INTERNATIONAL MONETARY FUND

IMF Country Report No. 20/127

PARAGUAY

April 2020

REQUEST FOR PURCHASE UNDER THE RAPID FINANCING INSTRUMENT—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR PARAGUAY

In the context of the Request for Purchase Under the Rapid Financing Instrument, 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 April 21, 2010, following discussions that ended on April 7, 2020, with the officials of Paraguay on economic developments and policies underpinning the IMF arrangement under the Request for Purchase Under the Rapid Financing Instrument. Based on information available at the time of these discussions, the staff report was completed on April 13.
- A **Statement by the Executive Director** for Paraguay.

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.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: http://www.imf.org
Price: $18.00 per printed copy

International Monetary Fund
Washington, D.C.

PRESS RELEASE

PR20/181

IMF Executive Board Approves a US$ 274 Million Emergency Support to Paraguay to Address the COVID-19 Pandemic

FOR IMMEDIATE RELEASE

- The IMF Executive Board approved the immediate disbursement of US$ 274 million to help Paraguay meet the urgent balance of payments needs stemming from the outbreak of the COVID-19 pandemic.
- To absorb the shock of the pandemic, the Paraguayan government has adopted an emergency package that boosts health care spending and mitigates the impact on the private sector.
- The approval of the emergency financial assistance is part of the Fund's efforts to help member countries address the challenges posed by COVID-19.

Washington, DC – April 21, 2020 The Executive Board of the International Monetary Fund (IMF) approved a disbursement in the amount of SDR 201.4 million (US$ 274 million, 100 percent of quota) for Paraguay under the Rapid Financing Instrument (RFI). These resources will help meet the urgent balance of payment needs stemming from the outbreak of the COVID-19 pandemic, preserve resources for essential COVID-19-related health expenditure and social safety net spending and catalyze multilateral donor support.

To contain the outbreak and mitigate the impact on the economy, Paraguay has adopted an emergency package that will boost health care spending, expand the social safety net and provide emergency loans for small enterprises. It has also allowed banks to restructure loans to private sector companies that are in repayment difficulties, and postponed collection of taxes and user fees for 2 months. The central bank has lowered policy rates and increased liquidity provision.

Before the outbreak struck, there were signs of a strong recovery from the weather induced recession in 2019. However, because of the epidemic, Paraguay's economy will shrink by an estimated 1% in 2020. As a result of the recession and the government's emergency package, the fiscal deficit is expected to increase to 4½ percent of GDP this year.

Following the Executive Board discussion of Paraguay's request, Mitsuhiro Furusawa, Deputy Managing Director and Acting Chair, made the following statement:

"The COVID-19 pandemic has hit the Paraguayan economy very hard and created an urgent balance of payments need. All sectors are impacted as significant measures are being taken to stop the spread of the virus. The authorities' policy response has been forceful and timely to contain the pandemic and mitigate its impact on the economy.

"A temporary widening of the budget deficit is appropriate. In the short run, the priority is to increase spending on health care and the social safety net, as well as to provide support to small businesses and workers. Once the crisis abates, the budget deficit will need to be reduced, and Paraguay should reestablish its fiscal rule, which has successfully anchored macroeconomic stability in the past five years.

"The Central Bank has appropriately lowered its policy rate and provided additional liquidity to the financial system. The exchange rate should continue to act as a shock absorber, with its value determined by market forces, while monetary policy should continue to focus on inflation targeting.

"Fund emergency support under the Rapid Financing Instrument would help address balance of payments pressures, boost confidence, and create fiscal space for essential pandemic-related expenditures and catalyze donor support."

For information on the emergency financing requests approved by the IMF Executive Board, please see a link to the IMF Lending Tracker: https://www.imf.org/en/Topics/imf-and-covid19/COVID-Lending-Tracker.

For upcoming discussions on the emergency financing requests, please see a link to the calendar of the IMF Executive Board meetings: https://www.imf.org/external/NP/SEC/bc/eng/index.aspx.

PARAGUAY

April 13, 2020

REQUEST FOR DISBURSEMENT UNDER THE RAPID FINANCING INSTRUMENT

EXECUTIVE SUMMARY

Context: In March 2020, Paraguay was hit by the Covid-19 epidemic, which has created fiscal and balance of payments needs. The authorities' policy response to the epidemic has been timely, but limited access to financing and a weakened fiscal position constrain the ability to pursue a deeper emergency response.

Crisis response: To contain the epidemic and mitigate the impact on the private sector Paraguay has adapted an emergency package at a cost of about 2½ percent of GDP that will boost health care spending, expand the social safety net and provide emergency loans for small enterprises. It has also lowered policy rates, allowed banks to restructure loans to private sector companies that are in repayment difficulties, and postponed collection of taxes and user fees for 2 months.

Request for Fund support: The Paraguayan authorities are requesting financial assistance under the Fund's Rapid Financing Instrument (RFI) to address the urgent balance of payments needs associated with the Covid-19 epidemic. Given the urgency of their request, there is no time to put in place a full-fledged upper credit tranche program, and the authorities are of the view that they can make suitable adjustments to manage their medium-term BOP challenges. In the attached letter, they request a purchase in the equivalent of SDR 201.4 million under the RFI, the sum being equivalent to 100 percent of quota, with the full amount to become available upon Board approval. The authorities are also seeking additional financing from multilateral donors to cover the remaining financing needs.

Policy recommendations: To prevent the emergence of permanently high deficits after the crisis, Paraguay should return to the deficit ceiling under the Fiscal Responsibility Law. The exchange rate should continue to function as shock absorber, and monetary policy should focus on inflation targeting. To boost convergence with advanced countries, governance, the business climate, and human capital should be improved.

Approved By
Patricia Alonso-Gamo (WHD) and Sanjaya Panth (SPR)

Discussions were held with Finance Minister Benigno Lopez and BCP Governor José Cantero Sienra during April 6–7, 2020. The team comprised Bas Bakker (head), Natasha Che, Manuk Ghazanchyan and Tobias Roy (all WHD).

CONTENTS

IMPACT OF THE COVID-19 PANDEMIC AND OUTLOOK

A. Pre-Pandemic Conditions

1. **Paraguay grew rapidly in the past decade and a half, the result of a bounce-back from a crisis in the late 1990s and early 2000s, sound macro-policies, and a boom in agricultural commodity prices.** Economic growth averaged 4½ percent from 2004–18, and the poverty rate fell from 58 percent of the population in 2002 to 24 percent (2018). During this time, external vulnerabilities declined significantly, and fiscal deficits and debt remained modest.[1]

2. **Growth was high but volatile, as Paraguay has been subject to large shocks**. Weather-related shocks (droughts and floods), swings in agricultural commodity prices, and spillovers from economic and financial crises in its two main trading partners, Argentina and Brazil, all played a role.

3. **Counter-cyclical macro-economic policies mitigated the impact of shocks.** A flexible exchange rate has kept current account imbalances modest, with the guarani appreciating vis-à-vis the dollar when soybean prices surged during the 2000s, and depreciating when they fell in the 2010s. Paraguay ran fiscal surpluses during the 2000s when revenue growth was strong, which has helped avoid the boom-bust that other countries in the region have experienced. [2]

4. **Shocks also occurred in 2019, when bad weather and spillovers from the crisis in Argentina reduced growth to near zero.** Bad weather (a drought earlier in the planting season was followed by floods later) led to a sharp drop in agricultural production. Hydro-energy production fell as a result of low water levels in the Paraná river system. The crisis in Argentina led to a drop in cross-border trade.

5. **The recession led to a shortfall in revenue and eroded fiscal buffers.** The increase in the deficit, to 2.9 percent of GDP, was not just the result of the decline in revenues; a sharp increase in public investment (which had been weak in 2018 when elections were held) to support the economy also contributed. The increase in the deficit did not violate the Fiscal Responsibility Law: the government invoked an escape clause which allows a deficit of up to 3 percent "in case of a fall of economic activity," which was subsequently approved by parliament.

6. **In early 2020, there were signs of a strong recovery, driven by a rebound in agriculture**. The January IMEI indicator showed year-on-year growth of 4.5 percent; and staff projected full-year growth of at least 4 percent.

---

[1] External debt declined from 215 percent of GDP in 2002 to 43 percent in 2019; and public debt from 55 to 26 percent.

[2] Since 2012, Paraguay has run deficits, but a fiscal rule which came into force in 2015 limits the deficit to 1.5 percent of GDP in normal times

B. Impact of COVID-19

7. The virus has given rise to an urgent BOP need. The main channels of impact on the economy include: additional direct health and other expenditures to address the virus, assessed to be on the order of 2 percent of GDP; loss of output due to demand and supply shocks (including from virus containment measures), currently projected to reduce 2020 real GDP growth to -1 percent, 5 percent below the pre-virus baseline; loss of fiscal revenues on the order of 0.5 percent of GDP from the growth impact); and a near-cessation of travel and tourism. The resulting BOP financing need is assessed to some US$ 1,200 million, 3.2 percent of GDP (see Table 4). If the BOP impact were to be absorbed through a sharper decline in reserves, the reserve loss would be significant, which would risk triggering a loss in confidence.

ECONOMIC POLICIES

A. Crisis Response

8. The authorities have implemented social distancing policies. On March 7, the first case was confirmed in Asunción. Since then, Paraguay has suspended public school sessions and large-scale public and private events, partially closed the borders, restricted crowds and imposed a night time curfew. On March 20, it implemented a total lockdown.

9. They have also increased health care and social safety net spending. In late March, congress passed an emergency package with some 2.4 percent of GDP in measures, of which about 1.3 percentage point was for additional health care spending, 1.0 percentage point for social safety nets (including for informal sector workers) and the remainder for emergency loans for small enterprises.

10. To mitigate the impact on the private sector they have lowered policy rates, allowed banks to restructure loans to private sector companies that are in repayment difficulties, and postponed collection of taxes and user fees for 2 months.

Fiscal Financing Gap in 2020

	In bn guaranies	In mn U.S.$	Percent of GDP
Total revenue	**33,300**	**5,117**	**13.4**
Tax revenue	22,567	3,468	9.1
Nontax revenue	10,733	1,649	4.3
Expenditure	**46,426**	**7,134**	**18.7**
Expense	**39,464**	**6,064**	**15.9**
of which : Compensation of employees	18,671	2,869	7.5
Net acquisition of nonfinancial assets	**6,963**	**1,070**	**2.8**
Net lending	**-11,246**	**-1,728**	**-4.5**
Financing	**11,246**	**1,728**	**4.5**
Net domestic financing	384	59	0.2
Net external financing	3,052	469	1.2
Financing Gap	**7,809**	**1,200**	**3.1**
Available financing	5,998	922	2.4
Identified budget support	5,857	900	2.4
World Bank	3,254	500	1.3
Inter-American Development Bank (IDB)	1,952	300	0.8
Development Bank of Latin America (CAF)	651	100	0.3
Unidentified budget support	141	22	0.1
IMF RFI disbursement	1,812	278	0.7

Sources: Paraguay authorities and IMF staff estimates

11. To finance the resulting higher fiscal deficit, the authorities are looking for external financing from the IMF and other IFIs. Financing the higher deficit domestically would be challenging, as pension funds (which comprise the bulk of the non-bank financial sector) are not allowed to buy government bonds. Financial support from the World Bank, Inter-American Development Bank and CAF is likely forthcoming (text table).

B. Fiscal Policy

12. The deficit this year will increase to 4½ percent of GDP. While higher than the ceiling in the Fiscal Responsibility Law, this deficit is appropriate, given the extraordinary economic and human hardship. The government has financed part of the increase in spending by a reallocation within the existing budget envelope, but an increase in the overall envelope is also necessary.

13. The authorities intend to return the fiscal deficit to below the ceiling of 1.5 percent of GDP after the crisis is over. Given the highly uncertain economic prospects at this time, the precise time schedule will be determined at the time the 2021 budget is prepared.[3] On current growth forecasts, staff projects that the deficit will be reduced to around 3 percent in 2021, 2 percent in 2022, and 1.5 percent in 2023.[4] The authorities agreed that, if growth is stronger than currently expected, higher-than-expected revenue will be used for a faster reduction of the deficit.

14. To keep the deficit thereafter below the ceiling and create room for additional investment, the authorities will moderate current expenditure growth (and increase revenues.

- To reduce the share of primary expenditure in GDP, the authorities will keep the growth rate of primary expenditure below that of GDP. A planned revision of the Fiscal Responsibility Law will limit real growth of primary expenditure to 2 percent down from 4 percent previously. Plans will be presented at the time of the 2021 budget. Containing the growth of the wage bill is key; a civil service reform that rationalizes job descriptions and grading systems is under consideration.

- They will also further increase tax revenue, which is only 10 percent of GDP. A recent tax reform will boost tax revenue by 0.1 percent of GDP in 2020 and 0.7 until 2023, but more may be needed.

C. Monetary and Exchange Rate Policy

15. So far, exchange rate pressures have been modest. The guarani depreciated by 2 percent vis-à-vis the US dollar in the first three weeks of March but has subsequently rebounded, and foreign exchange sales to the private sector have been very limited.

[3] The economic emergency law, which was passed on March 16, stipulates that the deficit should return to the ceiling within 4 years.

[4] In its projections, staff has assumed that most of the crisis measures taken this year will expire next year, that real expenditure growth will be zero until the deficit has been returned to the ceiling, and that revenue will be boosted by the tax reform that was passed in 2020.

16. The authorities agreed that the exchange rate should continue to act as a shock absorber, with its value determined by market forces, while monetary policy will continue to focus on inflation targeting. Since early March, they have lowered the policy rate by 175 basis points, to 2.25 percent. Further interest rate cuts could become necessary, depending on how the economic situation develops.

17. However, should the exchange rate come under severe pressure, foreign exchange intervention may be needed to prevent disorderly market conditions and excessive exchange rate volatility, while monetary policy may need to be tightened, given Paraguay's high level of credit dollarization.

D. Boosting Potential Output Growth and Governance

18. While dealing with the shock, the authorities are aware that continued convergence will require an improvement in governance, the business climate and human capital. Paraguay scores poorly on these indicators, not just compared with advanced countries, but also with other countries in the region, and emerging market countries in CESEE and East Asia. At the request of the authorities, a recent mission by FAD/LEG assessed vulnerabilities to corruption.[5] The government will use the findings of the diagnostic mission to develop a robust national strategy and action plan to combat corruption and improve governance.

19. The Covid-19 crisis has led to a broad-based push for a reform of the state. The executive, legislative, and judicial branches of the state are discussing bills to raise the quality of spending, make the public sector more efficient, and reform the civil service. Moreover, reforms that had previously stalled in congress (such as the appointment of a pension fund supervisor) are now receiving widespread support.

E. Financial Sector Policy

20. The BCP has taken measures to provide liquidity to banks. It has reduced the legal reserve requirement, cut interest rates on the BCP's overnight Liquidity Facility by 100 basis points (and by more on longer-term facilities), and decreased the penalty rate for early cancellation of monetary regulation instruments.

21. The BCP has also taken temporary measures to encourage banks to provide continued financing to the private sector. Renewal, refinancing and restructuring of loans to individuals and

[5] Weaknesses were identified in three areas: fiscal governance (institutional weaknesses in tax and customs administration, parliamentary control of the budget, SOE oversight, public procurement, and internal and external auditing); rule of law (corruption in the judicial system is perceived to be high, with large uncertainty about case outcomes), and the AML/CFT framework (money laundering related to drug trafficking, arms smuggling, and other illegal activities in the Tri-Border area is significant).The AML/CFT framework will be assessed in its entirety by the regional FATF around mid-2020.

legal entities will be allowed until the end of 2020. The renewed loans will have a risk weighting of only 50 percent in loan provisioning.

22. While entering the crisis the financial system was generally reported to be adequately capitalized, in case of a more severe or protracted crisis, targeted supervisory actions may be needed to ensure continued capital adequacy. Where capital falls short, banks should be asked to submit credible capital restoration plans and their execution monitored. It will be critical to measure NPLs and potential losses as accurately as possible including regular reassessment of provisioning levels to avoid moral hazard and transparency issues.

MODALITIES OF SUPPORT

23. Staff proposes to provide support of 100 percent of quota (SDR 201.4 million) under the RFI. Paraguay meets the qualification requirements for RFI financing.

- It faces an urgent BOP need, which, if not addressed, would result in immediate and severe economic disruption.
- It is not feasible to put in place at this time a more comprehensive UCT-quality Fund-supported program due to the high degree of uncertainty regarding the duration and scale of the Covid-19 impact.
- Paraguay is assessed as having a sustainable debt and capacity to repay the Fund, even after the impact of the virus (Box 1 and Table 8).
- Staff has confidence that the authorities will cooperate with the Fund and pursue economic policies appropriate for addressing the impact of the virus, based on the countries' track record of economic policies and relations with the Fund.

24. Paraguay does not currently have an IMF arrangement. Access of 100 percent of quota is within the applicable access limits under the GRA.

- The proposed access of 100 percent of quota is 23 percent of the estimated financing gap. Remaining needs are expected to be filled by other donors and policy adjustments.
- The RFI purchases will be disbursed to the central bank and be on-lent to the government to provide financing for virus-related spending. The authorities commit to undergo a safeguards assessment, to provide staff with access to the central bank's most recently completed external audit reports and to authorize the central bank's external auditors to hold discussions with staff.

RISKS

25. There are large uncertainties at this time. Assuming that the pandemic will be over by the middle of the year, growth is expected to rebound in the second half of 2020.

26. Covid-19 is not the only downside risk. Weather related shocks could reduce the harvest, with spillovers to the broader economy. Agricultural commodity prices could fall sharply, especially if growth in China were to disappoint. Growth over the medium term will depend not just on what happens with the world economy, but also on whether growth in the non-energy /non-agriculture sector will take off (section D above). Weaknesses within the implementation of the recently amended legal and regulatory AML/CFT framework could impact the level of effectiveness (which will be assessed by the regional FATF), and expose the financial sector to pressures on correspondent banking relationships

27. Under a more protracted downturn, fiscal consolidation measures may be necessary to contain the fiscal deficit, while policy interest rates may need to be cut further. In such a scenario, close attention will be needed to ensure that banks remain sufficiently capitalized.

STAFF APPRAISAL

28. Paraguay has been hit hard by the Covid-19 outbreak. The authorities' policy response to the epidemic has been forceful and timely. The cost of the emergency package, which will boost health care spending, expand the social safety net and provide emergency loans for small enterprise, will raise the fiscal deficit to 4½ percent of GDP, which is difficult to finance domestically.

29. Paraguay has a track record of prudent policies. Public and external debt are low, and its policies have been cautious during good times. The authorities are committed to returning the fiscal deficit to the deficit ceiling under the Fiscal Responsibility Law after the crisis is over.

30. Staff therefore supports the authorities' request for a purchase under the Rapid Financing Instrument in the amount of SDR 201.4 million (100 percent of quota). The request for a purchase in the amount of 100 percent of quota is justified by the scale and severity of the Covid-19 shock that has created actual and urgent BOP needs. Paraguay is assessed to have sustainable debt and adequate capacity to repay the Fund.

Table 1. Paraguay: Selected Economic and Social Indicators

I. Social and Demographic Indicators

Population 2018 (millions)	6.9	Gini index (2018)	46.2
Unemployment rate (2018)	6.2	Life expectancy at birth (2017)	74.0
Percentage of population below the poverty line (2018)	24.2	Adult literacy rate (2018)	94.0
Rank in UNDP development index (2019)	98 of 189	GDP per capita (US$, 2018)	5,822

II. Economic Indicators

			Prel.			Proj.			
	2017	2018	2019	2020	2021	2022	2023	2024	2025
	(Annual percent change, unless otherwise indicated)								
Income and prices									
Real GDP	5.0	3.7	0.2	-1.0	4.0	4.0	4.0	4.0	3.5
Nominal GDP	7.2	5.9	-0.1	7.0	6.0	7.6	7.0	6.6	6.2
Per capita GDP (U.S. dollars, thousands)	5.7	5.7	5.2	5.3	5.4	5.7	6.0	6.3	6.5
Consumption (contribution to real GDP growth)	3.1	3.1	-0.2	-1.8	1.6	2.4	2.7	2.8	2.1
Investment (contribution to real GDP growth)	2.5	2.7	0.4	0.1	1.6	1.0	1.4	1.2	1.2
Net Exports (contribution to real growth)	-0.7	-2.1	0.0	0.7	0.8	0.6	-0.1	-0.1	-3.7
Consumer prices (end of period)	4.5	3.2	2.8	3.0	3.3	3.3	3.3	3.3	3.3
Nominal exchange rate (Guarani per U.S. dollar, eop)	5,590	5,961	6,453	...	...	...	...	...	...
Monetary sector									
Credit to private sector 1/	6.2	11.5	6.4	1.5	7.8	5.7	5.5	5.5	5.4
Monetary policy rate, year-end	5.3	5.3	4.0	...	...	...	...	...	...
External sector									
Exports (fob, values)	11.8	3.2	-10.3	-18.0	21.3	13.9	4.5	4.5	4.0
Imports (cif, values)	17.8	12.1	-4.7	-23.5	19.8	13.0	4.9	5.4	4.3
Terms of trade	-1.9	-1.6	-5.8	0.9	2.0	1.2	0.1	-0.3	-0.5
Real effective exchange rate 2/	-0.8	3.2	-3.0	...	...	...	...	...	...
	(In percent of GDP, unless otherwise indicated)								
External current account	**3.1**	**0.0**	**-1.0**	**-0.1**	**0.9**	**1.5**	**1.4**	**1.2**	**1.1**
Trade balance	4.1	1.4	-0.6	0.8	1.8	2.5	2.3	1.9	1.8
Exports	34.3	34.1	33.4	26.6	30.9	32.9	32.2	31.8	31.5
Of which: Electricity	5.4	5.2	4.2	4.1	4.0	3.8	3.7	3.5	3.4
Imports	-29.5	-31.9	-33.1	-24.7	-28.2	-29.8	-29.3	-29.2	-29.0
Of which: Oil imports	-3.0	-4.0	-3.6	-2.2	-2.3	-2.4	-2.5	-2.5	-2.5
Capital account and financial account	**1.1**	**1.9**	**2.2**	**-3.1**	**0.3**	**0.0**	**0.6**	**0.9**	**1.0**
Of which: Direct investment	1.3	1.2	1.3	0.4	0.7	0.9	1.0	1.0	1.0
Gross international reserves (in millions of U.S. dollars)	**8,146**	**8,004**	**7,996**	**7,496**	**7,596**	**7,896**	**8,396**	**8,946**	**9,496**
In months of next-year imports of goods and services	6.9	7.1	8.9	7.1	6.5	6.4	6.5	6.6	6.7
Ratio to short-term external debt	2.6	2.2	2.2	2.0	2.0	1.7	2.1	2.7	5.6
Gross domestic investment	**21.2**	**22.4**	**23.6**	**22.8**	**23.6**	**23.6**	**24.0**	**24.4**	**24.9**
Gross domestic saving	**24.3**	**22.5**	**22.5**	**22.6**	**24.5**	**25.1**	**25.4**	**25.6**	**26.0**
Central government revenues	**14.2**	**13.9**	**14.5**	**13.4**	**13.8**	**14.3**	**14.6**	**14.6**	**14.6**
Of which: Tax revenues	9.9	9.9	10.2	9.1	9.5	10.1	10.5	10.5	10.6
Central government expenditures	**15.3**	**15.3**	**17.4**	**18.0**	**16.8**	**16.2**	**16.0**	**16.0**	**16.1**
Of which: Compensation of Employees	6.3	6.6	7.1	7.5	7.1	6.9	6.9	6.9	6.8
Of which: Net Acquisition of Non Financial Assets	2.4	2.0	3.0	2.0	2.2	2.1	2.1	2.3	2.4
Central government net lending/borrowing	**-1.1**	**-1.4**	**-2.9**	**-4.5**	**-3.0**	**-1.9**	**-1.5**	**-1.5**	**-1.5**
Central government primary balance	-0.5	-0.7	-2.1	-3.7	-2.1	-2.1	-0.9	-0.5	-0.6
Public sector debt (excl. central bank bills)	**19.8**	**22.2**	**26.3**	**30.6**	**31.8**	**31.3**	**30.6**	**30.3**	**30.2**
Of which: Foreign currency	15.8	18.0	21.8	26.3	27.7	27.7	27.0	26.8	26.6
Of which: Domestic currency	4.0	4.2	4.5	4.3	4.1	3.6	3.6	3.6	3.6
Memorandum items:									
GDP (billions of Guaranies) 3/	219188	232133	231905	248149	263041	283016	302912	322860	342,908
GDP (US$ billions)	39.4	40.5	37.2	...	...	...	...	...	...

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

1/ Includes local currency credit and foreign currency credit valued at a constant exchange rate.

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

3/ Historical GDPs were revised in 2018, including a 30 percent upward revision in nominal GDP for 2017.

Table 2a. Paraguay: Operations of the Central Government

(In billions of Guaranies)

	2016	2017	2018	Prel. 2019	Proj. 2020	2021	2022	2023	2024	2025
Revenue	**28,436**	**31,095**	**32,288**	**33,566**	**33,300**	**36,183**	**40,428**	**44,104**	**47,061**	**50,192**
Taxes	19,477	21,730	22,891	23,539	22,567	25,044	28,704	31,697	34,002	36,482
Income taxes	4,412	5,047	5,260	5,826	5,242	5,556	6,654	7,403	7,817	8,648
Excises	2,599	2,924	2,948	2,952	2,802	3,193	3,500	3,941	4,233	4,519
Value added tax	10,459	11,180	11,812	11,097	11,437	12,307	13,995	15,416	16,699	17,761
Import duties	1,645	2,208	2,521	2,410	1,677	2,420	2,784	2,947	3,131	3,299
Other	362	371	350	1,254	1,409	1,568	1,771	1,991	2,122	2,254
Social contributions	1,969	2,409	2,114	2,130	2,900	2,910	3,049	3,256	3,456	3,641
Other revenue	6,990	6,956	7,283	7,897	7,833	8,229	8,674	9,150	9,604	10,069
Grants	1,351	1,148	1,747	1,523	1,584	1,679	1,806	1,740	1,854	1,970
Itaipu-Yacyreta	3,157	2,841	3,232	4,111	3,828	3,984	4,107	4,455	4,599	4,753
Other nontax revenue	2,482	2,967	2,304	2,263	2,421	2,567	2,761	2,956	3,150	3,346
Expenditure	**30,650**	**33,483**	**35,511**	**40,322**	**44,546**	**44,060**	**45,714**	**48,559**	**51,789**	**55,226**
Expense	**26,148**	**28,145**	**30,823**	**33,359**	**39,464**	**38,347**	**39,832**	**42,106**	**44,427**	**46,995**
Compensation of employees	13,188	13,905	15,228	16,458	18,671	18,734	19,632	20,964	22,247	23,443
Purchases of goods and services	2,442	2,553	2,912	3,123	4,484	3,731	3,701	3,668	3,940	4,213
Interest	1,151	1,276	1,549	1,962	2,131	2,382	2,798	3,054	2,868	3,013
Grants	4,417	4,650	4,796	4,723	4,712	5,035	5,418	5,798	6,180	6,564
Social benefits	4,067	4,629	5,253	5,719	8,196	7,253	6,980	7,228	7,704	8,182
Other expense	882	1,132	1,085	1,375	1,270	1,212	1,304	1,395	1,487	1,579
Other expense	882	1,132	1,085	1,375	1,270	1,212	1,304	1,395	1,487	1,579
Net acquisition of nonfinancial assets	4,503	5,339	4,688	6,963	5,083	5,713	5,882	6,453	7,362	8,231
Gross operating balance	**2,288**	**2,951**	**1,465**	**207**	**-6,163**	**-2,164**	**596**	**1,997**	**2,634**	**3,196**
Net lending/borrowing (overall balance)	**-2,214**	**-2,388**	**-3,223**	**-6,756**	**-11,246**	**-7,877**	**-5,286**	**-4,456**	**-4,728**	**-5,035**
Net financial transactions	**2,214**	**2,388**	**3,223**	**6,756**	**11,246**	**7,877**	**5,286**	**4,456**	**4,728**	**5,035**
Net acquisition of financial assets	**1,103**	**2,257**	**2,525**	**54**	**57**	**61**	**65**	**70**	**75**	**79**
Financial investments	1,064	2,207	2,472	0	0	0	0	0	0	0
Net lending	39	51	54	54	57	61	65	70	75	79
Net incurrence of liabilities	**3,866**	**5,247**	**5,590**	**7,836**	**3,494**	**7,938**	**5,352**	**4,526**	**4,803**	**5,114**
Domestic	-459	1,315	1,022	3,008	442	692	52	1,199	779	1,047
Debt securities	-486	-86	87	260	-142	-303	-748	599	379	847
New TB issues	490	812	816	759	1,499	586	627	1,632	1,401	1,996
Amortizations	976	898	729	499	1,640	888	1,375	1,033	1,022	1,149
Net credit from the banking system	642	1,499	-33	1,788	583	995	800	600	400	200
Net credit from the Central bank 1/	516	1,499	-33	1,788	583	995	800	600	400	200
Net credit from commercial banks	126	0	0	0	0	0	0	0	0	0
Other accounts payable	-615	-98	968	960	0	0	0	0	0	0
Foreign	4,326	3,932	4,568	4,828	3,052	7,245	5,299	3,327	4,024	4,067
Loans	4,326	3,932	4,568	4,828	3,052	7,245	5,299	3,327	4,024	4,067
Disbursements	5,357	4,926	5,788	6,160	4,705	9,169	7,629	10,911	6,688	7,747
Amortizations	1,031	994	1,220	1,332	1,653	1,924	2,330	7,584	2,664	3,680
Statistical Discrepancy 2/	-549	-602	159	-1,027	7,809	0	0	0	0	0
Financing Gap	**0**	**0**	**0**	**0**	**7,809**	**0**	**0**	**0**	**0**	**0**
(in million U.S. dollar)	0	0	0	0	1,200	0	0	0	0	0
Memorandum items:										
Primary balance	-1063	-1112	-1674	-4794	-9115	-5494	-2488	-1402	-1860	-2021

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

1/ Includes mainly use of government deposits at the Central Bank.

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

Table 2b. Paraguay: Operations of the Central Government

(In percent of GDP unless specified otherwise)

	2016	2017	2018	Prel. 2019	Proj. 2020	2021	2022	2023	2024	2025
Revenue	**13.9**	**14.2**	**13.9**	**14.5**	**13.4**	**13.8**	**14.3**	**14.6**	**14.6**	**14.6**
Taxes	9.5	9.9	9.9	10.2	9.1	9.5	10.1	10.5	10.5	10.6
Income taxes	2.2	2.3	2.3	2.5	2.1	2.1	2.4	2.4	2.4	2.5
Excises	1.3	1.3	1.3	1.3	1.1	1.2	1.2	1.3	1.3	1.3
Value added tax	5.1	5.1	5.1	4.8	4.6	4.7	4.9	5.1	5.2	5.2
Import duties	0.8	1.0	1.1	1.0	0.7	0.9	1.0	1.0	1.0	1.0
Other	0.2	0.2	0.2	0.5	0.6	0.6	0.6	0.7	0.7	0.7
Social contributions	1.0	1.1	0.9	0.9	1.2	1.1	1.1	1.1	1.1	1.1
Other revenue	3.4	3.2	3.1	3.4	3.2	3.1	3.1	3.0	3.0	2.9
Grants	0.7	0.5	0.8	0.7	0.6	0.6	0.6	0.6	0.6	0.6
Itaipu-Yacyreta hydroelectric plants	1.5	1.3	1.4	1.8	1.5	1.5	1.5	1.5	1.4	1.4
Other nontax revenue	1.2	1.4	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Expenditure	**15.0**	**15.3**	**15.3**	**17.4**	**18.0**	**16.8**	**16.2**	**16.0**	**16.0**	**16.1**
Expense	**12.8**	**12.8**	**13.3**	**14.4**	**15.9**	**14.6**	**14.1**	**13.9**	**13.8**	**13.7**
Compensation of employees	6.5	6.3	6.6	7.1	7.5	7.1	6.9	6.9	6.9	6.8
Purchases of goods and services	1.2	1.2	1.3	1.3	1.8	1.4	1.3	1.2	1.2	1.2
Interest	0.6	0.6	0.7	0.8	0.9	0.9	1.0	1.0	0.9	0.9
Grants	2.2	2.1	2.1	2.0	1.9	1.9	1.9	1.9	1.9	1.9
Social benefits	2.0	2.1	2.3	2.5	3.3	2.8	2.5	2.4	2.4	2.4
Other expense	0.4	0.5	0.5	0.6	0.5	0.5	0.5	0.5	0.5	0.5
Gross operating balance	**1.1**	**1.3**	**0.6**	**0.1**	**-2.5**	**-0.8**	**0.2**	**0.7**	**0.8**	**0.9**
Net acquisition of nonfinancial assets	2.2	2.4	2.0	3.0	2.0	2.2	2.1	2.1	2.3	2.4
Net lending/borrowing (overall balance)	**-1.1**	**-1.1**	**-1.4**	**-2.9**	**-4.5**	**-3.0**	**-1.9**	**-1.5**	**-1.5**	**-1.5**
Net financial transactions	**1.1**	**1.1**	**1.4**	**2.9**	**4.5**	**3.0**	**1.9**	**1.5**	**1.5**	**1.5**
Net acquisition of financial assets	0.5	1.0	1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial investments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net lending	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	1.9	2.4	2.4	3.4	1.4	3.0	1.9	1.5	1.5	1.5
Domestic	-0.2	0.6	0.4	1.3	0.2	0.3	0.0	0.4	0.2	0.3
Debt securities	-0.2	0.0	0.0	0.1	-0.1	-0.1	-0.3	0.2	0.1	0.2
New issues	0.2	0.4	0.4	0.3	0.6	0.2	0.2	0.5	0.4	0.6
Amortizations	-0.5	-0.4	-0.3	-0.2	-0.7	-0.3	-0.5	-0.3	-0.3	-0.3
Net credit from the banking system	0.3	0.7	0.0	0.8	0.2	0.4	0.3	0.2	0.1	0.1
Net credit from the Central bank 1/	0.3	0.7	0.0	0.8	0.2	0.4	0.3	0.2	0.1	0.1
Net credit from the commercial banks	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts payable	-0.3	0.0	0.4	0.4	0.0	0.0	0.0	0.0	0.0	0.0
External	2.1	1.8	2.0	2.1	1.2	2.8	1.9	1.1	1.2	1.2
Disbursements	2.6	2.2	2.5	2.7	1.9	3.5	2.7	3.6	2.1	2.3
Amortizations	-0.5	-0.5	-0.5	-0.6	-0.7	-0.7	-0.8	-2.5	-0.8	-1.1
Statistical Discrepancy 2/	-0.3	-0.3	0.1	-0.4	3.1	0.0	0.0	0.0	0.0	0.0
Financing Gap	0.0	0.0	0.0	0.0	3.1	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Primary balance	-0.5	-0.5	-0.7	-2.1	-3.7	-2.1	-0.9	-0.5	-0.6	-0.6
Output gap 3/	-0.2	1.0	1.4	-1.3	-5.6	-5.1	-4.5	-3.9	-3.2	-3.0
Central government gross debt	16.0	15.9	17.7	21.3	24.5	26.0	25.8	25.5	25.6	25.8
Nominal GDP (in billions of Guaranies)	204,447	219,188	232,133	231,905	248,149	263,041	283,016	302,912	322,860	342,908

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

1/ Includes mainly use of government deposits at the Central Bank.

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

3/ In percent of potential GDP.

Table 3. Paraguay: Operations of the Consolidated Public Sector 1/

(In percent of GDP)

	2016	2017	2018	Prel. 2019	Proj. 2020
Revenue	**19.1**	**18.6**	**18.8**	**19.6**	**19.2**
Tax revenue	9.9	10.0	10.2	10.5	9.4
Nontax revenue and grants 2/	8.3	8.1	8.1	8.7	9.4
Public enterprises operating surplus	0.9	0.6	0.5	0.3	0.4
Expenditure	**19.5**	**19.5**	**20.5**	**23.5**	**24.3**
Expense	**16.1**	**16.0**	**17.1**	**19.2**	**21.1**
Compensation of employees	8.6	7.9	8.6	9.3	9.7
Purchases of goods and services	2.2	2.0	2.3	2.5	2.9
Interest payments	0.9	1.0	1.1	1.3	1.3
Transfers 3/	3.5	4.4	4.4	4.5	5.6
Current transfers	3.6	3.8	4.2	4.4	5.5
Capital transfers	-0.1	0.6	0.2	0.1	0.1
Other expense	0.8	0.7	0.7	1.6	1.6
Gross operating balance	**3.0**	**2.6**	**1.7**	**0.3**	**-1.9**
Net acquisition of nonfinancial assets	3.4	3.5	3.3	4.2	3.3
Net lending/borrowing (overall balance)	**-0.4**	**-0.9**	**-1.7**	**-3.9**	**-5.1**
Net financial transactions	**0.4**	**0.9**	**1.7**	**3.9**	**5.1**
Net acquisition of financial assets	1.9	2.5	2.4	0.2	0.2
Net incurrence of liabilities	2.3	3.4	4.1	4.1	5.3
External	2.3	1.9	2.2	2.2	1.3
Disbursements	2.9	2.4	2.7	2.8	2.0
Amortizations	-0.6	-0.5	-0.6	-0.6	-0.7
Domestic	0.3	1.5	1.5	1.5	4.1
Domestic debt	-0.2	0.0	0.0	0.1	-0.1
Disbursements	0.2	0.4	0.4	0.3	0.6
Amortizations	-0.5	-0.4	-0.3	-0.2	-0.7
Deposits	0.1	1.1	1.2	0.4	3.0
Change in net deposits com.bks	-0.2	0.4	1.2	-0.4	2.8
Change in net deposits CBP	0.3	0.7	0.0	0.8	0.2
Quasi-fiscal deficit financing 4/	0.4	0.4	0.3	1.0	1.1
Other accounts payable	-0.3	0.0	0.4	0.4	0.0
Memorandum items:					
Primary balance	0.5	0.1	-0.6	-2.6	-3.9
Public sector debt (excl. central bank bills)	19.4	19.8	22.2	26.3	30.6
Domestic public debt	4.1	4.0	4.2	4.5	4.3
Foreign public debt	15.4	15.8	18.0	21.8	26.3

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

1/ Includes the nonfinancial public sector and the central bank.
2/ Includes social contributions and grants.
3/ Includes social benefits, grants, and capital transfers.
4/ Corresponds to net losses of CB capital which are not automatically compensated by the government.

Table 4. Paraguay: Balance of Payments

(In millions of U.S. dollars)

	2016	2017	2018	Prel. 2019	Proj. 2020	2021	2022	2023	2024	2025
Current account	**1,305**	**1,214**	**9**	**-375**	**-56**	**340**	**659**	**631**	**559**	**542**
Trade balance	1,976	1,599	568	-231	290	700	1,054	1,031	933	911
Exports	11,984	13,396	13,819	12,394	10,161	12,325	14,037	14,663	15,320	15,927
Hydro-Electricity	2,131	2,105	2,109	1,577	1,554	1,582	1,622	1,663	1,703	1,741
Agricultural Products	5,258	5,310	5,547	4,632	5,058	5,355	5,601	5,803	6,017	6,226
Industrial Products and others	1,113	1,265	1,386	1,452	1,336	1,405	1,480	1,555	1,636	1,717
Unregistered	1,201	1,347	1,526	1,148	862	1,441	2,121	2,244	2,371	2,452
Re-Export	2,282	3,370	3,251	3,586	1,352	2,540	3,213	3,399	3,592	3,791
Imports	-9,787	-11,524	-12,918	-12,311	-9,412	-11,273	-12,740	-13,360	-14,082	-14,681
Of which: Fuel products	-987	-1,183	-1,631	-1,352	-826	-933	-1,040	-1,135	-1,217	-1,289
Services (net)	-221	-273	-334	-315	-458	-351	-243	-272	-305	-335
Transport	-306	-376	-430	-416	-495	-446	-394	-423	-455	-484
Travel	26	38	27	29	-32	26	81	80	79	79
Other	59	66	69	73	68	69	70	71	70	71
Factor income	-1,447	-1,207	-1,361	-1,018	-1,101	-1,150	-1,240	-1,301	-1,327	-1,370
Transfers	775	823	801	873	755	790	846	901	953	1,001
Capital and financial account	**55**	**436**	**766**	**824**	**-1,176**	**135**	**-1**	**266**	**437**	**488**
Capital transfers	163	166	153	140	144	150	161	172	181	191
Direct investment	425	526	481	472	139	287	394	462	477	501
Portfolio investment	300	500	530	487	450	500	0	0	0	0
Other investment	-834	-756	-398	-275	-1,908	-803	-557	-368	-221	-204
Errors and omissions	**-403**	**-774**	**-957**	**-457**	**-469**	**-491**	**-525**	**-559**	**-592**	**-622**
Overall balance	**957**	**877**	**-183**	**-8**	**-1,700**	**-16**	**133**	**338**	**405**	**408**
Financing										
Net international reserves (increase -)	-944	-1,002	142	8	500	-100	-300	-500	-550	-550
Change in Gross Reserves	-957	-877	183	8	500	-100	-300	-500	-550	-550
Other factors affecting reserve balance	14	-125	-41	0	0	0	0	0	0	0
Exceptional financing	0	0	0	0	0	0	0	0	0	0
Financing gap	n.a.	n.a.	n.a.	n.a.	1,200	0	0	0	0	0
Memorandum items:										
Current account in percent of GDP 1/	3.6	3.1	0.0	-1.0	-0.1	0.9	1.5	1.4	1.2	1.1
Gross reserves (in millions of U.S. dollars)	7,144	8,146	8,004	7,996	7,496	7,596	7,896	8,396	8,946	9,496
In months of imports of GNFS	6.7	6.9	7.1	8.9	7.1	6.5	6.4	6.5	6.6	6.7
Debt service in percent of exports GNFS	11.9	11.1	10.7	14.2	17.4	15.0	14.0	18.6	13.6	9.7
Export volume (percent change)	9.8	7.8	-2.0	-4.1	-11.9	16.7	10.5	3.1	3.1	2.9
Import volume (percent change)	1.4	11.0	4.5	-4.5	-14.9	15.8	9.8	3.7	3.7	2.8
Terms of trade (percent change)	4.1	-1.9	-1.6	-5.8	0.9	2.0	1.2	0.1	-0.3	-0.5

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

1/ Based on average exchange rate valuation of GDP.

Table 5. Paraguay: Summary Accounts of the Central Bank

(In billions of Guaranies; eop; valued at constant exchange rate)

	2016	2017	2018	Prel. 2019	Proj. 2020	2021
Currency issued	**11,457**	**12,954**	**13,757**	**14,349**	**14,846**	**15,806**
Growth	4.9	13.1	6.2	4.3	3.5	6.5
Net international reserves	**31,789**	**36,329**	**36,085**	**34,468**	**36,343**	**38,218**
Net domestic assets	**-20,332**	**-23,375**	**-27,979**	**-22,767**	**-21,497**	**-22,412**
Net nonfinancial public sector	-7,127	-8,084	-8,141	-6,296	-5,198	-4,309
Net credit to the central government	-7,126	-8,084	-8,141	-6,296	-5,197	-4,308
Net credit to the banking system	-20,641	-24,208	-23,491	-22,998	-27,460	-32,045
Reserve requirements	-9,558	-10,725	-10,990	-10,675	-11,023	-13,537
Free reserves	-2,992	-2,188	-1,889	-1,988	-1,988	-1,988
Monetary control instruments 1/	-9,321	-12,611	-11,883	-11,742	-15,856	-17,928
Other	1,229	1,316	1,272	1,407	1,407	1,407
Other assets and liabilities (net)	7,436	8,917	3,654	6,527	11,161	13,942
Capital and reserves	3,709	4,751	-617	-610	1,941	4,786
Other assets net 2/	3,727	4,166	4,271	7,137	9,220	9,156
Memorandum Items:						
Total stock of IRMs outstanding 1/	9,247	12,682	11,960	12,919	15,856	17,928
Monetary base 3/	16,058	18,391	19,740	20,420	21,104	22,252
Monetary base, annual growth	6.9	14.5	7.3	3.4	3.4	5.4
Quasi-fiscal balance	914	958	601	2,408	2,782	2,961
In percent of GDP	0.4	0.4	0.3	1.0	1.1	1.1
Cost of monetary policy operations	652	882	920	966	972	1,143
In percent of GDP	0.3	0.4	0.4	0.4	0.4	0.4

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

1/ Includes overnight-deposit facility and central bank bills (LRM). A fraction of LRM is held by non-bank institutions.

2/ Includes LRM held by the non-banking sector.

3/ Monetary base comprises currency issued plus legal reserve requirement deposits in guaraní. held at the BCP.

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

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

	2016	2017	2018	Prel. 2019	Proj. 2020	Proj. 2021
				I. Central Bank		
Net international reserves	**31,789**	**36,329**	**36,085**	**34,468**	**36,343**	**38,218**
Net domestic assets	**-20,332**	**-23,375**	**-27,979**	**-22,767**	**-21,497**	**-22,412**
Credit to public sector, net	-7,127	-8,084	-8,141	-6,296	-5,198	-4,309
Credit to banking system, net 2/	-11,320	-11,597	-11,608	-11,256	-11,604	-14,117
Credit	1,229	1,316	1,272	1,407	1,407	1,407
Deposits	12,549	12,913	12,879	12,662	13,011	15,524
Central bank securites	-9,247	-12,682	-11,960	-12,919	-15,856	-17,928
Other	7,362	8,989	9,381	10,352	11,161	13,942
Currency issued	**11,457**	**12,954**	**13,757**	**14,349**	**14,846**	**15,806**
				II. Monetary Survey		
Net foreign assets	**29,838**	**34,225**	**32,459**	**31,271**	**33,157**	**35,043**
In millions of U.S. dollars	6,446	7,393	7,012	6,755	7,162	7,570
Net domestic assets	**53,143**	**58,998**	**65,723**	**73,949**	**74,618**	**76,936**
Credit to the public sector	-13,442	-14,836	-15,252	-14,339	-13,233	-12,339
Credit to the private sector	77,979	82,847	92,361	98,289	99,767	107,524
Other	-11,394	-9,013	-11,385	-10,001	-11,916	-18,249
Broad liquidity (M4)	**82,981**	**93,222**	**98,177**	**105,194**	**107,739**	**111,942**
Bonds and issued securities	0	0	5	26	26	26
Other monetary liabilities	4,997	5,114	4,835	5,365	5,558	5,753
Central bank securities with private sector	0	71	77	1,177	0	0
Broad liquidity (M3)	**77,984**	**88,037**	**93,261**	**98,627**	**102,155**	**106,164**
Foreign currency deposits	26,959	27,663	28,007	29,373	30,430	31,496
Money and quasi-money (M2)	**51,026**	**60,374**	**65,254**	**69,254**	**71,724**	**74,668**
Quasi-money	26,464	29,186	32,394	33,893	35,113	36,342
Money (M1)	24,562	31,188	32,859	35,361	36,611	38,326
				(Annual percent change)		
M0 (Currency issued)	4.9	13.1	6.2	4.3	3.5	6.5
Credit to the private sector	4.5	6.2	11.5	6.4	1.5	7.8
M1	8.3	27.0	5.4	7.6	3.5	4.7
M2	11.8	18.3	8.1	6.1	3.6	4.1
M3	8.2	12.9	5.9	5.8	3.6	3.9
Of which: Foreign currency deposits	2.0	2.6	1.2	4.9	3.6	3.5
Memorandum items:						
Ratio of foreign currency deposits to M3 (percent)	34.6	31.4	30.0	29.8	29.8	29.7
Ratio of foreign currency deposits to total private sector deposits (percent)	36.5	33.4	32.1	31.7	32.5	32.5

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

1/ Includes banks, finance companies, and the 20 largest cooperatives.
2/ Excludes LRM held by the banking sector.

Table 7. Paraguay: Indicators of the External Vulnerability

(In percent of GDP, unless otherwise indicated)

					Prel.	Proj.					
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Monetary and financial indicators											
Broad money (M3), percentage change 1/	3.7	8.2	12.9	5.9	5.8	3.6	3.9	3.9	3.9	4.8	5.7
Credit to the private sector, real (percent change) 1/	5.4	0.6	1.7	8.0	2.6	-2.1	3.9	1.9	1.7	1.7	1.7
Share of nonperforming loans in total loans (percent)	2.5	2.8	2.7	2.4	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Average domestic bank lending rate, real	13.9	12.0	11.3	11.3	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Central Bank bill yield, real	2.9	2.2	2.4	1.6	0.0	0.8	0.5	0.5	0.5	0.5	0.5
Central bank foreign short-term liabilities (millions of U.S. dollars)	1.4	1.2	0.0	48.6	54.7	54.7	54.7	54.7	54.7	54.7	54.7
External indicators											
Merchandise exports (percentage change)	-16.2	-4.3	2.0	4.0	-9.2	-2.7	-0.6	0.7	0.2	0.2	0.2
Merchandise imports (percentage change)	-13.3	-5.1	3.5	6.8	0.3	-7.2	0.6	1.2	1.1	1.7	1.4
Merchandise terms of trade (percentage change)	-3.3	0.8	-1.5	-2.6	-9.4	4.9	-1.2	-0.5	-0.9	-1.4	-1.3
Real effective exchange rate (percentage change)	-8.2	0.1	0.1	5.0	-6.0	0.5	0.5	0.5	0.5	0.0	0.0
Current account balance (percent of GDP)	-0.4	3.6	3.1	0.0	-1.0	-0.1	0.9	1.5	1.4	1.2	1.1
Capital and financial account (percent of GDP)	-1.7	0.2	1.1	1.9	2.2	-3.1	0.3	0.0	0.6	0.9	1.0
Net foreign direct investment (percent of GDP)	0.9	1.2	1.3	1.2	1.3	0.4	0.7	0.9	1.0	1.0	1.0
Other net investment (percent of GDP)	-3.7	-2.3	-1.9	-1.0	-0.7	-5.0	-2.0	-1.3	-0.8	-0.5	-0.4
External public debt (percent of GDP) 2/	14.1	15.4	15.8	18.0	21.8	26.3	27.7	27.7	27.0	26.8	26.6
o/w: Central Government External Debt (percent of GDP) 2/	11.1	12.8	12.9	14.8	18.2	21.8	23.5	23.8	23.4	23.5	23.5
Total external debt (percent of GDP) 2/	49.0	44.1	40.1	40.9	44.0	44.9	43.1	40.0	36.7	32.6	32.5
Excluding debt of binational companies 2/	20.9	20.2	20.6	23.1	27.7	32.1	33.6	33.5	32.9	32.6	32.5
External Debt service (in percent of exports GNFS)	12.0	11.9	11.1	10.7	14.2	17.4	15.0	14.0	18.6	13.6	9.7
International reserves (in millions of U.S. dollars)	6,200	7,144	8,146	8,004	7,996	7,496	7,596	7,896	8,396	8,946	9,496
In months of imports of GNFS	6.8	6.7	6.9	7.1	8.9	7.1	6.5	6.4	6.5	6.6	6.7
Ratio to short-term external debt 3/	1.9	2.3	2.6	2.2	2.2	2.0	2.0	1.7	2.1	2.7	5.6

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

1/ Foreign-currency components are valued at the accounting exchange rate.
2/ Based on end-of-period exchange rate conversion of U.S. dollar-denominated debt.
3/ Private and public external debt with a residual maturity of one year or less.

Table 8. Paraguay: Capacity to Repay Indicators, 2020-25 1/

(In millions of SDR, unless otherwise indicated)

	2020	2021	Proj. 2022	2023	2024	2025
Fund obligations based on existing and prospective credit						
In millions of SDR	2.2	2.2	2.2	52.4	101.9	50.5
Principal				50.4	100.7	50.4
Charges and interest	2.2	2.2	2.2	2.1	1.2	0.2
Total obligations based on existing and prospective credit						
In millions of SDR	2.2	2.2	2.2	52.4	101.9	50.5
In millions of US dollars	3.1	3.0	3.0	73.2	142.6	71.0
In percent of gross international reserves	0.0	0.0	0.0	0.9	1.6	0.7
In percent of exports of goods and services	0.0	0.0	0.0	0.5	0.9	0.4
In percent of debt service	0.0	0.0	0.0	0.9	1.6	0.7
In percent of GDP	0.0	0.0	0.0	0.2	0.3	0.1
In percent of quota	1.1	1.1	1.1	26.0	50.6	25.1
Outstanding Fund credit						
In millions of SDR	201.4	201.4	201.4	151.1	50.4	0.0
In millions of US dollars	278.2	279.4	280.4	210.9	70.5	0.0
In percent of gross international reserves	3.7	3.7	3.6	2.5	0.8	0.0
In percent of exports of goods and services	2.5	2.1	1.9	1.3	0.4	0.0
In percent of debt service	10.4	10.1	9.5	5.2	2.3	0.0
In percent of GDP	0.7	0.7	0.7	0.5	0.1	0.0
In percent of quota	100.0	100.0	100.0	75.0	25.0	0.0
Net use of Fund credit (in millions of SDR)	201.4	0.0	0.0	-50.4	-100.7	-50.4
Disbursements	201.4					
Repayments and Repurchases	0.0	0.0	0.0	50.4	100.7	50.4
Memorandum items						
Nominal GDP (in millions of US dollars)	38,131	39,935	42,724	45,522	48,143	50,587
Exports of goods and services (in millions of US dollars)	11,111	13,330	15,094	15,772	16,484	17,148
Gross International Reserves (in millions of US dollars)	7,496	7,596	7,896	8,396	8,946	9,496
Debt service (in millions of US dollars)	1,933	1,999	2,115	2,931	2,235	1,669
Quota (in millions of SDRs)	201.4	201.4	201.4	201.4	201.4	201.4

Source: IMF staff estimates and projections

1/With one disbursement of 100 percent of quota under the RFI (Rapid Financing Instrument) in 2020.

Annex I. Public Debt Sustainability

Bottomline: Paraguay's debt is sustainable, and risks to a sustainable path are low.

Baseline

Baseline public debt stood at 26 percent of GDP as of 2019. It will jump to about 32 percent by 2021 and then gradually converge toward 30 percent in the medium term.	The main driver of debt is the fiscal response to the Covid-19 crisis in 2020, followed by a gradual consolidation over the next three years.

Stress Tests

Stress tests show that the most adverse shock would be a real GDP shock. Even under this shock, debt would remain safely below 50 percent, peaking at 36.8 percent of GDP in 2022. A one-time real-exchange rate shock of similar magnitudes as of 2015, when commodity prices decreased sharply, would have debt peak at 36.1 percent in 2021.	Real GDP growth in Paraguay is volatile, due to the impact of shifting weather conditions on agriculture. Agricultural commodity price fluctuations are the most important source of real-exchange rate shocks in Paraguay. While the share of foreign-currency denominated debt is high, short-term capital flows are low, and the Central Bank's reserves are high. Interest-rate risk is limited, as Paraguay's external sovereign debt consists of long-term fixed-coupon bonds, the first one of which needs to be refinanced in 2023.

Assumptions

The baseline assumes negative growth (-1.0 percent) in 2020, followed by a rebound to 4 percent in 2021. In the medium-term growth converges to potential output growth of 3.5 to 4.0 percent. The fiscal deficit is projected to leap to 4.5 percent of GDP in 2020 and then gradually converge back to 1.5 percent by 2023.	The growth assumption for 2020 is very conservative, as a large share of agriculture output has been brought in already in the first quarter, leading to a sharp rebound of this sector from last year's drought. The projected contraction of services and manufacturing underlying the growth forecast is very sharp. The unwinding of this shock is expected to produce a strong rebound in 2021.

Coverage and contingent liabilities

Debt coverage comprises the consolidated public sector, and all domestic key entities and liabilities are included. Public sector debt does not include liabilities by the binational entities Itaipú and Yacyretá.	There are no known contingent liabilities.

Paraguay: Public Sector Debt Sustainability Analysis - Baseline Scenario

(in percent of GDP unless otherwise indicated)

Debt, Economic and Market Indicators

	Actual			Projections					
	2009-2017	2018	2019	2020	2021	2022	2023	2024	2025
Nominal gross public debt	15.0	22.2	26.3	30.6	31.8	31.3	30.6	30.3	30.2
Public gross financing needs	1.4	2.5	4.7	5.7	4.1	3.3	4.2	2.6	2.7
Real GDP growth (in percent)	4.5	3.7	0.2	-1.0	4.0	4.0	4.0	4.0	3.5
Inflation (GDP deflator, in percent)	3.7	2.1	-0.3	8.1	1.9	3.5	2.9	2.5	2.6
Nominal GDP growth (in percent)	8.3	5.9	-0.1	7.0	6.0	7.6	7.0	6.6	6.2
Effective interest rate (in percent)	4.9	5.8	5.8	2.6	2.5	2.8	2.9	3.3	3.6

Contribution to Changes in Public Debt

	Actual			Projections					
	2009-2017	2018	2019	2020	2021	2022	2023	2024	2025
Change in gross public sector debt	0.6	2.3	4.1	4.3	1.2	-0.5	-0.6	-0.3	-0.1
Identified debt-creating flows	0.7	3.3	5.6	4.0	1.0	-0.6	-0.7	-0.5	-0.4
Primary deficit	-0.2	0.6	2.6	3.9	2.4	1.2	0.6	0.6	0.6
Primary (noninterest) revenue and grants	17.3	18.8	19.6	19.2	19.2	19.6	20.0	20.0	20.0
Primary (noninterest) expenditure	17.1	19.4	22.2	23.1	21.6	20.8	20.6	20.6	20.6
Automatic debt dynamics	-0.3	1.0	2.9	-1.1	-1.0	-1.4	-1.2	-0.9	-0.8
Interest rate/growth differential	-0.4	0.0	1.3	-1.1	-1.0	-1.4	-1.2	-0.9	-0.8
Of which: real interest rate	0.2	0.7	1.3	-1.3	0.2	-0.2	0.0	0.2	0.2
Of which: real GDP growth	-0.6	-0.7	0.0	0.2	-1.2	-1.2	-1.2	-1.1	-1.0
Exchange rate depreciation	0.2	1.0	1.6	…	…	…	…	…	…
Other identified debt-creating flows	1.1	1.7	0.1	1.2	-0.4	-0.4	-0.2	-0.2	-0.2
NFPS asset accumulation	1.1	1.7	0.1	1.2	-0.4	-0.4	-0.2	-0.2	-0.2
Residual	-0.1	-0.9	-1.4	0.4	0.2	0.1	0.1	0.2	0.3

Paraguay Public DSA Risk Assessment

Heat Map

Debt level	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

Figure 1. Paraguay: Public Sector Debt Sustainability Analysis
(In percent of GDP unless otherwise specified)

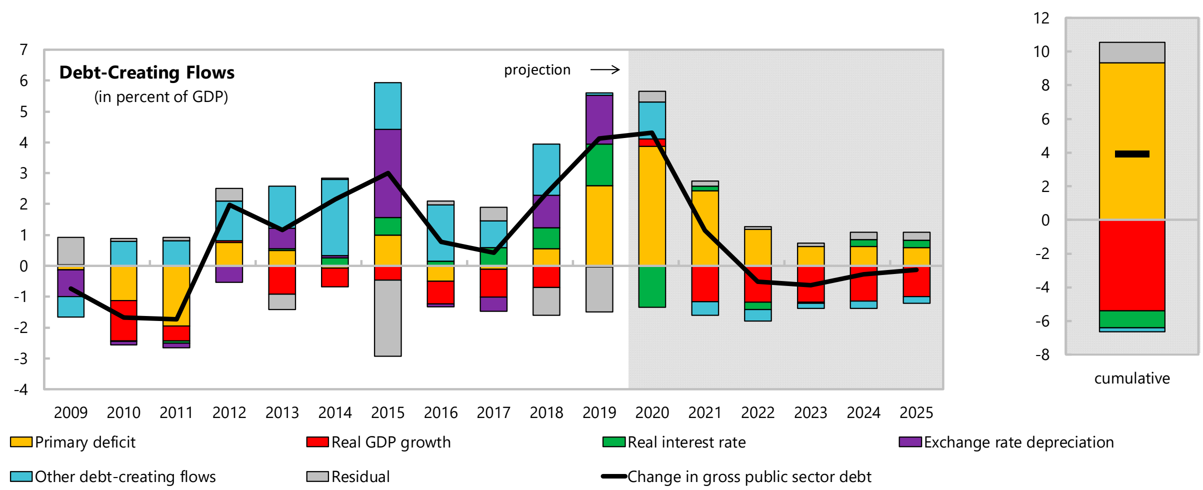
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2009-2017	2018	2019	2020	2021	2022	2023	2024	2025
Nominal gross public debt	15.0	22.2	26.3	30.6	31.8	31.3	30.6	30.3	30.2
Public gross financing needs	1.4	2.5	4.7	5.7	4.1	3.3	4.2	2.6	2.7
Real GDP growth (in percent)	4.5	3.7	0.2	-1.0	4.0	4.0	4.0	4.0	3.5
Inflation (GDP deflator, in percent)	3.7	2.1	-0.3	8.1	1.9	3.5	2.9	2.5	2.6
Nominal GDP growth (in percent)	8.3	5.9	-0.1	7.0	6.0	7.6	7.0	6.6	6.2
Effective interest rate (in percent) [2/]	4.9	5.8	5.8	2.6	2.5	2.8	2.9	3.3	3.6

As of March 19, 2020		
Sovereign Spreads		
EMBIG (bp)		372
5Y CDS (bp)		...
Ratings	Foreign	Local
Moody's	Ba1	Ba1
S&Ps	BB	BB
Fitch	BB+	BB+

Contribution to Changes in Public Debt

	Actual			Projections							
	2009-2017	2018	2019	2020	2021	2022	2023	2024	2025	cumulative	debt-stabilizing primary balance [8/]
Change in gross public sector debt	0.6	2.3	4.1	4.3	1.2	-0.5	-0.6	-0.3	-0.1	3.9	
Identified debt-creating flows	0.7	3.3	5.6	4.0	1.0	-0.6	-0.7	-0.5	-0.4	2.7	
Primary deficit	-0.2	0.6	2.6	3.9	2.4	1.2	0.6	0.6	0.6	9.3	-1.0
Primary (noninterest) revenue and grants	17.3	18.8	19.6	19.2	19.2	19.6	20.0	20.0	20.0	118.0	
Primary (noninterest) expenditure	17.1	19.4	22.2	23.1	21.6	20.8	20.6	20.6	20.6	127.4	
Automatic debt dynamics [3/]	-0.3	1.0	2.9	-1.1	-1.0	-1.4	-1.2	-0.9	-0.8	-6.4	
Interest rate/growth differential [4/]	-0.4	0.0	1.3	-1.1	-1.0	-1.4	-1.2	-0.9	-0.8	-6.4	
Of which: real interest rate	0.2	0.7	1.3	-1.3	0.2	-0.2	0.0	0.2	0.2	-1.0	
Of which: real GDP growth	-0.6	-0.7	0.0	0.2	-1.2	-1.2	-1.2	-1.1	-1.0	-5.4	
Exchange rate depreciation [5/]	0.2	1.0	1.6	...	...	...	...	...	...	...	
Other identified debt-creating flows	1.1	1.7	0.1	1.2	-0.4	-0.4	-0.2	-0.2	-0.2	-0.2	
NFPS asset accumulation [6/]	1.1	1.7	0.1	1.2	-0.4	-0.4	-0.2	-0.2	-0.2	-0.2	
Residual [7/]	-0.1	-0.9	-1.4	0.4	0.2	0.1	0.1	0.2	0.3	1.2	



Source: Fund staff estimates and projections.

1/ Public sector is defined as consolidated public sector. It includes the non-financial public sector and the central bank. The stock of public debt excludes central bank bills.

2/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

3/ Derived as [(r - π(1+g) - g + ae(1+r)]/(1+g+π+gπ)) times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

4/ The real interest rate contribution is derived from the numerator in footnote 3 as r - π (1+g) and the real growth contribution as -g.

5/ The exchange rate contribution is derived from the numerator in footnote 3 as ae(1+r).

6/ Includes social security surplus, accumulation of deposits from the sovereign bond issuance in 2014, and financing of the national development bank.

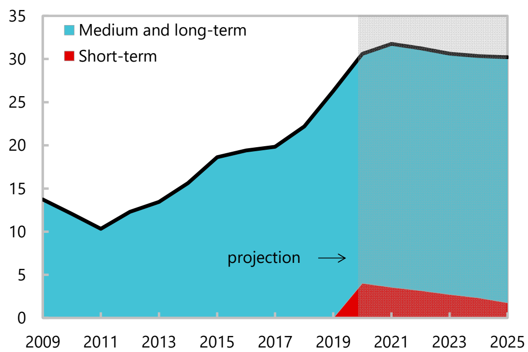
7/ Includes asset changes and interest revenues (if any). For projections, it includes the impacts of exchange rate changes.

8/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

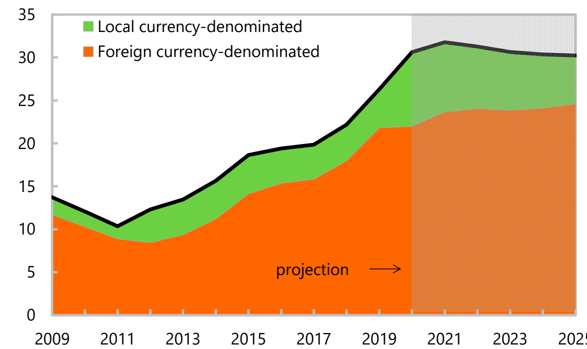
Paraguay: Public DSA - Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



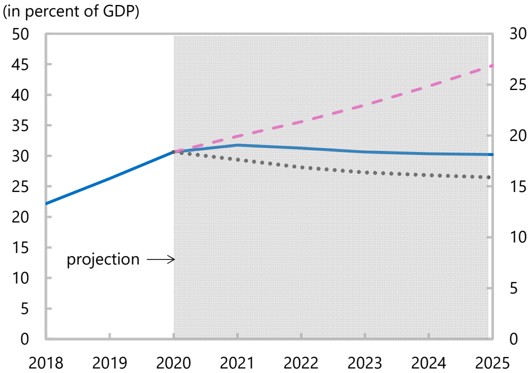
By Currency
(in percent of GDP)



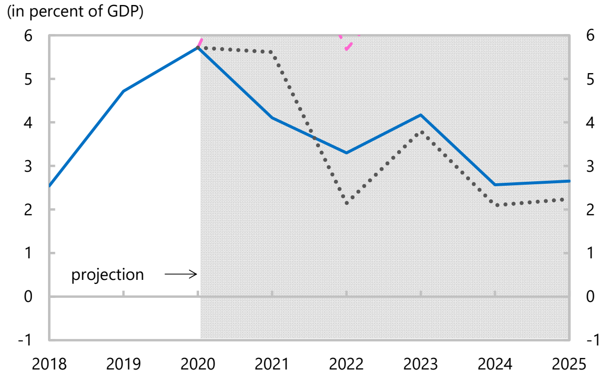
Alternative Scenarios

Baseline
Historical
Constant Primary Balance

Gross Nominal Public Debt
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



Underlying Assumptions
(in percent)

Baseline Scenario	2020	2021	2022	2023	2024	2025
Real GDP growth	-1.0	4.0	4.0	4.0	4.0	3.5
Inflation	8.1	1.9	3.5	2.9	2.5	2.6
Primary Balance	-3.9	-2.4	-1.2	-0.6	-0.6	-0.6
Effective interest rate	2.6	2.5	2.8	2.9	3.3	3.6
Constant Primary Balance Scenario						
Real GDP growth	-1.0	4.0	4.0	4.0	4.0	3.5
Inflation	8.1	1.9	3.5	2.9	2.5	2.6
Primary Balance	-3.9	-3.9	-3.9	-3.9	-3.9	-3.9
Effective interest rate	2.6	2.5	3.5	3.6	4.1	4.4

Historical Scenario	2020	2021	2022	2023	2024	2025
Real GDP growth	-1.0	4.4	4.4	4.4	4.4	4.4
Inflation	8.1	1.9	3.5	2.9	2.5	2.6
Primary Balance	-3.9	-0.2	-0.2	-0.2	-0.2	-0.2
Effective interest rate	2.6	2.5	3.7	3.9	4.6	4.9

Source: Fund staff estimates and projections.

Table 1. Paraguay: External Debt Sustainability Framework, 2015-25

(In percent of GDP, unless otherwise indicated)

	Actual					10-Year	10-Year	Projections						
	2015	2016	2017	2018	2019	Historical Average	Standard Deviation	2020	2021	2022	2023	2024	2025	Debt-stabilizing non-interest current account 6/
Baseline: External debt	43.8	43.0	39.9	39.3	42.5			**44.7**	**42.8**	**39.9**	**36.6**	**32.5**	**32.2**	**-2.3**
Change in external debt	3.2	-0.8	-3.0	-0.6	3.3			2.1	-1.9	-2.9	-3.3	-4.1	-0.2	
Identified external debt-creating flows (4+8+9)	-1.8	0.1	-4.2	-4.0	-0.6			0.4	-2.8	-3.6	-3.6	-3.2	-2.9	
Current account deficit, excluding interest payments	-1.4	-5.4	-4.6	-1.5	-0.7			-1.3	-2.1	-2.8	-2.8	-2.4	-1.1	
Deficit in balance of goods and services	-1.5	-5.4	-4.1	-1.4	0.7			-0.5	-1.3	-2.0	-2.0	-1.6	-1.5	
Exports	33.0	35.4	36.4	36.5	36.0			29.2	33.0	35.0	35.0	34.6	34.2	
Imports	31.5	30.0	32.3	35.1	36.6			28.6	31.7	33.0	33.1	32.9	32.6	
Net non-debt creating capital inflows (negative)	-1.1	-0.8	-1.1	-1.3	-1.3			-0.4	-0.7	-0.9	-1.0	-1.0	-1.0	
Automatic debt dynamics 1/	0.7	6.4	1.5	-1.1	1.5			2.1	0.0	0.1	0.2	0.2	-0.8	
Contribution from nominal interest rate	1.6	2.0	1.6	1.5	1.6			1.7	1.7	1.7	1.7	1.6	0.3	
Contribution from real GDP growth	-1.2	-2.1	-2.1	-1.4	-0.1			0.4	-1.7	-1.6	-1.5	-1.4	-1.1	
Contribution from price and exchange rate changes 2/	0.3	6.5	2.0	-1.2	-0.1			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	5.0	-1.0	1.1	3.3	3.8			1.7	1.0	0.7	0.3	-0.9	2.6	
External debt-to-exports ratio (in percent)	132.9	121.4	109.8	107.8	118.3			153.3	129.7	113.9	104.4	93.8	94.3	
Gross external financing need (in billions of US dollars) 4/	2.7	1.3	1.3	2.6	3.3			3.1	2.8	2.6	3.4	2.8	2.8	
in percent of GDP	7.4	3.5	3.4	6.3	8.8			9.2	7.8	6.8	8.2	6.3	6.2	
Scenario with key variables at their historical averages 5/								**41.1**	**38.2**	**35.6**	**32.5**	**28.0**	**26.9**	**-1.7**
Key Macroeconomic Assumptions Underlying Baseline														
Nominal GDP (US dollars)	36.3	36.3	39.4	40.5	37.1			33.7	36.2	38.2	40.7	43.3	45.6	
Real GDP growth (in percent)	3.1	4.3	5.0	3.7	0.2	4.4	3.4	-1.0	4.0	4.0	4.0	4.0	3.5	
GDP deflator in US dollars (change in percent)	-0.8	-12.9	-4.4	3.1	0.1	1.2	9.2	-8.5	3.4	1.4	2.6	2.3	1.7	
Nominal external interest rate (in percent)	4.0	4.1	3.8	3.9	4.1	4.0	0.2	4.1	4.0	4.2	4.4	4.5	0.9	
Growth of exports (US dollar terms, in percent)	-14.5	7.5	11.4	3.0	-9.5	5.8	15.0	-17.0	19.4	13.2	6.5	4.4	3.9	
Growth of imports (US dollar terms, in percent)	-13.4	-4.6	16.9	11.5	-4.2	7.7	17.0	-19.9	16.7	11.2	6.6	5.4	4.2	
Current account balance, excluding interest payments	1.4	5.4	4.6	1.5	0.7	2.5	1.6	1.3	2.1	2.8	2.8	2.4	1.1	
Net non-debt creating capital inflows	1.1	0.8	1.1	1.3	1.3	1.3	0.4	0.4	0.7	0.9	1.0	1.0	1.0	

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).

3/ For projection, line includes the impact of price and exchange rate changes.

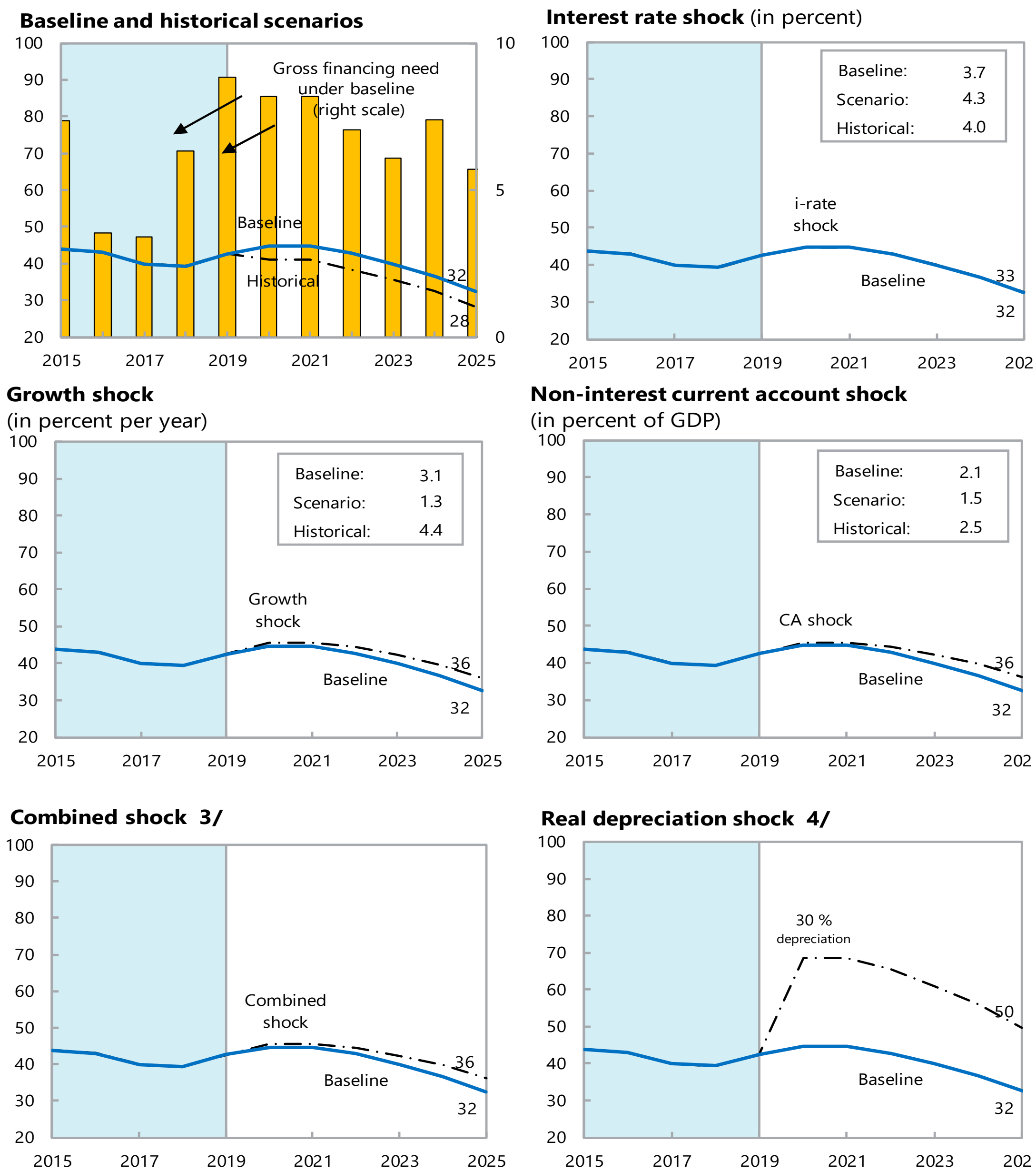
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Figure 1. Paraguay: External Debt Sustainability: Bound Tests 1/ 2/

(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2010.

Appendix I. Letter of Intent

Asunción, Paraguay
April 8, 2020

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

Dear Ms. Georgieva,

1. In March 2020, Paraguay was hit by the global Covid-19 pandemic. While we have fortunately been able to contain the spread of the epidemic and the associated human suffering through an immediate and forceful policy reaction, the impact on the economy and the public finances has been severe.

2. On March 7, the first case was confirmed in Asunción. Since then, we have suspended public school sessions and large-scale public and private events, partially closed the borders, restricted crowds and imposed a night time curfew. On March 20, we implemented a total lockdown.

3. So far, our measures seem to have been successful in containing the spread of the epidemic.

4. The impact on the economy has been severe. With much of the economy in containment and lockdown, we now expect the economy to decline sharply in the second quarter, and for the year as a whole to shrink by 1 percent. Earlier this year, we were still expecting a strong recovery from the weather-shock related recession of last year, with growth of at least 4 percent.

5. To mitigate the impact on the private sector we have lowered policy rates, allowed banks to restructure loans to private sector companies that are in repayment difficulties, and postponed collection of taxes and user fees for 2 months.

6. We have adapted an emergency package that will boost health care spending, expand the social safety net and provide emergency loans for small enterprises. The cost of the package is about 2½ percent of GDP.

7. The impact on the public finances has been severe. The economic downturn alone will result in a significant shortfall of revenues; and our policy response will further reduce revenue and raise spending. We now expect a deficit of about 4½ percent of GDP, compared with an estimate of 2.0 percent earlier this year, and a ceiling of 1.5 percent of GDP during normal times.

8. Given the difficult situation in international financial markets, we aim to finance the deficit increase through loans from IFIs. We currently seek up to US$1.6 billion in additional external financing.

9. Against this background, the Government of Paraguay requests emergency financing from the IMF in the equivalent of SDR 201.4 million (US$276 million), equivalent to a purchase of 100 percent of quota under the Rapid Financing Instrument (RFI). The IMF assistance will help meet the urgent foreign exchange needs stemming from the epidemic and ease the immediate pressure on our government accounts and balance of payments. It will also facilitate unlocking of additional financing by other IFIs.

10. The government of Paraguay recognizes the paramount importance of continued macro-economic stability and healthy and sustainable public finances. We therefore intend to return the fiscal deficit to below the ceiling of 1.5 percent of GDP after the crisis is over. Given the highly uncertain economic prospects at this time, the precise time schedule will be determined at the time the 2021 budget is prepared. If growth is stronger than expected, we will use the additional revenue to return the deficit to below the ceiling more rapidly.

11. To keep the deficit below the ceiling and create room for additional investment, we will moderate current expenditure growth and increase revenues. We plan to revise the Fiscal Responsibility Law to limit real growth of primary expenditure to 2 percent down from 4 percent previously. We will also aim for further increases in tax revenue, which is only 10 percent of GDP. A recent tax reform will boost tax revenue by 0.1 percent of GDP in 2020 and 0.7 percent of GDP until 2023, but more may be needed.

12. We will continue with our policy of letting the exchange rate absorb shocks, and have its value determined by market forces. We will continue to intervene only to address disorderly market conditions.

13. Monetary policy will continue to focus on inflation targeting. Since early March, we have lowered the policy rate by 175 basis points, to 2.25 percent. We will consider further interest rate cuts, depending on how the economic situation will develop.

14. We recognize that growth challenges are not just cyclical. Continued rapid convergence with advanced countries is challenging, as the factors that drove growth in the last decade and a half (including the agricultural commodity prices boom) are unlikely to provide support going forward. To boost investment and convergence governance, the business climate and human capital also need to improve. A recent mission by the IMF and IDB has helped us assess vulnerabilities to corruption. We will use the findings of the mission to develop a strategy to combat corruption and improve governance.

15. The Government of Paraguay values its cooperation with the IMF and takes its obligations seriously. We do not intend to introduce measures or policies that would compound the balance-of-payments difficulties. We do not intend to impose new or intensify existing restrictions on the making of payments and transfers for current international transactions, trade restrictions for balance-of-payments purposes, or multiple currency practices, or to enter into bilateral payments agreements which are inconsistent with Article VIII of the Fund's Articles of Agreement. We commit to undergoing a safeguards assessment, to provide staff with access to the central bank's most

recently completed external audit reports and to authorize the central bank's external auditors to hold discussions with staff. We will also establish a framework agreement between the central bank and the government on responsibilities for servicing financial obligations related to the RFI purchase.

16. The challenge before us is formidable, but we are determined to succeed. We hope that the international financial community will support our efforts to contain the epidemic and restore our economy. We look forward to an early approval of financial assistance by the IMF.

17. We authorize the Fund to publish this Letter of Intent and the staff report for the request for disbursement under the RFI.

Sincerely yours,

/s/

José Cantero Sienra
Governor of the Central Bank
of Paraguay

/s/

Benigno M. López Benítez
Minister of Finance

/s/

Holger Insfrán Ibarrola
General Manager
of the Central Bank of Paraguay

Statement by Mr. Corvalan Mendoza on Paraguay
April 21, 2020

The COVID-19 pandemic has taken a significant toll on the Paraguayan population and its economy. The shock was first observed on March 7, when the Government suspended public school activities, as well as large-scale events, both public and private, that involved groups of people. By March 20, the country was in total lockdown. On April 8, the authorities made a request for a purchase under the Rapid Financing Instrument (RFI) in the amount of SDR 201.4 million (100 percent of quota).

On behalf of the Paraguayan authorities, I would like to express our sincere appreciation to Mission Chief Bas Bakker and his team for their swift response in bringing this program to the Board in a short timeframe and the staff for the comprehensive report and timely policy advice. The authorities commend Management and the Executive Board for their decisive action on doubling the RFI quota access for the membership, and its swift implementation.

Prior COVID-19

In 2019, Paraguay's economy was significantly affected by the sudden deterioration in weather conditions. A drought substantially reduced agricultural production, especially soybean, which also led to a weakening of some branches of the manufacturing sector and other sectors linked to agriculture. At the same time, a drought in the area of the Paraná River basin, on the Brazilian side, severely influenced the generation of electricity from binational hydroelectric dams. Subsequently, the floods registered towards the second half of the second quarter negatively impacted livestock and construction sectors.

In addition, external shocks, such as the sudden drop in commodity prices and the deterioration of the global and regional environment, exacerbated the effects of climate change. In this context, growth forecasts were revised downwards substantially throughout 2019. After an initial forecast of 4.0 percent of annual GDP growth, the latest revision in December 2019 was 0.2 percent.

The fragile performance of economic activity and domestic demand in 2019 was reflected in a drop in tax revenue, from imports. The fiscal deficit of 2019 was around 2.9 percent of

GDP; however, this fiscal result was also largely the result of a significant increase in public investment, which reached around 3.0 percent of GDP.

After COVID-19

At the beginning of 2020, the GDP forecast was 4.1 percent, driven by recovery in agriculture, electricity generation, manufacturing, and construction. The service sector was also expected to have a better performance than in 2019. On the expenditure side, an upturn in private consumption and investment was expected, as well as a positive contribution from net exports. Furthermore, the data observed in January and February of 2020 was consistent with the forecast. Today, the projection is an abrupt contraction of GDP to negative territories (-1 percent) and a fiscal deficit inching up from estimated 2 percent to 4.5 percent of GDP.

The COVID-19 pandemic triggered a sudden economic stop, with immediate impact on the supply and demand of products and services. The pandemic's economic challenges are unprecedented. This economic shock required a bold government response plan to mitigate the fast surge in public health services demand, to protect employment, and safeguard the well being of the most vulnerable population. In March, Congress passed an emergency law with 2.4 percent of GDP worth in measures. These resources are planned to be allocated especially to the health sector (USD 515 million) and social protection (USD 408 million), while the remaining amount will be used for the operation of the State, that is, for transitory subsidies of some public services, and for loans to Micro, Small, and Medium-sized Enterprises.

With these measures, the financial fiscal gap for 2020 became sizeable, at around 3.1 percent of GDP, with limited possibilities to tap the domestic debt market.

A series of monetary and financial measures were implemented by the Central Bank (BCP) to mitigate the economic impact. In March, the Monetary Policy Committee reduced the monetary policy rate by 25 basis points in a first meeting, 50 basis points in an extraordinary meeting, and 100 basis points in a second extraordinary meeting, thus, accumulating a reduction of 175 basis points, currently at 2.25 percent annual.

In the first trimester of 2020, inflation remained low. The authorities remain committed to a flexible exchange regime as the first line of defense to absorb shocks. The NIR reached USD 8.5 billion (21 percent of GDP), as of April 7.

Furthermore, in order to provide liquidity to the financial system, the BCP made accessible an important part of the legal reserve requirement in both national and foreign currencies in an amount equivalent to USD 959 million. The BCP also created a liquidity window called the Special Credit Facility for a value USD 760 million, to focus on meeting financing needs of Micro, Small and Medium-sized Enterprises. The sum of these two policy actions represents around 4 percent of GDP. Other complementary measures taken were the reduction of the penalty rates for the cancellation of Letters of Monetary Regulation (short-term papers issued by the BCP) and the reduction of interest rates for short-term liquidity facilities.

To further ease financial conditions, the BCP allowed financial entities to renew, refinance, or restructure loans to private-sector companies, in order to facilitate the supply of credit to the system. This also allowed to extent the term of foreclosed assets sales. The latter will enable financial entities to carry out these transactions under more favorable economic conditions and maintain the value of assets.

The authorities made specific commitments to ensure that related expenditures authorized by the emergency law are subject to robust budgetary procedures. The court of accounts of Congress, the office of the Comptroller, and the anti-corruption Secretariat will perform an audit of all crisis-mitigation spending and make it available to the public. These steps aim to enhance the transparency and accountability of the state regarding the use of public funds.