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Statement by the Hon. **JOSE ERNESTO BUTTNER LIMPRICH**
Governor of the Bank for **PARAGUAY**,
at the Joint Annual Discussion

**Statement by Mr. José Ernesto Buttner Limprich
Governor of the Bank for Paraguay,
at the Joint Annual Discussion**

- 1) I would like to commend the Government of the United Arab Emirates, and in particular the authorities of Dubai, for their impeccable organization of this event and for the hospitality of their people.
- 2) A new Government assumed office in the Republic of Paraguay last August 15. This new administration is facing difficulties in both the economic and social spheres, due largely to structural problems that have plagued the country for several years. However, from the outset, the new Government has demonstrated commitment to fostering national development. To that end, it has begun to appoint top-ranking professionals at the most strategic levels in the different areas of government.
- 3) From an economic standpoint, underlying the strategic vision of the Government are the following key elements:
 - Restoration of trust in State institutions,
 - Sustainable economic growth, coupled with social, fiscal, and environmental responsibility,
 - Reduction of poverty and social inequality, and
 - Civil society participation.
- 4) To that end, the Executive is working with the National Congress to achieve passage of such important laws as:
 - The Law on Administrative Restructuring and Fiscal Overhaul, which seeks to reduce public expenditure and distortions in the tax law, thereby increasing efficiency in the allocation of resources, reducing distortions, and providing the tax administration with improved policy instruments.
 - The Law on the Streamlining of the Employee Fund Association, the institution that administers the retirement funds of public employees and makes adjustments to financial parameters, which will lead to enhanced medium and long term financial sustainability.
 - The Law approving the Customs Code, which will pave the way for significant improvement in current procedures, by simplifying processes and strengthening the customs administration.
 - The Law reforming Public Banking, which is aimed at restructuring seven public financial institutions and transforming them into one second-tier financial institution that facilitates long term financing and a first-tier institution that channels loans largely to the rural sector and microenterprises.

- The Law on Fiscal Responsibility, and
 - The Deposit-guarantee Law of the financial system.
- 5) In the context of the macroeconomic performance of Paraguay, mention should be made of a number of weaknesses, such as negative economic growth in 2002 and an increase in the debt to gross domestic product ratio. The latter is due largely to the steep devaluation of the local currency in recent years. In 2003, we hope to reverse this trend and to achieve positive economic growth of close to 1.8 percent and a level in excess of 2 percent in 2004. Inflation, which stood at 14.6 percent in 2002, will fall to below 10 percent this year and next.
 - 6) Following last year's crisis, the banking system has returned to a state of normalcy, with the almost complete recovery of the deposits that were lost during the period of instability. Moreover, international reserves have increased by one-third in relation to last year, and current levels are making it possible for the Central Bank to control foreign exchange policy more efficiently.
 - 7) In the fiscal area, a budget deficit of only 0.4 percent of GDP is expected in 2004; a figure that is below the estimate of 2.2 percent for this year. This figure is based on a reduction in public expenditure, improved administrative efficiency, and an increase in tax revenue. In the meantime, the initial effects of short term measures are already evident, given the fact that a comparison of tax revenue with the same period last year shows an increase of 32 percent during the month of August, and 70 percent during the first half of September.
 - 8) Without a doubt, international cooperation is of critical importance for the success of the measures mentioned above and for the achievement of sustainable economic growth. To that end, the Government is negotiating several agreements with various international organizations, which, if accompanied by an appropriate level of financial resources and technical assistance, will facilitate implementation of all the measures envisioned by the current administration of Paraguay.
 - 9) Paraguay, a small landlocked country whose economy revolves mainly around the agricultural sector, relies heavily on international markets for its development. For this reason, we view rapid progress at the international level in the reduction of trade barriers as essential, particularly those in the agricultural sector, as well a reduction in the distortions created by the application of protectionist policies.
 - 10) We view with optimism and we support the initiatives of the Development Committee to forge ahead with discussions aimed at enhancing the voice

and participation of developing countries. Progress in this area will make it possible for the Bretton Woods institutions to offer more effective solutions to the real needs of our countries.

- 11) Once again, we would like to thank the authorities and people of Dubai for their excellent organization of these Annual Meetings. We are confident that the discussions held will lead to progress in the implementation of better and more effective policies aimed at development and the achievement of equity in countries.

Thank you very much.