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Paraguay: Letter of Intent

Press Release:

[IMF Executive Board](#)

[Completes Fourth](#)

[Review Under](#)

[Paraguay's Stand-By](#)

[Arrangement](#)

October 15, 2007

October 2, 2007

[Country's Policy](#)

[Intentions Documents](#)

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The following item is a Letter of Intent of the government of Paraguay, which describes the policies that Paraguay intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Paraguay, is being made available on the IMF website by agreement with the member as a service to users of the [IMF](#) website.

Asunción, Paraguay
October 2, 2007

Mr. Rodrigo de Rato
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. de Rato:

1. This letter updates our previous correspondence (of May 8, 2006, September 12, 2006, and June 15, 2007), describes performance under our economic program, and reiterates our commitment to the program. The program's objectives remain the same, namely, to entrench stabilization while reducing poverty and increasing the potential growth of the economy by adopting an ambitious reform agenda.
2. The program remains on track. Performance under our economic program, supported by a 27-month Stand-By Arrangement (SBA), has been very good. All quantitative and structural performance criteria as well as all structural benchmarks through end-June 2007 have been observed by now, some by large margins.
3. Macroeconomic conditions have improved markedly since the adoption of the program in May 2006. Economic growth accelerated and inflation fell significantly in the first half of 2007. The public finances remain on a strong footing anchored by the financial plan and international reserves reached another record high in June 2007. While there was an uptick in inflation in August due to supply shocks, we will remain vigilant and will ensure adequate policies to achieve our inflation objective.
4. Contrary to our initial concerns, our external position has strengthened beyond expectations, and external vulnerabilities have reduced significantly. Against this background, and with the aim of strengthening our reform agenda, we believe it is appropriate to request: (i) reducing our access under the SBA—which we intend to continue treating as precautionary—from 65 percent (SDR 65 million) to 30 percent of quota (SDR 30 million); (ii) maintaining the same timing and number of program reviews as specified before; (iii) granting a waiver of applicability on the end-September 2007 performance criteria as the relevant data is not yet available; and (iv) completing the fourth review under the SBA supported program.
5. We will continue the productive dialogue we have maintained with the Fund in the past. The government believes that the policies under the program are adequate to achieve

the program objectives, but we will take additional measures, if necessary, to achieve those objectives. We will consult and provide Fund staff with all the relevant information required to complete program reviews and monitor performance.

6. As it is customary now, we intend to publish this letter in the websites of the Ministry of Finance and Central Bank to maintain our citizens informed about our policy intentions. We also authorize the Fund to publish this letter.

Sincerely yours,

_____/ s /_____
Germán Rojas
President
Central Bank of Paraguay

_____/ s /_____
César Barreto
Minister of Finance