8,287	9,507	10,504	8,396	5,985	5,593	3,411	3,192	6,102	4,757	4,788
Disbursements	11,319	10,869	12,938	11,703	11,413	8,554	7,971	10,508	10,654	12,461	12,629
of which: RSF disbursement 1/	0	0	0	1,866	1,533	1,189	1,664	0	0	0	0
Amortizations	3,032	1,362	2,434	3,307	5,429	2,961	4,560	7,317	4,553	7,704	7,841
Statistical Discrepancy 2/	3,028	2,170	-6,461	0	0	0	0	0	0	0	0
Memorandum items:											
Primary balance	-4,180	-7,611	-1,947	-1,666	712	334	2,352	2,334	2,273	2,302	2,014
Current primary expenditure	36,402	41,723	45,070	45,026	46,778	46,254	48,706	52,187	55,545	59,607	63,907
Change in floating debt 3/	738	2,289	-3,017	…	0	…	0	0	0	0	0

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

1/ RM 5, 6, 9, and 10 are requested to be rephased to November 1, 2025 (Program Statement, Table 5), with an expected IMF Executive Board date in December 2025. The actual disbursements are expected to take place in early 2026 reflecting the new timeline and the authorities' 2025 borrowing constraints. The macroeconomic framework and the capacity to repay calculations reflect these disbursement expectations.

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

3/ Consistent with the definition used to monitor the quantitative target.

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

			2024		2025		Proj.				
	2022	2023	Act.	CR 24/367	Proj.	CR 24/367	2026	2027	2028	2029	2030
	(In percent of GDP, unless specified otherwise)										
Revenue	**14.3**	**14.0**	**15.1**	**15.2**	**15.3**	**15.2**	**15.3**	**15.4**	**15.4**	**15.4**	**15.5**
Taxes	10.2	10.1	11.4	11.3	11.6	11.3	11.7	11.8	11.9	11.9	12.0
Income taxes	3.0	2.6	3.2	3.3	3.3	3.3	3.3	3.4	3.4	3.5	3.5
Excises	0.9	1.0	1.1	1.1	1.1	1.1	1.1	1.1	1.2	1.2	1.2
Value added tax	5.2	5.4	5.8	5.7	5.9	5.7	5.9	6.0	6.0	6.0	6.0
Import duties	1.0	0.9	1.1	1.0	1.1	1.0	1.1	1.1	1.1	1.1	1.1
Other	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Social contributions	1.5	1.2	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Other revenue	2.6	2.7	2.8	2.9	2.7	2.9	2.7	2.6	2.6	2.5	2.5
Grants	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Itaipu-Yacyreta hydroelectric plants	0.6	0.7	0.7	0.6	0.8	0.7	0.8	0.8	0.7	0.7	0.7
Other nontax revenue	1.4	1.4	1.5	1.7	1.3	1.7	1.3	1.3	1.2	1.2	1.2
Expenditure	**17.0**	**18.1**	**17.7**	**17.8**	**17.2**	**17.1**	**16.8**	**16.9**	**16.9**	**16.9**	**17.0**
Expense	**14.1**	**15.4**	**15.8**	**16.0**	**15.5**	**15.3**	**15.2**	**15.1**	**15.0**	**15.0**	**14.9**
Compensation of employees	6.5	6.5	6.5	6.6	6.5	6.6	6.4	6.3	6.2	6.1	6.0
Purchases of goods and services	1.5	1.9	2.0	2.0	1.6	1.5	1.5	1.5	1.5	1.5	1.5
Interest	1.2	1.7	2.0	2.1	2.1	2.0	2.2	2.1	2.0	2.0	1.9
Grants	1.6	1.6	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Social benefits	2.6	2.9	2.9	2.9	3.0	2.9	3.0	3.1	3.1	3.2	3.2
Other expense	0.6	0.7	0.7	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Gross Operating Balance	**0.2**	**-1.5**	**-0.7**	**-0.9**	**-0.3**	**-0.1**	**0.1**	**0.2**	**0.4**	**0.5**	**0.5**
Net acquisition of nonfinancial assets	2.9	2.6	1.9	1.7	1.7	1.8	1.7	1.8	1.9	1.9	2.0
Net Lending/Borrowing (Overall Balance)	-2.7	-4.1	-2.6	**-2.6**	-1.9	**-1.9**	-1.5	-1.5	-1.5	-1.5	-1.5
Net Financial Transactions	**2.7**	**4.1**	**2.6**	**2.6**	**1.9**	**1.9**	**1.5**	**1.5**	**1.5**	**1.5**	**1.5**
Net acquisition of financial assets	**0.6**	**-0.2**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Financial investments	0.4	-0.4	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net lending	0.2	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Incurrence of Liabilities	**2.2**	**3.2**	**4.5**	**2.6**	**1.9**	**1.9**	**1.5**	**1.5**	**1.5**	**1.5**	**1.5**
Domestic	-0.6	0.2	1.3	0.1	0.2	0.4	0.7	0.7	0.1	0.4	0.5
o/w: Debt securities	-0.1	0.6	0.4	0.2	0.2	0.2	0.7	0.7	0.1	0.4	0.5
Issuances of TB	0.0	0.8	0.4	0.2	0.5	0.5	0.7	0.8	0.6	0.5	1.0
Amortizations	-0.1	-0.2	0.0	0.0	-0.3	-0.2	0.0	-0.1	-0.5	-0.1	-0.4
Foreign	2.8	3.0	3.1	2.5	1.7	1.6	0.9	0.8	1.4	1.0	1.0
Disbursements	3.9	3.5	3.8	3.5	3.2	2.4	2.1	2.6	2.4	2.7	2.5
of which: RSF disbursement	0.0	0.0	0.0	0.6	0.4	0.3	0.4	0.0	0.0	0.0	0.0
Amortizations	-1.0	-0.4	-0.7	-1.0	-1.5	-0.8	-1.2	-1.8	-1.0	-1.6	-1.6
Statistical Discrepancy 1/	1.0	0.7	-1.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum Items:											
Primary balance	-1.4	-2.4	-0.6	-0.5	0.2	0.1	0.6	0.6	0.5	0.5	0.4
Output gap 2/	-4.1	-2.1	-0.9	-1.0	-0.2	-0.2	0.2	0.0	0.0	0.0	0.0
Cyclically adjusted primary balance 2/	-0.8	-2.1	-0.4	-0.3	0.2	0.1	0.6	0.6	0.5	0.5	0.4
Fiscal Impulse (-Δ Cyclically adjusted primary balance)	-1.5	1.3	-1.6	-1.7	-0.7	-0.5	-0.4	0.0	0.1	0.0	0.1
Central government gross debt	34.3	34.8	38.4	38.2	38.7	36.2	38.2	37.7	37.2	36.6	36.1
Nominal GDP (in billions of Guaranies)	292,947	314,282	336,114	332,570	357,554	357,513	382,583	409,268	437,917	468,571	501,371

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

	2022	2023	2024	2025	2026	2027	2028	2029	2030
				Proj.					
	(In millions of U.S. dollars, unless otherwise indicated)								
Current account balance	**-2,948**	**-177**	**-1,666**	**-1,071**	**-1,338**	**-1,059**	**-962**	**-800**	**-690**
Goods and services	-2,117	733	-981	-395	-451	-169	-111	16	84
Goods balance	-1,849	783	-1,094	-583	-509	-77	53	259	504
Credit	12,815	16,125	14,741	15,614	16,173	16,913	17,648	18,284	19,008
Hydroelectricity	1,662	1,549	1,188	1,379	1,381	1,370	1,362	1,354	1,347
Agricultural products	5,951	7,955	7,171	7,213	7,418	7,632	7,940	8,190	8,452
Industrial products and others	2,335	2,365	1,730	1,737	1,763	1,962	2,088	2,134	2,235
Unregistered	810	912	1,162	1,238	1,314	1,393	1,477	1,566	1,662
Re-exports	3,108	4,377	3,799	4,047	4,297	4,556	4,782	5,040	5,311
Debit	14,665	15,342	15,835	16,197	16,682	16,991	17,595	18,025	18,503
Registered Imports	14,606	15,082	15,933	15,887	16,364	16,660	17,249	17,663	18,126
Consumption Goods	4,189	4,437	4,969	4,906	4,913	4,950	5,002	5,246	5,352
Intermediate Goods	5,470	4,576	4,931	4,911	4,901	4,912	5,017	5,162	5,210
Capital Goods	4,947	6,069	6,033	6,071	6,550	6,797	7,230	7,255	7,564
Unregistered Imports	603	726	308	309	318	331	346	361	378
Services (net)	-268	-50	113	188	58	-92	-164	-244	-421
Credit	2,155	2,455	2,654	2,822	2,780	2,735	2,716	2,756	2,796
Debit	2,423	2,505	2,542	2,634	2,721	2,828	2,881	2,999	3,217
Primary income (net)	-1,371	-1,586	-1,494	-1,521	-1,590	-1,631	-1,633	-1,642	-1,638
Secondary income (net)	540	676	810	845	703	741	782	826	864
Capital account (net)	**159**	**171**	**220**	**197**	**209**	**220**	**232**	**245**	**257**
Financial account (net)	**-2,794**	**-961**	**-1,673**	**-1,124**	**-1,405**	**-1,139**	**-1,030**	**-855**	**-734**
Direct investment (net)	-803	-324	-335	-382	-759	-779	-799	-612	-632
Portfolio investment (net)	-215	-192	-875	-856	-324	-56	-456	-122	-122
Financial derivatives (net)	0	0	0	0	0	0	0	0	0
Other investment (net)	-1,776	-445	-462	114	-322	-305	225	-121	20
Net errors and omissions	**-143**	**-582**	**-552**	**0**	**0**	**0**	**0**	**0**	**0**
Gross official reserves	**-138**	**373**	**-325**	**250**	**275**	**300**	**300**	**300**	**300**
	(In percent of GDP, unless otherwise indicated)								
Memorandum items:									
Current account balance 2/	-7.0	-0.4	-3.7	-2.4	-2.8	-2.1	-1.8	-1.4	-1.2
Exports of goods and services	35.7	43.1	39.1	40.6	39.5	38.8	38.1	37.3	36.6
Imports of goods and services	40.7	41.4	41.3	41.5	40.4	39.1	38.3	37.3	36.5
Gross Reserves (in US$ Millions)	9,520	9,893	9,568	9,818	10,093	10,393	10,693	10,993	11,293
Gross official reserves (in percent imports of goods and services)	6.4	6.5	6.1	6.1	6.1	6.1	6.1	6.1	6.3
External public debt in percent of GDP 2/	36.2	35.9	39.3	39.5	38.8	38.0	37.8	37.3	36.8

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

			Act.	Proj.					
	2022	2023	2024	2025	2026	2027	2028	2029	2030
Currency Issued	**18,526**	**19,549**	**20,809**	**22,161**	**23,624**	**25,175**	**26,828**	**28,589**	**30,466**
Growth	2.5	5.5	6.4	6.5	6.6	6.6	6.6	6.6	6.6
Net International Reserves	**64,443**	**67,339**	**69,670**	**72,422**	**75,655**	**79,162**	**82,722**	**86,353**	**90,060**
Net Domestic Assets	**-50,912**	**-52,055**	**-53,589**	**-50,261**	**-52,031**	**-53,987**	**-55,894**	**-57,764**	**-59,594**
Net nonfinancial public sector	-10,692	-8,862	-9,687	-9,687	-9,687	-9,687	-9,687	-9,687	-9,687
Net credit to the central government	-10,692	-8,862	-9,687	-9,687	-9,687	-9,687	-9,687	-9,687	-9,687
Net credit to the banking system	-36,733	-38,411	-33,005	-29,861	-31,648	-33,621	-35,544	-37,431	-39,277
Reserve requirements	-16,577	-19,093	-21,693	-22,809	-24,051	-25,363	-26,745	-28,205	-29,911
Free reserves	-4,971	-5,390	-3,907	-3,946	-3,996	-4,047	-4,097	-4,147	-4,198
Monetary control instruments 1/	-15,404	-14,432	-8,754	-4,455	-4,950	-5,560	-6,051	-6,427	-6,518
Other	219	505	1,349	1,349	1,349	1,349	1,349	1,349	1,349
Other assets and liabilities (net)	-3,487	-4,782	-10,896	-10,712	-10,695	-10,679	-10,662	-10,646	-10,629
Capital and reserves	-3,798	-4,990	-12,047	-12,058	-12,072	-12,086	-12,100	-12,114	-12,128
Other assets net 2/	312	208	1,151	1,346	1,376	1,407	1,437	1,468	1,498
Memorandum Items:									
Total stock of LRMs outstanding 1/	16,340	15,693	9,617	4,455	4,950	5,560	6,051	6,427	6,518
Monetary base 3/	25,574	27,590	30,345	32,180	34,112	36,157	38,332	40,644	43,101
Monetary base, annual growth	3.4	7.9	10.0	6.0	6.0	6.0	6.0	6.0	6.0

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

Table 7. Paraguay: Summary Accounts of the Financial System 1/

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

			Act.	Proj.					
	2022	2023	2024	2025	2026	2027	2028	2029	2030
				I. Central Bank					
Net International Reserves/2	**64,443**	**67,339**	**69,670**	**72,422**	**75,655**	**79,162**	**82,722**	**86,353**	**90,060**
In millions of U.S. dollars	8,790	9,258	8,900	9,150	9,425	9,725	10,025	10,325	10,625
Net Domestic Assets	**-50,912**	**-52,055**	**-53,589**	**-50,261**	**-52,031**	**-53,987**	**-55,894**	**-57,764**	**-59,594**
Credit to public sector, net	-10,692	-8,862	-9,687	-9,687	-9,687	-9,687	-9,687	-9,687	-9,687
Credit to banking system, net 3/	-36,733	-38,411	-33,005	-29,861	-31,648	-33,621	-35,544	-37,431	-39,277
Credit	219	505	1,349	1,349	1,349	1,349	1,349	1,349	1,349
Deposits	21,548	24,484	25,600	26,755	28,047	29,410	30,842	32,352	34,109
Monetary control instruments	-15,404	-14,432	-8,754	-4,455	-4,950	-5,560	-6,051	-6,427	-6,518
Other	-3,487	-4,782	-10,896	-10,712	-10,695	-10,679	-10,662	-10,646	-10,629
Currency Issued	**18,526**	**19,549**	**20,809**	**22,161**	**23,624**	**25,175**	**26,828**	**28,589**	**30,466**
				II. Monetary Survey					
Net Foreign Assets	**59,478**	**61,185**	**60,448**	**63,087**	**66,173**	**69,533**	**72,946**	**76,431**	**79,991**
In millions of U.S. dollars	8,113	8,412	7,722	7,971	8,244	8,542	8,841	9,139	9,437
Net Domestic Assets	**151,689**	**174,711**	**212,665**	**220,730**	**230,212**	**240,094**	**250,592**	**261,770**	**274,674**
Credit to the public sector	-17,716	-15,697	-16,329	-16,324	-16,312	-16,300	-16,289	-16,277	-16,264
Credit to the private sector	149,423	164,503	193,191	225,067	258,828	290,146	324,093	350,003	374,719
Other	19,982	25,906	35,804	11,987	-12,303	-33,752	-57,212	-71,957	-83,780
Broad Liquidity (M4)	**191,397**	**211,677**	**241,104**	**251,452**	**263,562**	**276,341**	**289,798**	**304,002**	**320,006**
Bonds and issued securities	36,492	41,861	51,909	52,265	52,723	53,185	53,641	54,099	54,560
Other monetary liabilities	8,966	10,181	12,272	12,964	13,704	14,485	15,308	16,178	17,166
Central bank securities with private sector	936	1,261	863	0	0	0	0	0	0
Broad Liquidity (M3)	**145,003**	**158,374**	**176,060**	**186,223**	**197,136**	**208,671**	**220,849**	**233,726**	**248,280**
Foreign currency deposits	55,945	62,037	69,501	73,084	77,454	82,079	86,947	92,093	98,468
Money and Quasi-Money (M2)	**89,057**	**96,337**	**106,559**	**113,140**	**119,682**	**126,592**	**133,901**	**141,633**	**149,812**
Quasi-money	46,811	52,701	58,806	62,334	65,762	69,379	73,195	77,221	81,468
Money (M1)	42,246	43,635	47,753	50,806	53,919	57,213	60,706	64,412	68,344
				(Annual percent change)					
M0 (Currency issued)	2.5	5.5	6.4	6.5	6.6	6.6	6.6	6.6	6.6
Credit to the private sector	11.6	10.1	17.4	16.5	15.0	12.1	11.7	8.0	7.1
M1	0.4	3.3	9.4	6.4	6.1	6.1	6.1	6.1	6.1
M2	3.7	8.2	10.6	6.2	5.8	5.8	5.8	5.8	5.8
M3	3.6	9.2	11.2	5.8	5.9	5.9	5.8	5.8	6.2
Of which: Foreign currency deposits	3.4	10.9	12.0	5.2	6.0	6.0	5.9	5.9	6.9
Memorandum Items:									
Ratio of foreign currency deposits to M3 (percent)	38.6	39.2	39.5	39.2	39.3	39.3	39.4	39.4	39.7
Ratio of foreign currency deposits to total private sector deposits (percent)	40.3	40.7	40.6	28.1	28.6	29.1	29.5	30.0	30.7

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.

3/ Excludes LRM held by the banking sector.

Table 8. Paraguay: Gross External Financing Needs and Sources, 2022-26

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

	Act.			Proj.	
	2022	2023	2024	2025	2026
Gross Financing Requirements	**3,479**	**672**	**2,146**	**1,794**	**1,943**
External current account deficit	2,948	177	1,666	1,071	1,338
Debt amortization	531	495	480	723	605
Sources of Financing	**3,479**	**672**	**2,146**	**1,794**	**1,943**
Direct investment (net)	803	324	335	382	759
Medium- and long-term debt disbursements	2,024	1,628	1,818	1,450	1,000
Public sector	2,024	1,628	1,818	1,450	1,000
Official creditors (bi-and multilateral) 1/	1,524	1,128	818	55	291
External sovereign bond financing	501	500	1,000	1,200	500
IMF: RSF financing	0	0	0	195	209
Other capital flows (net), including E&Os	514	-907	-332	212	459
Change in gross international reserves	**138**	**-373**	**325**	**-250**	**-275**
Memorandum Items:					
Gross international reserves	9,520	9,893	9,568	9,818	10,093
In percent of ARA metric	191	198	159	…	…
Gross international reserves (excl'g RSF)	9,520	9,893	9,568	9,623	9,884

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

Table 9. Paraguay: Financial Soundness Indicators

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
					(In Percent)					
Basic Indicators										
Capital adequacy										
Regulatory capital/risk-weighted assets	18.0	18.5	17.6	17.2	19.1	18.8	17.4	16.5	16.2	17.8
Tier 1 capital/risk-weighted assets	13.4	13.8	13.4	13.5	14.9	15.2	13.9	13.4	12.5	12.5
Asset quality										
NPLs/total loans	2.8	2.7	2.4	2.4	2.3	2.2	2.9	3.0	2.2	2.3
Profitability										
Return on assets	2.2	2.3	2.2	2.4	1.6	1.7	2.0	2.2	2.4	2.2
Return on equity	23.8	24.2	22.5	23.7	15.5	15.3	18.4	21.3	23.4	18.6
Interest Margin/ gross income	8.8	8.5	7.6	7.5	7.0	6.0	6.6	7.1	6.4	6.2
Admin. expenses/operating margin	50.1	50.6	49.5	46.8	50.9	52.3	47.5	44.6	45.1	45.2
Liquidity										
Liquid assets/deposits	40.7	42.5	39.9	36.0	41.1	37.4	36.6	36.5	31.5	31.4
Liquid assets/liabilities	33.0	34.7	31.7	29.6	34.1	31.3	29.8	29.0	24.5	24.6
Market risk										
FX position/equity	8.5	9.6	17.3	15.8	13.9	9.3	9.6	13.3	10.7	...
					(In Percent)					
Recommended Indicators										
Capital/total and contingent assets	10.4	10.7	10.9	11.2	10.9	11.9	11.8	11.8	11.5	11.5
Personnel expenses/admin. expenses	45.6	44.9	44.9	44.8	43.9	43.2	41.8	39.5	37.4	37.5
FX deposits/total deposits	47.3	43.9	43.4	44.2	44.4	45.4	45.9	45.8	46.3	47.4

Source: Banco Central del Paraguay and IMF, Financial Soundness Indicators.
Note: Data as of March 2025. Information refers to banks only.

Table 10. Paraguay: Capacity to Repay Indicators, 2025-46 [1/ 2/ 3/]

(In Millions of SDR, Unless Otherwise Indicated)

	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046
Fund obligations based on existing credit																						
(in millions of SDR)	5.8	5.7	5.7	5.7	5.6	5.7	5.7	5.7	5.6	5.7	5.7	5.7	5.6	5.7	5.7	5.7	5.6	5.7	5.7	5.7	5.6	5.7
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	5.8	5.7	5.7	5.7	5.6	5.7	5.7	5.7	5.6	5.7	5.7	5.7	5.6	5.7	5.7	5.7	5.6	5.7	5.7	5.7	5.6	5.7
Fund obligations based on existing and prospective credit																						
In millions of SDR	8.6	17.3	17.6	17.6	17.6	17.6	17.6	17.6	17.6	17.6	24.9	39.6	46.2	45.0	43.8	42.7	41.4	40.3	39.1	37.9	29.4	13.5
Principal	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	7.3	22.4	30.2	30.2	30.2	30.2	30.2	30.2	30.2	30.2	22.9	7.8
Charges and interest	8.6	17.3	17.6	17.6	17.6	17.6	17.6	17.6	17.6	17.6	17.6	17.2	16.0	14.8	13.6	12.4	11.2	10.0	8.8	7.7	6.5	5.7
Total obligations based on existing and prospective credit																						
In millions of SDR	8.6	17.3	17.6	17.6	17.6	17.6	17.6	17.6	17.6	17.6	24.9	39.6	46.2	45.0	43.8	42.7	41.4	40.3	39.1	43.5	35.0	19.2
In millions of US dollars	11.4	23.1	23.6	23.7	23.7	23.8	23.8	23.8	23.7	23.8	33.6	53.4	62.3	60.7	59.1	57.5	55.9	54.3	52.7	58.7	47.2	25.8
In percent of gross international reserves	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.4	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.2	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	0.1	0.1	0.1	0.1	0.1	0.1
In percent of debt service	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.4	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.2	0.1
In percent of government revenue	0.2	0.3	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.3	0.4	0.5	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.2	0.1
In percent of GDP	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
In percent of quota	4.3	8.6	8.7	8.8	8.7	8.7	8.7	8.8	8.7	8.7	12.4	19.7	23.0	22.4	21.8	21.2	20.6	20.0	19.4	21.6	17.4	9.5
Outstanding Fund credit																						
In millions of SDR	146.0	302.1	302.1	302.1	302.1	302.1	302.1	302.1	302.1	302.1	294.8	272.4	242.2	212.0	181.8	151.6	121.3	91.1	60.9	30.7	7.8	0.0
In millions of US dollars	194.8	404.0	405.0	405.7	406.5	407.4	407.4	407.4	407.4	407.4	397.6	367.3	326.6	285.9	245.1	204.4	163.6	122.9	82.2	41.4	10.5	0.0
In percent of gross international reserves	2.0	4.0	3.9	3.8	3.6	3.5	3.3	3.2	3.1	3.0	2.8	2.5	2.1	1.8	1.5	1.2	1.0	0.7	0.5	0.2	0.1	0.0
In percent of exports of goods and services	1.0	2.1	2.0	2.0	1.9	1.7	1.7	1.6	1.5	1.5	1.4	1.2	1.0	0.9	0.7	0.6	0.4	0.3	0.2	0.1	0.0	0.0
In percent of debt service	9.1	16.7	14.0	16.4	14.2	14.0	14.2	18.1	17.0	16.1	15.7	14.5	12.9	11.3	9.7	8.1	6.5	4.9	3.3	1.6	0.4	0.0
In percent of government revenue	2.8	5.3	5.0	4.8	4.5	4.3	4.1	3.8	3.6	3.5	3.2	2.8	2.4	2.0	1.6	1.3	1.0	0.7	0.4	0.2	0.1	0.0
In percent of GDP	0.4	0.8	0.8	0.7	0.7	0.7	0.6	0.6	0.6	0.5	0.5	0.4	0.4	0.3	0.2	0.2	0.1	0.1	0.1	0.0	0.0	0.0
In percent of quota	72.5	150.0	150.0	150.0	150.0	150.0	150.0	150.0	150.0	150.0	146.4	135.3	120.3	105.3	90.3	75.3	60.3	45.3	30.3	15.3	3.9	0.0
Net use of Fund credit (in millions of SDR)	146.0	156.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-7.3	-22.4	-30.2	-30.2	-30.2	-30.2	-30.2	-30.2	-30.2	-30.2	-22.9	-7.8
Disbursements	146.0	156.1	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	7.3	22.4	30.2	30.2	30.2	30.2	30.2	30.2	30.2	30.2	22.9	7.8
Memorandum items																						
Nominal GDP (in millions of US dollars)	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	147,283
Exports of goods and services (in millions of US dollars)	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	48,537
Imports of goods and services (in millions of US dollars)	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	41,998
Gross International Reserves (in millions of US dollars)	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	19,718
External Government Debt service (in millions of US dollars)	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	2,525
Government revenue (in millions of US dollars)	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	22,076
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 3.96 percent as of June 5, 2025.

3/ RM 5, 6, 9, and 10 are requested to be rephased to November 1, 2025 (Program Statement, Table 5), with an expected IMF Executive Board date in December 2025. The actual disbursements are expected to take place in early 2026 reflecting the new timeline and the authorities' 2025 borrowing constraints. The macroeconomic framework and the capacity to repay calculations reflect these disbursement expectations.

Annex I. External Sector Assessment

Overall Assessment: *The external position of Paraguay was, in 2024, broadly in line with the level implied by medium-term fundamentals and desirable policy settings. With the current account (CA) deficit of 3.7 percent of GDP in 2024, the EBA-Lite current account (CA) model points to a 0.3 percentage point gap. The CA deficit is expected to decline to 2.4 percent of GDP in 2025, although projected FDI inflows are expected to widen the gap to 2.8 percent in 2026 before a gradual decline in the deficit to 1.2 percent of GDP in medium term. External stability risks are contained given Paraguay's sizable reserve buffers and the long-term maturity profile of its external debt.*

Potential Policy Responses: *Recommended macro and structural policy actions to continue safeguarding external sustainability include continuing with the fiscal consolidation plan; improving governance and the business climate by reducing vulnerabilities to corruption and strengthening legal protections for investors; diversifying exports through the production of higher-value goods, boosting human capital; expanding green energy production; and formalizing the economy. Together, these policies will enhance Paraguay's attractiveness for growth enhancing foreign direct investment (FDI) and capital inflows.*

Foreign Assets and Liabilities: Position and Trajectory

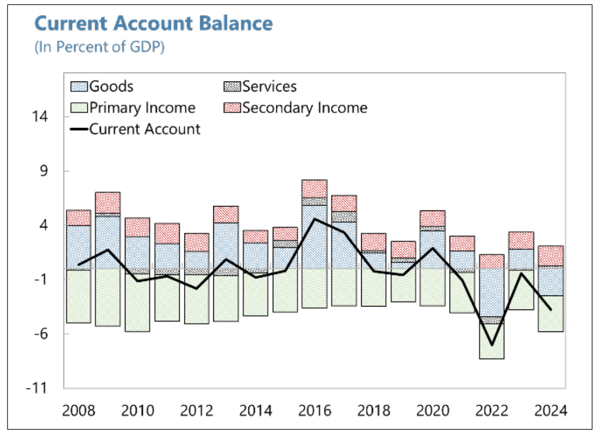
Background. The net international investment position (NIIP) worsened to -38 percent of GDP in 2024 from -35 percent of GDP in 2023. The NIIP increased by 13 percent in absolute value, largely attributable to an increase in gross liabilities. Gross liabilities increased by 8 percent, primarily driven by an increase in debt securities under portfolio investments and other investments (general government). On the other hand, a 2 percent increase in gross assets partly offset to the overall deterioration of the NIIP. External debt increased to 39.4 percent of GDP in 2024 from 35.9 percent of GDP in 2023.

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

2024 (% GDP)	NIIP: -38	Gross Assets: 39	Debt Assets: 16	Gross Liab.: 78	Debt Liab.: 58

Current Account

Background. Paraguay's current account (CA) has averaged -2.2 percent of GDP per year for the last five years (2020-2024), driven by a combination of surpluses and low deficits coupled with the larger the deficit (since 1996) in 2022, owing to a prolonged drought, higher import volumes and higher commodity prices. The CA reached -3.7 percent of GDP in 2024, due to large declines in electricity exports reflecting the impact of a drought on hydroelectric generation and increases in imports. Projections for 2025 point to a decline in the CA deficit to 2.4 percent. Over the medium term, the CA deficit is expected to improve, reflecting the rebound in soybean production, uptick in meat production, and stabilization of international oil prices. The imports associated with the Atome and Paracel projects would impact the CA from 2026-2028, but as exports come on stream in the years after, the CA would begin to approach a more balanced position.



Assessment. The EBA-Lite current account model estimates a cyclically adjusted current account norm of -3.4 percent of GDP for 2024. An upward adjustment to the current account norm by 0.3 percent of GDP reflects the anticipated increase in exports associated with Atome and Paracel, which are expected to come on stream over the medium term. The adjusted CA norm is -3.1 percent of GDP. The cyclically adjusted current account deficit, which includes an additional adjustment to reflect the impact of drought conditions in 2024 that sharply reduced hydroelectricity exports, stood at 3.3 percent of GDP. This leads to a negative gap of approximately 0.3 percent of GDP; thus, the CA model suggests that the external position was broadly in line with the level implied by medium-term fundamentals and desired policy settings as it is within the range (-1 to 1 percent of GDP). The REER model finds a CA gap of 2.6 percent of GDP, reflecting a REER undervaluation of 9.7 percent.

Paraguay: Model Estimates for 2024 (in percent of GDP)

	CA model 1/	**REER model** 1/
	(in percent of GDP)	
CA-Actual	**-3.7**	
Cyclical contributions (from model) (-)	0.2	
Additional temporary/statistical factors (-) 2/	-0.6	
Natural disasters and conflicts (-)	0.0	
Adjusted CA	**-3.3**	
CA Norm (from model) 3/	**-3.4**	
Adjustments to the norm (+)	0.3	
Adjusted CA Norm	**-3.1**	
CA Gap	**-0.3**	**2.6**
o/w Relative policy gap	2.0	
Elasticity	-0.3	
REER Gap (in percent)	**1.0**	**-9.7**

1/ Based on the EBA-lite 3.0 methodology

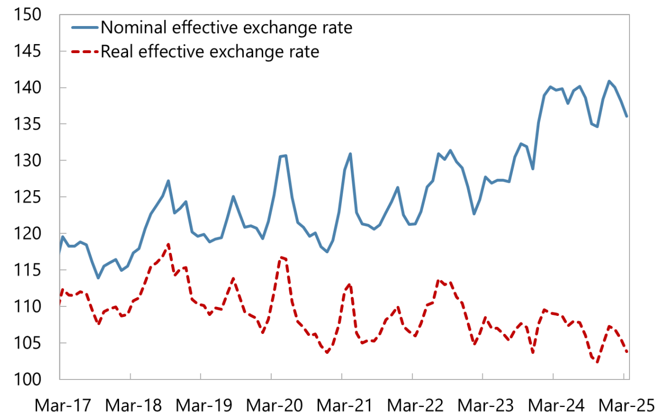
2/ Additional adjustment to account for the temporary impact of the drought on hydroelectricity exports (2.7 percent of GDP in 2024). One-hundred percent of the shock to hydroelectricity is assumed temporary.

3/ Cyclically adjusted, including multilateral consistency adjustments.

Real Exchange Rate
Background. The real effective exchange rate (REER) appreciated in 2024 by 0.4 percent, largely driven by differences in inflation with main trading partners and lower commodity prices.

Assessment. The REER gap, derived from the EBA-Lite CA model and an estimated elasticity of -0.3 percent, was estimated at 1.0 percent. The EBA-Lite REER model suggests a REER gap of -9.7 percent. Given Paraguay's structural characteristics—such as its reliance on commodity exports— and that the REER gap implied by the CA model tends to be more reliable, especially in the presence of a large divergence from the REER model, the CA model therefore serves as the basis for staff's assessment. The relatively small REER gap indicated by the CA model suggests that Paraguay's current exchange rate policy remains broadly appropriate. However, continued monitoring of commodity price trends and their impact on the REER is essential.

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



Capital and Financial Accounts: Flows and Policy Measures
Background. Sovereign bond issuances and FDI have been major sources of capital inflows in last few years. Since 2013, the government has tapped the international capital markets every year except 2015. The total amount of issuances so far is around US$ 9,400 million. In February 2025, the authorities issued for the second time US$ 600 million equivalent Guaraní-denominated Eurobonds, along with US$ 600 million USD-denominated ones, following the debut issuance of similar bonds totaling $1 billion in 2024. The outstanding stock of Eurobonds stood at US$ 8,000 million after a part of proceeds from the 2025 issuances were used for buy-back of those coming due in the near future. In addition, FDI inflows were about 0.9 percent of GDP in 2024. FDI is projected to pick up in the near term to over 2 percent of GDP during 2026-2028, owing to significant private investment from Paracel (paper pulp from eucalyptus foresting) and Atome (ammonia and hydrogen production).
Assessment. Paraguay maintains a fully open capital and financial account, though financial markets remain relatively shallow characterized by low availability of domestic financing. External vulnerabilities are contained, with capital inflows primarily driven by government external borrowing, supported by low public debt levels and favorable FDI prospects. Paraguay's diversification of its sovereign debt portfolio, including the second issuance of Guaraní-denominated bonds, has broadened its investor base and can help reduce foreign exchange risk exposure.

Foreign Exchange Intervention and Reserves Level
Background. Gross international reserves stood at $9.6 billion at end-2024, down from about $10 billion at end-2023, as the BCP has intervened in the foreign exchange market to avoid excessive volatility in the exchange rate in the context of a shallow foreign exchange market. **Assessment.** Though reserve coverage has declined slightly to 6 months of imports in 2024, the reserves level is comfortably above the Fund's metrics on reserve adequacy for a small open economy. Reserve coverage for 2025 is projected at 6.1 months of imports. The exchange rate continues to be the first line of defense, allowing the economy to absorb external shocks. Staff advises to continue to limit discretionary interventions to situations of disorderly market conditions.

Annex II. Sovereign Risk and Debt Sustainability Analysis

Paraguay's debt is assessed to be sustainable and a low overall risk of sovereign stress, unchanged from the previous DSA (July 2024). After a series of external shocks in the recent past, public debt is expected to stabilize and gradually decline to around 40 percent of GDP under steady fiscal consolidation and robust economic growth. No major realism concerns are flagged for the baseline macro-fiscal projections. While the medium-term risk is assessed to be low, the long-term modules flag moderate risks from demographics and climate-related investment costs.

1. Paraguay's public debt is projected to remain stable under the baseline scenario. After a gradual rise to around 45 percent of GDP in the aftermath of a series of external shocks (droughts in 2019 and 2022, and the COVID pandemic), public debt is projected to steadily decrease to 39 percent in 2030 under the baseline scenario. The authorities' ongoing fiscal consolidation aims to reduce the fiscal deficit from 4.1 percent of GDP in 2023 to 1.5 percent of GDP by 2026, the fiscal deficit ceiling set in the Fiscal Responsibility Law (figure 2). The authorities are firmly committed to the fiscal consolidation plan to further strengthen macroeconomic stability and to continue pursuing reforms to lift long-term growth. These efforts are recognized through the recent upgrade by Moody's of Paraguay's sovereign risk rating to investment grade status.[1]

2. The public debt coverage under this Debt Sustainability Analysis (DSA) is broader than the authorities' one.[2] The authorities record and report all debt approved by the congress and legally guaranteed by the state, which is managed under the Debt Management and Analysis System (SIGADE). This DSA also includes liabilities *not* covered under the SIGADE and treated as contingent liability for the government, including those incurred by the central bank (with ALADI) and state-owned companies, and its use of the 2021 SDR allocation (Table 1).

Table 1. Paraguay: DSA Debt Coverage (2024)

Measured public debt aggregates	Gs. bn	U.S.$ mn	% of GDP
I. Public debt under SIGADE	**141,552**	**18,083**	**42.1**
II. DSA debt	**150,469**	**19,222**	**44.8**
Addiitional Items not covered by SIGADE:	**8,917**	***1,139***	***2.7***
BCP	3,282	419	1.0
ANDE	1,083	138	0.3
PETROPAR	2,557	327	0.8
Use of 2021 SDR allocation	1,994	255	0.6
Memo item: Central bank net international reserves	69,670	*8,900*	*20.7*

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

3. The authorities implement prudent debt management policies with a focus on reducing the share of FX-denominated debt (Figure 3). Paraguay has consistently issued Eurobonds in international capital markets since 2013, now accounting for the second largest share (37 percent of total debt) after multilateral organizations (45 percent). The maturities of these Eurobonds ranges from 10 to 30 years, extending the average maturity of external debt. While

[1] Paraguay's credit ratings are Baa3 (Moody's) / BB+ (S&P) / BB+ (Fitch) with the recent upgrade by Moody's in July 2024.

[2] The coverage of the fiscal account used for the DSA is the general government rather than the budgetary central government. Government-guaranteed debt is added onto the general government's debt.

foreign currency-denominated debt remains high at around 85 percent of total public debt, the authorities have been steadily increasing issuances of local currency-denominated bonds, including in the domestic capital market. Further, the authorities have issued Guaraní-denominated Eurobonds for two consecutive years along with standard US dollar-denominated ones. Part of the proceeds from these placements were used to prepay Eurobonds coming due in 2026 and 2027.

4. The realism tools do not flag material concerns about baseline projections (Figure 4). The forecast track record shows a balanced distribution of weakly pessimistic and optimistic parameters. While sources of debt-creating flows between the past and the next 5-year projection reveals a large difference, this reflects a series of large external shocks and resulting fiscal deterioration in the recent past, which sharply contrasts with the ongoing fiscal consolidation process along with good prospects for private investment and growth in the projection. The country spread over 10-year U.S. treasuries is among the lowest in the region, hovering around 150 bps, and is expected to remain stable. While the baseline growth path is above what would be implied by the fiscal multipliers under the assumed fiscal consolidation, robust private domestic demand would outweigh a small drag from fiscal consolidation.

5. The overall risk of sovereign stress is assessed to be low and debt sustainable (Figure 1). While some mechanical signals suggest a moderate risk, on balance, staff considers overall risks to be low when accounting for mitigating factors not included in the analytical modules. These factors include a favorable debt repayment profile through proactive debt management including the recent buy-back operations of the past Eurobonds, which extended the bond maturity significantly. While the share of dollar-denominated debt is large, the authorities are taking steps to reduce it, and the country has large capacity of steadily earning foreign exchange through agricultural exports and revenue from the binational Itaipú hydroelectric dam. Further, staff assesses Paraguay's debt as sustainable given a stabilizing debt path under the baseline, backed by strong economic fundamentals, the authorities' commitment to fiscal consolidation, and low levels of gross financing needs. This said, demographic change and the current pension system would lead to a rapid increase in expenditure and public debt over the long term, which underscores the importance of reforms to ensure the sustainability of the public pension system.

Figure 1. Paraguay: Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	…	Low	Paraguay's overall risk of sovereign stress is assessed as "low". The baseline debt trajectory shows a stabilizing trend. While the medium-term risk is assessed to be low, the long-term modules flag moderate risks from demographics and potential climate adaptation and mitigation costs.
Near term 1/	n.a.	n.a.	
Medium term	Low	Low	The medium-term risk is "low" consistent with the mechanical signal. The mechanical signal for the fan chart module is moderate due to relatively large volatility of key economic indicators due to external shocks in the past five years. The GFN module indicates a low risk reflecting a favorable debt repayment profile and ongoing fiscal consolidation.
Fanchart	Moderate	Moderate	
GFN	Low	Low	
Stress test	Comm. Prices	Low	
Long term	…	Moderate	The long-term risk is assessed to be "moderate" given the modules reveal risks to public debt from expected demographic developments, affecting both pension and health costs. The climate-related investment to address adaptation and mitigation could also have significant impacts. Debt levels are still manageable under most of these risk scenarios.
Sustainability assessment 2/	…	Sustainable	Staff assesses Paraguay's debt as sustainable.
Debt stabilization in the baseline			Yes

DSA summary assessment

Staff assesses Paraguay's debt as sustainable, and the overall risk of sovereign stress as low. The baseline debt trajectory exhibits a stabilizing trend, backed by the authorities' commitment to converge to the deficit ceiling of 1.5 percent of GDP compliant with the Fiscal Responsibility Law as well as strong economic fundamentals. While the medium-term risk is assessed to be low, the long-term modules flag moderate risks from demographics and potential climate-related costs. This confirms the needs to increase pension sustainability and strengthen their efforts to mobilize domestic revenue. Sovereign spreads remain among the lowest in the region reflecting a favorable debt risk profile.

Source: Fund staff.

Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.

2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

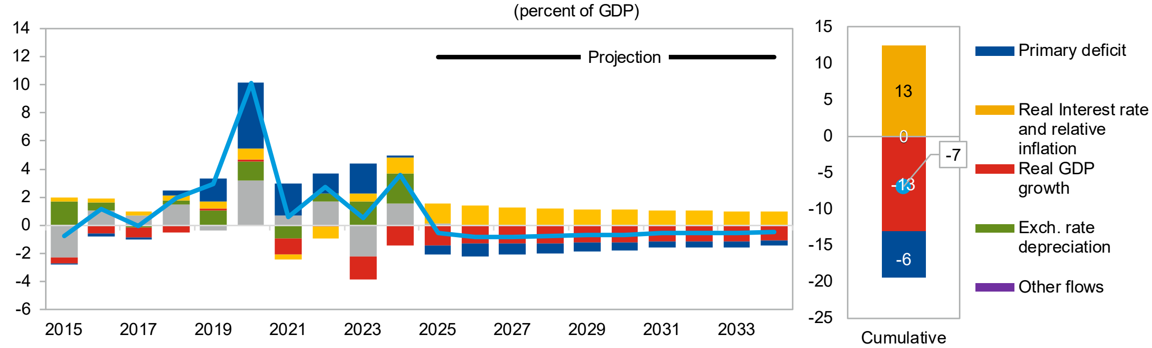
Figure 2. Paraguay: Public Sector Debt Sustainability Analysis—Baseline Scenario

(Percent of GDP unless indicated otherwise)

	Actual	Medium-term projection						Extended projection			
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Public debt	44.8	44.1	43.0	42.1	41.2	40.5	39.9	39.5	39.1	38.6	38.2
of which: government-guaranteed	6.4	6.2	6.0	5.9	5.8	5.8	5.8	6.0	6.1	6.2	6.3
Change in public debt	3.6	-0.5	-0.8	-0.8	-0.8	-0.7	-0.7	-0.6	-0.6	-0.6	-0.5
Contribution of identified flows	2.0	-0.7	-0.8	-0.8	-0.7	-0.7	-0.6	-0.6	-0.6	-0.5	-0.5
Primary deficit	0.1	-0.7	-0.9	-0.8	-0.7	-0.6	-0.5	-0.4	-0.4	-0.4	-0.4
Noninterest revenues	18.9	19.0	19.0	19.1	19.1	19.1	19.2	19.2	19.2	19.2	19.3
Noninterest expenditures	19.0	18.3	18.1	18.2	18.4	18.5	18.6	18.8	18.8	18.8	18.9
Automatic debt dynamics	1.9	0.0	0.1	0.0	0.0	0.0	-0.1	-0.1	-0.1	-0.1	-0.1
Real interest rate and relative inflation	1.2	1.4	1.4	1.3	1.2	1.2	1.1	1.0	1.0	1.0	1.0
Real interest rate	1.1	1.2	0.9	0.9	0.8	0.7	0.7	0.6	0.7	0.6	0.7
Relative inflation	0.1	0.2	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.3	0.3
Real growth rate	-1.4	-1.4	-1.3	-1.3	-1.2	-1.2	-1.2	-1.2	-1.1	-1.1	-1.1
Real exchange rate	2.1	…	…	…	…	…	…	…	…	…	…
Other identified flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(minus) Interest Revenues	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other transactions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contribution of residual	1.6	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross financing needs	3.1	3.2	2.4	3.0	2.7	2.9	3.2	4.3	4.1	3.9	3.0
of which: debt service	3.0	3.9	3.3	3.9	3.4	3.6	3.8	4.7	4.5	4.3	3.4
Local currency	0.2	0.6	0.4	0.4	0.8	0.4	0.8	0.5	1.4	1.1	1.2
Foreign currency	2.8	3.3	2.9	3.4	2.6	3.1	3.0	4.2	3.2	3.2	2.1
Memo:											
Real GDP growth (percent)	4.2	3.8	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5
Inflation (GDP deflator; percent)	2.6	2.5	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4
Nominal GDP growth (percent)	6.9	6.4	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0
Effective interest rate (percent)	6.1	5.8	6.0	5.8	5.7	5.6	5.5	5.3	5.5	5.5	5.5

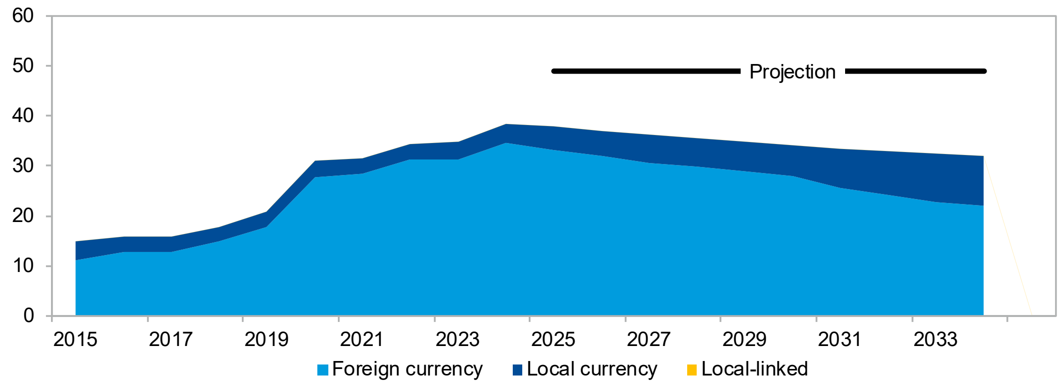
Contribution to Change in Public Debt

(percent of GDP)



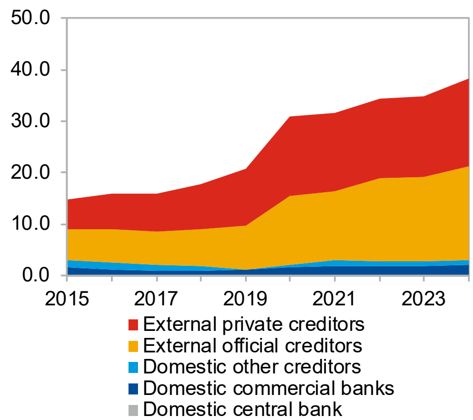
Public debt is expected to reach its peak in 2024 due to a series of external shocks. It is thereafter expected to decrease continuously, reflecting expectations of an improvement in the primary balance consistent with the overall fiscal deficit ceiling stipulated under the Fiscal Responsibility Law, along with robust economic growth at the potential rate. Please note that the coverage of the fiscal account is the general government, and that debts guaranteed by the general government is added onto those of the general government. 0.9 ppt of GDP in the residual in 2024 reflects a net reduction in floating debt.

Figure 3. Paraguay: Public Debt Structure Indicators



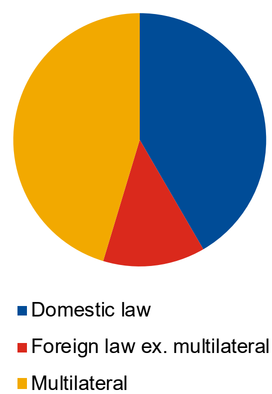
Note: The perimeter shown is general government.

Public Debt by Holder (percent of GDP)



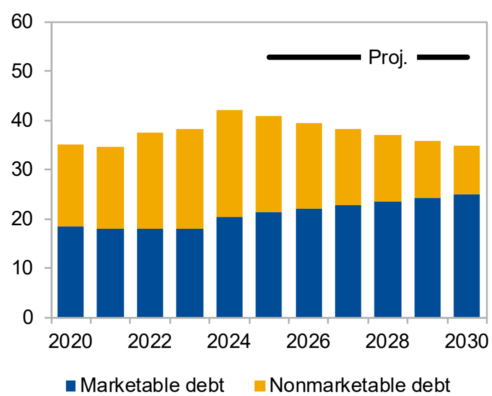
Note: The perimeter shown is general government.

Public Debt by Governing Law, 2024 (percent)



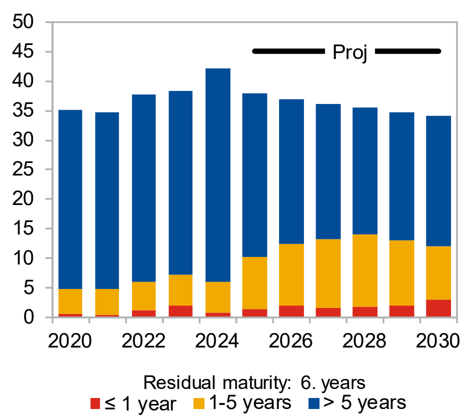
Note: The perimeter shown is general government.

Debt by Instruments (percent of GDP)



Note: The perimeter shown is general government.

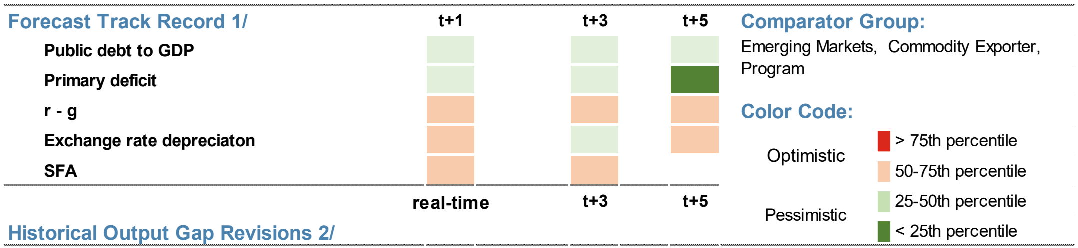
Public Debt by Maturity (percent of GDP)



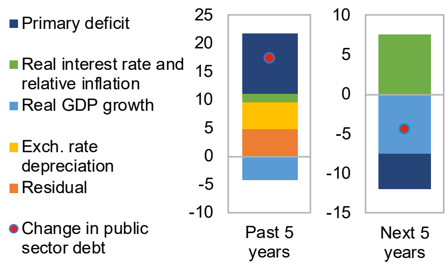
Note: The perimeter shown is general government.

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

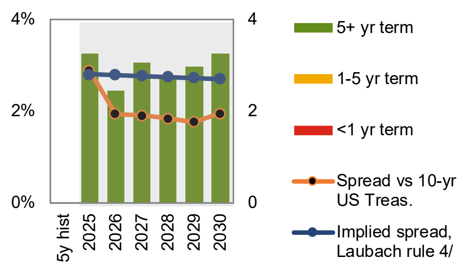
Figure 4. Paraguay: Realism of Baseline Assumptions



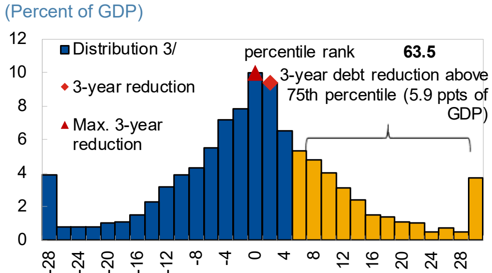
Public Debt Creating Flows
(Percent of GDP)



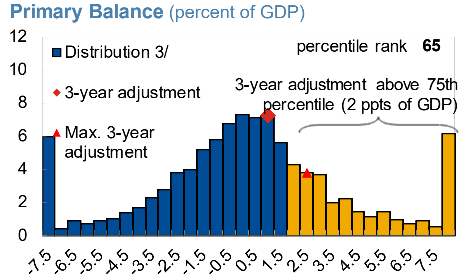
Bond Issuances (bars, debt issuances (RHS, %GDP); lines, avg marginal interest rates (LHS, percent))



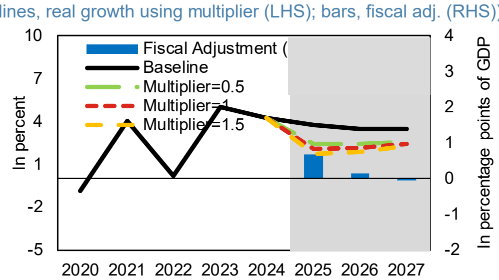
3-Year Debt Reduction
(Percent of GDP)



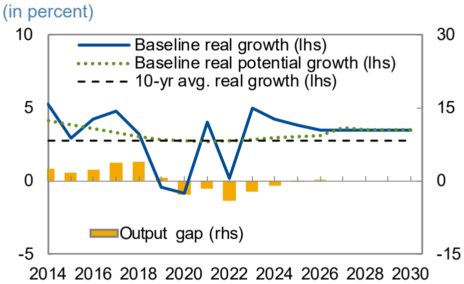
3-Year Adjustment in Cyclically-Adjusted Primary Balance (percent of GDP)



Fiscal Adjustment and Possible Growth Paths
(lines, real growth using multiplier (LHS); bars, fiscal adj. (RHS))



Real GDP Growth
(in percent)



Paraguay's economy has suffered from serious external shocks in the past five years, showing debt creating flows quite different from normal years. As the impacts of these shocks are receding, ongoing fiscal consolidation and robust economic prospects would contribute to a decline in public debt for the next five years. Realism analyses do not point to major concerns: past forecast errors do not exhibit any systematic biases, and financing is favorably structured toward medium- to long-term debt.

Source : IMF Staff.

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

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

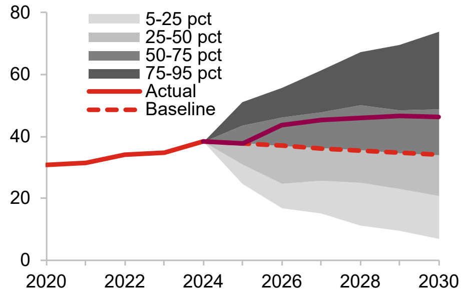
3/ Data cover annual obervations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

Figure 5. Paraguay: Medium-Term Risk Assessment

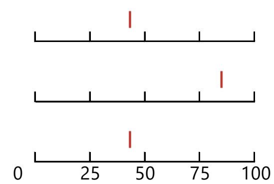
		Value	Contrib 1/	Percentile in peer group 2/

Final Fanchart (pct of GDP)

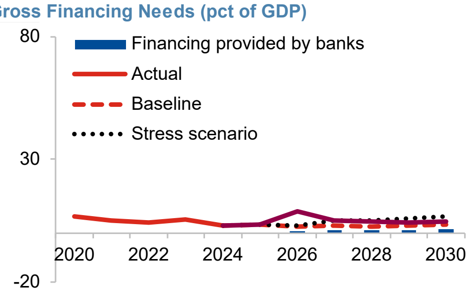


Debt fanchart module

	Value	Contrib 1/
Fanchart width *(percent of GDP)*	67.0	1.0
Probability of debt non-stabilizaiton *(percent)*	14.2	0.1
Terminal debt-to-GDP x institutions index	23.8	0.5
Debt fanchart index (DFI)		1.6
Risk signal: 3/		**Moderate**

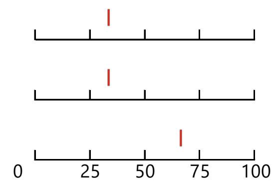


Gross Financing Needs (pct of GDP)



Gross financing needs (GFN) module

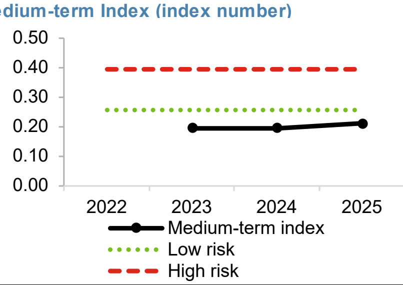
	Value	Contrib 1/
Average baseline GFN *(percent of GDP)*	2.9	1.0
Initial Banks' claims on the gen. govt *(pct bank assets)*	2.9	0.9
Chg. In banks' claims in stress *(pct banks' assets)*	3.8	1.3
GFN financeability index (GFI)		3.2
Risk signal: 4/		**Low**



Triggered stress tests (stress tests not activated in gray)

Banking crisis | **Commodity prices** | Exchange rate | Contingent liab. | Natural disaster

Medium-term Index (index number)



Medium-term risk analysis

	Value	Value (normalized)	Weight	Contribution
Debt fanchart index	1.61	0.36	0.50	0.18
GFN finaceability index	3.22	0.06	0.50	0.03
Medium-term index		0.2		
Risk signal: 5/		**Low**		
Final assessment:		**Low**		

Prob. of missed crisis, 2025-2030, if stress not predicted: 9.1 pct.
Prob. of false alarms, 2025-2030, if stress predicted: 52.3 pct.

Paraguay's medium-term risk is assessed as low consistent with the mechanical signal. The fan chart module signals a moderate risk. Main contributors to the fan chart results are the wide width of the fan due to volatility of key economic indicators over the past years, while it is below its peers' 25th percentile, and a relatively low score of institutional quality. The GFN module yields a low-risk mechanical signal, and the combined medium-term risk index is classified as low.

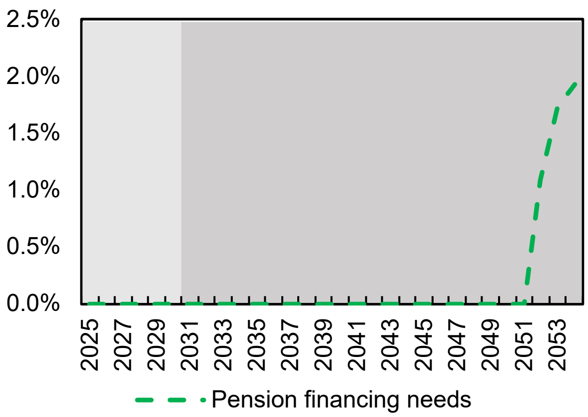
Source: IMF staff estimates and projections.

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

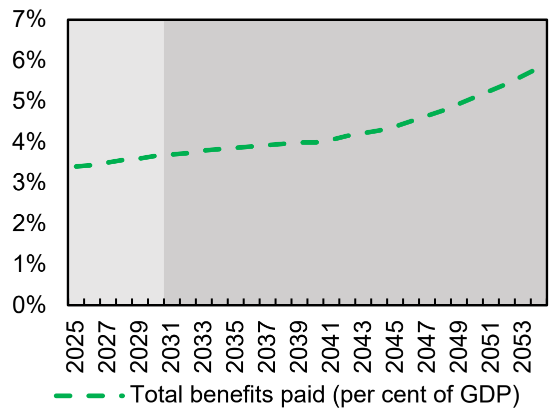
Figure 6a. Paraguay: Demographics—Pensions 1/

Permanent adjustment needed in the pension system to keep pension assets positive for:	30 years	50 years	Until 2100
(pp of GDP per year)	0.2%	1.9%	3.9%

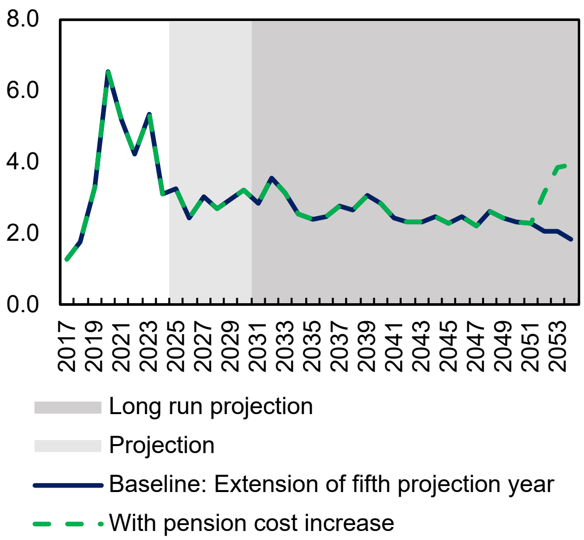
Pension Financing Needs



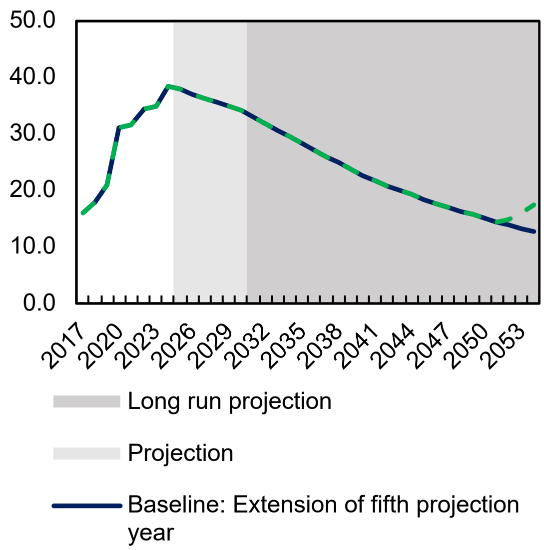
Total Benefits Paid



GFN-to-GDP Ratio



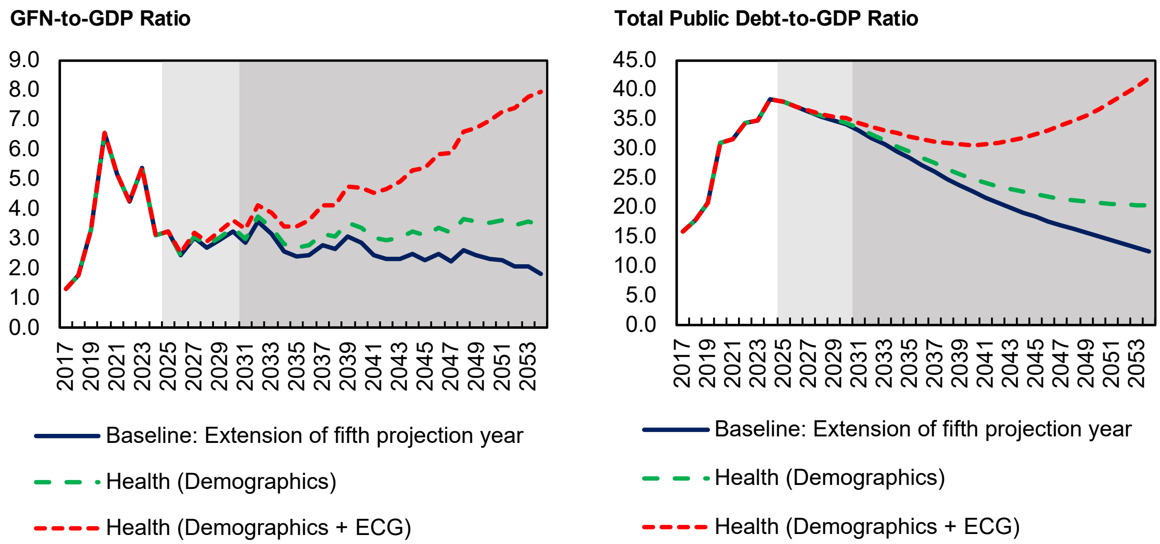
Total Public Debt-to-GDP Ratio



Long-term demographic projections reveal that Paraguay's pension financing needs as well as public debt will grow substantially over the next 30 years unless meaningful pension reforms are impmlemented.

1/ Including Caja Fiscal (public sector pension) , IPS, and other four major pension systems.

Figure 6b. Paraguay: Demographics—Health



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

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

Triggered Modules

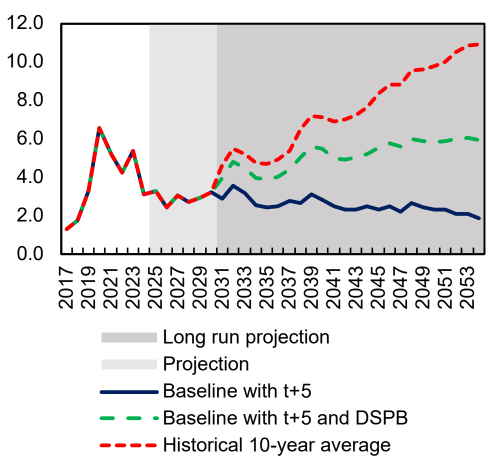
Large amortizations	**Pensions**	**Climate change: Adaptation**	Natural Resources
	Health	**Climate change: Mitigation**	

Long-term Risk Assessment: Large Amortization

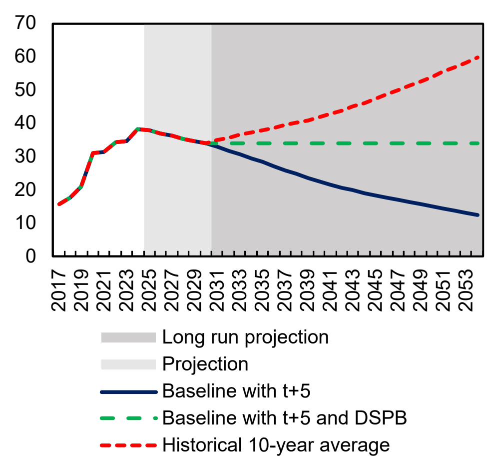
Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Medium-term extrapolation with debt stabilizing primary balance	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Historical average assumptions	GFN-to-GDP ratio	
	Amortization-to-GDP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

Variable	2030	2034 to 2038 average
Real GDP growth	3.5%	3.5%
Primary Balance-to-GDP ratio	0.5%	0.3%
Real depreciation	-2.0%	-1.8%
Inflation (GDP deflator)	3.4%	3.4%

GFN-to-GDP ratio

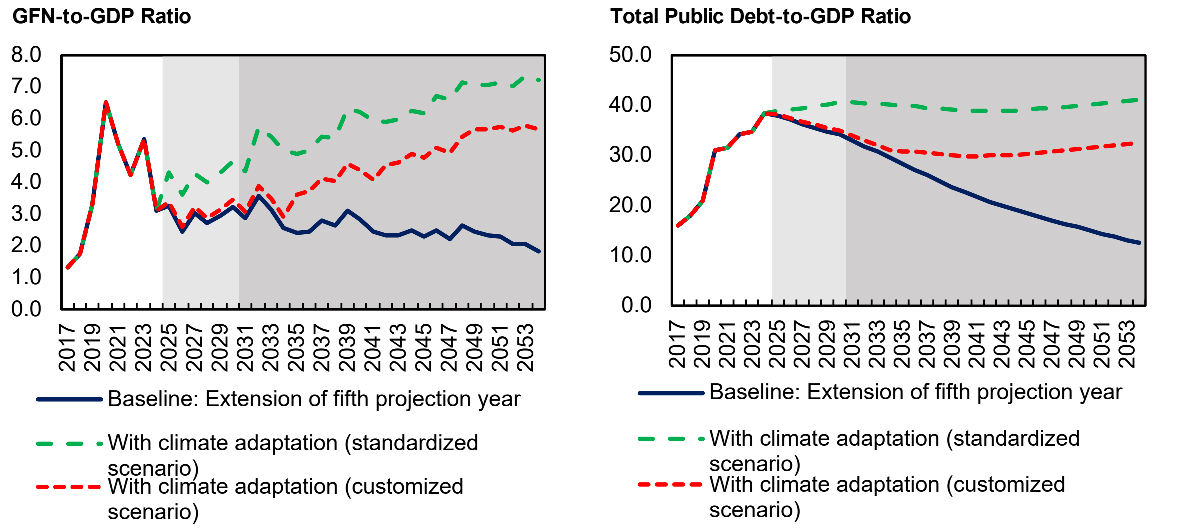


Total public debt-to-GDP ratio



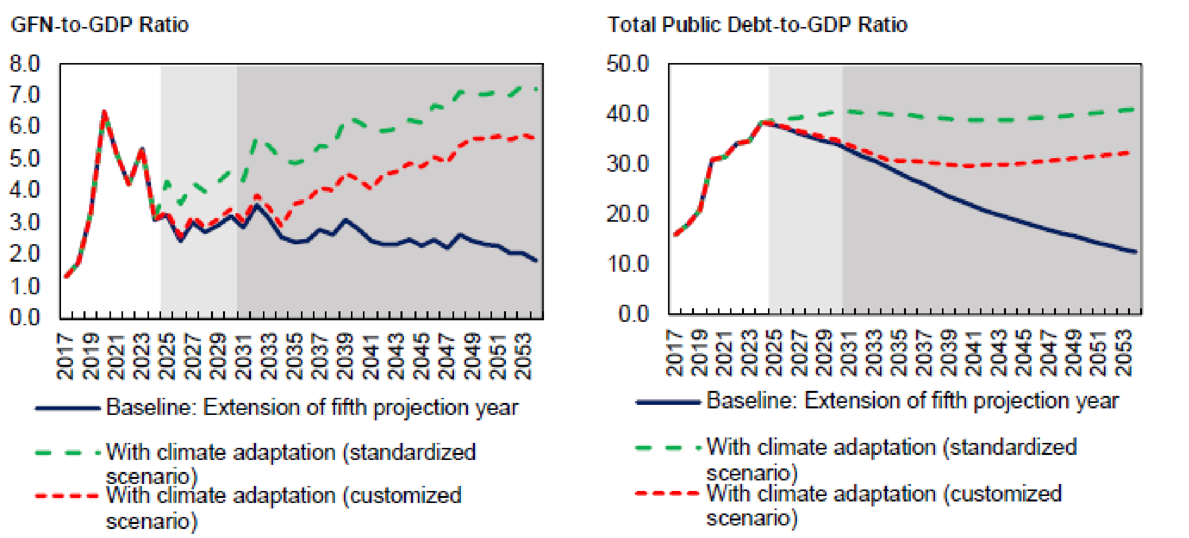
The long-term module for large amortization triggers multiple risk signals, but it is not clear what is driving the process. Data for long-term amortization schedules are not available, so the module uses internal amortization and refinancing assumptions.

Figure 8a. Paraguay: Climate Change—Adaptation



The standardized scenario envisages additional annual investment of about 1 percent of GDP, whereas the customized scenario keeps them lower at 0.2 percent through the next 10 years and adopts default values set by the standardized model thereafter.

Figure 8b. Paraguay: Climate Change—Mitigation



The standardized scenario envisages additional annual investment of about 1 percent of GDP, whereas the customized scenario keeps them lower at 0.2 percent through the next 10 years and adopts default values set by the standardized model thereafter.

Annex III. Risk Assessment Matrix[1]

External Risks	Expected Impact and Recommended Response
Conjunctural Risks	
Trade policy and investment shocks. Higher trade barriers or sanctions reduce external trade, disrupt FDI and supply chains, and trigger further U.S. dollar appreciation, tighter financial conditions, and higher inflation. (**High**)	**High.** Export and import goods might see unexpected price volatility, exerting pressure on the exchange rate and domestic prices. The exchange rate should act as a shock absorber while monetary policy remains geared to keeping inflation close to target. FX intervention could be used in the event of disorderly market conditions.
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**)	**High.** Higher food commodity prices would benefit fiscal revenues and the trade balance, while high oil prices would increase the value of fuel imports. The exchange rate should act as a shock absorber while monetary policy remains geared towards keeping inflation close to target. FX intervention could be used in the event of disorderly market conditions.
Tighter financial conditions and systemic instability. Higher-for-longer interest rates and term premia amid looser financial regulation, rising investments in cryptocurrencies, and higher trade barriers trigger asset repricing, market dislocations, weak bank and NBFI distress, and further U.S. dollar appreciation, which widens global imbalances, worsens debt affordability, and increases capital outflow from EMDEs. (**Medium**)	**Medium.** Global financial tightening, possibly combined with volatile commodity prices, could lead to spiking risk premia, external imbalances, and fiscal pressures. It may dampen external demand, foreign inflows, and investment. Implement additional fiscal consolidation measures. The exchange rate should act as a shock absorber while monetary policy should remain geared towards keeping inflation close to target. FX intervention could be used in the event of disorderly market conditions.
Regional conflicts. Intensification of conflicts (e.g., in the Middle East, Ukraine, Sahel, and East Africa) or terrorism disrupt trade in energy and food, tourism, supply chains, remittances, FDI and financial flows, payment systems, and increase refugee flows. (**Medium**)	**Medium.** Markets of grains and meat might see unexpected volatility. The availability and prices of imported fertilizers, key for soy production would be affected. The government should continue facilitating access to alternative meat and fertilizer markets. The exchange rate should act as a shock absorber while monetary policy remains geared to keeping inflation close to target. FX intervention could be used in the event of disorderly market conditions.

[1] As of February 20, 2025. The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenarios highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon.

External Risks	Expected Impact and Recommended Response
Structural Risks	
Deepening geoeconomic fragmentation. Persistent conflicts, inward-oriented policies, protectionism, weaker international cooperation, labor mobility curbs, and fracturing technological and payments systems lead to higher input costs, hinder green transition, and lower trade and potential growth. (Medium)	**High.** FDI could decline and the price volatility of imported goods could increase. The exchange rate should be allowed to adjust. Structural reforms to enhance productivity and efforts to continue facilitating export diversification, including through access to alternative meat and fertilizer markets.
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. (Medium)	**High.** This may create supply chain disruptions and inflationary pressures, causing water and food shortages and reducing growth. The exchange rate should be allowed to adjust. Reducing export concentration, diversifying the mix of clean power generation, and facilitating adaptation in agriculture would help increase resilience in the medium term.
Domestic Risks	**Expected Impact and Recommended Response**
Weather-related shocks (**Medium** to **High**): 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 the exchange rate, and the financial sector due to banks' agricultural lending. Shocks to the energy sector would lessen government revenue. The exchange rate should act as a shock absorber. FX intervention could be used in the event of disorderly market conditions.
Fiscal sustainability (**Medium**): The worsening position of the Caja Fiscal, if unaddressed, could challenge medium-term fiscal sustainability, making it difficult to keep the fiscal deficit below the deficit ceiling stipulated in the Fiscal Responsibility Law in the upcoming years.	**Medium** to **High**. Fiscal prudence is the cornerstone of macroeconomic stability in Paraguay. Deviations or reversals from the fiscal consolidation path could significantly impact investor confidence, raise financing costs, and affect growth performance. Accelerate efforts to raise fiscal revenues and increase expenditure efficiency, including through public procurement processes, and resolving pension system imbalances.

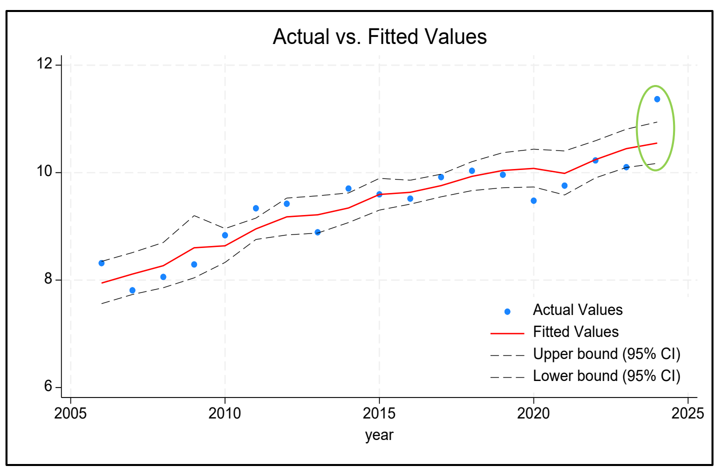
Annex IV. Increasing Efficiency in Tax Revenue

1. **Paraguay needs to mobilize domestic revenue.** To achieve the envisaged fiscal adjustment while maintaining social spending needs, the authorities project tax revenue to increase by around 2 percentage points of GDP over the consolidation period of 2023-2026. Further, in the medium- and long-term, Paraguay's additional annual financing needs to address SDG gaps could reach around 7 percent of GDP.[1]

2. **The authorities have been working hard to increase efficiency in tax collections.** The authorities are committed to exhausting efficiency gains in tax collections and government spending to increase tax revenues. Since coming into office in August 2023, a series of tax administration measures have been implemented. These efforts include 1) the merger of custom and revenue agencies (as DNIT) for stronger information sharing and coordinated operations, 2) the introduction and increased registration by large taxpayers of new e-invoicing system to increase accuracy and efficiency of tax calculation, 3) ongoing assessment of tax expenditure including under special tax regimes, and 4) optimize the use of data to implement tailored treatment measures to improve voluntary compliance, and 5) measures to encouraging the formalization of the economy.

3. **These efforts are bearing fruit with tax collection increasing by 1.3 percentage points of GDP in 2024.** All tax categories have seen an increase in terms of GDP in 2024 with income tax showing the largest surge (by 0.6 ppt), and the momentum seems to continue in 2025. Paraguay has been one of the best growth performers in the region, and tax revenue should have also benefited from recent robust economic growth in the aftermath of a series of shocks. Staff analysis attempts to measure the impact of such improvements in tax administration by isolating the effect of GDP growth on taxes and assess if efficiency gains could continue.

4. **Staff estimated Paraguay's tax buoyancy using an error correction model (ECM).** Based on Cornevin et al. (2023), the standard ECM was estimated using the mean group estimation over the sample period of 2004-2024. The ECM allows estimating both short-term and long-term tax buoyancy. After isolating the effects of tax buoyancy, the analysis provides a magnitude of the impact of other factors. Those other factors may



[1] See Annex V of the 2022 Article IV.

include the effects of improvements in tax administration, measured as the residual between the actual and fitted value in 2024.[2]

5. The increase of tax collections in 2024 cannot be explained by the economic growth only. Paraguay's short-term tax buoyancy is estimated at 0.96, which is slightly lower than regional and emerging market peers. This is presumably attributable to low levels of PIT, which would have reduced the functioning of a built-in stabilizer in Paraguay relative to peers.[3] Based on these estimates from the ECM, the fitted value of tax to GDP ratio points to 10.6 percent of GDP in 2024, which is significantly below the actual value of 11.4 percent of GDP with a gap of 0.8 ppt of GDP. This gap cannot be explained by the historical trend and thus may be driven by the combination of the creation of DNIT, tighter control of border trade, enhanced use of e-invoicing, and progress in formalization.

6. The study also suggests that Paraguay's long-term tax buoyancy is comparable with the average of emerging markets. At around 1.2 which is slightly higher than peers, Paraguay's LT tax and growth relationship is encouraging and bode well for continued increase in tax collections in the long run as the economy continues growing. Such growth impacts would be amplified by structural reform efforts.

7. Additional efficiency gains are possible from measures in train. Going forward, several measures are in the pipeline to further increase domestic revenue, which include implementing a compliance risk management framework for tax and customs operations, broadening the use and scope of e-invoicing, updating the clearance of goods process, and strengthening the DNIT´s reform management capacity. Further, measures to reduce tax expenditure under the special tax regimes could be considered. Paraguay is a pilot country for the Joint Domestic Revenue Mobilization Initiative (JDRMI), and the authorities' efforts will be supported by coordinated CD provision among the Fund and IFIs under the initiative.

[2] These unexplained factors may also include structural changes in the economy such as the share of agricultural sector, financial deepening, and other macroeconomic factors (e.g., terms of trade, and real exchange rates) but there is little evidence that these impacts were significantly different in 2024 than in the past for them to be the main drivers of the residual.

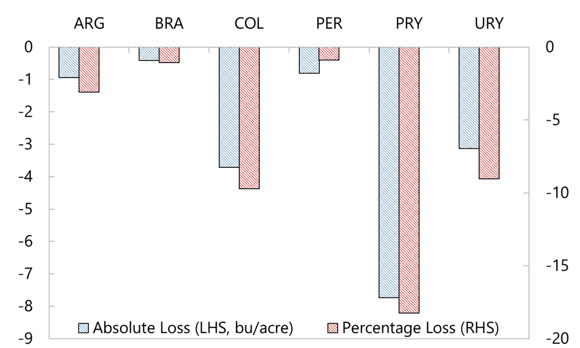
[3] Advanced economies tend to show higher short-term buoyancy especially for income taxes owing to a quick response of corporate profits to the economic cycle and a higher automatic stabilizer for example through progressive tax structure, while LT buoyancy is smaller as they are closer to their tax potential (see Cornevin et al. (2023), and Dudine and Jalles (2017) for more discussion).

Annex V. Droughts, Agricultural Productivity, and Insurance in Paraguay[1]

1. Paraguay's agricultural production has been repeatedly affected by extreme weather conditions while many small farmers have limited recourse to financial support. The most recent devastating drought in 2021-22 especially affected soybean production and drastically reduced overall economic growth. A milder drought in 2024 affected different regions, leaving uneven traces on soy harvest. Droughts are having a profound effect on growers' incomes, while financial support is limited. While commercial credit is a vital source of rural finance in Paraguay, the overall agricultural lending penetration remains low, averaging about 7 percent of total credit in 2023. The penetration of agricultural insurance in Paraguay is also very low, estimated at 0.03 percent of GDP and 0.6 percent of agricultural output. This is significantly lower compared to other regions (1 percent in Europe and 5 percent in North America).

2. While Paraguay does not have direct government involvement in proving support to or subsidizing agricultural sector, some ad hoc measures have been undertaken. Post-disaster financing, primarily through emergency outlays, has been provided on occasion. In recent years, the BCP has relied on regulatory measures. In particular, in January 2025, the BCP issued Resolution 13, which allowed temporarily renewing, refinancing, or restructuring loans in the financial system without affecting the credit rating of producers exposed to the drought, as long as the obligations were not overdue for more than 60 days prior to December 2024. The Development Finance Agency (AFD), a public development bank, also launched the Agricultural Renegotiation Program, an initiative allowing affected producers to finance debts without affecting their credit rating.

Impact of Extreme Weather Events on Agricultural Output
(In bu/acre, and In Percent [RHS])



Sources: Caucheteux, Nauerz, and Vtyurina (2025).

3. In this context, staff investigated the impact of extreme weather events on agriculture in Paraguay. The study focused on the effects of droughts on agricultural soy yields and explored the crucial role of agricultural insurance in mitigating these adverse effects on productivity. By utilizing advanced satellite data, staff found that a farmer in Paraguay loses around 8 bushels per acre, or 19 percent of its agricultural output on average due to a drought. This would mean roughly 2 percent of total GDP, which in line with the few studies that evaluated the recent damages from droughts in the region.[2]

[1] WP/25/52, "Extreme Weather Events, Agricultural Output, and Insurance: Evidence from South America", by Juliette Caucheteux, Jonas Nauerz, and Svetlana Vtyurina.

[2] For example, In Paraguay, according to World Bank (2024) analysis, the variations in past yields of the main crops grown in the country (soy, corn, wheat, beans, and cassava) indicate expected annual losses of USD 504 million, equivalent to 7.6 percent of the

(continued)

4. **The study shows that expanding insurance coverage could substantially enhance agricultural productivity.** While the sector is relying on development of more resistant soybean varieties, especially HB4, which are better adapted not only to the lack of rain, but also to high temperatures, this would take time and may not be sufficient. Expanding insurance coverage could increase productivity by up to 7.5 percent by reducing misallocation and allowing farmers to invest more in technology and intermediate inputs. There is therefore a significant potential for improvement through broader insurance coverage and support mechanisms, but there is no one-size-fit-all approach. A public-private partnership model could be employed with efforts targeted towards achieving the following objectives: spreading the risk, promoting index insurance and improving data collection, strengthening regulations, reducing costs and improving access and building trust. Proactive assistance to most vulnerable farmers would have a more enduring impact than reactive policies.

total risk exposure, or 1.2 percent of 2022 GDP on average. Indeed, droughts caused recessions in 2009, 2012, and 2022. Projections indicate that more severe and rare shocks, such as a once-in-a-century drought, could lead to USD 3 billion in losses, equivalent to 45.6 percent of agricultural GVA or about 7 percent of GDP as was in 2022.

Appendix I. Program Statement

Asunción, June 11, 2025

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

Dear Ms. Georgieva:

The Paraguayan economy remains on a very solid footing. Real GDP grew 4.2 percent in 2024, driven mainly by the services, manufacturing, livestock, and construction sectors. This result was achieved despite adverse weather events that affected the production of electricity. High-frequency indicators for early 2025 continued to show good momentum, prompting an upward revision in the 2025 GDP growth projection. Inflation ended in 2024 just below the 4 percent target and has remained within the tolerance range in the first months of 2025. Since March 2024, the monetary policy rate has been maintained at 6 percent, a level that is within the neutral range. The current account deficit rose due to the increase in imports and the decrease in exports, which were affected by the fall in commodity prices and lower production of maize and electricity. The Guaraní has depreciated in nominal terms against the US dollar over the past year, due to lower export receipts and external factors, but international reserves remain at adequate levels. We are committed to our fiscal consolidation plan, which consists of reducing the fiscal deficit to 1.5 percent of GDP by 2026, and we are moving toward that goal. The fiscal deficit declined from 4.1 percent of GDP in 2023 to 2.6 percent of GDP in 2024, and the approved budget for 2025 envisages a fiscal deficit of 1.9 percent of GDP. After receiving our first investment grade rating from Moody's last year, we continue to strive for continued recognition through prudent macroeconomic policies and the implementation of structural reforms that will solidify Paraguay's macroeconomic stability and positive image as an investment destination.

We have met all the quantitative targets (QTs) set for the fifth review under the Policy Coordination Instrument (PCI). We have continued to make progress on the structural reform agenda. Most of the reform targets (RTs) scheduled to be assessed in this review have been implemented, although some with delays over the original timeline. In addition, we met one reform target of June 2025 ahead of schedule.

We have also adopted reform measures (RMs) under the Resilience and Sustainability Facility (RSF). We have made significant progress on all remaining RMs and have completed RM3. Completion of the remaining RMs, RM5, RM6, RM9 and RM10, requires more time. The National Electricity Administration (ANDE) is moving forward with its external audit and its cost study has been completed (RM5). Based on these documents and the loss reduction plan, ANDE plans to implement transparent methodologies to gradually adjust electricity rates (RM6). We drafted a law for an explicit carbon tax to replace the existing excise taxes on the consumption of liquid fuels. The draft law is under technical evaluation, considering the challenges and implications of its implementation for the National Tax Revenue Directorate (DNIT). The BCP's Superintendency of Banks incorporated climate-related exposures into its risk assessment framework (RM3). The Ministry of Public Works and Communications (MOPC) / Vice Ministry of Transportation (VMT) received and will install 8 charging stations for a pilot with 30 new electric buses that is starting in the metropolitan area of Asunción. In the context of this pilot project and the comprehensive reform of public transport, we are preparing a plan for its electrification. We will continue our efforts to adjust tax incentives for electric vehicles in line with the program's original objectives, adopting a gradual approach to support the technological transition process, prioritizing those that make a significant contribution to reducing emissions while minimizing tax expenditure.

Given our ongoing efforts to de-dollarize our stock of public debt, including through a very effective placement in February 2025 of international bonds in local currency, the remaining space for additional borrowing in this year is constrained by the 2025 budget law. This constraint also reflects the lower gross financing needs for this fiscal year within the context of our fiscal consolidation plan to ensure fiscal sustainability. In this context, we request the disbursement of RSF resources solely based on the completion of RM4, RM7, RM8, RM11, RM12 and RM13, amounting to SDR 146 million.

We also request a modification of the QT on the primary expenditure ceiling to align it with the approved budget for 2025; a resetting of two reform targets: on the preparation of the manual of procedures for the public investment monitoring and evaluation unit, and on the system for receiving complaints of violence against women and its registry; and a three-month extension of the PCI and RSF arrangements until February 2026. The extension will provide additional time to conclude the sixth and final review under the PCI and complete the implementation of RM5, RM6, RM9, and RM10 for which we are also requesting a rephasing to the final review.

The attached Program Statement details the economic policies and reforms we have implemented since the last review, as well as our policy commitments 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. The implementation of policies and reforms under the PCI will continue to be monitored through modified quantitative targets, continuous targets, and reset reform targets, and funding will be available under the RSF once the corresponding RMs have been implemented, as described in the attached Program Statement and in the Technical Memorandum of Understanding. The final review is expected to take place within 6 months of the completion of this review. We will consult the International Monetary Fund (IMF) prior to any revision of the policies contained in this letter and the accompanying Program Statement, in accordance with the IMF's consultation policies. We will provide the timely information needed for the monitoring of the economic situation and the implementation of policies relevant to the programs.

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 Fifth Review of the PCI-Supported Program and the Third Review of the RSF Arrangement subject to approval by the IMF Executive Board. These documents will also be published on the website of the Government of Paraguay.

Sincerely

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

Attachments: Program Statement
Technical Memorandum of Understanding

Attachment I. Program Statement
December 2024–February 2026

This Program Statement describes 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. **After reaching 4.2 percent in 2024, real GDP growth is projected to remain robust in 2025 and inflation close to the target.** Growth is expected to be around 4 percent, driven mainly by strong domestic demand, which will contain the adverse effects of an uncertain global environment. As a reflection of the generally favorable developments in inflation under the inflation-targeting regime and the credibility of the Central Bank of Paraguay (BCP), we lowered the inflation target from 4 percent to 3.5 percent last December to reach it over the monetary policy horizon of 18 to 24 months, which is now reflected in the economic agents' inflation expectations. The BCP's Monetary Policy Committee (CPM) maintained the monetary policy interest rate at 6 percent at its May 2025 meeting.

2. **We have made progress in our fiscal consolidation plan and continued prudent debt management.** The central government budget deficit decreased from 4.1 percent of GDP in 2023 to 2.6 percent of GDP in 2024. Tax collection performed particularly well due to the rebound in corporate income tax collection following the 2022 drought, but also thanks to improvements in collection and enforcement practices, greater efficiency in tax administration, digitalization, tighter control of border areas, and expansion of the taxpayer base. Debt remains at prudent levels, and we are working on improving its currency composition. Following the first international bond issuance in local currency in February 2024, we undertook another international issuance in local currency, for the equivalent of USD 600 million in February 2025, helping to reduce the risks associated with the fraction of debt denominated in foreign currency.

3. **The current account balance reached a deficit of 3.7 percent of GDP in 2024 but is expected to improve going forward as exports increase.** The current account deficit is expected to narrow in 2025 as electricity exports recover and beef exports increase. Expected increase in imports associated with large-scale foreign direct investment (FDI) projects will imply a temporary deterioration over the medium term followed by a stronger balance as exports come on stream. The Guaraní depreciated 6.5 percent in nominal terms against the US dollar in 2024 and an additional 2.5 percent from late December to late April, due to lower export earnings and the external developments. Net international reserves have remained above 6 months of import coverage.

4. **While the economic outlook for Paraguay remains promising, downside risks, mainly stemming from external factors and weather events, are notable.** Barriers to international trade have increased and global uncertainty is high. Weather-related shocks continue to pose a challenge. However, these risks are mitigated by sound policy frameworks and offset to some extent by upside

risks from possible larger-than-expected and faster-than-expected foreign direct investment (FDI) and potential diversions of trade flows.

STRATEGIC OBJECTIVES OF THE REFORM PROGRAM UNDER THE PCI

C. Pillar I: Ensuring Macroeconomic Stability and Resilience

Fiscal Policies

Ensuring Consolidation

5. **Fiscal consolidation will continue.** The National General Budget for fiscal year 2025 envisages a deficit of up to 1.9 percent of GDP for the central administration. The gradual reduction of the deficit toward the maximum ceiling of 1.5 percent of GDP set by the fiscal responsibility law by 2026 and the improvement in the primary balance is consistent with a reduction of the public debt-to-GDP ratio over the medium term. Table 1a presents the quantitative targets for the current primary expenditure (original and modified), the fiscal deficit, and the net change in floating debt.

Improving Control of Public Expenditure and Investment Management

6. **We are improving the recording of accrued expenditure commitments.** We met the RT on the implementation of the submodule of the Goods and Services Management System (SIGEBYS) of the Integrated System for the Administration of State Resources (SIARE) for spending on goods in the commitment, accrual, and payment order phases for all entities under the Executive Branch and pilot phases in the case of services **(reform target for December 2024).** By integrating public works expenditures in their commitment phase into the Integrated Goods and Services System (SIABYS) submodule of SIARE, we will continue to improve the management of public resources. We expect to complete this project in the second half of 2025 and include public works in 2025.

7. **We are working to improve the monitoring and evaluation of public investment projects, creating a more attractive environment for investment between public and private sectors**. We plan to incorporate climate aspects into project formulation and evaluation. We are preparing a procedural guide for the monitoring unit of the General Directorate of Public Investment, which is undergoing adjustments owing to updates to the regulations relating to the General National Budget. We plan to publish and apply the procedural guide to a selection of pilot investment projects no later than September 2025 **(reform target proposed to be reset to September 2025).** We have adopted a new law on public-private partnerships (PPPs) that will modernize the investment promotion and contracting system. We believe that this reform incorporates international best practices to improve the agility, transparency, and fiscal sustainability of PPP contracts.

8. Modernizing the current tax framework and optimizing the performance of the DNIT remain our top priorities. We are establishing a regularly functioning Risk Management Committee, with the support of the Tax and Customs subcommittees, to institutionalize compliance risk management **(reform target for June 2025).** We are also working on the implementation of a risk-based compliance improvement plan to address at least one key risk to customs tax collection **(reform target for October 2025).**

Reform and Strengthening of the Public Sector Retirement and Pension System

9. Measures to strengthen the sustainability of the retirement and pension system of both the public sector and the Social Security Institute (IPS) are advancing. In the case of the public sector pension system ("Caja Fiscal"), an actuarial study has been completed that will serve as a basis for defining the parameters of a legislative proposal aimed at a comprehensive reform of the system. Regarding the IPS, Congress passed the Law No. 7446/24, which introduces key reforms to align the system with the current needs of beneficiaries. The main changes include: the adjustment in the calculation of the retirement benefit, which will now be based on the average salary of the last 120 months (instead of 36); the possibility of making voluntary contributions for members who do not yet qualify for retirement; and the gradual redirection of 2.5 percent of the employer's contribution to the Health-Maternity Fund, with the aim of strengthening its financial sustainability.

10. In addition, the MEF has worked on a digital census of the retirees of the public sector pension system, which to date has reached 85 percent of the 79,000 beneficiaries. The main objective of the census is to continue strengthening control mechanisms and to have accurate and up-to-date information on beneficiaries. This will ensure transparency and efficiency in the management of retirement and pension resources and avoid improper payments.

11. We have made progress in the process of regulating the Law on the Superintendency of Retirement and Pensions. There is significant progress in the establishment of the Social Security Council of the Superintendency of Retirement and Pensions, a key step in the effective implementation of the Law on the Superintendency. The achieved milestones include the provisional appointment of representatives of employers and workers by a presidential decree, convening and holding of the first meeting of the Council in December last year, collecting nominations for the appointment of representatives of the retirees, currently under evaluation. By the second quarter of 2025, we expect to complete the Council and the following regulations: a regulation on the functioning of the Council and transitional arrangements, a draft regulation that will establish the mechanism for the final election of the representatives of the workers and retirees and the Superintendent, ensuring transparent and merit-based processes. In addition, there is progress on the regulations on the structure and operations of the Superintendency and the regulations on the powers of the Superintendency and relations with retirement and pension institutions, which will make it possible to consolidate their full implementation and operation.

Monetary and Exchange Rate Policies

12. Inflation remains under control and expectations are well anchored around the new target. Our monetary policy is geared towards ensuring that inflation converges toward the new target of 3.5 percent over the monetary policy horizon (18-24 months). The private agents' inflation expectations are aligned with this objective. We reaffirm our commitment to prudent management of economic policy, a fundamental pillar of price stability. We will continue to monitor economic developments and their impact on the trajectory of inflation and will react proactively as needed with appropriate policy measures.

13. The exchange rate remains a fundamental shock absorber to ensure macroeconomic stability. For decades, the Paraguayan economy has benefited from letting the exchange rate adjust to both real and financial shocks, including in 2024 and 2025. Our transparent interventions in the foreign exchange market continue to focus on moderating large fluctuations that do not correspond to economic fundamentals, without undermining our inflation-targeting framework.

D. Pillar II: Improving Productivity and Promoting Economic Growth

Strengthening the Business Climate

14. We are working diligently to improve land ownership. We have revised the current regulations of the General Directorate of the National Cadastre Service, in accordance with the legal framework, and we plan to approve them by Resolution, by the beginning of the third quarter of 2025 (**reform target for March 2025**). In addition, after the enactment of Law 7424 at the beginning of this year, we are now working for the operation of the new National Unified Registry (RUN) that unifies the General Directorate of Public Registries, the General Directorate of the National Cadastre Service, and the Department of Topography and Geodesy. The RUN is expected to become operational in January 2026 and to modernize the registry and cadastral system, strengthening legal certainty and facilitating investments.

15. We remain focused on the ongoing task of reforming the legal framework for bankruptcies. We are working diligently to submit a revised and improved bill to Congress by October 2025, as we have had to substantially fine-tune legal and technical aspects of the draft bill **(reform target for October 2025).**

Improving Governance

16. We will continue to strengthen practices to prevent corruption in the administration of public goods and services. Law 7389/24 was enacted, establishing the National Regime for Integrity, Transparency and Prevention of Corruption, consolidating a robust institutional framework for the fight against corruption, with mechanisms for citizen complaints and coordination and supervision bodies with inter-institutional participation. A new Civil Service Law was also approved with a focus on merit and professionalization of the public service. Also, as part of our ongoing commitment to transparency and integrity, we have standardized and harmonized the Ministry of

Health's and IPS's inconsistent definitions regarding the procurement of essential medicines, allaying serious concerns regarding the cost of procuring 520 medicines **(reform target for December 2024).** The National Strategy to Combat Corruption (ENCC) also promotes the implementation of the Health Information System (HIS), which enables more efficient management of pharmaceutical inventories in the Paraguayan health system. The Ministry of Health and the Ministry of Information and Communication Technologies have implemented it in more than 900 public health facilities, including the two public hospitals in the Asunción area, scheduled for June 2025 **(reform target for June 2025).**

17. In the same vein, we are strengthening the accountability and integrity of the public sector workforce. The Office of the Comptroller General of the Republic and the Ministry of Information and Communication Technologies have made progress on the technical aspects of an information-sharing system for conducting reviews to verify the consistency of data on public officials' assets, with the aim of effectively combating illicit enrichment, which is a legal category, that will be in force in Paraguay in 2026. Following the resolution of legal issues, a first pilot program of this information exchange system will be launched to cross-check data on public officials' assets **(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 faced delays in completing and approving the updated National Risk Assessment, the technical work of which took longer than envisaged, but we expect to publish it this year, contributing to the work agenda in Decree 2463 of September 2024. Identifying and understanding ML/FT risks in Paraguay is critical, as this will lay a solid foundation for financial and nonfinancial institutions to review and update their risk assessment frameworks and models/matrices. We remain firmly committed to making progress in this critical area and to ensuring that robust measures are in place to mitigate ML/FT risks.

19. We will continue to strengthen the governance structure of the BCP. The BCP is working on a proposal for an institutional delegation framework, which will then be evaluated by the BCP Legal Unit. The Chief Auditor shall be excluded from the Audit Committee. With respect to the selection of the external auditor, the review of the draft policy to ensure alignment with leading practices is nearing completion. The BCP is in the process of contracting a consulting firm to analyze gaps in the performance of the Internal Audit Unit's activity. Work in this area will continue to benefit from interaction with International Monetary Fund staff.

E. Pillar III: Improving Social Protection and Inclusion

Strengthening Social Inclusion

20. Social protection policy is a fundamental pillar for guaranteeing the realization of economic and social rights. As part of our ongoing initiatives to strengthen social protection and inclusion in Paraguay, and after extensive public consultations, the Inter-Agency Care Commission developed an Action Plan for the National Care Policy that was approved in April 2025 (**reform target for December 2024**).

21. **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, in coordination with other parts of the State, is in the process of launching a pilot program for a system for receiving complaints of violence against women together with the establishment of a single registry of such complaints. Although the system has already been developed, the parties involved need more time to resolve administrative procedures for inter-agency coordination **(reform target proposed to be reset to September 2025).**

Formalization of Employment

22. **We are making progress in the formalization of the labor market.** Congress has approved a revision of the Law for Micro, Small and Medium-Sized Enterprises (MSMEs) to strengthen the sector and promote business formalization in Paraguay, and the Ministry of Industry and Commerce is finalizing its regulation. The amendment seeks to simplify procedures, facilitate access to financing, and improve the legal categorization of MSMEs. This will allow access to benefits that stimulate their development, facilitating the interconnection between the government agencies and entities that participate in the formalization and registration process for the opening and operation of these companies. At the same time, the Ministry of Labor, Employment and Social Security will finalize its strategy for the formalization of workers by the second half of 2025. We are also working for the financial inclusion of MSMEs. The National Development Bank (BNF) and the Development Finance Agency (AFD) have developed a Financial Strengthening Program that improves conditions for access to credit for operating capital, investment, and debt refinancing, offering lower rates, longer terms, and more flexible requirements. On the other hand, there is a partial approval of the legal initiative presented by the Executive Branch "Creating the Management Trust for financial support to producers, independent professionals, self-employed, micro, small and medium-sized enterprises", through which the Agricultural Credit Agency (CAH) and the AFD will develop facilities for small farmers.

BUILDING CLIMATE CHANGE RESILIENCE

23. **We have implemented one reform measure and are still working to complete the remaining measures under the RSF.** These reforms will not only improve Paraguay's resilience to climate shocks but will also consolidate our position as a leader in the production and export of clean, renewable energy in the region. In addition, in February 2025, the government regulated the Carbon Credits Law, approved by Congress in 2023, which establishes a legal framework to define the ownership of credits generated in Paraguay, create an official registration system, and facilitate their commercialization. Although Paraguay does not have a regulated carbon market, the regulations allow credits generated in the country to be used in regulated markets in other jurisdictions, thus promoting the participation of public and private actors in climate action and international carbon markets. We are actively working on several bilateral agreements to trade carbon credits under this legislation that will help mobilize additional financial resources to protect our forests and foster mitigation projects. In accordance with these objectives, we have moved forward with the following set of reforms (details in Table 4):

Financial Sector Resilience to Natural Disasters

24. Incorporation of climate-related risks into the financial sector risk assessment framework (RM3). The Superintendency of Banks, with support from the World Bank, began including climate-related risks in the financial sector risk assessment framework, with the objective of strengthening the banking sector's capacity to develop financial stress tests for shocks caused by natural disasters. To achieve this, the BCP adopted a climate-related financial risk monitoring and assessment framework for the banking sector, which includes reporting requirements and a data repository on significant climate-related financial risks of these institutions. The BCP also issued supervisory guidelines in April, May and June 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

25. Independent audit for ANDE, technical study to establish cost efficiencies (RM5), and a tariff adjustment mechanism (RM6). A renowned international firm has been conducting an independent audit of ANDE's financial statements for 2022 and 2023 in accordance with strict, transparent and responsible criteria. The harmonization of accounting standards required additional time for completion, which we expect by the end of June. The IDB and a well-known regional consulting firm prepared a study to establish the costs of ANDE by business segment, considering similar companies in the region. ANDE will publish both documents after the audit is completed **(reform measure).** Using these inputs and the results of the loss reduction plan (RM8), ANDE will develop, publish, and gradually adopt specific and transparent methodologies for adjusting electricity tariffs **(reform measure),** in consultation with the Vice Ministry of Mines and Energy (VMME) and the National Council of State-owned Enterprises. In the longer term, governance reforms should aim to separate generation, transmission and distribution activities, and to establish a transmission system operator capable of setting transparent transmission tariffs for private generators. In addition, ANDE should be able to access capital markets without the need for a sovereign guarantee.

Reducing the Use of Fossil Fuels in the Residential and Transportation Sectors

26. Explicit Carbon Tax on Liquid Fuels (RM9). To reduce the use of imported fossil fuels in the transport sector in the future, RM9 supported the introduction of an explicit carbon tax (changing the tax base from liters to carbon content per ton CO_2 equivalent) on liquid fuels **(reform measure).** We have prepared a draft law, with technical support from IMF staff, to implement RM9. The draft law is under technical review, considering the challenges and implications of its implementation for the National Tax Revenue Directorate. We plan to establish a carbon tax equivalent to the level of previous taxes on diesel, which also applies to gasoline and liquefied petroleum gas (LPG). The excise taxes on gasoline and LPG would be reduced so that the total effective rate of the tax applied to each would remain unchanged. The carbon tax rate will be revised and adjusted in accordance with the outcome of a technical analysis published by the MEF and the BCP. This analysis will be performed periodically to assess changes to the tax, depending on the state of macroeconomic variables and the initial carbon price at the time the policy was originally implemented.

27. Electrification of public and private transport (RM10). We will continue our efforts to adjust tax incentives for electric vehicles in line with the program's original objectives, adopting a gradual approach to support the technological transition process, prioritizing those that make a significant contribution to reducing emissions while minimizing tax expenditure. We received and will install 8 charging units for electric buses that will support a pilot program with 30 new electric buses in the metropolitan area of Asunción. The government will preserve ownership of the chargers and buses, and the operation will be run by a private company. In the context of the broader reform of the public transport system, this pilot program will serve as a basis for the development of regulations to define the operating model for an incrementally electric public transport, taking into account international experience. We are developing a white paper that reflects these plans and sets targets to sustainably increase the percentage of electric buses in the Asunción metropolitan area **(reform measure).**

28. All these reforms are part of an expanded structural agenda promoted by the government since August 2023. Under this agenda, 14 key reforms have already been approved aimed at strengthening governance, improving the investment climate, and modernizing the functioning of the State to contribute to inclusive and sustainable economic development.

PROGRAM MONITORING

29. Modified quantitative targets, continuous targets, and reform targets will continue to be used to track progress in policy implementation in the context of the PCI program. Quantitative targets have been set for the end of June 2025, as well as targets to be continuously monitored (Tables 1a and 1b of this Program Statement). The date of the sixth review is November 1, 2025. The definitions are contained in the attached Technical Memorandum of Understanding (Annex II). The requested three-month extension for the PCI and RSF will allow more time to implement the reforms under the two agreements.

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

	2024			2025	
	end-Dec			end-Jun	
	QT	Actual	Status	QT	Proposed QT
I. Quantitative Targets (QT)					
1 Ceiling on the central government fiscal deficit (in billions of guaraníes) 2/ 3/	-9,106	-8,580	Met	-2,322	-2,322
2 Ceiling on current primary expenditure of the central government (in billions of guaraníes) 2/	43,374	43,151	Met	20,673	21,304
3 Ceiling on the net incurrence of floating debt by the central government 4/	0	-3,017	Met	-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
III. Inflation Consultation Band 5/					
Upper band limit (2 percent above center point)	6.0			6.0	6.0
End of period inflation, center point 6/	4.0	3.8	Met	4.0	4.0
Lower band limit (2 percent below center point)	2.0			2.0	2.0
IV. Memorandum Items					
Social assistance benefits 2/	3,742	3,935	Met	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 Targets for 2024-25

Policy Objective	Reform Targets	Target Date	Status
Pillar I: Ensure Macroeconomic Stability and Protect the Fiscal Policy Framework			
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	Met
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-September 2025	Revised target date from June 2025
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	In progress
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	In progress
Pillar II: Enhance Productivity and Foster Economic Growth			
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	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	Met
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	Not met
Implement the anti-corruption strategy	Implementation of pilot projects of the Health Information System in two public hospitals.	End-June 2025	Met
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			
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	Not met, implemented with delay
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-September 2025	Revised target date from March 2025

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	Met
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.	6th 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.	6th Review	In progress
	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.	6th Review	In progress
	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.	6th 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: Rephased 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, 2025	20.14	10.00	Completion of RSF review of reform measure 5 implementation[2/]
November 1, 2024	20.14	10.00	Completion of RSF review of reform measures 8 implementation
November 1, 2025	20.14	10.00	Completion of RSF review of reform measure 10 implementation[2/]
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
November 1, 2025	25.18	12.50	Completion of RSF review of reform measure 6 implementation[2/]
November 1, 2025	25.18	12.50	Completion of RSF review of reform measure 9 implementation[2/]
Total	**302.10**	**150.00**	
Memorandum Item:			
Quota	201.40		

Source: IMF staff estimates

1/ RM13 was rephased to November 1, 2024.

2/ RM5, RM10, RM6 and RM9 are proposed to be rephased to November 1, 2025.

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 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.

[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.

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 consider operating costs, financial costs of projected capital expenditure needs, and efficiency gains.
- *Frequency of adjustment*: quarterly, semi-annual, or annual.
- *Smoothing mechanism parameters*: to reduce the impact of cost volatility on final consumers (e.g., 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.

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

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 considering 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**

PARAGUAY

June 16, 2025

FIFTH REVIEW UNDER THE POLICY COORDINATION INSTRUMENT, REQUEST FOR MODIFICATION OF A QUANTITATIVE TARGET AND RESETTING OF REFORM TARGETS, THIRD REVIEW UNDER THE ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY, REPHASING OF REFORM MEASURES, AND REQUESTS FOR EXTENSION OF THE POLICY COORDINATION INSTRUMENT AND THE RESILIENCE AND SUSTAINABILITY FACILITY ARRANGEMENT—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 third Assessment Letter in November 2024 (see Annex I).

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

1. **Paraguay's economy experienced robust growth in 2024 despite the persistence of localized droughts.** Real GDP grew 4.2 percent in 2024, driven by strong domestic demand. On the supply side, growth was driven by the services sector and supported by favorable agriculture harvests, especially a record soybean yield of 11 million tons. However, growth would have been 0.5 percentage points (pp) faster if not for uneven rainfall along the Paraguay and Paraná rivers during most of 2024, which suppressed electricity generation[1] from the binational Itaipú and Yacyreta dams. Electricity and water account for about 8 percent of nominal GDP. Dry conditions also persisted in the semi-arid Western region (*Chaco Paraguay)* for a fourth consecutive year, where most ranching activity occurs. Several districts in Alto Paraguay department have suffered shortages of potable water for human and livestock consumption. Water shortages in several rural districts, could impact poor and vulnerable Paraguayans in these areas.

[1] Electricity and water accounted for 8 percent of nominal GDP on average between 2014-2023.

2. **Climate conditions continue to weigh on the economic outlook.** According to producers' associations, uneven rainfall in parts of the soy-producing Eastern region could reduce the main soybean harvest by 15 percent in 2025, while the cattle herd could decline due to the ongoing drought in Western Paraguay. In Q1 2025, navigability challenges along parts of the Paraguay river due to sedimentation, in addition to the decline in production, contributed to a 14 percent reduction in soy export volumes. A sustainable financing scheme for waterway management that enables improvements in service levels and capital dredging would help improve the waterways' resilience to climate shocks.[2]

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

3. **In January 2025, the Ministry of Environment and Sustainable Development (MADES) submitted Paraguay's First Biennial Transparency report on climate change to the United Nations Framework Convention on Climate Change (UNFCCC).** The report contains a chapter that summarizes progress on adaptation actions[3] envisioned in the National Adaptation Plan, as well as ongoing challenges. The report highlights the fact that most municipalities have developed urban and territorial plans that incorporate climate risks and improvements in the capacity to monitor water quality. However, it highlights that implementation of key regulations such as Law 3239/2007 on water resources are still lagging.[4]

4. **The government recently updated its legal framework for Public Private Partnerships by enacting Law 7452 in January 2025.** The law mandates all projects proposed under the PPP modality to undergo rigorous assessments for environmental and climate impacts. This follows the publication of Decree 2882 in November 2024, which obligated environmental and climate change criteria to be considered at each stage of public investment projects' life cycles. With World Bank support, the Ministry of Economy and Finance is updating its guide on incorporating such criteria into decision making for public investment projects.

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

5. **Since the last update, Paraguay has made progress in operationalizing its national carbon market.** It approved the regulatory framework for Law 7190/2023 on carbon credits in February 2025, establishing the Carbon Markets directorate and beginning work on the national Carbon Credit registry.

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[2] See the World Bank Paraguay Country Climate and Development Report for a more detailed discussion.

[3] The plan envisions 25 actions across 7 priority sectors: resilient cities and communities, health and epidemiology, ecosystems and biodiversity, energy, agriculture/forestry/food security, transport and water.

[4] In 2022, the government published Decree No. 7017 to regulate the aforementioned law, stipulating the need for MADES to establish a Water Resources Plan, a National Water Inventory, and a Water Resources Registry.

6. **The government has also begun to implement traceability in the livestock sector.** In December 2024, the National Service of Animal Quality and Health (SENACSA) published Resolution No. 2103 mandating the compulsory individual identification of calves born between July 1, 2024, and June 30, 2025, using official identification devices. This ensures that imported animals are properly tracked and comply with the same identification standards as locally born animals. Inter-institutional work on a national socioenvironmental traceability platform also continues to advance under the leadership of MIC, in collaboration with the National University of Asuncion.

7. **The government is also taking important steps to preserve its clean electricity matrix.** Amendments to Law 6977/2023 to promote the generation and development of electricity from non-conventional and non-hydraulic renewable energy sources are being discussed in Congress. These amendments would address questions of legal and revenue uncertainty for independent power producers, improving the enabling conditions for Paraguay to promote solar and other types of non-hydropower renewable energy.

D. Other Challenges and Opportunities

8. **The Ministry of Economy and Finance published a framework for Green, Social and Sustainable Bonds and a national green finance taxonomy in December 2024.** These could help Paraguay mobilize more public and private capital for activities that contribute to climate adaptation and mitigation.

E. World Bank Engagement in Climate Change

9. **The World Bank Group continues to support Paraguay's efforts to be better prepared for climate-related shocks and to decarbonize.** The World Bank prepared a Country Climate Development Report that informed the preparation of the RSF reform matrix. The government has also requested support from the World Bank to develop a Long-Term Climate Strategy, in addition to ongoing technical assistance on scaling up commercial forestry, improving land administration, developing a social protection strategy focused on the poor and vulnerable in high climate risk areas, and incorporating climate risks into the banking sector. The World Bank and the International Finance Corporation (IFC) published a Country Private Sector Diagnostic that identifies barriers to private investment in renewable energy, forestry, sustainable agriculture, and light manufacturing.

Annex I. World Bank Assessment Letter for Paraguay RSF, November 2024

1. See published letter at:
https://www.imf.org/en/Publications/CR/Issues/2024/12/21/Paraguay-Fourth-Review-Under-the-Policy-Coordination-Instrument-Request-for-Modification-of-559963