

## **Paraguay: Sixth Review Under the Stand-By Arrangement—Staff Report; and Press Release on the Executive Board Discussion**

In the context of the sixth review under the Stand-By Arrangement, the following documents have been released and are included in this package:

- the staff report for the Sixth Review Under the Stand-By Arrangement prepared by a staff team of the IMF, following discussions that ended on September 24, 2005, with the officials of Paraguay on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on November 18, 2005. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- a Press Release summarizing the views of the Executive Board of the staff report that completed the review.

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INTERNATIONAL MONETARY FUND

PARAGUAY

**Sixth Review Under the Stand-By Arrangement**

Prepared by the Western Hemisphere Department  
(In consultation with other departments)

Approved by Caroline Atkinson and Matthew Fisher

November 18, 2005

- **Arrangement.** This precautionary 15-month SBA for SDR 50 million (50 percent of quota) was approved by the Executive Board on December 15, 2003. The program has been extended on two occasions, December 20, 2004 and September 30, 2005. The program expires on November 30, 2005. The fifth SBA review was completed on August 22, 2005. No purchases have been made under this arrangement. The program's objectives of restoring stability and starting a reforming process to create conditions for sustained growth have been largely achieved.
- **Developments.** The program remains broadly on track. All quantitative performance criteria for end-June 2005 were observed. Most macroeconomic program projections for end-2005 are within reach. The economy is expected to grow by 3 percent but inflation will reach 10 percent in 2005 mostly due to supply shocks. The fiscal deficit will be below the ½ percent of GDP target for the year despite expenditure pressures and a recent reduction in the rate on corporate income tax advances. The *guaraní* has been relatively stable after an earlier appreciation. International reserves are well above program projections and the Central Bank continues with a policy of limited foreign exchange intervention. However, there have been delays in implementing the structural reform agenda.
- **Policies.** There were two structural benchmarks outstanding in the program linked to the sixth SBA review: (i) design of plans for private capital participation in ESSAP, COPACO and PETROPAR; and (ii) design a plan to strengthen the banking system taking into account FSAP recommendations. These benchmarks have now been completed.
- **Discussions.** These were conducted in Washington with a Paraguayan delegation that included Finance Minister Bergen; Central Bank President Perez dos Santos; Deputy Finance Minister von Horoch, and other senior officials on September 20–24. The staff included: Mr. Santos (head), Mr. Duran-Downing (Resident Representative in Asunción), Ms. Frantischek, Mr. Roy (all WHD); Mr. Breuer (PDR). Mr. Singh and Ms. Atkinson (WHD) participated in the policy discussions. Mr. Ayala (OED) also participated in the discussions.

### List of Acronyms

ANDE	National Electricity Company
ANNP	National Port Authority
BCP	Central Bank of Paraguay
BNF	National Development Bank
CONATEL	National Telecommunications Commission
COPACO	Telephone Company
DINAC	National Aerospace Authority
ESSAP	Water and Sewage Company
FAD	Fiscal Affairs Department
FSAP	Financial Sector Assessment Program
GDP	Gross Domestic Product
GFS	Government Finance Statistics
GNFS	Good and Nonfactor Services
IAS	International Accounting Standards
IDB	Inter-American Development Bank
IFS	International Financial Statistics
INC	National Cement Company
INCOOP	National Cooperative Institute
IPS	Social Security System
IT	Indicative Target
JBIC	Japan Bank for International Cooperation
LEG	Legal Department
LOI	Letter of Intent
LRM	Central Bank bills
MEFP	Memorandum of Economic and Financial Policies
MFD	Monetary and Financial Systems Department
NPL	Nonperforming loans
PC	Performance Criteria
PDR	Policy Development and Review Department
PETROPAR	Petroleum Company
SBA	Stand-By Arrangement
SMEFP	Supplement MEFP
SDR	Special Drawing Rights
TMU	Technical Memorandum of Understanding
VAT	Value Added Tax
WB	World Bank
WHD	Western Hemisphere Department

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## I. BACKGROUND

1. **This is the last review of the Stand-By Arrangement originally approved by the Executive Board in December 2003 and extended in December 2004 and September 2005.** The arrangement, which the authorities have treated as precautionary, expires at end-November 2005. Access under the program was SDR 50 million (50 percent of quota). Upon completion of this review, the whole SDR 50 million will become available to the authorities, who do not intend to make the purchase.
2. **The program is ending successfully, having achieved the broad objectives of restoring stability and beginning a process of structural reform, albeit with some delays.** At the time of program approval in 2003, Paraguay was experiencing one of the most severe financial and budgetary crises in its recent history, triggered by the regional crisis of 2002 and exacerbated by weak macroeconomic fundamentals. A quick and decisive policy response articulated in the context of the Fund-supported program stopped the financial crisis and put the public finances on a sustainable path. In 2004, Paraguay experienced the best macroeconomic results in a decade with economic growth of 4 percent and inflation below 3 percent. However, implementation of the structural agenda was uneven, reflecting the heavy reliance on legislative initiatives.

## II. RECENT DEVELOPMENTS<sup>1</sup>

3. **The most recent information indicates that economic performance in 2005 continues as described at the time of the last review in August.**
  - ***Inflation developments.*** After relative price stability in August, the monthly inflation rate rose by 1½ percent in September and October 2005. The 12-month rate of inflation jumped to 7 percent in September and about 10 percent in October. However, the Central Bank of Paraguay estimates that more than half of the pressures are due to: (i) higher international oil prices; and (ii) imported inflation (mostly from Brazil as the real has strengthened).

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<sup>1</sup> In August 2005, the Paraguayan authorities issued decree 6295 in connection with a disputed claim against Paraguay arising from loans fraudulently contracted by a Paraguayan diplomat in the 1980s (Mr. Gramont-Berres). This followed the ruling of the Swiss Federal Supreme Court in May 2005 in favor of a bank syndicate claiming US\$85 million against Paraguay on a purported guarantee on loans to Mr. Gramont-Berres. The decree does not recognize the ruling of the Swiss court nor the liabilities arising from the fraud. The authorities are now seeking a diplomatic solution to this issue. For the purpose of the program, the claims of the bank syndicate continue at present to be treated as in dispute.

- The Central Bank had tightened monetary conditions and limited foreign exchange intervention.*** In response to these price pressures, interest rates on *letras de regulación monetaria* were increased by 125 basis points in late October 2005. The *guaraní* has remained stable after an earlier appreciation against the U.S. dollar. International reserves remain well above program projections.
- Fiscal policy remains tight.*** Despite a recent reduction in the tax rate on advance payments on the corporate income tax (from 30 to 10 percent), the 2005 fiscal objectives are expected to be met, mostly due to continued efforts on tax collections and expenditure restraint, including by implementing a lower-than-programmed level of public investment.<sup>2</sup>
- The current account has deteriorated mostly due to the oil shock.*** Imports continue to grow rapidly in 2005 due to higher oil prices whereas exports remain subdued due to the drought and low export prices.

Paraguay: Recent Developments			
Annual Growth (in percent) 1/			
	2003	2004	Jan-Sep 2005
<b>Production 2/</b>			
Manufacture	0.2	6.6	0.9
Agriculture	10.9	2.8	-10.2
Livestock	-1.2	9.0	26.4
<b>Inflation 3/</b>			
Consumer prices	9.3	2.8	7.6
<b>Monetary 3/</b>			
Base money	57.7	17.6	-5.1
Money supply	35.8	24.7	24.5
<b>Public Finances</b>			
Tax receipts	25.8	34.1	10.1
<b>External</b>			
Exports 4/	30.6	30.9	-0.8
Imports 4/	23.5	42.2	8.7
Exchange rate 3/	-13.3	2.8	2.8
NIR (billion US\$)	0.98	1.17	1.28

Source: Paraguayan authorities.  
 1/ With respect to same period of previous year, unless otherwise specified.  
 2/ Data for 2005 through August (*BCP's Monthly Indicators*).  
 3/ 12-month growth rate e.o.p. (G/US\$ for exchange rate).  
 4/ Registered trade.

### III. PROGRAM PERFORMANCE

4. **The program continues to be broadly on track.** All quantitative performance criteria for end-June 2005, the last date for which quarterly quantitative performance criteria were set, were observed and reported to the Board at the time of the last review in August.<sup>3</sup> Latest information indicates that the key program variables remain on track consistent with projections under the program. Discussions on a possible successor arrangement are ongoing.

<sup>2</sup> The fiscal adjustment law (2004), a key measure under the program, anticipates a reduction in the corporate income tax rate (due the following year) from 30 to 20 percent in 2005 and 10 percent in 2006. With the August reduction in advance payments (applicable to the tax obligations of the same year), the average rate on 2005 advance payments will be 20 percent (as some payments were made at 30 percent and others at 10 percent), which is the *de jure* 2005 rate. Similarly, the average rate on 2006 advance payments will be 10 percent, which is the *de jure* 2006 rate. The staff estimates the tax reduction in 2006 to amount to about 1¼ percent of GDP on an annual basis.

<sup>3</sup> The continuous performance criteria in the program on the short-term external debt and zero-arrears and the standard performance criteria related to exchange and import restrictions also continue to have been observed.

**5. The two benchmarks outstanding in the program as structural conditionality have now been observed.**

- **On public enterprises.** The design of plans for private capital participation in ESSAP (water), COPACO (telephone) and PETROPAR (petroleum) involving, *inter-alia*, outsourcing of the management of these companies to professionals in the private sector under a performance contract was completed in October.<sup>4</sup>

Measure	Conditionality (Date)	Status
1. Plans for private capital participation ESSAP, COPACO, PETROPAR	Benchmark (Aug 2005)	Done (Oct 2005)
2. Plan to strengthen banking system taking into account FSAP recommendations	Benchmark (Sep 2005)	Done (Nov 2005)

Sources: Paraguayan authorities and Fund staff estimates.

- **On banking.** The development of an action plan to achieve the program objectives of strengthening the banking system based on the FSAP recommendations was completed in November. The plan was designed with the assistance of an MFD-financed advisor. It involves a detailed sequence of actions to be taken by the Central Bank and the Superintendency of banks to address identified weaknesses, including strengthening monetary operations, redefining minimum capital requirements, setting out a fit and proper test for issuing banking licenses, sharpening the identification of corporate risk and enhancing sanction capabilities. The authorities intend to build a consensus within the banking community to support the implementation of the actions included in this plan.

**IV. STAFF APPRAISAL**

**6. The staff welcomes the successful completion of the Fund-supported program.** The main objectives of stopping a financial crisis, strengthening the fiscal position and beginning a process of structural reform to achieve higher and sustainable growth rates in the economy have been basically achieved during this arrangement. The authorities were able to implement a demanding program under difficult political conditions. While implementation of the structural agenda was somewhat uneven, the authorities are commended for these efforts, especially as there was no recent experience in handling Fund-supported programs. This was the first Fund arrangement in 35 years.

**7. The prospects for Paraguay remain positive.** While long-standing vulnerabilities continue in a number of areas, the program has been effective in placing the public finances

<sup>4</sup> At the time of the fifth review the authorities requested a waiver for the non-observance of the structural performance criterion on conducting the accounting audits of ANNP (ports authority), DINAC (aviation authority), INC (cement) and PETROPAR (oil distribution). At that time, the audits for ANNP, DINAC and PETROPAR had already begun. The audit for INC began shortly after the completion of the fifth review. All these audits are expected to be finalized by end-2005.

toward a sound footing and enhancing debt sustainability. For once, the debt to GDP ratio is declining rather than increasing. The overall assessment of the medium-term has not materially changed with respect to previous projections. The authorities remain committed to broad fiscal balance over the medium term, and the economy has the potential to grow much faster if macroeconomic stability is preserved and a comprehensive structural reform agenda is adopted. The staff welcomes the authorities' interest in developing a new medium-term program with the aim of increasing growth and alleviating poverty, which is being developed in consultation with the Fund.

8. **The staff supports completion of the sixth and last review under the SBA.** In view of the measures taken to complete remaining conditionality under the program, notably the development of an action plan to strengthen the financial system, reducing vulnerabilities, and the continued satisfactory macroeconomic performance, the staff supports completion of this review.

**Table 1. Paraguay: Quantitative Performance Criteria**

	2004				2005					
	end-Mar.		end-Aug.		end-Dec.		end-Mar.		end-June	
	Target	Actual								
<b>Fiscal targets</b>										
1. Overall balance of the central administration (floor, in billions of guaranies) 1/ 2/	240	523	430	982	55	792	105	261	136	652
2. Wage bill of the central administration (ceiling, in billions of guaranies) 2/	650	668	1,791	1,812	3,010	2,984	754	744	1,525	1,509
3. Overall balance of the public sector (floor, in billions of guaranies) 1/ 2/	250	678	500	1,529	130	999	174	357	336	678
<b>Monetary targets</b>										
4. Net international reserves (floor, in millions of U.S. dollars) 3/	773	1,016	1,057	1,141	1,059	1,168	1,100	1,189	1,175	1,273
5. Net domestic assets (ceiling, in billions of guaranies) 3/	-2,839	-4,264	-4,444	-5,231	-3,958	-4,848	-4,488	-5,247	-5,168	-5,782
<b>Public debt and arrears targets</b>										
6. Contracting or guaranteeing of nonconcessional external debt by the NFPS (ceiling, in millions of US\$) 2/	50	0	200	0	200	0	200	10	200	47
7. External payments arrears of NFPS (ceiling, in millions of US\$) 4/	75	75	5	3	0	16	...	...	...	...
8. <i>Of which:</i> bilateral arrears 4/	38	12	0	0	0	0	...	...	...	...
9. Central government floating debt (ceiling, in billions of guaranies) 4/ 2/	350	228	297	235	320	134	...	...	...	...
<b>Continuous performance criteria</b>										
10. Contracted or guaranteed short-term external debt by the NFPS	0	0	0	0	0	0	0	0	0	0
11. Non-accumulation of external debt arrears 5/	0	B	0	B	0	B	0	0	0	0

1/ As specified in the TMU ([www.imf.org](http://www.imf.org)), for 2005 this target will be adjusted upward by 30 percent in case of over performance in tax revenues.

2/ Cumulative flows from the beginning of the corresponding calendar year.

3/ NIR is adjusted upward (downward) for any increase (decrease) in reserve requirement for foreign currency deposits (above pre-specified amounts) and upward by the amount of any program disbursements. Similarly, the NDA target will be adjusted downward (upward) following the adjustment in the NIR.

4/ These performance criteria will not apply in 2005.

5/ B = breached.

**Table 2. Paraguay: Structural Conditionality Under the Program in 2005**

Measure	Conditionality 1	Timing	Status and Comments
<b>Public Sector Reform</b>			
A. Independent audits for ANNP, DINAC, INC, PETROPAR	PC	April 30, 2005	<u>In progress</u> . Audits began for all entities. Waiver approved at 5th review.
B. Finalize plan for comprehensive civil service reform	SB	April 30, 2005	<u>Done</u> . Plan approved by Cabinet in July.
C. Plan for private capital participation ESSAP, COPACO, PETROPAR	SB	August 31, 2005	<u>Done</u> . Plan was submitted to staff in early October.
<b>Financial Sector Reform</b>			
D. Introduce prudential regulations to cooperatives	SB	March 31, 2005	<u>Done</u> . Introduced in December 2004.
E. Approval of public banking law (second tier)	SB	May 31, 2005	<u>Done</u> . Approved by Congress in July.
F. Approval of new comprehensive banking legislation	PC	June 30, 2005	<u>Modified</u> . Law was submitted to Congress in December 2004, but the authorities decided to review their legislative strategy. Waiver approved at the 5th review.
G. Submission of public banking law (first tier) and adopt commission's recommendations	PC	July 30, 2005	<u>Done</u> . Law was submitted to Congress in February 2005, and approved by the Senate in May 2005. However, changes to the law in both chambers of Congress altered the substance of the bill, and authorities are considering vetoing it.
H. Develop an action plan for strengthening the banking system, maintaining the objectives of the original draft law.	SB	September 15, 2005	<u>Done</u> . Plan was submitted to staff in November.

Sources: Paraguayan authorities; and Fund staff estimates.

1/ SB = structural benchmarks; PC = performance criteria

**Table 3. Paraguay: Schedule of Reviews and Purchases**

Date	Amount of Purchase		Conditions
	Millions of SDRs	Percent of Quota	
<b>Purchases available</b>	<b>44.0</b>	<b>44.0</b>	
December 15, 2003	30.0	30.0	Approval of arrangement
March 16, 2004	4.0	4.0	First review and end-December 2003 performance criteria
July 30, 2004	4.0	4.0	Second review and end-March 2004 performance criteria
December 20, 2004	3.0	3.0	Third review and end-August 2004 performance criteria
March 30, 2005	3.0	3.0	Fourth review and end-December 2004 performance criteria
August 22, 2005	3.0	3.0	Fifth review, and end-March 2005 and end-June 2005 performance criteria
<b>Purchases to become available</b>	<b>3.0</b>	<b>3.0</b>	
November 30, 2005	3.0	3.0	Sixth review and remaining structural benchmarks
<b>Total</b>	<b>50.0</b>	<b>50.0</b>	

Source: Fund staff estimates.



**Table 5. Paraguay: Central Government Operations, 2002–06**

	2002	2003	2004	2005		2006	
				Prog.	Rev. Proj.	Draft budget	Staff Proj.
(In billion of guaraníes)							
<b>Total revenues</b>	<b>5,048</b>	<b>6,001</b>	<b>7,637</b>	<b>8,137</b>	<b>8,096</b>	<b>9,516</b>	<b>8,976</b>
Tax revenues	2,923	3,676	4,929	5,093	5,283	5,876	5,765
Nontax revenues 1/ o/w : Public pension contributions	2,118	2,318	2,696	3,035	2,810	3,638	3,209
Itaipu-Yacyreta	310	364	440	394	470	479	507
Itaipu-Yacyreta	1,259	1,456	1,640	1,699	1,630	1,738	1,743
Capital revenues	7	7	12	9	3	2	2
<b>Current expenditures:</b>	<b>4,766</b>	<b>4,981</b>	<b>5,363</b>	<b>6,089</b>	<b>6,275</b>	<b>7,001</b>	<b>6,785</b>
Wages and salaries	2,582	2,724	2,984	3,328	3,321	3,684	3,684
Goods and services	373	408	447	526	555	711	598
Interest payments	456	489	483	561	568	553	562
Transfers	1,326	1,334	1,431	1,647	1,807	2,028	1,920
Of which : pensions and benefits	913	943	940	1,078	1,172	1,295	1,256
Other	29	26	18	26	23	24	22
<b>Capital expenditures and net lending</b>	<b>1,281</b>	<b>1,165</b>	<b>1,625</b>	<b>2,287</b>	<b>1,895</b>	<b>2,847</b>	<b>2,181</b>
Capital formation	1,145	1,098	1,383	2,028	1,532	2,391	1,789
Of which:							
Net lending	-6	-88	-29	-42	-17	-53	-21
Statistical discrepancy 2/	271	29	151	0	0	0	
<b>Overall balance</b>	<b>-728</b>	<b>-116</b>	<b>799</b>	<b>-240</b>	<b>-74</b>	<b>-331</b>	<b>10</b>
<b>Financing</b>	<b>728</b>	<b>116</b>	<b>-799</b>	<b>240</b>	<b>74</b>	<b>331</b>	<b>-10</b>
External debt (increase +)	118	590	103	301	-84	113	-2
Disbursements	738	1,156	763	1,142	877	1,221	1,197
Amortizations	619	566	660	841	962	1,108	1,198
Domestic bonds (increase +)	-26	-58	-78	-167	-120	224	-209
Net credit from the banking system	-27	-308	-131	105	126	0	200
Other	663	-108	-693	0	153	-6	0
(In percent of GDP)							
<b>Total revenues</b>	<b>17.3</b>	<b>16.6</b>	<b>18.4</b>	<b>18.3</b>	<b>18.1</b>	<b>19.0</b>	<b>17.9</b>
Tax revenues:	10.0	10.2	11.9	11.4	11.8	11.7	11.5
Nontax revenues 1/	7.3	6.4	6.5	6.8	6.3	7.3	6.4
Capital revenues	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Current expenditures</b>	<b>16.4</b>	<b>13.8</b>	<b>13.0</b>	<b>13.7</b>	<b>14.0</b>	<b>14.0</b>	<b>13.5</b>
Wages and salaries	8.9	7.5	7.2	7.5	7.4	7.3	7.3
Goods and services	1.3	1.1	1.1	1.2	1.2	1.4	1.2
Interest payments	1.6	1.4	1.2	1.3	1.3	1.1	1.1
Transfers	4.6	3.7	3.5	3.7	4.0	4.0	3.8
<b>Capital expenditures and net lending</b>	<b>4.4</b>	<b>3.2</b>	<b>3.9</b>	<b>5.1</b>	<b>4.2</b>	<b>5.7</b>	<b>4.4</b>
Statistical discrepancy 2/	0.9	0.1	0.4	0.0	0.0	0.0	0.0
<b>Overall balance</b>	<b>-2.5</b>	<b>-0.3</b>	<b>1.9</b>	<b>-0.5</b>	<b>-0.2</b>	<b>-0.7</b>	<b>0.0</b>
<b>Financing</b>	<b>2.5</b>	<b>0.3</b>	<b>-1.9</b>	<b>0.5</b>	<b>0.2</b>	<b>0.7</b>	<b>0.0</b>
External debt (increase +)	0.4	1.6	0.2	0.7	-0.2	0.2	0.0
Disbursements	2.5	3.2	1.8	2.6	2.0	2.4	2.4
Amortizations	2.1	1.6	1.6	1.9	2.1	2.2	2.4
Domestic bonds (increase +)	-0.1	-0.2	-0.2	-0.4	-0.3	0.4	-0.4
Net credit from the banking system	-0.1	-0.9	-0.3	0.2	0.3	0.0	0.4
Other	2.3	-0.3	-1.7	0.0	0.3	0.0	0.0
<b>Memorandum Item:</b>							
Primary balance	-1.9	1.0	2.7	0.7	1.1	0.4	1.1
Balance of the Caja Fiscal 3/	-2.1	-1.6	-1.2	-1.5	-1.6	-1.6	-1.5

Sources: Ministry of Finance; and Fund staff estimates.

1/ Includes receipts from the binational hydroelectric plants Itaipu and Yacyreta, and grants.

2/ Measurement error to reconcile above-the-line estimate with measure of the fiscal balance from the financing side.

3/ Includes pension payments to central government employees and Chaco War veterans.

**Table 6. Paraguay: Operations of the Consolidated Public Sector 1/**

	2002	2003	2004	2005		2006
				Prog.	Proj.	Proj.
(In billion of guaraníes)						
<b>Revenue</b>	<b>6,160</b>	<b>7,450</b>	<b>8,960</b>	<b>9,665</b>	<b>9,686</b>	<b>10,748</b>
Tax revenue	2,927	3,676	4,936	5,098	5,291	5,774
Nontax revenue and grants	3,117	3,617	4,010	4,505	4,358	4,933
Capital revenue	116	157	14	62	37	40
<b>Current expenditure</b>	<b>5,763</b>	<b>6,247</b>	<b>6,802</b>	<b>7,532</b>	<b>7,747</b>	<b>8,582</b>
Wages and salaries	3,095	3,290	3,634	3,957	4,027	4,474
Goods and services	572	634	751	816	862	997
Interest payments	603	728	677	660	743	848
Transfers	1,455	1,544	1,699	1,952	2,084	2,229
Other	39	51	40	146	30	34
<b>Capital expenditure and net lending</b>	<b>1,875</b>	<b>1,819</b>	<b>1,956</b>	<b>3,217</b>	<b>2,235</b>	<b>2,593</b>
<b>Public enterprises' operating surplus</b>	<b>458</b>	<b>801</b>	<b>583</b>	<b>1,063</b>	<b>306</b>	<b>447</b>
Statistical discrepancy 2/	35	-203	98	0	0	0
<b>Overall balance</b>	<b>-986</b>	<b>-17</b>	<b>884</b>	<b>-21</b>	<b>10</b>	<b>20</b>
<b>Financing</b>	<b>986</b>	<b>17</b>	<b>-884</b>	<b>21</b>	<b>-10</b>	<b>-20</b>
External financing net	19	459	-42	293	-143	-75
Domestic financing net	-157	-24	-55	-273	-78	112
Bond financing	-26	-58	-78	-167	-120	-209
Net credit from the banking system	-525	-356	-152	-367	-71	30
Quasifiscal deficit financing	394	390	175	260	114	291
Other	1,124	-417	-786	0	210	-57
(In percent of GDP)						
<b>Revenue</b>	<b>21.2</b>	<b>20.6</b>	<b>21.6</b>	<b>21.7</b>	<b>21.6</b>	<b>21.4</b>
Tax revenue	10.1	10.2	11.9	11.5	11.8	11.5
Nontax revenue and grants	10.7	10.0	9.7	10.1	9.7	9.8
Capital revenue	0.4	0.4	0.0	0.1	0.1	0.1
<b>Current expenditure</b>	<b>19.8</b>	<b>17.3</b>	<b>16.4</b>	<b>16.9</b>	<b>17.3</b>	<b>17.1</b>
Wages and salaries	10.6	9.1	8.8	8.9	9.0	8.9
Goods and services	2.0	1.8	1.8	1.8	1.9	2.0
Interest payments	2.1	2.0	1.6	1.5	1.7	1.7
Transfers	5.0	4.3	4.1	4.4	4.7	4.4
Other	0.1	0.1	0.1	0.3	0.1	0.1
<b>Capital expenditure and net lending</b>	<b>6.4</b>	<b>5.0</b>	<b>4.7</b>	<b>7.2</b>	<b>5.0</b>	<b>5.2</b>
<b>Public enterprises' operating surplus</b>	<b>1.6</b>	<b>2.2</b>	<b>1.4</b>	<b>2.4</b>	<b>0.7</b>	<b>0.9</b>
Statistical discrepancy 2/	0.1	-0.6	0.2	0.0	0.0	0.0
<b>Overall balance</b>	<b>-3.4</b>	<b>0.0</b>	<b>2.1</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Financing</b>	<b>3.4</b>	<b>0.0</b>	<b>-2.1</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
External financing net	0.1	1.3	-0.1	0.7	-0.3	-0.1
Domestic financing net	-0.5	-1.2	-0.1	-0.6	-0.2	0.2
Of which : quasifiscal deficit financing	1.4	1.1	0.4	0.6	0.3	0.6
Other	3.9	-1.2	-1.9	0.0	0.5	-0.1
<b>Memorandum item:</b>						
Primary balance	-1.4	2.5	3.5	1.4	1.7	1.7

Sources: Ministry of Finance and Fund staff estimates.

1/ Public sector comprises only the nonfinancial public sector and the Central Bank.

2/ Measurement error to reconcile above the line estimate with estimates of the fiscal balance from the financing side.

**Table 7. Paraguay: Summary Accounts of the Central Bank**

(In billions of guaranies; end-of-period; valued at constant exchange rate)

	2003	2004	2005		2006
			Prog.	Rev. Proj.	Proj.
<b>Currency issue</b>	<b>2,207</b>	<b>2,488</b>	<b>2,816</b>	<b>2,736</b>	<b>2,974</b>
Growth	29.9	12.7	10.0	10.0	8.7
<b>Net international reserves</b>	<b>6,175</b>	<b>7,335</b>	<b>7,660</b>	<b>7,850</b>	<b>8,088</b>
(In millions of U.S. dollars)	983	1,168	1,220	1,250	1,288
<b>Net domestic assets</b>	<b>-3,969</b>	<b>-4,848</b>	<b>-4,844</b>	<b>-5,114</b>	<b>-5,114</b>
Net nonfinancial public sector	1,163	1,345	1,058	1,512	1,712
Net credit to the central government	952	947	919	1,207	1,407
Net credit to the rest of NFPS	211	398	139	305	305
Net credit to the banking system	-3,362	-4,376	-4,873	-5,170	-5,594
Reserve requirements	-2,219	-2,195	-2,413	-2,305	-2,441
Free reserves	-543	-1,012	-842	-591	-491
Monetary control bills (LRM)	-602	-1,171	-1,627	-2,285	-2,674
Other	2	2	9	11	11
Other assets and liabilities (net)	-1,770	-1,817	-1,029	-1,456	-1,232
Capital and reserves	-1,463	-1,674	-988	-1,589	-1,298
Other assets net 1/	-308	-143	-41	132	66
<b>Memorandum items:</b>					
Total stock of LRMs outstanding	1,071	1,552	...	2,526	2,993
Quasifiscal balance 2/	-390	-175	...	-113	-291
in percent of GDP	-1.1	-0.4	...	-0.3	-0.6
Costs of monetary policy operations	219	180	...	165	277
in percent of GDP	0.6	0.4	...	0.4	0.6
Monetary base growth	57.7	17.6	8.2	0.6	4.9

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

1/ Includes LRM held by the nonbanking sector.

2/ Program definition.

**Table 8. Paraguay: Summary Accounts of the Banking System**  
(End of period; valued at constant exchange rate)

	2002	2003	2004	2005		2006
				Prog.	Rev. Proj.	Proj.
(In billions of guaranías)						
I. Central Bank						
<b>Net international reserves</b>	<b>4,027</b>	<b>6,175</b>	<b>7,335</b>	<b>7,660</b>	<b>7,850</b>	<b>8,088</b>
(in millions of U.S. dollars)	641	983	1,168	1,220	1,250	1,288
<b>Net domestic assets</b>	<b>-2,329</b>	<b>-3,969</b>	<b>-4,848</b>	<b>-4,844</b>	<b>-5,114</b>	<b>-5,114</b>
Credit to public sector, net	1,507	1,163	1,345	1,058	1,512	1,712
Credit to banking system, net 1/	-1,814	-2,760	-3,205	-3,247	-2,885	-2,921
Central bank securities	-677	-1,071	-1,552	-1,627	-2,526	-2,993
Other	-1,345	-1,301	-1,436	-1,029	-1,214	-913
<b>Currency issue</b>	<b>1,699</b>	<b>2,207</b>	<b>2,488</b>	<b>2,816</b>	<b>2,736</b>	<b>2,974</b>
II. Monetary Survey						
<b>Net foreign assets</b>	<b>5,497</b>	<b>8,405</b>	<b>9,478</b>	<b>9,965</b>	<b>10,425</b>	<b>10,801</b>
(in millions of U.S. dollars)	875	1,338	1,509	1,587	1,660	1,720
<b>Net domestic assets</b>	<b>3,473</b>	<b>2,152</b>	<b>2,313</b>	<b>2,496</b>	<b>2,208</b>	<b>2,827</b>
Credit to the public sector	932	699	511	-261	383	277
Credit to the private sector	6,230	5,081	5,788	6,464	5,917	6,409
Other	-3,689	-3,628	-3,986	-3,707	-4,091	-3,860
					-128	-105
<b>Broad Liquidity (M4)</b>	<b>8,970</b>	<b>10,558</b>	<b>11,791</b>	<b>12,460</b>	<b>12,633</b>	<b>13,628</b>
Bonds and issued securities	135	31	0	0	0	0
Other monetary liabilities	15	9	125	3	57	61
Central bank securities with private sector	281	469	381	713	418	495
<b>Broad liquidity (M3)</b>	<b>8,539</b>	<b>10,047</b>	<b>11,285</b>	<b>11,745</b>	<b>12,158</b>	<b>13,072</b>
Foreign currency deposits	4,699	5,253	5,310	5,726	5,646	5,980
<b>Money and quasi-money (M2)</b>	<b>3,839</b>	<b>4,794</b>	<b>5,974</b>	<b>6,018</b>	<b>6,512</b>	<b>7,092</b>
Quasi-money	1,198	1,208	1,482	1,378	1,595	1,733
Money (M1)	2,641	3,587	4,492	4,641	4,917	5,358
(Annual percentage change)						
M0 (Currency issued)	2.2	29.9	12.7	10.0	10.0	8.7
Credit to the private sector	-20.9	-18.4	13.9	10.2	2.2	8.3
M1	0.8	35.8	25.2	11.0	9.4	9.0
M2	-2.2	24.9	24.6	10.7	9.0	8.9
M3	-21.0	17.7	12.3	5.2	7.7	7.5
<i>Of which: foreign currency deposits</i>	-31.8	11.8	1.1	0.0	6.3	5.9
<b>Memorandum items:</b>						
Ratio of foreign currency deposits to M3 (percent)	55.0	52.3	47.1	48.8	46.4	45.8
Ratio of foreign currency deposits to private sector deposits in banks (percent)	64.9	63.5	57.1	61.4	57.1	56.5

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

1/ Reflects debt write-offs of central bank credit to commercial banks during 1997 and 1998.

**Table 9. Paraguay: Balance of Payments, 2002-2006**

(In millions of U.S. dollars)

	2002	2003	2004	2005		2006
				Prog. 1/	Rev. Proj.	Proj.
<b>Current account</b>	<b>93</b>	<b>131</b>	<b>10</b>	<b>-27</b>	<b>-177</b>	<b>-174</b>
Trade balance	-283	-280	-404	-460	-603	-603
Exports	1852	2163	2751	2820	2618	2696
Registered	951	1242	1626	1630	1630	1677
Unregistered	901	922	1126	1190	988	1018
Imports	-2134	-2443	-3156	-3280	-3221	-3299
Registered	-1510	-1865	-2652	-2713	-2759	-2839
o/w fuel products	-239	-327	-434	...	-554	-574
Unregistered	-624	-577	-504	-567	-462	-460
Services (net)	214	249	251	214	232	224
Factor income	43	-7	-31	6	-10	3
Transfers	116	165	194	215	205	203
<b>Capital and financial account</b>	<b>53</b>	<b>207</b>	<b>135</b>	<b>66</b>	<b>100</b>	<b>202</b>
General government	-4	92	14	33	-10	0
Disbursements	146	213	139	185	155	186
Amortization	-123	-130	-133	-161	-174	-186
Other	-27	9	9	9	9	0
Private Sector 2/	57	115	121	33	110	202
Direct investment	12	25	86	83	104	110
Foreign currency deposits	-153	334	25	-101	-54	0
Other	198	-244	9	51	60	92
Errors and Omissions	-229	-127	120	0	148	0
<b>Overall Balance</b>	<b>-83</b>	<b>211</b>	<b>265</b>	<b>39</b>	<b>71</b>	<b>28</b>
Net International Reserves (increase -)	83	-302	-181	-39	-82	-38
Gross Reserves	84	-301	-179	-40	-82	-38
Reserve Liabilities	-1	-1	-1	1	1	0
Exceptional Financing	...	91	-88	0	9	10
Arrears deferral (+)/clearance (-)	...	91	-88	0	9	-9
Reschedulings 4/	0	0	0	0	0	19
<b>Memorandum items:</b>						
Current account in percent of GDP	1.8	2.3	0.1	-0.4	-2.4	-2.2
Gross reserves (in millions of U.S. dollars)	641	982	1168	1220	1250	1288
in months of imports of GNFS	2.8	3.4	3.9	3.9	4.1	4.0
External public debt in percent of GDP	47.2	46.5	36.5	37.4	35.0	33.2
Debt service in percent of exports GNFS	9.1	11.7	7.7	8.5	6.5	8.8
Export Volume (percentage change) 3/	-7.7	13.3	14.0	5.7	6.3	2.9
Import Volume (percentage change) 3/	-21.6	15.4	17.1	3.3	-5.0	3.5
Terms of trade (percentage change)	7.3	7.7	2.4	-5.4	-9.9	0.7

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

1/ Revised program ([www.imf.org](http://www.imf.org)).

2/ Includes public enterprises and binationals.

3/ Registered trade.

4/ Excludes disputed claims (Office Nacional du Ducroire, PDI, \$8 million, BIVAC and SGS, \$77 million, Swiss bank syndicate, \$85 million) and unidentified creditors (D.B. Pty, \$0.03 million)

**Table 10. Paraguay: Indicators of External Vulnerability**

	2000	2001	2002	2003	2004	2005 Proj.
<b>Monetary and financial indicators</b>						
Broad money (M3), percentage change 1/	-0.5	0.7	-21.0	17.7	12.3	7.7
Credit to the private sector, real (percentage change) 1/	-9.0	-8.7	-31.1	-25.5	10.9	-7.1
Share of nonperforming loans in total loans (percent) 2/	16.6	16.5	19.7	20.6	10.8	8.9
Average domestic lending rate, real 2/	16.0	22.5	39.0	19.3	17.4	23.0
Central Bank bill yield, real 2/	-2.8	12.8	12.9	-1.2	1.0	0.3
International reserves (millions of US\$)	772	723	641	983	1,168	1,250
Central bank foreign short-term liabilities (millions of US\$)	0.5	0.2	0.5	0.5	0.3	0.0
<b>External indicators</b>						
Merchandise exports (percentage change)	0.7	-18.9	-1.6	16.8	27.2	-4.9
Merchandise imports (percentage change)	4.1	-12.7	-14.6	14.4	29.2	2.1
Merchandise terms of trade (percentage change)	-4.1	-1.0	7.3	7.7	2.4	-9.9
Real effective exchange rate (percentage change)	-6.4	-4.4	-1.2	-6.6	3.5	-4.5
Current account balance (percent of GDP)	-2.3	-4.1	1.8	2.3	0.1	-2.4
Capital and financial account (percent of GDP)	2.2	2.5	1.0	3.7	1.9	1.5
Net foreign direct investment (percent of GDP)	1.4	1.2	0.2	0.4	1.2	1.4
Inward portfolio investment (percent of GDP)	0.0	0.0	0.0	0.0	0.0	0.0
Other net investment (percent of GDP)	0.7	1.1	0.7	3.0	0.5	-0.2
External public debt (percent of GDP)	33.3	35.6	47.2	46.5	36.5	35.0
Debt service (in percent of exports GNFS)	10.4	10.8	9.1	11.7	7.7	6.5
Gross reserves (in US\$)	772	723	641	982	1,168	1,250
In months of imports of GNFS	3.2	3.5	2.8	3.4	3.9	4.1
Over short-term external debt 3/	1.1	1.1	0.9	1.5	1.9	1.8
Over foreign currency deposits in domestic banks	0.6	0.6	0.7	1.0	1.1	1.0

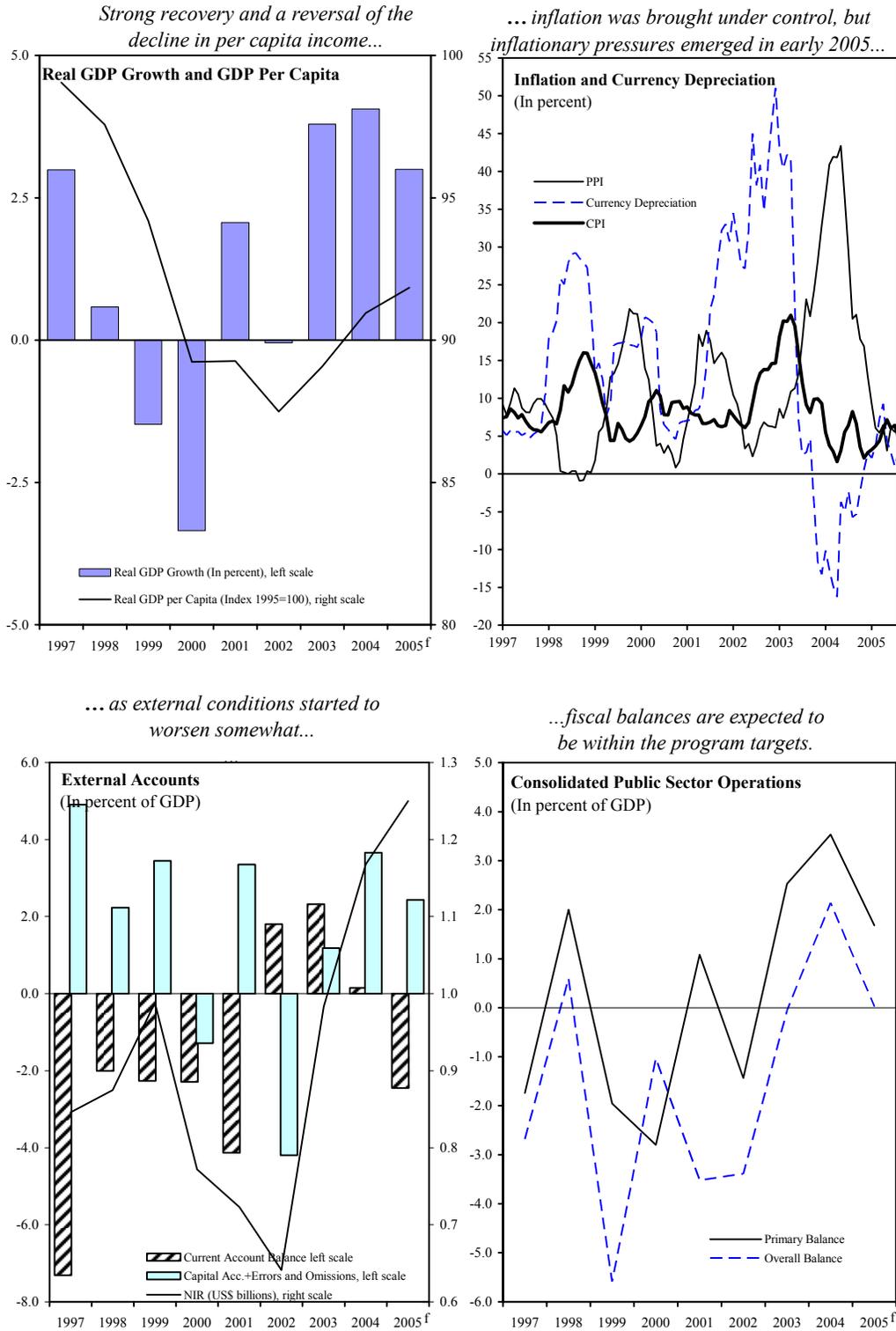
Sources: Central Bank of Paraguay; and Fund staff estimates.

1/ Foreign currency components are valued at the accounting exchange rate of Gs. 6,280 per U.S. dollar.

2/ Latest available data, September 2005.

3/ Private and public external debt with a residual maturity of one year or less. Excludes foreign currency deposits in banking system.

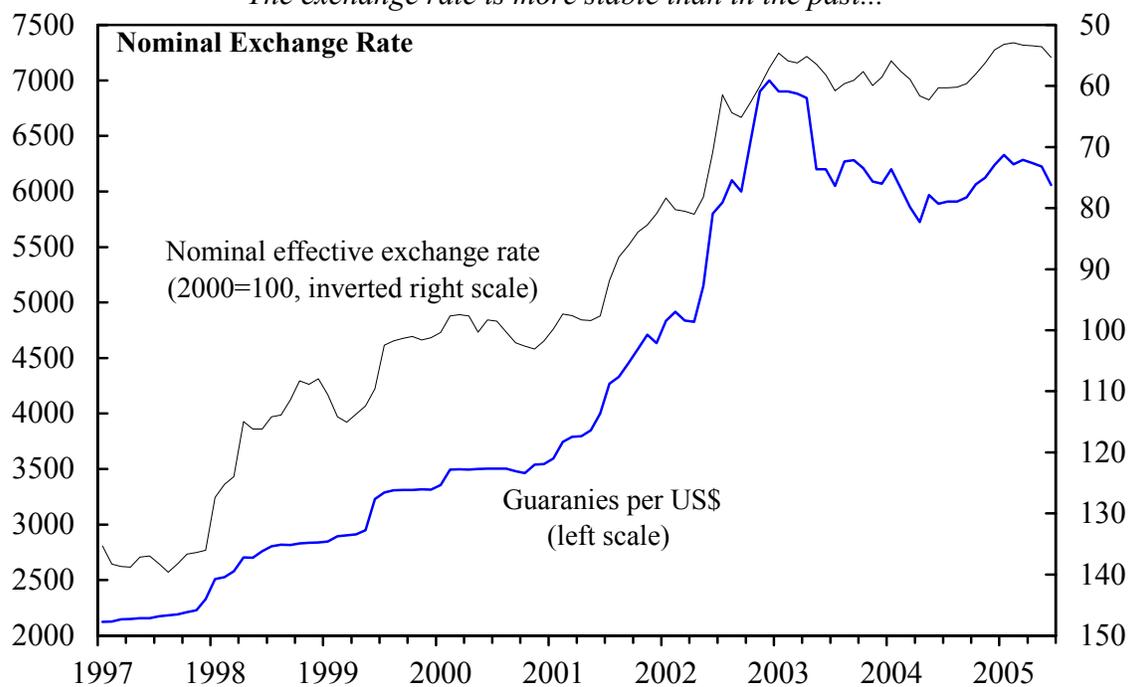
**Figure 1. Paraguay: Selected Economic Indicators**



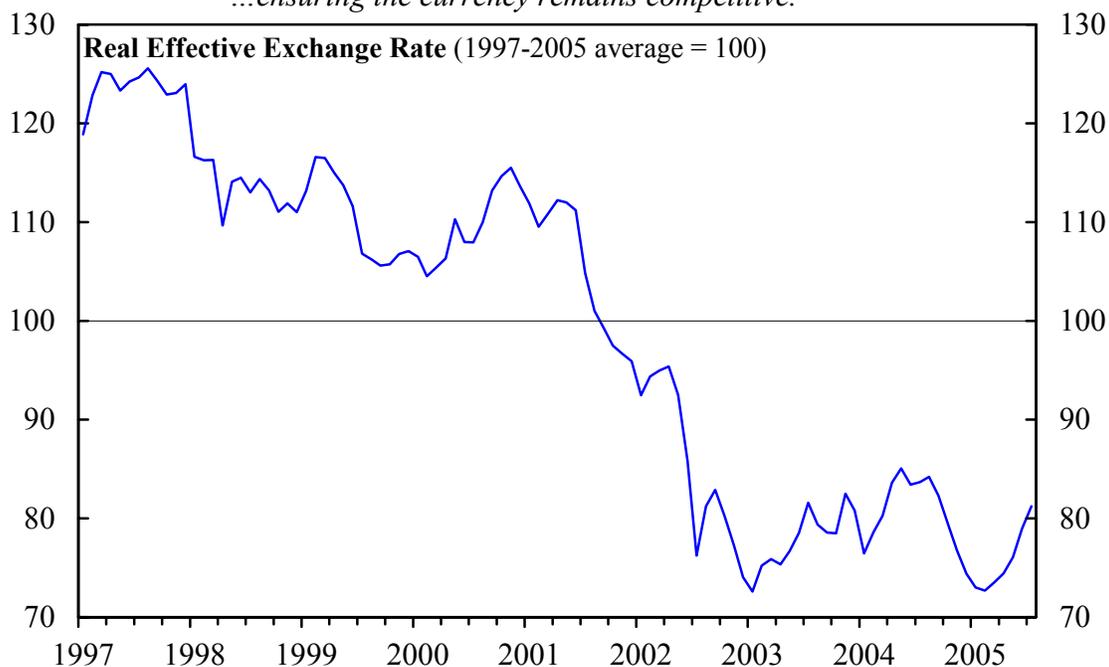
Source: Central Bank of Paraguay and Ministry of Finance.

**Figure 2. Paraguay: Exchange Rate Developments**

*The exchange rate is more stable than in the past...*



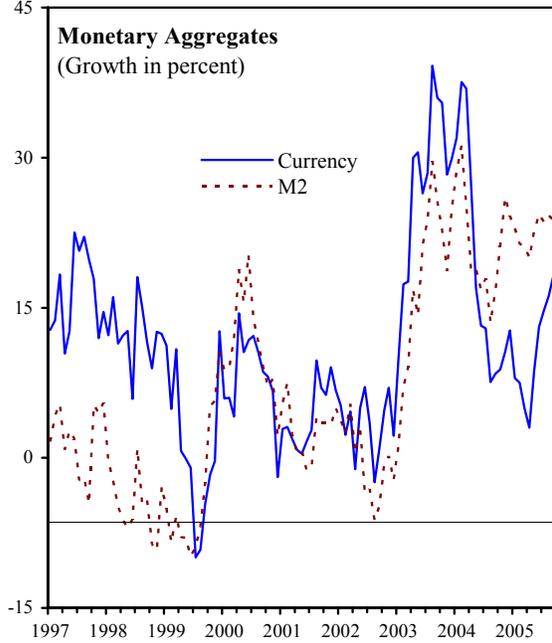
*...ensuring the currency remains competitive.*



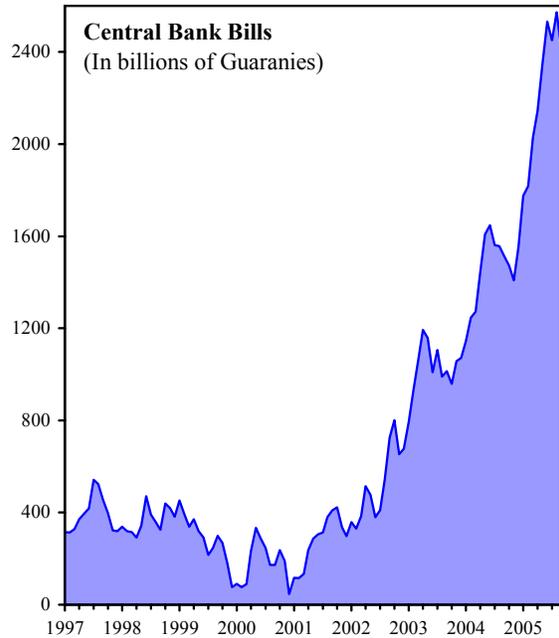
Source: Central Bank of Paraguay and Fund staff estimates.

**Figure 3. Paraguay: Selected Financial Indicators**

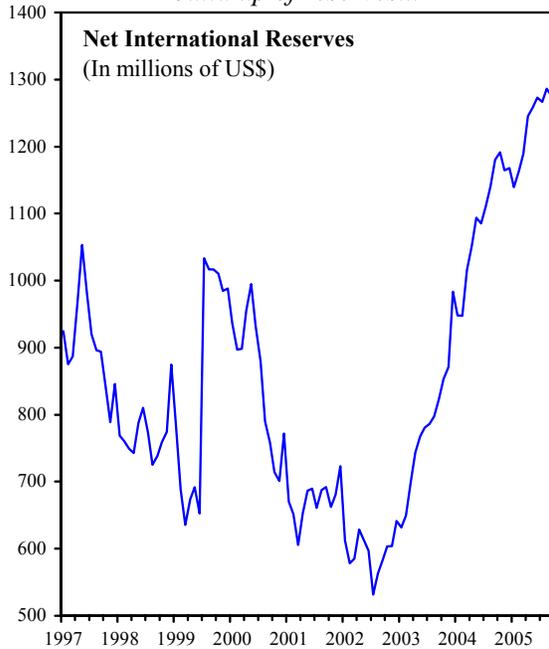
*Currency issue is under control, but demand for guaraní deposits holds up growth of M2.*



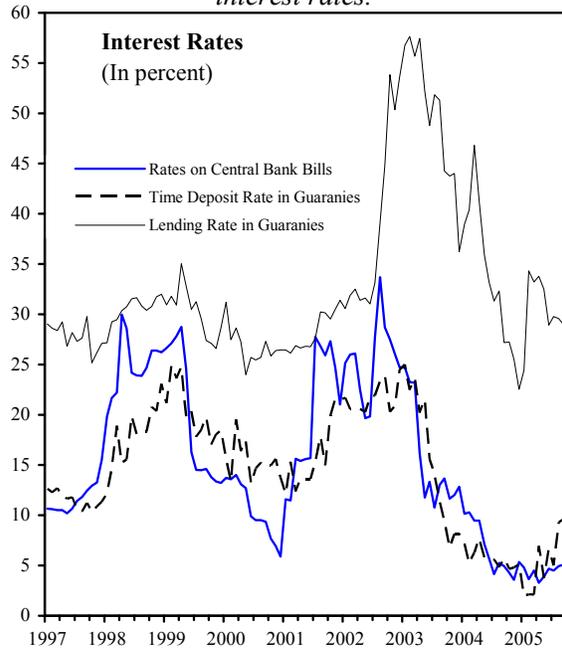
*...The Central Bank continues with its stabilization efforts...*



*...capital inflows facilitated a rapid build up of reserves...*



*...and put downward pressure on interest rates.*

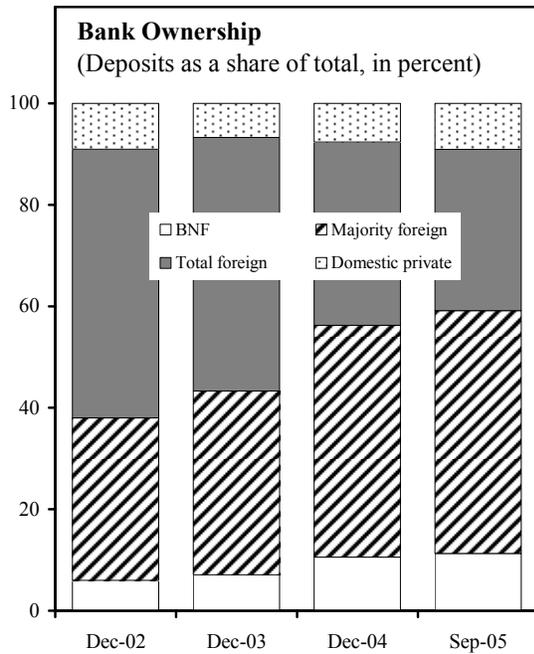
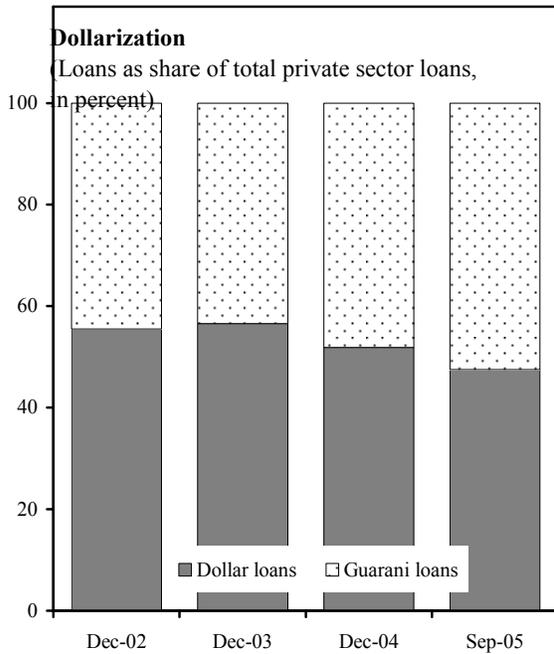


Source: Central Bank of Paraguay.

**Figure 4. Paraguay: Selected Banking Indicators**

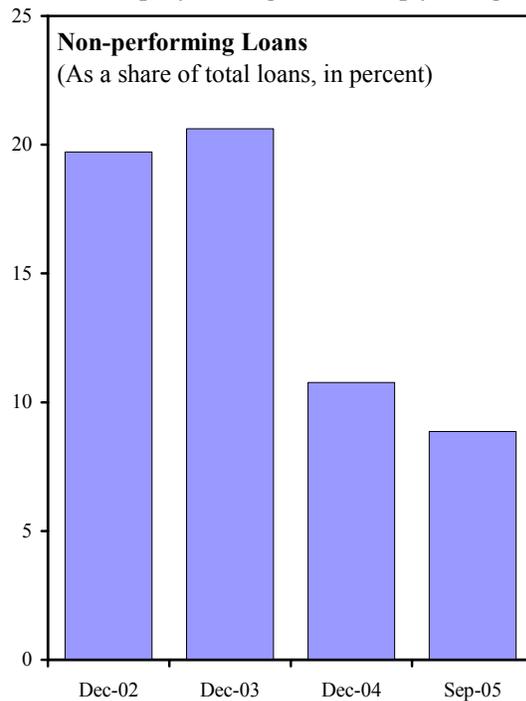
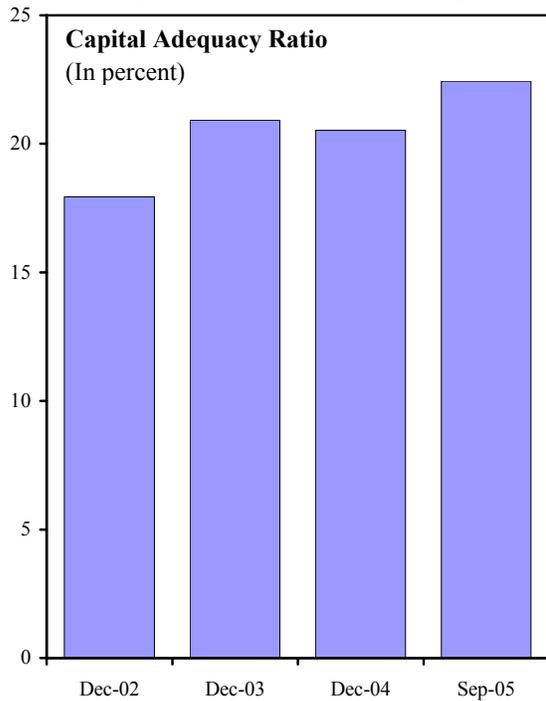
*Dollarization remains high but is declining...*

*...although some foreign banks have left...*



*...capital asset ratios are rising...*

*...as non-performing loans keep falling.*



Source: Central Bank of Paraguay.

**PARAGUAY—FUND RELATIONS**  
(As of October 31, 2005)

I. **Membership Status:** Joined December 28, 1945; Article VIII

II. <b>General Resources Account:</b>	<b>In millions of SDRs</b>	<b>In percent of Quota</b>
Quota	99.90	100.00
Fund holdings of currency	78.43	78.51
Reserve position in Fund	21.48	21.50

III. <b>SDR Department:</b>	<b>In millions of SDRs</b>	<b>Percent of Allocation</b>
Net cumulative allocation	13.70	100.00
Holdings	87.60	639.52

IV. **Outstanding Purchases and Loans:** None

V. **Exchange Rate Arrangement:** The currency of Paraguay is the Paraguayan *guarani*. The exchange rate regime is a managed float. The exchange rate is determined in the interbank foreign exchange market, but the central bank intervenes in the foreign exchange and monetary markets to smooth out exchange rate fluctuations in real effective terms. The U.S. dollar is the principal intervention currency. On September 30, 2005, the average interbank rate for the U.S. dollar was  $\text{G}6,110 = \text{US}\$1$ .

VI. **Article IV Consultation:** The 2002 Article IV consultation was concluded by the Executive Board on March 10, 2003; the documents are IMF Country Reports No. 03/94 and 03/95. The 2004 Article IV consultation was concluded by the Executive Board on July 30, 2004; the document is Country Report No. 05/59.

VII. **Technical Assistance:**

<b>Department</b>	<b>Purpose</b>	<b>Date of Delivery</b>
MAE	Policy Advisory to the Central Bank	March 1994–Present
FAD	Tax Policy	February 1999
FAD	Tax Administration	March 1999
STA	Monetary Statistics	February 2000
STA	Balance of Payments Statistics	June 2000
STA	Multisector, GDDS accession	February 2001

<b>Department</b>	<b>Purpose</b>	<b>Date of Delivery</b>
MAE	Currency Operations	March through September 2002
FAD	Customs Administration	May 2002
MAE	Financial Sector Surveillance	July 2002
FAD	ROSC	August 2002
STA	Multisector, follow-up	September 2002
MAE	Banking Supervision	September through November 2002
MAE	Central Bank Operations	November 2002
TRE	Safeguards Assessment	January 2003
MFD	Banking Supervision	January 2003 through April 2004
MFD	Currency Handling and Reform	February 2002 through April 2004
MFD	Payment System	July 2003
FAD	Customs and Tax Administration	December 2003
MFD	Reorganization of the Central Bank and Monetary Operations	January 2004
FAD	Customs Administration Advisor	July 2004 to May 2005
MFD	Monetary Operations and Monetary Policy Formulation	October 2004
MFD	Public Banking Restructuring	February 2005
FAD	Customs and Tax Administration	February 2005
MFD and WB	FSAP Mission	April 2005 and July 2005
FAD	Update of ROSC	September 2005

VIII. **Safeguards Assessment:** Under the Fund's safeguards assessment policy, Central Bank of Paraguay (CBP) is subject to a full safeguard assessment. A safeguards assessment of the CBP was completed on January 31, 2003. The assessment concluded that substantial risks might exist in legal structure and independence of the Central Bank, and in its control environment. Staff findings, proposed recommendations under program conditionality, and

other recommendations are reported in IMF Country Report No. 03/94. The CBP has implemented all significant recommendations made in the report. Staff will continue to monitor the implementation of the remaining recommendations.

X. **Resident Representative:** Mr. Luis H. Duran-Downing has been appointed as senior resident representative since May 2005.

**PARAGUAY—WORLD BANK RELATIONS<sup>1</sup>**  
(As of September 30, 2005)

A new Paraguay Country Assistance Strategy (CAS) was approved on December 16, 2003, covering the period from mid-FY04 to FY07. The Bank's strategy as outlined in the new CAS aims at restoring confidence in the economy and lays the basis for sustainable growth and poverty reduction. To this end, the CAS supports (i) the fiscal and financial reforms the Administration has to send to Congress; (ii) improved governance and transparency in public administration; (iii) sustained growth, particularly in the rural areas where poverty is concentrated and deepest; and (iv) social inclusion, to improve the coverage and efficiency of basic social services to help Paraguay meet the Millennium Development Goals (MDGs). The base case-lending program for the CAS period is for US\$325 million, of which US\$80 million, or about 25 percent, are envisaged for adjustment operations. The Economic Recovery Loan for US\$30 million was approved on December 16, 2003 together with the CAS, and has been fully disbursed. A first Programmatic Financial Sector Adjustment Loan was approved on April 5, 2005.

A comprehensive Policy Notes document was completed in May 2003 and discussed with the new Administration in June 2003. In FY04, the Bank also prepared a Social Protection Study and a Country Financial Accountability Assessment (CFAA). In FY05, the Bank has completed a Public Expenditure Review (PER), an Institutional and Governance Review, and sector work on Health Strategy. A study on Land Taxes is underway and will be delivered in FY06.

Four World Bank-financed projects are presently under implementation, for a total value of US\$120 million in commitments, of which US\$44.7 million are undisbursed as of September 14, 2005. These projects include Fourth Rural Water Supply, Natural Resource Management, Pilot Community Development, and the Secondary Education Reform. There is also an active program of grants currently being implemented.

A Technical Assistance Loan for the previously mentioned first Programmatic Financial Sector Adjustment Loan was also approved on April 5, 2005, together with a technical assistance loan for the Modernization of the Ministry of Finance. A Maternal Health II project will be considered by the Board of Executive Directors in October 2005. A Sustainable Rural Investment Project, which will be a follow-up to the ongoing Natural Resource Management Project, a Road Maintenance Project and a Modernization of the Water Sector project are being prepared for delivery in FY07. The FY07 program further includes a second Programmatic Financial Sector Adjustment Loan. A Private Sector Development technical assistance loan is also being prepared for possible FY07 delivery. A Social Protection monitoring technical assistance loan and a Forestry Project are also under preparation for delivery in FY08.

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<sup>1</sup> Prepared by the staff of the World Bank.

**FINANCIAL RELATIONS WITH THE WORLD BANK**  
(In millions of U.S. dollars)

**I. IBRD/IDA Operations (as of September 14, 2005)**

	Committed (Net of Cancellations)	Disbursed	Undisbursed
<b>Active loans</b>			
Natural Resource Management	47.0	45.0	2.0
Fourth Rural Water Supply	40.0	25.9	14.1
Community development	9.0	2.3	6.7
Education Reform	24.0	2.1	21.9
<b>Total active loans</b>	<b>120.0</b>	<b>75.3</b>	<b>44.7</b>
<b>Total inactive loans</b>	<b>728.8</b>	<b>728.8</b>	<b>0.0</b>
<b>Total IBRD/IDA</b>	<b>848.8</b>	<b>804.1</b>	<b>44.7</b>
<b>Repaid (incl. Repay to 3<sup>rd</sup> parties)</b>		<b>559.0</b>	
<b>Total outstanding</b>		<b>252.7</b>	
O/w IBRD		231.5	
O/w IDA		21.3	

**II. IFC Operations (as of August 31, 2005)**

	Loans	Equity	Total
Commitments	15.0	0.0	15.0
Repayments and cancellations	0.0	0.0	0.0
Now held by IFC	0.0	0.0	0.0
Undisbursed	15.0	0.0	15.0

**III. IBRD/IDA Loan Transactions (calendar year)<sup>1</sup>**

	1997	1998	1999	2000	2001	2002	2003	2004	2005
Disbursements	41.2	37.7	42.1	46.6	26.8	13.5	42.3	16.2	10.0
Repayments	27.5	24.6	24.6	20.2	15.3	16.8	21.0	34.8	15.9
Net lending	13.8	13.1	17.5	26.4	11.5	-3.3	21.3	-18.6	-5.9

<sup>1</sup> As of August 31, 2005

**PARAGUAY—RELATIONS WITH THE IDB<sup>7</sup>**  
(As of September 30, 2005)

**Portfolio**

1. As of September 30, 2005, the active loan portfolio amounts to US\$567.4 million, with an undisbursed balance of US\$278.6 million. In addition, there are 43 active Technical Cooperation operations for US\$17.9 million, of which US\$9.5 million are undisbursed.

**New Strategy**

2. In July, 2004 the IDB approved its new strategy for 2004–2008 with Paraguay, which calls for the Bank’s work to be concentrated in the following areas:
  - **Strengthening governance** by restoring the credibility of State institutions. The aim of this component will be to enable the State to coordinate the economic development process by heightening the efficiency and transparency of public administration, promoting greater citizen participation, and consolidating democratic institutions;
  - **Laying the foundations for sustainable growth** through the consolidation of the market economy and greater regional and global integration by creating conditions conducive to increased private-sector participation, greater competitiveness, and deeper integration; and
  - **Reducing poverty and improving the quality of life of low-income sectors of the population** through the development of human capital and the provision of greater access to quality basic services.

**Pipeline**

3. The lending program for 2005-A includes the following operations:
  - a. Strengthening of the Judiciary System II, US\$10.8 million
  - b. Professionalism of the Civil Service, US\$3.5 million
  - c. Asunción Coastal Development Program, US\$80.0 million
  - d. Science and Technology Program, US\$6.5 million
4. In addition, the following operations are included for 2005-B
  - a. Modernization of the Agriculture Public Sector Management, US\$20 million
  - b. Programmatic Loan for Public Banking Reform, US\$30 million

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<sup>7</sup> Prepared by the staff of the IDB.

**PARAGUAY—WORK PROGRAM**

Mission	Dates
<b>Sixth SBA Review</b> Board Meeting (if required, lapse of time basis)	November 30, 2005
<b>Successor Arrangement</b> Mission Board Meeting	November 9-22, 2005 January 18, 2006
<b>First Review under a Successor Arrangement and the 2006 Article IV Consultation</b> Mission Board Meeting	April 19-May 3, 2006 June 16, 2006
<b>Memorandum items:</b> Approval of SBA First SBA Review Second SBA Review Third SBA Review Fourth SBA Review Fifth SBA Review	December 15, 2003 April 12, 2004 July 30, 2004 December 20, 2004 March 28, 2005 August 22, 2005
<b>FSAP</b> First Mission Second Mission Board Meeting	April 19–29, 2005 Mid-July, 2005 January 18, 2005

**PARAGUAY—STATISTICAL ISSUES**  
(As of October 24, 2005)

**A. Real Sector**

A new national accounts series has been prepared recently with the assistance of an expert financed by the IDB. It comprises a more complete coverage of industries, an input-output matrix, and expanded data sources for the compilation of the new benchmark and base year (1994). Quarterly information recently became available for 1997–2001.

Both the consumer and producer price indices are reported on a regular and timely basis. The CPI has a base period of 1992, and the PPI of December 1995. A change in the base period and basket of the CPI is scheduled to take place after the results of a new household income and expenditure survey covering the period 2001–02 become available. The coverage and quality of employment and unemployment statistics have improved their coverage and quality significantly since a regular household survey was introduced in 1998. However, frequencies remain at the annual level, and the publication lag is close to one year. Wage indices are updated twice a year.

Paraguay became a GDDS participant in 2001 with the publication of its metadata on the Fund's Dissemination Standards Bulletin Board (DSBB).

**B. Fiscal Sector**

Reliable monthly data are available on a timely basis for the central government, where much improvement has been made over the past years. The asset position of the social security system is available on a daily basis. However, shortcomings in the compilation of GFS remain and the Paraguayan GFS is not fully consistent with the methodology of the IMF's *Manual on Government Finance Statistics 1986 (GFSM 1986)*. For instance, nontax revenues include social security contributions. Additionally, public enterprises and the social security system have been following somewhat different classifications of revenues and expenditures than the central government. A law (*Ley 1535*) that was passed in 2000 should allow closer integration, as it sets uniform standards and creates a database for the entire public sector. Data on medium- and long-term external debt are reliable and available on a monthly basis. Internal debt data are available on request, but need to be more fully integrated with the external debt database. Deficiencies remain in the registration of short-term supplier and commercial credit of the public sector. Moreover, there is a discrepancy in the fiscal data reported by the monetary and fiscal authorities. On November 2003, the Ministry of Finance (MOF) issued a decree requiring all decentralized entities and public enterprises to provide updated monthly financial data to the MOF, as well as the balance sheet. Other measures are being taken to make reporting more transparent. Under the SBA, all public enterprises and the IPS are required to undergo a complete financial audit by an internationally-recognized auditor.

Annual data covering only budgetary central government through 2004 have been reported for publication in the *2005 edition of the GFS Yearbook*. However, since 1994 no outstanding debt data and no breakdowns for expenditure by function data have been provided for publication in the *GFS Yearbook*. Monthly and quarterly data are not reported for publication in *IFS*. The resumption of reporting quarterly and monthly data for the *IFS* is highly recommended. Data on local governments and public enterprises are deficient and not reported regularly.

### **C. Money and Banking Sectors**

Money and banking statistics are broadly reliable as a result of the adoption in 1995 of a new accounting plan for commercial banks and finance companies. Following the work on methodologies initiated in the 2000 STA mission, Paraguay completed the establishment of a unified compilation and reporting system for the whole range of monetary data. This new system intends to harmonize monetary data for use of the CBP, for reporting to STA for publication in *IFS*, and for operational and monitoring purposes. A revision of the classification criteria has led also to a marked reduction in the discrepancies of interbank positions. However, the lack of coverage of the financial cooperatives remains a matter of concern, cooperatives account for an important portion of the liabilities of other depositary corporations.

The superintendency of banks publishes a detailed and informative report on the soundness of the financial system.

### **D. External Sector**

Quarterly and annual data on balance of payments and the international investment position (IIP) statistics are available from 2001 onwards on the central bank website, and reported to STA. Annual IIP data have been compiled and disseminated for the period 1995–2004. The classification of the balance of payments and of the IIP follows the recommendations of the Balance of Payments Manual (5th edition). Technical assistance by STA has led to improvements in the quality of the data on capital flows, especially in the coverage on foreign direct investment, and in the recording of external debt transactions in the balance of payments and in the IIP. The central bank now produces a highly informative bulletin on balance of payments statistics. Special studies by the central bank have improved the estimation methods for remittances of Paraguayans abroad and unregistered trade transactions but serious deficiencies remain.

Deficiencies remain in the area of private capital outflows, which are difficult to register due to Paraguay's liberal capital account. Major recommendations of the multisector statistics mission include the need to: (i) introduce quarterly surveys for recording services, transfers, and financial transactions of the nonfinancial private sector; (ii) apply quality control procedures for surveys; (iii) revise and improve the statistical techniques to take into account unrecorded merchandise trade and smuggling; (iv) improve the compilation procedures of several services and financial transactions; and (v) institute a system of coordination with

other official agencies, and within the CBP, to promote intersectoral data consistency. Sizable negative errors and omissions over the last few years can be attributed mostly to unregistered trade and outflows of portfolio capital.

**PARAGUAY—TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE**  
(As of October 12, 2005)

	Date of latest observation	Date received	Frequency of Data <sup>1</sup>	Frequency of Reporting <sup>1</sup>	Frequency of publication <sup>1</sup>
Exchange Rates	10/11/05	10/12/05	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities <sup>2</sup>	10/11/05	10/12/05	D	D	D
Reserve/Base Money	10/11/05	10/12/05	D	D	D
Broad Money	8/31/05	9/23/05	M	M	M
Central Bank Balance Sheet	9/30/05	10/05/05	D	D	D
Consolidated Balance Sheet of the Banking System	8/31/05	9/23/05	M	M	M
Interest Rates <sup>3</sup>	8/31/05	10/05/05	M	M	M
Consumer Price Index	Sep. 2005	10/03/05	M	M	M
Revenue, Expenditure, Balance and Composition of Financing <sup>4</sup> – General Government <sup>5</sup>	Sep. 2005	10/06/05	M	M	M
Revenue, Expenditure, Balance and Composition of Financing <sup>4</sup> – Central Government	Sep. 2005	10/06/05	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt <sup>6</sup>	March. 2005	6/01/05	Q	Q	Q
External Current Account Balance	June 2005	8/01/05	Q	Q	Q
Exports and Imports of Goods and Services	June 2005	8/01/05	M	M	M
GDP/GNP	2004	2/01/05	A	A	A
Gross External Debt	March. 2005	6/01/05	Q	Q	Q

<sup>1</sup> Daily (D); Weekly (W); Monthly (M); Quarterly (Q); Annually (A); Irregular (I); Not Available (NA).

<sup>2</sup> Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

<sup>3</sup> Both market-based and officially-determined, including discounts rates, money market rates, rates on treasury bills, notes and bonds.

<sup>4</sup> Foreign, domestic bank, and domestic nonbank financing.

<sup>5</sup> The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

<sup>6</sup> Including currency and maturity composition.



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International Monetary Fund  
Washington, D.C. 20431 USA

### **IMF Executive Board Completes Sixth Review of Paraguay's Stand-By Arrangement Paraguay**

The Executive Board of the International Monetary Fund (IMF) completed on November 30, 2005 the sixth review of Paraguay's economic performance under an SDR 50 million (about US\$73.3 million) Stand-By Arrangement for Paraguay, originally approved on December 15, 2003 for 15 months (see [Press Release No. 03/218](#)). The arrangement was subsequently extended through September 30, 2005 on December 20, 2004 (see [Press Release No. 04/271](#)) and through November 30, 2005, on September 30, 2005. Both the later extension and the review were completed by the Executive Board on a lapse of time basis.

The completion of the sixth review made a cumulative amount equivalent to SDR 50 million (about US\$71.2 million) immediately available to Paraguay. However, Paraguay did not make any drawings under the arrangement.

(This statement is being released for public record)