OFFERING MEMORANDUM

REPUBLIC OF PARAGUAY
US$500,600,000 3.849% Bonds due 2033

The Republic of Paraguay (the "Republic" or "Paraguay") is offering US$500,600,000 aggregate principal amount of its 3.849% bonds due 2033 (the "Bonds"). The Bonds will bear interest on their outstanding principal amount from the date of issuance, expected to be January 28, 2022, at a rate of 3.849%, payable semi-annually in arrears on June 28 and December 28 of each year, commencing on June 28, 2022 and ending on June 28, 2033. Principal on the Bonds will be repaid in three installments on June 28, 2031, June 28, 2032 and at maturity. For more information see "Description of the Bonds—General—Basic Terms."

The Republic may redeem the Bonds, in whole or in part, prior to maturity on the terms described herein. For more information see "Description of the Bonds—Redemption and Repurchase—Optional Redemption." The Bonds constitute and will constitute direct, general, unconditional and unsubordinated External Debt (as defined herein) of the Republic for which the full faith and credit of the Republic is pledged. The Bonds rank and will rank without any preference among themselves and equally with all other unsubordinated External Debt of the Republic. It is understood that this provision shall not be construed so as to require the Republic to make payments under the Bonds ratably with payments being made under any other External Debt. The Bonds will contain provisions commonly known as "collective action clauses." Under these provisions, which differ from the terms of the Republic's public external indebtedness issued prior to March 31, 2016, the Republic may amend the payment provisions of any series of debt securities issued under the indenture (including the Bonds) and other reserved matters listed in the indenture with the consent of less than all of the holders of the debt securities. For more information see "Description of the Bonds—Meetings, Amendments and Waivers—Collective Action."

Application will be made to list the Bonds on the Official List of the Luxembourg Stock Exchange and to have the Bonds trade on the Euro MTF Market of the Luxembourg Stock Exchange.

See "Risk Factors" beginning on page 12 to read about important factors you should consider before investing in the Bonds.

The Bonds have not been and will not be registered under the Securities Act of 1933, as amended (the "Securities Act") or with any securities regulatory authority of any state or other jurisdiction of the United States, and may not be offered or sold in the United States to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act ("Regulation S")) unless the Bonds are registered under the Securities Act or an exemption from the registration requirements of the Securities Act and applicable state securities laws is available. The Bonds are being offered and sold only to qualified institutional buyers in reliance on Rule 144A under the Securities Act ("Rule 144A") or to non-U.S. persons in accordance with Regulation S. For a description of certain restrictions on transfer of the Bonds, see "Notice to Investors" and "Transfer Restrictions."

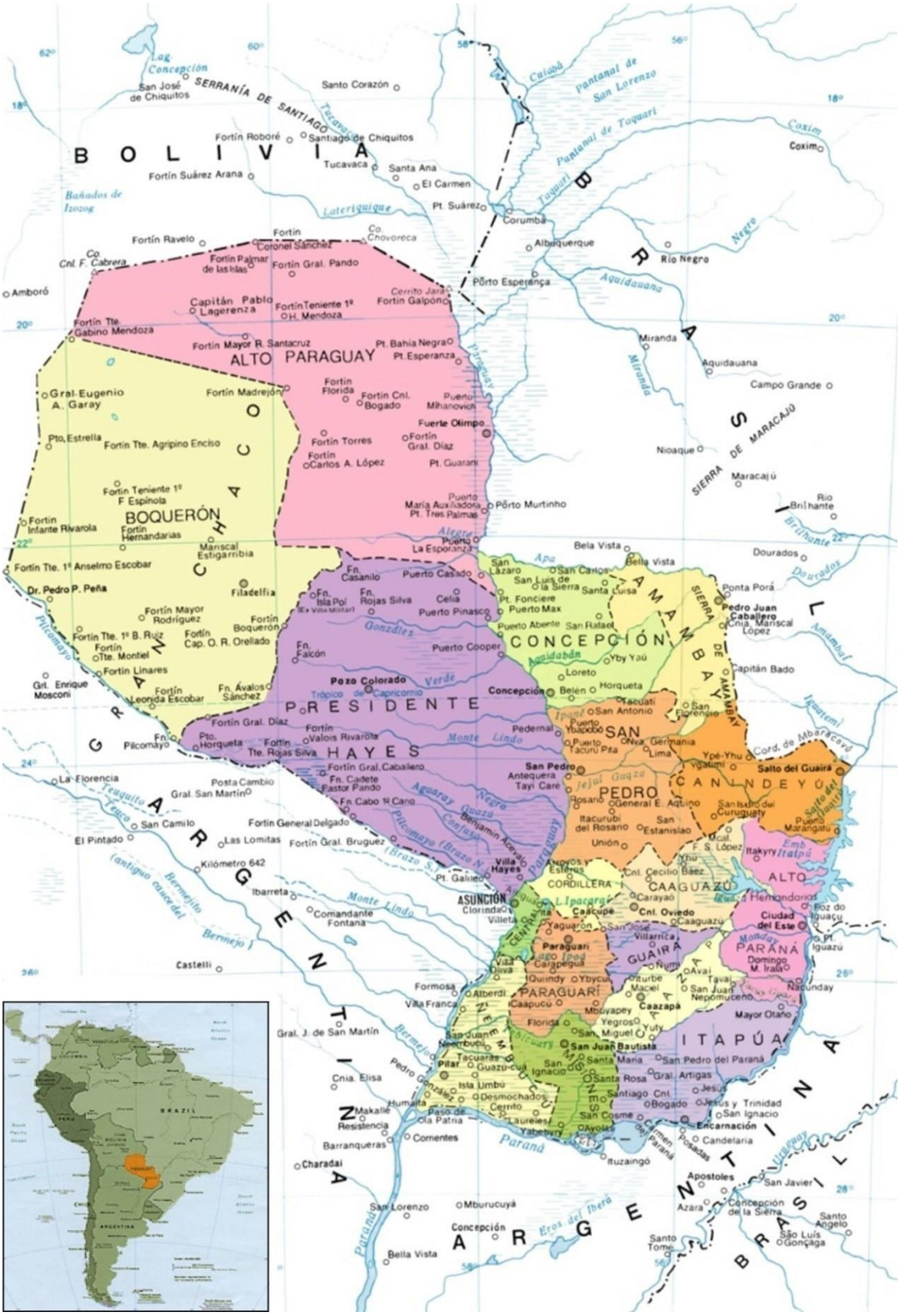
Public Price: 99.994% plus accrued interest, if any, from January 28, 2022.

Delivery of the Bonds in book-entry form will be made through the facilities of The Depository Trust Company ("DTC") and its direct and indirect participants, including Euroclear Bank SA/NV ("Euroclear") and Clearstream Banking, Luxembourg, *société anonyme* ("Clearstream") on or about January 28, 2022.

Joint Book-Running Managers

Citigroup **Goldman Sachs & Co. LLC**

The date of this Offering Memorandum is January 20, 2022.


BOLIVIA
BRASIL
ARGENTINA
ALTO PARAGUAY
BOQUERÓN
GRAN CHACO
PRESIDENTE HAYES
CONCEPCIÓN
AMAMBAY
SAN PEDRO
CANINDEYÚ
ALTO PARANÁ
CAAGUAZÚ
CORDILLERA
CENTRAL
PARAGUARÍ
GUAIRÁ
CAAZAPÁ
ÑEEMBUCÚ
MISIONES
ITAPÚA
ASUNCIÓN
SERRANÍA DE SANTIAGO
SIERRA DE MARACAJÚ
SIERRA DE AMAMBAY
Cord. de Mbaracayú
Trópico de Capricornio
Lag. Concepción
Bañados de Izozog
Pantanal de San Lorenzo
Pantanal de Taquarí
Paraguay
Paraná
Pilcomayo
Bermejo
Apa
Aquidabán
Ypané
Jejuí Guazú
Monte Lindo
Verde
González
Lago Ypoá
L. Ypacaraí
Emb. Itaipú
Eros. del Iberá
Uruguay
Tebicuary
Santo Corazón
San José de Chiquitos
Fortín Roboré
Santiago de Chiquitos
Tucavaca
Santa Ana
El Carmen
Pt. Suárez
Corumbá
Fortín Suárez Arana
Albuquerque
Río Negro
Coxim
Pôrto Esperança
Miranda
Aquidauana
Campo Grande
Nioaque
Maracajú
Rio Brilhante
Dourados
Ponta Porã
Bela Vista
Pôrto Murtinho
Fortín Ravelo
Cnl. F. Cabrera
Amboró
Coronel Sánchez
Fortín Palmar de las Islas
Fortín Gral. Pando
Cerrito Jara
Fortín Galpón
Capitán Pablo Lagerenza
Fortín Teniente 1º H. Mendoza
Fortín Tte. Gabino Mendoza
Fortín Mayor R. Santacruz
Pt. Bahía Negra
Pt. Esperanza
Gral. Eugenio A. Garay
Fortín Madrejón
Fortín Florida
Fortín Cnl. Bogado
Puerto Mihanovich
Fuerte Olimpo
Pto. Estrella
Fortín Tte. Agripino Enciso
Fortín Torres
Fortín Gral. Díaz
Fortín Carlos A. López
Pt. Guaraní
Fortín Teniente 1º F. Espínola
María Auxiliadora
Pt. Tres Palmas
Puerto La Esperanza
Fortín Infante Rivarola
Fortín Hernandarias
Mariscal Estigarribia
Fortín Tte. 1º Anselmo Escobar
Dr. Pedro P. Peña
Filadelfia
Fn. Casanillo
Puerto Casado
Fn. Isla Poí
Fn. Rojas Silva
Celia
Puerto Pinasco
Fortín Mayor Rodríguez
Fortín Boquerón
Fortín Tte. 1º B. Ruiz
Fortín Cap. O. R. Orellado
Fortín Tte. Montiel
Fortín Linares
Fn. Falcón
Puerto Cooper
Pozo Colorado
Grl. Enrique Mosconi
Fortín Leonida Escobar
Fn. Ávalos Sánchez
Fortín Gral. Díaz
Fn. Pilcomayo
Pto. Horqueta
Fortín Tte. Rojas Silva
Fortín Valois Rivarola
Fortín Gral. Caballero
Fn. Cadete Pastor Pando
Fn. Cabo 1º Cano
La Florencia
Posta Cambio
Gral. San Martín
San Camilo
Fortín General Delgado
El Pintado
Las Lomitas
Fortín Gral. Bruguez
Benjamín Aceval
Kilómetro 642
Villa Hayes
Pt. Galileo
Ibarreta
Comandante Fontana
Castelli
San Lázaro
San Carlos
San Luis de la Sierra
Santa Luisa
Pt. Fonciere
Puerto Max
Puerto Abente
San Rafael
Pedro Juan Caballero
Cnia. Mariscal López
Loreto
Yby Yaú
Belén
Horqueta
Concepción
Capitán Bado
Tacuatí
San Antonio
San Florencio
Puerto Ybapobó
Puerto Tacurú Pytá
Nva. Germania
Lima
Ypé-Yhu
Ygatimí
Salto del Guairá
San Pedro
Antequera
Tayi Caré
Rosario
General E. Aquino
San Isidro del Curuguaty
Puerto Marangatú
Itacurubí del Rosario
San Estanislao
Unión
Arroyos y Esteros
Gral. F. S. López
Yhú
Itakyry
Cnl. Cecilio Báez
Carayaó
Caacupé
Cnl. Oviedo
Caaguazú
Hernandarias
Foz do Iguaçu
Ciudad del Este
Pt. Iguazú
Clorinda
Villeta
Yaguarón
Paraguarí
San José
Villarrica
Domingo M. Irala
Villa Oliva
Carapeguá
Quiindy
Ybycuí
Ñumí
Iturbe
Maciel
Ovaí
Tavaí
San Juan Nepomuceno
Naranjal
Formosa
Alberdi
Villa Franca
Caapucú
Mbuyapey
Yegros
Caazapá
Yuty
Mayor Otaño
Gral. J. de San Martín
San Juan Ñeembucú
Florida
San Miguel
San Juan Bautista
Pilar
Tacuaras
Guazú-cuá
Santa María
San Ignacio
San Pedro del Paraná
Santa Rosa
Gral. Artigas
Cnia. Elisa
Isla Umbú
Desmochados
Santiago
Cnl. Bogado
Jesús
Pedro González
Humaitá
Makallé
Cerrito
Paso de Patria
Laureles
Yabebyry
San Cosme
Ayolas
Jesús y Trinidad
San Ignacio
Resistencia
Corrientes
Barranqueras
Encarnación
Candelaria
Posadas
Carmen del Paraná
Charadai
Ituzaingó
Apostoles
San Javier
San Lorenzo
Mburucuyá
Azara
Concepción de la Sierra
Santo Ângelo
Concepción
Santo Tomé
São Luís Gonçaga
Bella Vista
62º
60º
58º
56º
18º
20º
22º
24º
26º
28º
BRAZIL
PERU
BOLIVIA
COLOMBIA
CHILE
ARGENTINA
PARAGUAY

Paraguay has provided you only with the information contained in this offering memorandum (the "Offering Memorandum"). Paraguay has not authorized anyone to provide you with different information. Paraguay is not, and the initial purchasers (as defined under "Plan of Distribution") are not, making an offer of these securities in any jurisdiction where the offer is not permitted. You should not assume that the information contained in this Offering Memorandum is accurate as of any date other than the date on the front of this Offering Memorandum.

TABLE OF CONTENTS

Page

NOTICE TO INVESTORS

The Bonds will be available in book-entry form only. Paraguay expects that the Bonds sold pursuant to this Offering Memorandum will be issued in the form of one or more global certificates, which will be deposited with, or on behalf of, DTC and registered in its name or in the name of Cede & Co., its nominee. Beneficial interests in the global certificates will be shown on, and transfers of the global certificates will be effected only through, records maintained by DTC and its participants, including Euroclear and Clearstream. After the initial issuance of the global certificates, Bonds in certificated form will be issued in exchange for the global certificates only as set forth in the indenture governing the Bonds. For more information see "Book-Entry, Delivery and Form."

This Offering Memorandum does not constitute an offer of or an invitation by or on behalf of Paraguay or the initial purchasers to subscribe or purchase any of the Bonds in any jurisdiction where the offer or sale would not be permitted or is not authorized. The distribution of this Offering Memorandum and the offering of the Bonds in certain jurisdictions may be restricted by law. People in possession of this Offering Memorandum are required by Paraguay and the initial purchasers to inform themselves about and to observe any such restrictions.

The Bonds offered in this Offering Memorandum are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under the Securities Act and applicable state securities laws pursuant to registration or exemption from such laws. You should be aware that you may be required to bear the financial risk of this investment for an indefinite period of time. For more information see "Transfer Restrictions."

The information contained in this Offering Memorandum is provided by Paraguay in connection with an offering exempt from registration under the Securities Act solely for the purpose of enabling a prospective investor to consider a purchase of the Bonds, as described herein, and should be used for this purpose only. No representation or warranty, express or implied, is made by the initial purchasers as to the accuracy or completeness of such information and nothing contained in this Offering Memorandum is, or shall be relied upon as, a promise or representation by the initial purchasers. Neither the initial purchasers nor any of their agents has independently verified any of such information and assumes no responsibility for the accuracy or completeness of the information contained in this Offering Memorandum.

The Bonds offered in this Offering Memorandum have neither been approved nor disapproved by the Securities and Exchange Commission (the "SEC") or any state or foreign securities commission or any regulatory authority. These authorities have not passed on or determined the adequacy or the accuracy of this Offering Memorandum. Any representation to the contrary is a criminal offense.

Paraguay is making this offering subject to the terms described in this Offering Memorandum and the purchase agreement relating to the Bonds offered.

Paraguay confirms that, to the best of its knowledge, the information given in that part of the Offering Memorandum for which it is responsible is in accordance with the facts and contains no omissions likely to affect the import of the Offering Memorandum on the Official List of the Luxembourg Stock Exchange. This Offering Memorandum constitutes a Prospectus for the purpose of Part IV of the Luxembourg law on Prospectuses for Securities dated July 16, 2019. Paraguay accepts responsibility for the information it has provided in this Offering Memorandum.

In connection with the issuance of the Bonds, Citigroup Global Markets Inc. and Goldman Sachs & Co. LLC (the "Stabilizing Managers") (or persons acting on behalf of any Stabilizing Manager) may over-allot Bonds or effect transactions with a view to supporting the market price of the Bonds at a level higher than that which might otherwise prevail. However, there is no assurance that a Stabilizing Manager (or persons acting on behalf of any Stabilizing Manager) will undertake stabilization action. Such stabilization, if commenced, may be discontinued at any time and, if begun, must be brought to an end after a limited period. Any stabilization action or over-allotment must be conducted by the relevant Stabilizing Manager (or persons acting on behalf of any Stabilizing Manager) in accordance with all applicable laws and rules.

PRIIPs/IMPORTANT – EEA RETAIL INVESTORS

PROHIBITION OF SALES TO EEA RETAIL INVESTORS - The Bonds have not been and will not be registered under the laws of any member state of the European Economic Area (the "EEA"). The offering of the Bonds is being made, and the Bonds are being offered and issued, only to persons other than retail investors in the EEA. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "MiFID II"); or (ii) a customer within the meaning of Directive (EU) 2016/97 (the "Insurance Distribution Directive"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the "PRIIPs Regulation") for offering or selling the Bonds or otherwise making them available to retail investors in the EEA has been prepared. Offering or selling the Bonds or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

PRIIPs/IMPORTANT – UNITED KINGDOM RETAIL INVESTORS

PROHIBITION OF SALES TO UK RETAIL INVESTORS – The Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom ("UK"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 ("EUWA"); or (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 ("FSMA") and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA. Consequently, no key information document required by Regulation (EU) No 1286/2014 as it forms part of domestic law by virtue of the EUWA (the "UK PRIIPs Regulation") for offering or selling the Bonds or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Bonds or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

This Offering Memorandum has not been approved by an authorised person for the purposes of section 21 of the FSMA. Accordingly, this Offering Memorandum is for distribution only to, and is directed solely at, persons who are: (i) outside the UK; (ii) are investment professionals, as such term is defined in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "Financial Promotion Order"); (iii) persons falling within Articles 49(2)(a) to (d) of the Financial Promotion Order; or (iv) persons to whom an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) in connection with the issue or sale of any Bonds may otherwise lawfully be communicated or caused to be communicated (all such persons together being referred to as "relevant persons"). This Offering Memorandum is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this Offering Memorandum relates is available only to relevant persons and will be engaged in only with relevant persons. Any person who is not a relevant person should not act or rely on this Offering Memorandum or any of its contents.

CONVENTIONS

Unless otherwise specified or unless the context requires so, "dollars," "U.S. dollars" and "US$" refer to United States dollars and "G." or "Guaraníes" refer to Paraguayan Guaraníes. Where noted, exchanges from Guaraníes to U.S. dollars have been provided solely for the convenience of the reader. Amounts converted from Guaraníes to U.S. dollars in this Offering Memorandum were converted at a rate of G.5,671 for 2016 data, G.5,619 for 2017 data, G.5,732 for 2018 data, G.6,241 for 2019 data, G.6,771 for 2020 data and G. 6,778 for 2021 data, which represent the annual arithmetic average of monthly average bid/offer Guaraníes/U.S. dollar exchange rates as reported by the Central Bank of Paraguay (*Banco Central del Paraguay*) (the "Central Bank") as of December 31, 2021, and G. 6,992 for 2022 data, which represents the implicit Guaraníes/U.S. dollar exchange rate that has been assumed for the purpose of preparing the 2022 budget. The Federal Reserve Bank of New York does not report a noon buying rate for Guaraníes. No representation is made that the Guaraníes or the U.S. dollar amounts referred to herein could have been or could be converted into U.S. dollars or Guaraníes at any particular rate or at all. The exchange rate for the sale of U.S. dollars for Guaraníes, which is used as a reference rate by financial institutions in the commercial market, as reported by the Central Bank for December 31, 2021, was Guaraníes G. 6,886. References to "billion" are to thousands of millions.

The fiscal year of the government ends on December 31. Unless otherwise indicated, all annual information is based upon a January 1 to December 31 calendar year, and all figures for 2021 are preliminary. The preliminary figures for 2021 are based on complete data for the months of January through November and partial data for the month of December. Such partial data for the month of December 2021 includes data for most of the main sectors of the Paraguayan economy and accounts for almost 50% of the total economic data for the month of December 2021. The remaining 50% of the economic data for the month of December 2021 used to calculate the preliminary figures for 2021 has been estimated by the Central Bank's sectoral specialists based on advanced preliminary data, historic trends, and accepted statistical methods.

Certain monetary amounts included in this Offering Memorandum have been subject to rounding adjustments; accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them. All references herein to the "government" are to the central government of Paraguay (including governmental agencies and subdivisions and excluding financial and non-financial public sector institutions and the Itaipú and Yacyretá hydroelectric plants).

In 2018, Paraguay conducted a periodic re-basing of its real GDP calculations, updating the base year of such calculations from 1994 to 2014. One effect from this re-basing is the reduction of the historical volatility of GDP growth and a decrease in the debt-to-GDP ratio when compared to the same statistics but based on 1994 dollars.

Unless otherwise indicated, (1) all annual rates of growth are average annual rates using current or nominal numbers; (2) all rates of growth or percentage changes in financial data are based upon such data expressed in constant prices (*i.e.*, prices as adjusted for inflation); and (3) all financial data are presented in current nominal prices.

The terms set forth below have the following meanings for the purposes of this Offering Memorandum:

- Gross Domestic Product, or "GDP", means the total value of final products and services produced in Paraguay during the relevant period, using nominal prices. Real GDP instead measures GDP based on constant prices using 2014 as the base year. In 2018, Paraguay conducted a periodic re-basing of its real GDP calculations, updating the base year of such calculations from 1994 to 2014. One effect from this re-basing is the reduction of the historical volatility of GDP growth and a decrease in the debt-to-GDP ratio when compared to the same statistics but based on 1994 dollars.

- Imports are calculated based upon cost, insurance and freight, or "FOB" values.

- Exports are calculated based upon free on board, or "FOB" values.

- Rate of inflation or inflation rate is measured by the percentage change between two periods in consumer price index, or "CPI." CPI is an index that comprises a basket of goods and services that reflects the pattern of consumption in Asunción and major urban areas. CPI is calculated on a monthly basis by the Central Bank based on surveys conducted by the Central Bank.

- Balance of payments data is presented according to the Sixth Edition of the Balance of Payment and International Investment Position Manual of the International Monetary Fund ("IMF").

- Foreign direct investment ("FDI") flows are based on the sum of positive and negative transactions. The positive flows consist of capitalization, reinvested earnings and loans from a foreign office to a local branch. The negative flows consist of decapitalization, divestment of profits, losses for the period and loans from a local branch to a foreign office.

Paraguay's official financial aid and economic statistics are subject to a review process by the Central Bank. Accordingly, certain financial and economic information in this Offering Memorandum may be subsequently adjusted or revised. The government believes that this practice is substantially similar to the practices of many industrialized nations. The government does not expect revisions to preliminary statistics to be material, but cannot assure you that material changes will not be made to preliminary data. The Bureau of Statistics, Surveys and Census of Paraguay (*Instituto Nacional de Estadística* – "INE") is the state agency responsible for generating, systematizing, analyzing and distributing certain statistical and cartographic information about Paraguay.

Unless otherwise indicated in this Offering Memorandum, the information and data provided in this Offering Memorandum have been prepared and published in accordance with the IMF Government Finance Statistics Manual 2001 ("GFSM 2001") standards.

Itaipú Binational and Yacyretá Binational, in each case to the extent of Paraguay's 50% equity interest, are considered Paraguayan residents for accounting purposes in accordance with the standards of the IMF Balance of Payments Manual. Their contribution to Paraguay's economy is identified as the "binational sector" in this Offering Memorandum.

CAUTIONARY STATEMENT REGARDING PROJECTIONS AND OTHER INFORMATION ABOUT FUTURE EVENTS

This Offering Memorandum may contain, and Paraguay's officials and representatives may from time to time make, projections and forward-looking statements concerning financial information, future economic performance or international dispute resolution or international institution decisions and expectations, plans and objectives relating to economic policy, budgets, plans and expectations, and assumptions underlying these projections and statements. These projections and forward-looking statements are not historical facts but instead represent the central government's belief regarding the impact of current events, including the COVID-19 pandemic and any economic and other effects associated therewith, that are not reasonably foreseeable or known at this time and that may differ materially from those contemplated by the forward-looking statements, and future events, many of which, by their nature, are inherently uncertain and outside Paraguay's control. You should not place undue reliance on these projections and forward-looking statements. These projections and forward-looking statements speak only as of the date they are made, and Paraguay undertakes no obligation to update them in light of new information or future events.

Projections and forward-looking statements involve inherent risks. Paraguay cautions you that many factors could cause actual results to differ materially from those expressed in projections, budgets and other information concerning future events, including those discussed in "Risk Factors" on page 12. These factors include, but are not limited to:

- adverse external factors, such as:
  - public health crises and epidemics/pandemics, including the COVID-19 pandemic, and worldwide effects thereof, including the impact in Paraguay's economy, and responses thereto;
  - severe weather, natural disasters and adverse climate changes, whether global or regional in nature, such as severe droughts;
  - a global or regional financial crisis or downturn;
  - higher international interest rates;
  - decisions and policies of international institutions such as the International Monetary Fund, the World Bank, the World Trade Organization, the United Nations, the Organization of American States, the Inter-American Development Bank ("IDB") or the Southern Common Market ("MERCOSUR");
  - adverse court decisions;
  - a downgrade of Paraguay's sovereign credit ratings by international rating agencies;
  - changes in MERCOSUR import tariffs;
  - changes in international commodity prices, in particular soy beans and bovine meat;
  - recession, low economic growth or economic contraction affecting Paraguay's trading partners;
  - suspension or termination of trade agreements or treaties;
  - deterioration in the economic condition of or Paraguay's relationship with neighboring countries; and
  - volatility in the international capital markets for emerging market issues causes by geopolitical pressures.

- adverse domestic factors, such as:
  - deterioration or non-improvement in general economic and business conditions;
  - reduction in foreign currency reserves;
  - volatility of exchange rates of Guaraníes against key currencies;
  - reduction in fiscal revenue;
  - the ability of the government to enact key economic reforms;
  - higher domestic debt;
  - increased rates of domestic inflation;
  - the COVID-19 pandemic, including the impact on the Paraguayan economy and government finances of the measures taken to control its spread and mitigate its economic impact;
  - the level of foreign direct and portfolio investment in Paraguay;
  - the level of Paraguay's domestic interest rates;
  - political instability;
  - increase in crime rates; and
  - natural events, such as climatic changes and floods, which may have a negative impact on soy and bovine meat production and exports.

SUMMARY

The following summary is qualified in its entirety by, and should be read in conjunction with, the more detailed information appearing elsewhere in this Offering Memorandum. It is not complete and may not contain all the information that you should consider before purchasing the Bonds. You should carefully read the entire Offering Memorandum, including "Risk Factors" (beginning on page 12), before purchasing the Bonds.

Selected Economic Information

THE ECONOMY	12-month period ended December 31, 2017	2018	2019	2020	2021[1]
Nominal GDP (in millions of US$)[2]	$ 39,394	$ 40,692	$ 38,757	$ 36,146	$ 40,305
% Change of Real GDP from the Previous Year	4.8%	3.2%	(0.4)%	(0.8)%	5.0%
Population (in thousands)[3]	6,954	7,053	7,153	7,253	7,353
Per Capita GDP	5,665	5,769	5,419	4,984	5,481
Inflation Rate[4]	4.5%	3.2%	2.8%	2.2%	6.8%
Unemployment Rate	5.2%	5.6%	5.7%	7.2%	6.5%
Exchange Rate (Guaraníes/per US$)[5]	G.5,619	G.5,732	G.6,241	G.6,771	G.6,770[6]

BALANCE OF PAYMENTS[7]	12-month period ended December 31, 2017[1]	2018[1]	2019[1]	2020[1]	9-month period ended September 30, 2020[1]	2021[1]
	(in millions of US$)					
Export of Goods (FOB)	12,987.2	13,181.6	12,116.3	10,954.9	8,065.1	10,031.9
Imports of Goods (FOB)	(11,298.6)	(12,608.6)	(11,912.8)	(9,729.2)	(7,083.5)	(8,720.6)
Current Account Surplus (Deficit)	1,411.8	(159.4)	(145.8)	843.7	636.0	721.0
Net Foreign Direct Investment	(78.5)	(279.5)	(350.9)	(120.0)	(156.4)	(118.3)
Overall Balance of Payments Surplus (Deficit)	877.0	(183.0)	(54.9)	1,805.2	1,239.2	374.6
Total International Reserves (end of period)	8,145.7	7,969.6	7,674.7	9,490.1	8,954.4	9,752.6
Reserves (in months of imports)	12.0	9.9	10.6	14.3	13.6	12.4

PUBLIC SECTOR FINANCES[8]	12-month period ended December 31, 2017	2018	2019	2020	11-month period ended November 30, 2020	2021[1]
	(in millions of US$ and percentage of nominal GDP					
Central Government Revenues	5,524.3	5,675.9	5,389.2	4,798.9	4,281.8	4,890.5
% of nominal GDP	14.2%	14.1%	14.2%	13.5%	12.1%	12.2%
Central Government Expenditures	5,015.1	5,377.4	5,340.5	5,687.4	4,904.3	4,775.3
% of nominal GDP	12.9%	13.3%	14.0%	16.1%	13.8%	11.9%
Central Government Net Operating Balance	509.2	298.5	48.7	(888.5)	(622.5)	115.2
% of nominal GDP	1.3%	0.7%	0.1%	(2.5)%	(1.8)%	0.3%
Consolidated Public Sector Revenues	8,940.4	9,434.5	8,920.9	7,749.9	n.a	n.a
Consolidated Public Sector Expenditures	7,439.0	8,196.5	7,935.0	8,022.6	n.a	n.a
Consolidated Public Sector Balance	(101.5)	(178.1)	(641.2)	(2,117.7)	n.a	n.a

PUBLIC SECTOR DEBT	As of December 31, 2017	2018	2019	2020	As of November 30, 2020	2021[1]
	(in millions of US$ and percentage of nominal GDP)					
Public Sector Domestic Debt.....	1,575.9	1,638.5	1,620.6	1,724.4	1.637,0	1,877.7
Public Sector External Debt	5,590.1	6,402.4	7,238.5	10,488.5	9.903,9	11,645.2
Total Public Sector Debt	7,166.0	8,040.9	8,859.1	12,212.9	11.540,9	13.522,9
Total Public Sector Debt as % of nominal GDP	18.2%	19.8%	22.9%	33.6%	31.7%	33.7%

(1) Preliminary data.
(2) GDP includes Paraguay's share of Itaipú Binational and Yacyretá Binational.
(3) Population data is based on the 2015 revision to the projection of the Instituto Nacional de Estadísticas.
(4) Percentage change of consumer prices measured by CPI over the 12-month period ended December 31 of each year.
(5) Annual arithmetic average of monthly average bid/offer exchange rates.
(6) As of November 2021.
(7) Includes Paraguay's exports of Itaipú Binational and Yacyretá Binational electricity, trade registered by customs and re-exports, among others.
(8) Negative amounts indicate budget deficit.
Source: Ministry of Finance and Central Bank.

Republic of Paraguay

Paraguay is located in central South America and, as of 2021, had an estimated population of approximately 7.35 million. The population is distributed unevenly across the country. Over half the population lives in urban areas in the eastern portion of the country. Less than 3% of the population resides in regions that account for 61% of the country's land mass.

Paraguay is rich in hydroelectric power capacity thanks to a wealth of rivers. It has dense forests and extensive farmlands.

Because of its predominantly agrarian economy and unevenly distributed population, Paraguay's growth has historically been volatile. Compared to its neighbors, Paraguay has a considerable low-income population although some improvements in poverty reduction were made in recent years. Government economic policies have focused on poverty, adopting measures intended to increase the overall income levels of Paraguay's population through investment in infrastructure, education and health. Such policies are designed to provide a foundation for sustainable economic development and diversification of productive capacity across the country.

In 2014, Paraguay adopted the National Development Plan - Paraguay 2030 ("NDP"). The NDP has three main purposes: to reduce poverty and to increase social development, to seek inclusive economic growth, and to further integrate Paraguay into the global economy.

Recent Developments

As of January 4, 2022, Paraguay has confirmed over 470,460 cases of the 2019 novel coronavirus ("COVID-19") of which over 16,645 were fatal. To date, Paraguay has adopted several measures in response to the COVID-19 pandemic aimed at (i) preventing mass contagion and overcrowding of Paraguay health service facilities and (ii) mitigating the economic effects of the pandemic. For details regarding such measures, see "COVID-19 and Paraguay" in this Offering Memorandum.

The economic slowdown attributable to the COVID-19 pandemic has affected various sectors and the overall performance of Paraguay's economy. The real GDP contraction of 0.8% registered in 2020 was mainly a result of the restrictive measures implemented by the central government in an effort to contain the spread of the COVID-19 virus. These measures negatively impacted the services sector (i.e., transportation, restaurants and hotels, business services and household services), the manufacturing sector (particularly the textiles and clothing, paper and products, timber, machinery and equipment, leather, oil products, beverages and tobacco and metal products subsectors) and the commerce sector (particularly the sale of durable goods, such as vehicles and home equipment, and semi-durable goods, such as clothing and fuel). On the other hand, the real GDP growth of 5.0% registered in 2021 was mainly sustained by a recovery of the services sector.

Progress made in the immunization of Paraguay's population against COVID-19 and the easing of restrictive mobility measures implemented by the national government beginning in 2021 boosted the demand for certain services that were significantly affected by the pandemic in 2020. In the secondary sector, the expansion is mainly explained by the performance of the manufacturing and construction sectors, which was partially offset by a contraction in the electricity and water sectors. However, the recovery of economic activity and rising commodity prices during 2021 led to a 6.8% inflation, which exceeded the Central Bank's inflation target for the first time in over five years. For more information regarding the ongoing risks related to COVID-19, see "Risk Factors—Risks Relating to Paraguay—Developments relating to the COVID-19 pandemic may have a continued material adverse impact on our economy" and "Risk Factors—Risk Factors Relating to Paraguay—The development of a possible concurrent outbreak of arbovirus, strains of influenza and COVID-19, if occurring, may cause a significant strain on Paraguay's healthcare system, which could adversely affect Paraguay's economy and its ability to perform its obligations under the Bonds of this Offering Memorandum." For more information regarding inflation and the Paraguayan economy, see "Risk Factors—Risk Factors Relating to Paraguay—An Increase in Inflation and Government Measures to Curb Inflation May Adversely Affect the Paraguayan Economy."

For details regarding the impact of COVID-19 in 2021, see "—Paraguayan Economy" and "COVID-19 and Paraguay."

Paraguayan Economy

Paraguay's macroeconomic performance showed robustness for 15 years through 2018. In the period between 2005 and 2018, the economy grew at an average rate of 4.4%, a stronger pace than its regional peers. Growth during this period was the result of sound macroeconomic policies and an increase in agricultural commodity prices, which, as a result, positively impacted the services sector. In 2019, real GDP contracted by 0.4%, largely due to adverse climatic factors that persistently affected key sectors of the economy such as agriculture, forestry, fishing and mining, and electricity and water, which declined 4.4%, 1.1% and 11.5%, respectively. Likewise, manufacturing and commerce also contracted with reductions of 1.2% each. In contrast, various services helped mitigate the decline in GDP, driven mainly by an increase in the household services, business services, telecommunications and restaurant and hotel services sectors as well as expansion in the government sector and the financial sector, each of which grew 5.7%, 1.0%, 4.6%, 5.4%, 4.3% and 3.7%, respectively.

In 2020, real GDP decreased by 0.8% and real GDP per capita decreased by 2.2%. The economic contraction in 2020 was mainly due to the restrictive measures implemented by the national government in an effort to contain the spread of the COVID-19 virus. The services sector was particularly impacted, namely transportation, business services, restaurants and hotels and household services. Manufacturing was also significantly affected, particularly textiles and clothing, paper and paper products, timber, machinery and equipment, leather and shoes, oil products, beverages and tobacco and metal products. Finally, commerce was greatly affected, particularly the sale of durable goods, such as vehicles and home equipment and semi-durable goods, such as clothing, and fuel. In addition to the poor performance of certain sectors as a result of the restrictive measures implemented by the national government to contain the spread of the COVID-19 virus, the decline in year-over-year economic performance in April and May of 2020 is also partly due to declines in electricity generation resulting from decreased river water flow caused by droughts. Notwithstanding the contraction in each of the services, manufacturing and commerce sectors and the electricity generation subsector, growth in the agriculture, livestock, construction, communications and finance sectors helped mitigate the decline in aggregate economic activity resulting from the impact of the COVID-19 pandemic and continued droughts.

Economic activity and aggregate demand have recovered since the second quarter of 2021, consistent with the easing of restrictive measures implemented by the national government in an effort to contain the spread of the COVID-19 virus. Real GDP increased by 3.8% in the third quarter of 2021 compared to the same period in 2020, which increase was considerably less than the 13.9% increase observed in the second quarter of 2021 compared to the same period in 2020 and was largely in part driven by recoveries in the construction and manufacturing sectors. Furthermore, investment grew by 11.8% in the third quarter of 2021 compared to the same period in 2020, and private consumption increased by 7.7% in the third quarter of 2021 compared to the same period in 2020. Net exports increased throughout 2021 as the significant reduction in exports was outweighed by an even larger reduction in imports. As of the fourth quarter of 2021, real GDP has grown for four consecutive quarters compared to the same period in 2020.

Paraguay has pursued various fiscal and monetary policy responses to mitigate the economic impact of COVID-19. In March 2020, the national government enacted the National Emergency Law No. 6524/20 (the "NEL"), which declared a state of emergency in the entire country and provided administrative, fiscal and financial measures to mitigate the effects of the COVID-19 pandemic, including US$1.99 billion for social protection, the healthcare system, the functioning of the state and support for micro, small and medium-sized enterprises ("MSMEs"). In March and April 2020, the Central Bank guaranteed sufficient liquidity to the financial system and began implementing monetary stimulus and temporary credit measures to support economic activity. As part of these measures, the Central Bank reduced the Monetary Policy Rate (MPR) by 325 basis points between March and June 2020, from 4.00% to 0.75%, the lowest level since the adoption of the inflation targeting scheme in 2011. In August 2021, in order to meet the medium-term inflation target, the Central Bank initiated a gradual process of normalization of its monetary policy. As a result, the Central Bank increased the MPR by 450 basis points between August and December 2021, reaching 5.25% as of December 31, 2021. Inflation remained within the target range in 2017 (4.5%), 2018 (3.2%), 2019 (2.8%) and 2020 (2.2%). In 2021, the inflation rate was 6.8%. Inflationary pressures were observed mainly due to the increase in food and fuel prices. These were in turn affected by an increase in the prices of commodities. For a summary of adjustments to the MPR over recent years, see "Monetary System."

Real GDP increased in 2021, largely as a result of a recovery in the household services, restaurants and hotels services, commerce, business services and manufacturing sectors, which grew by 21.3%, 20.0%, 14.0%, 8.8% and 7.2%, respectively, compared to 2020. In 2021, the value of exports increased by 3.6% in real terms compared to 2020, reflecting an increase in exports of beef and products under the Maquila Regime (as defined below). The manufacturing sector remains one of the main sectors of the Paraguayan economy, accounting for 19.5% of real GDP in 2021, compared to 19.1% in 2020. The manufacturing sector increased by 7.2% in 2021, driven mainly by an increase in the production of chemical products, paper and paper products, processed meats, leather and shoes, beverages and tobacco. The production in this sector decreased by 1.3% and 1.1% in 2020 and 2019, respectively, and grew by 2.4% and 6.2% in 2018 and in 2017, respectively.

Other important sectors of Paraguay's economy include commerce and agriculture, which represented 10.6% and 7.6%, respectively, of real GDP in 2021, compared to 9.8% and 8.7%, respectively, in 2020. Commerce increased by 9.6% and 4.6% in 2017 and 2018, respectively, decreased by 1.2% and 8.1%, respectively, in 2019 and 2020, and grew again by 14.0% in 2021. The recent recovery in commerce reflects the decrease in the number of COVID-19 cases throughout 2021 as a result of the process of immunization of Paraguay's population against COVID-19 and the easing of restrictive mobility measures implemented by the national government. Agriculture dropped by 8.0% in 2021 as a result of adverse weather conditions, expanded by 9.0% in 2020, decreased by 4.4% in 2019 and increased by 3.4% and 6.4%, respectively, in 2018 and 2017.

In 2019, as part of a program that seeks to improve the efficiency and quality of Paraguay's infrastructure, the Ministry of Public Works and Communications ("MOPC") completed the financing of its first public-private partnership ("PPP") project in the transportation sector. This PPP relates to the expansion and renovation of highway Routes 2 and 7, Paraguay's two most important roads. Route 2 connects the capital city, Asunción, to Coronel Oviedo, and Route 7 connects Coronel Oviedo with Caaguazú. For more information see "The Paraguayan Economy—State-Owned Enterprises—Public-Private Partnerships (Law No. 5102/13)."

Between 2017 and 2021, the government conducted tenders for three of the turnkey projects contemplated under Law No. 5074/13 (the "Turnkey Infrastructure Projects") and awarded the following contracts to the selected bidders: (i) the construction and paving of the San Cristobal - Naranjal Segment - Route No. 6 in 2017; (ii) a project for the design and construction of a new road between Loma Plata and Carmelo Peralta (the "Corredor Bioceanico Project") in 2018; and (iii) a project for the design and construction of Avenida Costanera Sur in 2019. As of the date of this Offering Memorandum, the San Cristobal – Naranjal Segment – Route No. 6 has been completed, while the Corredor Bioceanico and the Avenida Costanera Sur are still under construction. For more information see "The Paraguayan Economy—State-Owned Enterprises—Turnkey Projects (Law No. 5074/13)." Additional turnkey infrastructure projects are under evaluation by different public agencies as of the date of this Offering Memorandum.

The central government is implementing a package of contingency measures related to the country's primary sector to mitigate the impact caused by the droughts in 2021. These measures are based on four main lines of action established to prevent the impact caused by weather-related events: (i) assistance to small producers with

inputs (e.g., fuels, seeds, agricultural defensives) for the replanting of crops; (ii) tax measures such as the suspension of retainers related to the corporate income tax as well as delays of retainers of the simple regime; (iii) support measures through the establishment of credit facilities by public financial institutions, such as the BNF, the Financial Development Agency (*Agencia Financiera de Desarrollo*) and Agricultural Credit (*Crédito Agrícola de Habilitación*) and (iv) the refinancing of certain loans in the agricultural and livestock sector through transitory facilities issued by the Central Bank.

The maquila regime established in 1997 (the "Maquila Regime"), is an export production framework and important source of employment aimed at supporting Paraguayan companies that seek to export domestically produced goods and services. This regime provides exemptions from import tariffs for a number of inputs involved in these production processes, as well as other tax benefits. With the exception of the Maquila Only Tax, which equals one percent of value added in Paraguay, maquiladoras are exempt from all other Paraguayan taxes, including the Value Added Tax (VAT). Although production under the Maquila Regime is primarily destined to promote exports, maquiladoras are permitted to sell in the domestic market as well, up to a cap of ten percent of the volume of their previous year's exports. As of November 30, 2021, there were 232 enterprises operating under the Maquila Regime in 14 departments of Paraguay. During the 11-month period ended November 30, 2021, 17 programs were approved under the Maquila Regime, representing US$13.0 million in private investment and creating 461 new jobs. The main exports under the Maquila Regime were automotive spare parts, clothing and textile articles, oilseed production, aluminum containers and plastics.

Paraguay is the largest exporter of electricity in South America, and the fourth largest in the world, the bulk of which is produced at the Itaipú hydroelectric plant located on the Paraná River on the border between Paraguay and Brazil and, to a lesser extent, by the Yacyretá hydroelectric plant located on the Paraná River on the border between Paraguay and Argentina. Electricity accounted for approximately 15.1% of Paraguay's registered exports in the 11-month period ended November 30, 2021. During such period, 20,482 GW were exported. Each hydroelectric plant is managed and operated by a binational company created pursuant to a treaty between Paraguay and Brazil, in the case of Itaipú Binational, and Paraguay and Argentina, in the case of Yacyretá Binational. Paraguay owns a 50% equity stake in each binational entity and is entitled to 50% of the electricity produced by each of the two plants. Revenues generated by its participation in each of the Itaipú and the Yacyretá hydroelectric plants contribute significantly to Paraguay's GDP. The electricity and water sector, which includes generation, transmission and distribution of electricity (including the Paraguayan portion of electricity generated by the Binationals), distribution of water, and collection, treatment, and recycling of sewage and waste, accounted for 6.2% of Paraguay's GDP in 2021, compared to 7.1% of Paraguay's GDP in 2020 and 7.2% in 2019. The decrease in the electricity and water sector as a percentage of GDP over the past two years has primarily been a result of drought-induced decreased river water flow.

On June 28, 2019, Congress enacted Law No. 6324/19, which provides a sovereign guarantee of up to US$300 million for certain debt incurred in connection with ANDE's electric energy distribution and transmission projects arranged in accordance with Law No. 2051/03. The National Electricity Administration (*Administración Nacional de Electricidad* — "ANDE") is scheduled to tender various projects under the framework in the near future.

Balance of Payments and Foreign Trade

For the nine-month period ended September 30, 2021, Paraguay recorded a balance of payments surplus of US$374.6 million (1.4% of GDP), compared to a surplus of US$1,239.2 million (4.5% of GDP) for the same period in 2020, resulting primarily from a higher surplus in the current account due primarily to a sharp increase in exports that exceeded the increase in imports. The balance of payments recorded a surplus of US$1,805.2 million (5.0% of GDP) in 2020, a deficit of US$54.9 million (0.1% of GDP) in 2019, a deficit of US$ 183.0 million (0.4% of GDP) in 2018 and a surplus of US$ 877.0 million (2.2% of GDP) in 2017. The balance of payments surplus in 2020 resulted primarily from a higher surplus in the current account due primarily to a sharp decrease in imports that exceeded the decrease in exports. The balance of payments deficits in 2019 and 2018 resulted primarily from a current account deficit, explained by a lower trade balance surplus, a higher deficit in the services balance and a higher deficit in the net primary income. The balance of payments surplus in 2017 resulted primarily from improvements in exports of goods and services coupled with increased foreign currency income from exports of

electricity from Itaipú Binational and Yacyretá Binational, remittances by Paraguayans working abroad, and increased stability of net capital inflows, mainly into the private sector.

In the nine-month period ended September 30, 2021, Paraguay recorded a current account surplus of US$721.0 million (2.7% of GDP), compared to a surplus of US$636.0 million (2.3% of GDP) in the same period in 2020, resulting primarily from a trade balance surplus due to an increase in exports that exceeded the increase in imports. Registered exports were influenced by the positive performance of key products such as soybeans and meat, the value of which increased by 40.3% and 45.5%, respectively. Imports also increased, primarily due to sharp increases in imports of goods for domestic consumption and higher prices for fuel products. In 2020, Paraguay recorded a current account surplus of US$843.7 million (2.3% of GDP) with a trade surplus of approximately US$1,225.8 million and a services sector surplus of US$252.3 million. Imports and exports in 2020 decreased compared to 2019 due to a combination of internal and external factors, including, but not limited to, a decrease in the electricity sector due to adverse weather conditions, a decrease in imports of goods for domestic consumption as a result of the COVID-19 pandemic and lower international oil prices. A current account deficit of US$145.8 million (0.4% of GDP) was recorded in 2019. A lower trade surplus was recorded in 2019 (US$203.5 million), compared to 2018 (US$573.1 million). In 2018, Paraguay recorded a current account deficit of US$159.4 million (0.4% of GDP), with a trade surplus of US$573.1 million and a service sector deficit of US$18.8 million, and in 2017, Paraguay recorded a current account surplus of US$1,411.8 million (3.6% of GDP), with a trade surplus of US$1,688.7 million and a service sector surplus of US$438.5 million.

Paraguay primarily engages in trade with MERCOSUR members, countries in the European Union, Russia and China. MERCOSUR members remain Paraguay's main export partners. Paraguayan exports to MERCOSUR members increased from US$4.1 billion in 2017 to US$5.3 billion in 2020. In the 11-month period ended November 30, 2021, exports to MERCOSUR totaled US$6.2 billion, accounting for 62.7% of Paraguay's registered exports, compared to US$4.9 billion and 61.9% in the 11-month period ended November 30, 2020, with the European Union and Russia accounting for 4.4% and 6.6% of registered exports, respectively, compared to 4.5% and 5.8%, respectively, in the 11-month period ended November 30, 2020. Brazil is Paraguay's largest trading partner, accounting for 33.6% and 24.5% of registered exports and imports, respectively, in the 11-month period ended November 30, 2021, compared to 34.9% and 23.5%, respectively, in the 11-month period ended November 30, 2020, followed by Argentina, with 27.1% and 9.6% of registered exports and imports, respectively, in the 11-month period ended November 30, 2021, compared to 25.6% and 9.1%, respectively, in the 11-month period ended November 30, 2020.

FDI flows totaled US$1.0 billion between 2017 and September 2021. The sectors of the economy that have attracted most of the FDI in this period have been financial intermediation, oilseed production, beef production, metal production and chemical products.

Paraguay's international reserves increased by US$1.8 billion between December 31, 2017 and December 31, 2021, to US$9.95 billion, mainly due to borrowings undertaken by the government in 2020 and 2021 to withstand the effects of the COVID-19 crisis and, to a lesser extent, a surplus in the current account and FDI inflows recorded between 2017 and 2021. As of December 31, 2021, international reserves were US$ 9.9 billion, an increase of 4.8% compared to the same period in 2020, primarily as a result of record levels of bond issuances by the public and private sectors, directly impacting international reserves and creating a current account surplus.

Monetary System

The Central Bank is independent of the government. Its fundamental objectives are to preserve and safeguard the stability of Paraguay's currency, the Guaraní, and promote efficiency and stability in the financial system. The Central Bank has focused its efforts on maintaining a stable and predictable level of inflation.

Paraguay has a floating exchange rate regime. From time to time, the Central Bank intervenes in the foreign exchange market in order to stabilize the Guaraní. The Guaraní appreciated during 2017 due to external factors, such as the weakening of the dollar due to uncertainty surrounding the economic policies of the United States and, in part, due to internal factors, including Paraguay's macroeconomic performance. In 2018, exchange rate depreciation followed a larger global trend, driven by increases in the Federal funds rate in the United States.

In 2019, the exchange rate depreciation remained consistent with the global and regional trends of the U.S. dollar. Despite decreases in the Federal funds rate, global commercial, technological and political developments continued to strengthen the U.S. dollar. In addition, a decrease in production of agricultural products resulting from adverse weather conditions and lower commodity prices resulted in a significant reduction in export income, which also contributed to the depreciation of the Guaraní. In 2020, during the early months of the pandemic, the Guaraní exhibited a significant depreciation against the U.S. dollar consistent with other South American currencies. However, towards the end of 2020, the U.S. dollar lost value against the Guaraní, as well as against most currencies in the South American region, in the context of optimism related to COVID-19 vaccines, partially reversing the depreciation in early 2020. The Guaraní appreciated against the U.S. dollar in the first quarter of 2021 as a result of a large inflow of U.S. dollars from agricultural exports. A subsequent decrease in agricultural exports between the second and third quarters of 2021 resulted in the depreciation of the Guaraní against the U.S. dollar. The exchange rate has remained relatively stable since August 2021. The exchange rate as of November 30, 2021 was 6,831.4 Guaraníes per US$1.00.

The Central Bank has remained committed to developing a monetary policy that focuses primarily on achieving price stability and maintaining low inflation levels. The Central Bank has anchored its monetary policy with an inflation targeting scheme. In December 2014, the Central Bank set the annual inflation rate (CPI) target at 4.5%, within a target range of 2.5% to 6.5%. In February 2017, the Central Bank reduced its inflation target from 4.5% to 4%, maintaining the tolerance range of +/- 2 percentage points. Inflation remained within the target range in each of 2016 (3.9%), 2017 (4.5%), 2018 (3.2%), 2019 (2.8%) and 2020 (2.2%). In 2021, however, inflation stood at 6.8% and exceeded the target range, mainly due to a recovery in economic activity and a rise in commodity prices. The variations in inflation rate are explained primarily by fluctuations in the prices of food products and oil derivatives, both of which registered significant increases in 2021.

In August 2017, the Central Bank reduced the monetary policy interest rate to 5.25% from 5.50%, mainly as a result of a short-term deceleration of economic growth. The monetary policy interest rate remained unchanged in 2018. In 2019, the Central Bank reduced the reference interest rate in February, March, July, August and September in response to decreases in domestic and external demand. Throughout 2019, the reference interest rate decreased by 125 basis points, from 5.25% to 4.00%. In 2020, the Central Bank reduced the reference interest rate in March, April and June. Throughout 2020, the reference interest rate decreased by 325 basis points, from 4.00% to 0.75%. In 2021, a recovery in economic activity and a rise in commodity prices led to an increase in inflation. In order to contain future inflationary pressures and avoid a de-anchoring of expectations, the reference rate was adjusted by 25 basis points in August 2021, 50 basis points in September 2021 and 125 basis points in each of October, November and December 2021, reaching 5.25% as of December 31, 2021.

Public Sector Finances

Paraguay's public sector consists of the central government, public financial institutions, public non-financial institutions and other general government agencies. Central government revenues are derived mainly from tax collection (VAT, income tax and excise taxes) and non-tax revenue (royalty payments from Itaipú Binational and Yacyretá Binational, compensation payments from the Brazilian and Argentine governments for sales of electricity generated at Itaipú and Yacyretá, respectively, unused by Paraguay, and social security contributions). Central government expenditures consist mainly of compensation of employees, payments for goods and services, transfer payments, interest on public debt and investments in infrastructure.

Other public sector institutions derive revenue from operating income or transfers from the central government. The budgets of all public sector institutions are included in the government's annual budget.

Municipalities are not included in the government's annual budget and do not require authorization from the government to obtain financing, and there would be no recourse to the central government for any such financing. However, in accordance with the IMF's Government Finance Statistics Manual (GFSM 2001), consolidated public sector finance statistics also include finances related to municipalities.

For the 11-month period ended November 30, 2021, the central government's fiscal balance recorded a deficit of US$820 million (2.1% of GDP), while the central government's primary balance showed a deficit equivalent to 1.0% of GDP. For the 11-month period ended November 30, 2020, the central government's fiscal

balance recorded a deficit of US$1,568.2 million (4.4% of GDP), while the central government's primary balance showed a deficit equivalent to 3.4% of GDP. In 2020, the central government's fiscal balance recorded a deficit of US$2,175.3 million (6.1% of GDP), while the central government's primary balance showed a deficit equivalent to 5.1% of GDP. In 2019, the central government's fiscal balance recorded a deficit of US$1,065.7 million (2.8% of GDP), while the central government's primary balance showed a deficit equivalent to 2.0% of GDP. In 2018, the central government's fiscal balance recorded a deficit of US$526.4 million (1.3% of GDP), while the central government's primary balance showed a deficit equivalent to 0.6% of GDP. In 2017, the central government's fiscal balance recorded a deficit of US$443.2 million (1.1% of GDP), while the central government's primary balance showed a deficit equivalent to 0.6% of GDP.

The Fiscal Responsibility Law (*Ley de Responsabilidad Fiscal* – "FRL") governs the preparation and approval of the government's annual budget, but not its execution, and is intended to prevent discretionary increases in expenditures, setting targets for the central government's overall balance. Ultimately, the FRL pursues the adoption of balanced budgets that conform to the financial capacity of the government. In order to provide the government with fiscal flexibility to address the economic effects of COVID-19, the application of the FRL has been suspended for the fiscal year 2021 and the fiscal deficit ceiling of central administration for such year has been increased from 1.5% to 4% of GDP. Additionally, the executive branch submitted a bill to Congress seeking to repeal the existing FRL and replace it with a new fiscal responsibility law ("Proposed New FRL"). This bill, however, has not yet been considered by Congress. Among other things, the Proposed New FRL seeks to (i) establish a public debt cap of 40% of the GDP, (ii) establish yearly fiscal deficit ceilings up to 1.5% of the GDP, (iii) limit increases in primary current expenditures and (iv) provide for exceptions in cases of national emergencies declared by Congress or in the event that economic growth does not exceed 75% of the average GDP of the previous ten years, provided that under any of these exceptions, public debt may exceed 40% of the GDP and the yearly fiscal deficit ceiling may increase to 3.0% of the GDP in a single fiscal year. However, within the four consecutive years following these exceptions, yearly fiscal deficits must converge back to 1.5% of the GDP. See "The Paraguayan Economy—Current Economic Policy—Proposed New Fiscal Responsibility Law" for more information.

The 2022 Draft Budget submitted by the central government to Congress was prepared in accordance with the key principles of austerity and fiscal responsibility, including the necessary instruments that are intended to equip the central government with the fiscal policy tools needed to face the existing complex economic context. Higher tax revenues are projected for 2022 compared to those projected in the 2021 budget. Despite this positive outlook, the 2022 Draft Budget contains measures to limit or reduce current spending. The nominal increase in the primary spending projected in the 2022 Draft Budget is 3.2%, which is below the cap provided by the FRL for increased spending. See "Public Sector Finance—Budget Process—2022 Annual Budget" for more information on the 2022 budget.

From 2017 through 2020, tax revenues averaged 70.3% of total central government revenues, and the majority of tax revenues were provided by consumption taxes (including VAT and excise tax), which accounted for 63.9% of total tax revenues. Excise taxes are levied primarily on fuel, beverages and cigarettes. The central government's non-tax revenue (including grants and social contributions) represented, on average, 29.7% of total central government revenue for the period from 2017 through 2020. Itaipú Binational and Yacyretá Binational are the largest contributors to the central government's non-tax revenue, accounting for an average 10.1% of total central government revenues in the same period.

In the 11-month period ended November 30, 2021, tax revenues averaged 72.3% of total central government revenues, and the majority of tax revenues were provided by consumption taxes (including VAT and excise tax), which accounted for 57.9% of total tax revenues. Excise taxes are levied primarily on fuel, beverages and cigarettes. The central government's non-tax revenue (including grants and social contributions) represented, on average, 27.7% of total central government revenue for the period. Itaipú Binational and Yacyretá Binational are the largest contributors to the central government's non-tax revenue, accounting for an average 6.4% of total central government revenues in the same period.

The main component of Paraguay's central government expenditures in the period from 2017 through November 2021 was payroll, representing on average approximately 48.3% of total expenditures (excluding the acquisition of non-financial assets). The percentage of total expenditures represented by payroll amounted to 49.3%

in 2017. In November 2021, payroll represented 45.6% of total expenditures, a 0.4% increase compared to November 2020.

Public Sector Debt

The ratio of total public sector debt to GDP stood at 33.7% as of November 30, 2021 compared to 31.7% as of November 30, 2020. Paraguay's public sector external debt totaled US$11.6 billion as of November 30, 2021, an increase of approximately 17.6% compared to November 30, 2020. As of November 30, 2021, the total outstanding public sector domestic debt was approximately US$1.9 billion, of which US$1.2 billion was owed by the central government.

The Inter-American Development Bank ("IDB") and the World Bank are Paraguay's largest creditors, accounting, as of November 30, 2021 for 21.4% and 7.6%, respectively, for Paraguay's total public sector external debt. Paraguay's borrowings from multilateral organizations are used primarily for infrastructure and social development programs. For a breakdown of the loans from multilateral organizations and credit agencies approved in 2021, see "Public Sector Debt—Public Sector External Debt—Public Sector External Debt Owed to Multilateral Organizations and Credit Agencies."

Since 2013, Paraguay has issued sovereign bonds in the international capital markets. As of the date of this Offering Memorandum, Paraguay has issued a total of eight series of bonds, for a total of US$5.86 billion, which represents 50.3% of Paraguay's total public sector external debt. A portion of the net proceeds of this Offering are intended to be applied to pay the purchase price for the Old Bonds (as defined below) that are validly tendered and accepted in the Offer to Purchase that is conducted simultaneously herewith. For a discussion of Law No. 6638/20, which authorizes the aforementioned intended use of a portion of the net proceeds, see "The Paraguayan Economy—Current Economic Policy—Liability Management Law."

The Offering

The following is a brief summary of certain terms of this offering. For a more complete description of the terms of the Bonds, see "Description of the Bonds" in this Offering Memorandum.

Issuer ..... Republic of Paraguay.

Securities Offered ..... US$500,600,000 principal amount of 3.849% Bonds due 2033.

Issue Price of the Bonds ..... 99.994% of the principal amount of the Bonds, plus accrued interest, if any, from January 28, 2022.

Maturity Date ..... June 28, 2033.

Principal ..... Principal will be paid in three installments on June 28, 2031, June 28, 2032 and at maturity, to be calculated as follows: the aggregate amount of each principal installment on the Bonds shall equal the principal amount outstanding on the Bonds as of any principal payment date, divided by the number of remaining principal installments from and including such principal payment date to and including the maturity date. To the extent necessary, principal payments may be rounded down to the nearest whole number, with any difference being paid at maturity.

Interest..... The Bonds will bear interest on their outstanding principal amount from the date of issuance, at a fixed rate of 3.849%, payable semi-annually in arrears on June 28 and December 28 of each year, commencing on June 28, 2022.

Optional Redemption ..... The Bonds will be subject to redemption at the option of Paraguay before maturity. For more information see "Description of the Bonds—Redemption and Repurchase—Optional Redemption" in this Offering Memorandum.

Status ..... The Bonds constitute and will constitute direct, general, unconditional and unsubordinated External Debt of the Republic for which the full faith and credit of the Republic is pledged. The Bonds rank and will rank without any preference among themselves and equally with all other unsubordinated External Debt of the Republic. It is understood that this provision shall not be construed so as to require the Republic to make payments under the Bonds ratably with payments being made under any other External Debt.

Use of Proceeds ..... Paraguay is issuing the Bonds offered hereby contemporaneously with an offer to purchase (the "Offer to Purchase") certain outstanding bonds due 2023 and 2026 (collectively, the "Old Bonds"). Paraguay expects to apply a portion of the net proceeds of the Bonds to pay the purchase price for the Old Bonds that are validly tendered and accepted in the Offer to Purchase, and the balance for general government purposes, in accordance with the Annual Budget Law No. 6873/22, Liability Management Law No. 6638/20, the Regulatory Decree No. 6567/22, Resolutions No. 21, 22 and 23 issued by the Ministry of Finance and Resolution No. 17/22, Act No. 3 issued by the Central Bank.

Taxation..... Paraguay will make all interest payments on the Bonds without withholding or deducting any Paraguayan taxes, unless required by law. If Paraguayan law requires Paraguay to withhold or deduct taxes, Paraguay will pay bondholders, subject to certain exceptions, additional amounts to provide the equivalent of full payment of interest to bondholders. For more information see "Description of the Bonds—Additional Amounts" in this Offering Memorandum. For a discussion of

	the Paraguayan and United States federal income tax consequences of owning the Bonds, see "Tax Considerations—Paraguayan Tax Considerations," and "Tax Considerations—United States Federal Income Tax Considerations."
Risk Factors	See "Risk Factors" starting on page 12 for a discussion of certain factors you should consider before deciding to invest in the Bonds.
Form and Denomination of the Bonds	The Bonds will be issued in the form of one or more registered global securities without coupons, which will be deposited with a custodian for DTC. The Bonds will not be issued in bearer form. The Bonds will be issued in denominations of US$200,000 and integral multiples of US$1,000 in excess thereof.
Transfer Restrictions.....	The Bonds have not been registered under the Securities Act and will be subject to restrictions on transferability and resale. For more information see "Notice to Investors" and "Transfer Restrictions."
Listing.....	Application will be made to list the Bonds on the Official List of the Luxembourg Stock Exchange and to trade them on the Euro MTF market of the Luxembourg Stock Exchange.
Indenture.....	The Bonds will be issued under the indenture dated March 31, 2016 (as amended, modified and/or supplemented from time to time) between Paraguay and The Bank of New York Mellon, as trustee, which indenture provides for the issuance from time to time of one or more series of debt securities.
Trustee, Paying Agent, Transfer Agent and Registrar	The Bank of New York Mellon.
Luxembourg Listing Agent.....	The Bank of New York Mellon SA/NV, Luxembourg Branch.
Governing Law	The Bonds will be, and the indenture is, governed by and construed in accordance with the laws of the State of New York, except that the laws of Paraguay will govern all matters relating to authorization and execution by Paraguay.

RISK FACTORS

This section describes certain risks associated with investing in the Bonds. You should consult your financial and legal advisors about the risks of investing in the Bonds and the suitability of your investment in light of your particular situation.

The risks described below are not the only ones that Paraguay faces. Additional risks that are not currently known to Paraguay or that Paraguay currently believes are immaterial may also adversely affect it. Many of these risks are interrelated and occur under similar economic conditions, and the occurrence of certain of them may in turn cause the emergence, or exacerbate the effect, of others. Such a combination could materially increase the severity of the impact on Paraguay. As a result, should certain of these risks emerge, Paraguay may need to raise additional funds through borrowing in the internal or external capital markets, and there is no assurance that Paraguay will be able to borrow needed funds on terms that it considers acceptable or at all.

Risk Factors Relating to Paraguay

Developments relating to the COVID-19 pandemic may have a continued material adverse impact on our economy.

The global COVID-19 pandemic, and public health measures introduced to mitigate it, are having a material impact on the economy in Paraguay and around the world. The scope, magnitude and duration of the impact on Paraguay cannot yet be determined. COVID-19 could increase the risks described elsewhere in this section.

The long-term effects of the COVID-19, including the effects of new variants, such as "Omicron" that is spreading rapidly around the globe and arrived in Paraguay on December 27, 2021, as well as other public health crises on the global financial markets and economy are difficult to assess or predict. They may include (i) risks to citizens' health and safety, (ii) reduced economic activity, which in turn could result in decreased revenue for the government and increased expenditures and/or (iii) social unrest due to the collapse of the health infrastructure among other relevant impacts. It is unclear whether these challenges and uncertainties will be contained or resolved, and what effects they will have on the global financial markets and economy in the long term. We cannot predict the evolution of the disease in Paraguay or whether additional restrictions will be required. In addition to measures taken by Paraguayan federal, department and local governments, Paraguay may be affected by the impact of the disease elsewhere in the Latin American region and by measures taken by other countries or organizations, such as orders that suspend travel or that limit trade. The final impact of the COVID-19 pandemic is still uncertain, but it is expected to continue having a significant adverse effect on our economy.

COVID-19 is present in Paraguay, and the Paraguayan government has taken extensive steps to mitigate the spread of the disease and its impact on public health. See "COVID-19 and Paraguay" in this Offering Memorandum. The efficacy of these steps cannot yet be evaluated, and it is highly uncertain how long and in what form they will remain in effect. The measures implemented by the government since March 2020 to address the COVID-19 pandemic have resulted in a slowdown in economic activity that have adversely affected economic growth in 2020 (with GDP decreasing by 0.6%) and 2021 and may continue to do so in 2022, to a degree that we cannot quantify as of the date of this Offering Memorandum. Any prolonged restrictive measures put in place in order to control an outbreak of contagious disease or other adverse public health development in Paraguay may have a longer lasting material and adverse effect on our economy. While the economic cost of the COVID-19 pandemic is difficult to predict, our fiscal deficit has increased in 2020 and 2021 and may continue to increase in 2022. The long-term impact of the governmental measures on our economy and fiscal results, and the effectiveness of these measures, cannot be assured. If these measures are insufficient or are not successfully implemented, the effect on the Paraguayan economy or on the Paraguayan debt sector could be exacerbated.

The development of a possible concurrent outbreak of arbovirus, strains of influenza and COVID-19, if occurring, may cause a significant strain on Paraguay's healthcare system, which could adversely affect Paraguay's economy and its ability to perform its obligations under the Bonds.

In light of the increase in reports of Dengue cases in Paraguay, and the high rates of larval infestation of the Aedes aegypti, the mosquito that transmits various arbovirus diseases, including Dengue, Chikungunya virus and

Zika virus, in December 2020, the Ministry of Health issued an epidemiological alert for the preparation and mitigation of a possible Aedis aegypti-transmitted arbovirus outbreak concurrent with the COVID-19 outbreak within the first half of 2021. In the epidemiological alert, the Department of Health urged all Paraguayan departments to implement the immediate actions contemplated by the Integrated Management Strategy for Arboviral Disease Prevention and Control in the Americas (the "IMS-Arbovirus") for the prevention and control of diseases transmitted by the Aedes aegypti, prepared by the Pan American Health Organization ("PAHO") and the World Health Organization ("WHO").

As of November 2021, the number of Dengue cases have increased in some regions of the country, particularly in Asunción and in the surrounding department of Central, after record low numbers in the first half of 2021.

In the context of the current COVID-19 pandemic, the potential seasonal increase in arbovirus cases represents a great challenge both for the population and for health service providers, particularly in areas with highly vulnerable communities. The General Directorate of the Ministry of Health urges all Paraguayan departments to sustain and strengthen prevention and control actions in accordance the framework of the IMS-Arbovirus to avoid increases in cases, to establish integrated response mechanisms to reduce the risk of deaths caused by arboviruses and to avoid overwhelming the healthcare system.

Moreover, Paraguayan health authorities have confirmed concurrent outbreaks of seasonal influenza (specifically the H3N2 strain) with the recent surge in COVID-19 cases due to the Omicron variant, particularly in the department of Alto Parana bordering Brazil.

Potential risks in connection with concurrent epidemics include a depletion of resources and response capacity of the healthcare system, a limitation in the number of health professionals with experience in managing concurrent outbreaks, an overload of laboratories, and an erosion of adequate virological surveillance and an increase in underreporting leading to greater infection rates.

The development of a possible outbreak of arbovirus concurrently with the COVID-19 pandemic, may cause significant strains on Paraguay's healthcare system, resulting in the implementation of government relief efforts and additional public health measures, which could adversely affect Paraguay's economy and, ultimately, Paraguay's ability to perform its obligations under the Bonds.

Part of the offering proceeds could be attached by creditors to satisfy outstanding judgments against Paraguay.

Creditors holding outstanding court judgments present a risk of disruption to the offering. The risk with respect to the offering is that the initial purchasers could be said to have an obligation to pay money to Paraguay, and Paraguay's judgment creditors may attempt to restrain Paraguay's interest in any such obligation. Further, Paraguay's creditors could attempt to attach the proceeds of the offering.

As of the date of this Offering Memorandum, there are two outstanding judgments against Paraguay, issued by the Swiss Federal Tribunal. The first judgment was issued in 2005 in favor of nine banks for approximately US$85 million (the "2005 Judgment"). In addition, after the 2005 Judgment, one of the banks that had withdrawn its complaint reinstated its complaint and obtained a judgment against Paraguay in September 2010 in the amount of approximately CHF10 million (approximately US$11.3 million as of January 19, 2021) plus interest (the "2010 Judgment" and, together with the 2005 Judgment, the "Swiss Judgments").

Pursuant to settlement agreements entered into in November 2009 between SACE S.p.A. ("SACE") and each of the ten banks, SACE holds all rights to portions of the Swiss Judgments that granted monetary awards to the ten banks.

In July 2015, SACE filed an action in the U.S. District Court for the District of Columbia (the "D.C. District Court") seeking recognition of the Swiss Judgments against Paraguay. On January 21, 2016, Paraguay filed a motion to dismiss for lack of jurisdiction on grounds of sovereign immunity. On March 21, 2016, SACE filed a motion in opposition of Paraguay's motion to dismiss, wherein SACE reaffirmed its arguments that Paraguay is bound by the Swiss Judgments. On September 2, 2016, the D.C. District Court held a hearing on Paraguay's motion to dismiss for lack of jurisdiction, and on March 21, 2017, the D.C. District Court granted such motion to dismiss.

As of the date of this Offering Memorandum, SACE had not appealed the D.C. District Court's judgment and the deadline for filing such appeal has passed, rendering this judgment final and non-appealable. As of the date of this Offering Memorandum, SACE had not initiated litigation regarding the matter in any other jurisdiction. Should SACE or any other creditors of Paraguay be successful in having their judgments or awards recognized by a court and, in turn, having a court attach part of the proceeds of the offering, Paraguay may not receive part or all of the proceeds of the offering. For more information see "Public Sector Debt—Contingencies—Gramont Berres Litigation."

Severe weather, natural disasters and adverse climate changes, as well as species-based diseases affecting crops and livestock, may materially adversely affect Paraguay's economy.

Paraguay's economy is heavily reliant on agriculture, which accounted for approximately 7.6% of Paraguay's GDP in 2021. In addition, as of November 30, 2021, beef products were Paraguay's second largest export product (after soybeans), making up approximately 15.6% of total registered exports. Soybeans accounted for approximately 62.1% of Paraguay's agricultural production in 2021, which was 4.4% lower, in volume, than in 2020. Paraguay's economy is very susceptible to severe weather conditions, such as droughts and floods, as well as species-based diseases, which can significantly affect crop production and livestock.

Furthermore, in 2019, the Paraguayan economy was significantly affected by the severe floods throughout the country. The floods not only affected the agricultural and livestock sector directly by flooding fields used for planting soy and cattle grazing, but also affected the transport network by damaging roads and ports used for transporting agricultural and livestock products. Moreover, approximately 50,000 people had to be relocated due to floods, which resulted in social unrest.

In late 2019, only months after the floods, Paraguay started to experience severe droughts. These droughts caused the water levels of the Paraguay River to descend drastically, affecting the navigability through the Paraguay River (particularly for cargo barges) and triggering wildfires throughout the country. Although the international commodity prices have been favorable to the Paraguayan agricultural sector during 2021, it is expected that the droughts throughout 2021 will have a negative effect on crop yields for 2022. As long as Paraguay continues to be affected by severe floods or droughts, the production and transportation of Paraguayan agricultural and livestock products may be negatively impacted.

The Paraguayan agricultural and the livestock industry may also be significantly affected by species-based diseases. For example, in 2015, the agricultural sector suffered a 11.2% drop in soy production that was partially due to an outbreak of the *roya* fungus that affected certain harvest areas. Moreover, the livestock industry is susceptible to diseases such as Foot and Mouth Disease ("FMD") and spongiform encephalopathy (commonly referred to as "mad cow disease" or "BSE"). Paraguay had outbreaks of FMD in 2011, which led to a ban in September 2011 of Paraguayan livestock production from the Chilean and European markets. However, as of the date of this Offering Memorandum, the World Organization for Animal Health (the "OIE") recognizes Paraguay as FMD-free, and Paraguay is no longer banned from exporting beef to Chile, the European Union or any other markets. As of the date of this Offering Memorandum, Paraguay is categorized by the OIE as having insignificant risk of BSE, bovine pleuropneumonia, also known as lung plague, FMD, swine fever, African horse sickness, among other similar diseases. However, it is impossible to predict eventual outbreaks of FMD, BSE or other species-based diseases affecting livestock, which could result in further restrictions on Paraguayan beef exports and concerns that these diseases may occur and spread in the future, whether or not resulting in regulatory action, may lead to cancellation of orders by customers of Paraguayan beef products and create adverse publicity that may have a material adverse effect on customer demand for Paraguayan beef products.

A number of internal and external factors may decrease agricultural production or cause a significant drop in the production of beef or soybean products, which would adversely affect Paraguay's economy significantly and, as a result, could have an adverse effect on Paraguay's ability to perform its obligations under the Bonds.

Paraguay's credit ratings could be adversely affected by internal and external factors. Any adverse change in Paraguay's credit rating would adversely affect the liquidity of and demand for Paraguay's debt securities and Paraguay's access to the international financial markets.

As of the date of this Offering Memorandum, Paraguay's Moody's long term credit rating is Ba1 (Stable), its Standard & Poor's long term credit rating is BB (Stable), and its Fitch long term credit rating is BB+ (Stable). However, Paraguay's ratings or outlooks may be downgraded or placed on watch by Standard & Poor's, Fitch and Moody's or any other rating agency in the future, possibly making any financing more costly for Paraguay than in the past and, potentially, altogether unavailable. Successive ratings downgrades could occur as Paraguay's borrowing needs increase. If Paraguay increases its sovereign debt levels materially, its ratings could be adversely affected and cut.

Any developments that could derail Paraguay's economic growth would also adversely affect its credit ratings. The uncertainty over the country's medium-term economic outlook remains considerable. Paraguay's economy is small and undiversified and, as a result, economic growth is highly dependent on a few large-scale investment projects. Governmental policies (including fiscal reform and the ability to maintain balanced budgets) and their implementation, including infrastructure and other capital-intensive investments, currency and capital controls, will have a direct and indirect impact on Paraguay's credit ratings. If Paraguay's relations with its neighbors and trading partners deteriorate, it could have a material adverse effect on Paraguay's economy and therefore on its credit ratings.

Any adverse change in a credit rating could adversely affect the trading price for the Bonds and the liquidity of and demand for Paraguay's debt securities in general. Downgrades would also adversely affect the cost of funding and terms on which Paraguay is able to borrow in the international financial markets and is likely to adversely affect Paraguay's access to the international financial markets and the ability of Paraguay to service its public debt, including the Bonds.

A decrease in Brazilian demand for electricity, political instability arising out of negotiations related to allocation and usage of Itaipú Binational's power production or Itaipú Binational's inability to service its debt to Eletrobras could significantly adversely affect Paraguay's economy and Paraguay's ability to perform its obligations under the Bonds.

Paraguay's state-owned electric utilities company, ANDE, owns a 50% equity stake in Itaipú Binational and Eletrobras, a partially state-owned Brazilian company, owns the remaining 50%. Itaipú hydroelectric plant is a significant source of revenue for the government. In 2017, 2018, 2019, 2020 and 2021, payments to Paraguay with respect to energy generated at the Itaipú hydroelectric plant accounted for approximately 1.6%, 1.4%, 1.5%,1.2% and 1.0% of Paraguay's GDP, respectively.

Payments to Paraguay by Itaipú Binational consist of royalty payments based on revenues from electricity sales and compensation payments by the Brazilian government based on sales to Brazil of the unused portion of Paraguay's share of the electricity produced at Itaipú Binational. The two governments negotiate the amount of compensation payments from time to time. The amount of compensation stood at US$10,680.6 per GW/hour as of November 30, 2021, an increase compared to the US$9,871.2 per GW/hour registered in November 30, 2020. All compensation payments Paraguay receives from Brazil for the sale of its unused electricity are contingent on the amount of electricity sold to Brazil. As of November 30, 2021, Itaipú Binational provided approximately 11.0% of Brazil's electricity needs and approximately 88.0% of Paraguay's electricity needs, reflecting no significant variation compared to November 30, 2020. A decrease in electricity consumption in Brazil would adversely affect Paraguay's compensation revenues, which, in turn, could adversely affect Paraguay's ability to perform its obligations under the Bonds.

Previous negotiations and agreements regarding compensation payments have led to political instability in Paraguay. For example, in mid-2019, the Chamber of Deputies received a formal request to initiate impeachment proceedings against President Mario Abdo Benitez, Vice President Hugo Velazquez and Minister of Finance Benigno Lopez from various members of Congress, triggered by the political crisis that ensued following the disclosure of the May 2019 diplomatic agreement governing the allocation and usage of the power production of Itaipú Binational for 2019 between ANDE and Eletrobras. Even though the political crisis was resolved and the

impeachment proceedings were ultimately dismissed, future agreements on the allocation and usage of the power production of Itaipú Binational and/or compensation payments from Itaipú Binational could lead to political instability in Paraguay, which could adversely affect Paraguay's ability to perform its obligations under the Bonds.

Finally, Eletrobras provided 85% of the financing for the construction of Itaipú Binational. After becoming operational, Itaipú Binational could not service its debt to Eletrobras, and in September 1997, Eletrobras entered into a restructuring agreement with Itaipú Binational with respect to such outstanding amounts. As of December 31, 2021, Itaipú Binational owed approximately US$1.8 billion to Eletrobras and the National Treasury of Brazil. If Itaipú Binational fails to make payments under its debt to Eletrobras, Eletrobras may set off such obligations against payments owed by Eletrobras to Itaipú Binational. If Itaipú Binational does not receive payments from Eletrobras, it would be unable to make payments to Paraguay, which in turn would have a significant impact on the Paraguayan economy and could adversely affect Paraguay's ability to perform its obligations under the Bonds. There is no guarantee that Eletrobras will agree to restructure Itaipú Binational's debt obligations in the future.

A reduction or discontinuation of Yacyretá's payments to Paraguay could adversely affect Paraguay's economy and Paraguay's ability to perform its obligations under the Bonds.

Yacyretá Binational administers, supervises and operates the Yacyretá hydroelectric plant. The company is owned by ANDE and Emprendimientos Binacionales S.A., an Argentine state-owned company, in a 50/50 joint venture. Because of cost overruns in the project, Argentina unilaterally decided in 1992 that accumulated royalties and compensation for the years 1994 to 2004 should be deferred until 2019. However, since Yacyretá commenced operations in 1994, Paraguay has received royalties and compensation payments from Yacyretá Binational, although a substantial part of such payments is at Yacyretá Binational's discretion and is subject to agreement by Argentina and Paraguay on an annual basis. Beginning in 2014, the Argentine government halted the transfer of any revenue from Yacyretá to Paraguay. In 2016, Argentina promised to honor the royalties and compensation payments for 2014 and 2015 due to Paraguay from the Yacyretá hydroelectric plant In 2017, Paraguay received US$64.9 million from Yacyretá Binational on account of royalties and compensation, of which US$32 million corresponded to payments due for 2016. In 2018, 2019, 2020 and 2021, Paraguay received US$46.2 million, US$125.1 million, US$46.0 million and US$45.8 million, respectively, from Yacyretá Binational on account of royalties and compensation due for prior years. Should Yacyretá Binational decide in its discretion to discontinue these payments, Paraguay's economy would be adversely affected, which in turn would adversely affect Paraguay's ability to perform its obligations under the Bonds.

Certain economic risks are inherent in any investment in an emerging market country such as Paraguay.

Investing in an emerging market country such as Paraguay carries economic risks. These risks include many different factors that could affect Paraguay's economy, including the following:

- changes in the global economy, interest rates and financial markets;
- changes in economic conditions of Paraguay's main trading partners and the demand that such economies have for Paraguay's exports;
- changes in governmental economic or tax policies;
- the imposition of trade barriers by the government or by third parties, including sanctions imposed by other governments on any country with which Paraguay has significant trade relationships;
- general economic and business conditions in Paraguay;
- uncertainties relating to political and economic conditions in Paraguay and the South American region;
- the impact of political developments on demand of Paraguay's securities;
- high interest rates;

- capital and foreign exchange controls;
- wage and price controls;
- future decisions by international financial institutions regarding the terms of their financial assistance to Paraguay; and
- limitations in terms of human resources and infrastructure (and in several respects the institutional and regulatory framework) needed to develop the economy more rapidly.

Any of these factors, as well as volatility in the markets for securities similar to the Bonds, could adversely affect the liquidity of, and trading markets for, the Bonds.

The Paraguayan economy may contract in the future, which could have a material adverse effect on public finances and on the market price of the Bonds.

The Paraguayan economy experienced real GDP growth of 4.8% in 2017 and 3.2% in 2018 and real GDP contraction of 0.4% in 2019 and 0.8% in 2020. Between 2016 and 2020, real GDP grew at an annual average rate of 2.2%. Sustained by the recovery of the service sector, real GDP increased 5.0% in 2021. Progress in the process of immunization of Paraguay's population against COVID-19 and the easing of restrictive mobility measures implemented by the national government beginning in 2021 boosted the demand for certain services that were strongly impacted by the COVID-19 pandemic in 2020. In the secondary sector, the expansion is mainly explained by the performance of the manufacturing and construction sectors, which was partially offset by a contraction in the electricity and water sectors. The primary sector registered a drop due to lower agricultural production while the livestock sector continued its upward trajectory. Between 2017 and 2021, real GDP grew at an annual average rate of 2.4%.

Paraguay cannot assure investors that its economy will grow in the future. Paraguay's economic growth depends on a variety of factors, including, among others, international demand and prices for Paraguayan exports, economic conditions in the countries that serve as Paraguay's most important trading partners, climatic factors affecting Paraguay's agricultural sector, fiscal and monetary policies, confidence among Paraguayan consumers and foreign and domestic investors and their rates of investment in Paraguay, the willingness and ability of businesses to engage in new investment, the exchange rate and the rate of inflation. Some of these factors are outside Paraguay's control. A sustained economic slowdown or recession could result in a material decrease in Paraguay's fiscal revenues, or a significant depreciation of the Guaraní over an extended period of time could adversely affect Paraguay's debt/GDP ratio, either of which in turn would materially and adversely affect the ability of Paraguay to service its public debt, particularly its debt obligations denominated in foreign currencies, including the Bonds.

Fluctuations in exchange rates between Guaraníes and the U.S. dollar may adversely affect Paraguay's ability to perform its obligations under the Bonds.

From time to time, the Central Bank intervenes in the foreign exchange market in order to stabilize the Guaraní. Despite these interventions, the Guaraní has depreciated in the past and may in the future depreciate significantly. If the Guaraní should depreciate significantly over an extended period of time, economic growth in Paraguay could be adversely affected or even reversed, and it would be more burdensome for Paraguay to repay debt obligations denominated in foreign currency. In that event, Paraguay may not be able to perform its obligations under the Bonds, which are denominated in U.S. dollars. Alternatively, if the Guaraní should appreciate significantly, Paraguay's exports may become less competitive, which would adversely affect Paraguay's economy and, ultimately, Paraguay's ability to perform its obligations under the Bonds. As of December 31, 2021, the exchange rate was G.6,886 per U.S. dollar.

Paraguay's dollarization level is high, which could limit the effectiveness of monetary policy.

Paraguay experienced a gradual decline in dollarization in the early 2000s as macroeconomic stability improved and inflation declined. However, progress on de-dollarization has reversed somewhat since 2010, driven

by fluctuations in commodity prices and the exchange rate, and global economic uncertainty. As of November 30, 2021, dollar deposits represented 50.9% of private sector deposits and dollar-denominated loans represented 40.1% of total loans extended by Paraguay's public and private banks. Such levels of financial dollarization could weaken monetary transmission and reduce the Central Bank's capacity as lender of last resort.

Commodity prices are volatile, and a significant decline in commodity prices would adversely affect Paraguay's economy and affect its ability to perform its obligations under the Bonds.

Paraguay's economy is exposed to commodity price volatility, especially with regard to soybeans, which made up approximately 62.1% of Paraguay's total agricultural production in 2021, compared to 59.4% in 2020. In addition, soybeans made up approximately 29.4% of registered exports for the 11-month period ended November 30, 2021, compared to 26.4% for the 11-month period ended November 30, 2020. A significant drop in the price of commodities, such as soybeans, would adversely affect Paraguay's economy and could affect Paraguay's ability to perform its obligations under the Bonds.

Paraguay's economy remains vulnerable to external shocks, including international financial downturns or events affecting other emerging market sovereigns, which could adversely affect its ability to grow, as well as Paraguay's ability to service its public debt.

Paraguay's economy remains vulnerable to conditions and events in the global markets and other international economic and political developments, which are outside the control of the central government.

Paraguay's balance of trade and economic growth are also vulnerable to adverse developments affecting its principal trading partners (such as Brazil and Argentina, each of which have recently experienced recessions and strong currency depreciation). A significant decline in the economic growth of any of Paraguay's major trading partners could have a material adverse impact on Paraguay's balance of trade and adversely affect Paraguay's economic growth.

In addition, because reactions of international investors to events occurring in one market, particularly in emerging markets, frequently appear to demonstrate a "contagion" effect, in which an entire region or class of investment is disfavored by international investors, Paraguay could be adversely affected by negative economic or financial developments in other markets. Paraguay's economy may also be affected by conditions in developed economies, such as the United States, that are significant trading partners of the Republic or have influence over world economic cycles. For example, if interest rates increase significantly in developed economies, including the United States and Europe, the Republic and its developing economy trading partners, such as Brazil and Argentina, could find it more difficult and expensive to borrow capital and refinance existing debt, which could adversely affect economic growth in those countries.

The United Kingdom ("UK") withdrew from the European Union ("EU") on January 31, 2020 ("Brexit"). The UK's membership in the EU single market ended on December 31, 2020. On December 24, 2020, the UK and the EU announced that they had struck a new bilateral trade and cooperation agreement governing the future relationship between the UK and the EU (the "EU-UK Trade and Cooperation Agreement") which was formally approved by the 27 member states of the EU on December 29, 2020 and by the UK parliament on December 30, 2020. The EU-UK Trade and Cooperation Agreement became effective as of May 1, 2021, pursuant to the European Council Decision 2021/689.

The EU-UK Trade and Cooperation Agreement provides some clarity with respect to the intended shape of the future relationship between the UK and the EU and some detailed matters of trade and cooperation. However, as of the date of this Offering Memorandum, there remain unavoidable uncertainties related to Brexit and the new relationship between the UK and EU, which will continue to be developed and defined, and could negatively affect taxes and costs of business; cause volatility in currency exchange rates, interest rates, and EU, UK or worldwide political, regulatory, economic or market conditions; and contribute to instability in political institutions, regulatory agencies, and financial markets, which may in turn have a material adverse effect on Paraguay's business, financial condition and results of operations. Global issues, such as the effects of Brexit, could lead to additional political, legal and economic instability in the EU and produce a negative impact on the commercial exchange of Paraguay with that region.

Decreased growth on the part of Paraguay's trading partners could have a material adverse effect on the markets for Paraguay's exports and, in turn, adversely affect economic growth. Decreased growth on the part of the Republic's trading partners could have a material adverse effect on the Republic's ability to service its public debt generally, including the Bonds.

An increase in inflation and government measures to curb inflation may adversely affect the Paraguayan economy.

Paraguay's economy has experienced high levels of inflation in the past and may experience high levels in the future. Periods of rapid economic expansion and contraction in Paraguay have resulted in volatile rates of inflation. More specifically, fluctuations in food prices and oil derivatives and, more generally, increases in agricultural commodity prices, have led to drastic volatility in Paraguay's rate of inflation. For example, inflation was 1.9% in 2009 before increasing to 7.2% in 2010 and then decreasing to 4.9% in 2011.

In response, Paraguay's Central Bank adopted an inflation targeting scheme to stabilize inflation rates. Between March 2014 and July 2016 the Central Bank reduced the interest rate by a total of 125 basis points (with a slight increase of 25 basis points between February and May of 2016). The Central Bank decreased the interest rate by 25 basis points during the period of July 2016 to August 2017, but took no action with respect to the interest rate in 2018. In 2019, the reference interest rate decreased by 125 basis points, from 5.25% to 4.00%. In 2020, the Central Bank reduced the reference interest rate in March, April and June 2021 by 325 basis points. Throughout 2020, the reference rate decreased by 325 basis points from 4.00% to 0.75%. In 2021, a recovery in economic activity and a rise in commodity prices led to an increase in inflation. In order to contain future inflationary pressures and avoid a de-anchoring of expectations, the reference rate was adjusted by 25 basis points in August 2021, 50 basis points in September 2021 and 125 basis points in each of October, November and December 2021, reaching 5.25% as of December 31, 2021. The target rate for 2022 has been set at 4.0% within a range of 2.0% to 6.0%.

In the future, significant inflation may cause Paraguay to impose controls on credit and/or prices, or to take other action, which could inhibit Paraguay's economic growth. In addition, inflation can result in greater market volatility by causing economic uncertainties and reduced consumption, GDP growth and consumer confidence. Inflation, measures to combat inflation and public speculation about possible additional actions have also contributed to economic uncertainty in Paraguay in the past and could produce uncertainty in the future. Any of these factors can have a material adverse effect on Paraguay's results of operations and financial condition.

Paraguay has experienced and may continue to experience internal security issues that could have a negative effect on the Paraguayan economy and political situation.

Paraguay has experienced internal security issues in the past, primarily because of the activities of the Ejército del Pueblo Paraguayo (the "EPP"), a small guerrilla group operating in central-eastern Paraguay, and land invasions by landless farmers. In September 2011, the EPP attacked a police station in the central-eastern town of Horqueta resulting in the death of two police officers. In June 2012, a land invasion in Campos Morombí ended in a shootout with police officers that resulted in 17 deaths, triggering the impeachment and removal of former President Lugo.

On September 2, 2020, Paraguayan armed forces inadvertently killed two female Argentinean teenagers believed to be related to EPP members in an assault on an EPP camp near Yby Yáu. This incident led to formal complaints by the Argentinean government and objections by human rights groups. One week later, the EPP kidnapped former vice president of the Republic Oscar Denis and his assistant Adelio Mendoza. Although Adelio Mendoza was released a few days later, as of the date of this Offering Memorandum, former vice president Oscar Denis continues to be held by the EPP.

On December 6, 2021, Peter Reimer, a Paraguayan citizen, was kidnapped by the EPP. As a condition to his release, the EPP demanded that Mr. Reimer's family donate over US$500,000 in food supplies to vulnerable communities in Amambay, San Pedro, Canindeyú and Asunción in order to release him. On December 14, 2021, Peter Reimer was released after his family and the community complied with the EPP's demands.

Due to the challenges that internal security issues in rural areas create for the government, in August 2013, Congress granted the executive branch the authority to deploy armed forces to address security challenges in the northern departments of Concepción, San Pedro and Amambay without having to declare a formal state of emergency. Although the troops have been successful either in capturing or killing leaders of the terrorist group, as of the date of this Offering Memorandum, the EPP remains active in Paraguay.

Moreover, organized crime has been increasing in Paraguay. In April 2017, President Cartes called on Paraguay's military to respond after police were outgunned by a group of 60 armed men who blasted their way into a Spanish security firm and stole US$12 million dollars. On December 19, 2018, a group of 30 people aboard several trucks surrounded the central area of the city of Ypejhú, located in the Canindeyú Department (on the border with Brazil). The group attacked three private houses and a car dealership, using guns and hand grenades, before allegedly escaping to the border city of Paranhos, Brazil, in what is suspected to have been an act of violence as part of a conflict between drug dealers. Police were unable to respond to the attack, as the local police station itself had been surrounded by members of the armed group.

Furthermore, 2021 saw an increase of contract killing throughout Paraguay, including the murder of political candidates in municipal elections, military officers, former judges, businessmen as well as the daughter of the incumbent governor of the department of Amambay.

Any worsening of the internal security situation may have a negative effect in the future on Paraguayan economic and political conditions. As a result, Paraguay's ability to make payments on its outstanding public debt generally, including the Bonds, could be adversely affected.

A significant increase in interest rates in the international financial markets could have a material adverse effect on the economies of Paraguay's trading partners and adversely affect Paraguay's economic growth and Paraguay's ability to make payments on its outstanding public debt, including the Bonds.

If interest rates outside Paraguay increase significantly, Paraguay's trading partners, in particular, the EU and Brazil, could find it more burdensome to borrow capital and refinance their existing debt. These increased costs could in turn adversely affect economic growth in those countries. Decreased growth on the part of Paraguay's trading partners could have a material adverse effect on the markets for Paraguay's exports and, in turn, adversely affect Paraguay's economy. An increase in interest rates would also increase Paraguay's debt service requirements with respect to Paraguay's debt obligations that accrue interest at floating rates. As a result, Paraguay's ability to make payments on its outstanding public debt generally, including the Bonds, would be adversely affected.

A significant depreciation of the currencies of Paraguay's trading partners or trade competitors may adversely affect the competitiveness of Paraguayan exports and cause an increase in Paraguay's imports, thus adversely affecting Paraguay's economy.

During the 2017-2021 period, the nominal exchange rate of the Guaraní appreciated annually on average by approximately 4.7% against the Brazilian Real and 28.0% against the Argentine Peso. The depreciation of the currencies of one or more of Paraguay's trade partners (including, Brazil and Argentina) or trade competitors relative to the Guaraní may result in Paraguayan exports becoming more expensive and less competitive. It may also cause an increase in cheaper imports. A decrease in exports and an increase in imports may have a material adverse effect on Paraguay's economic growth, its financial condition and the ability of Paraguay to service its debt.

In August 2019, after the results of the Argentine presidential primaries were announced, the Argentine peso suffered a substantial depreciation vis-a-vis the Guaraní, Argentina's risk index increased significantly and its stock market dropped. As a result, foreign exchange controls were reestablished and those policies remain in effect as of the date of this Offering Memorandum. The devaluation of the Argentine peso has affected price differentials between Argentinean and Paraguayan products, reducing the competitiveness of Paraguayan businesses.

A significant increase in non-tariff trade barriers by MERCOSUR members would negatively affect Paraguay's economy and Paraguay's ability to perform its obligations under the Bonds.

MERCOSUR countries agreed in 2015 (Decision No. 23/15) to analyze alternatives with a view to the future elimination of tariff barriers and other equivalent measures that exist in the bloc. From 2015 to 2016, exports to MERCOSUR (including exports of electricity) increased 22% on an annual average. Moreover, on December 5, 2019, the MERCOSUR countries executed Decision No. 29/19 in Bento Goncalves, Brasil. This agreement, which is still subject to congressional approval in Paraguay, aims to simplify customs procedures in the MERCOSUR territories.

Although in 2016 Argentina replaced the requirement of affidavits for imported goods with a more flexible and predictable system for monitoring imports, in prior years the Argentine government has implemented trade barriers and import controls, such as requirement of affidavits prior to importing consumer goods, the elimination of automatic licenses of imports and restrictions on the river transportation of Paraguayan exports, all with the goal of protecting Argentine domestic industry. Further, Argentinian president Alberto Fernandez, who took office in December 2019, made statements indicating that Argentina will increase controls on imports. Argentina is one of Paraguay's most important trade partners, accounting for approximately 27.1% and 9.6% of Paraguay's total exports and imports, respectively, as of November 30, 2021. In the event that Argentina maintains, reinstates or expands its protectionist policies, specifically those affecting the agribusiness sector, Paraguay's economy and its ability to perform its obligations under the Bonds may be adversely affected.

Additionally, although the government of Brazil that took office in January 2019 is also committed to promoting openness, modernizing MERCOSUR and moving toward greater integration, sustained agreement within MERCOSUR may be susceptible to policy changes by future governments, and therefore non-tariff trade barriers within MERCOSUR may remain in place or even increase in the future. Further, in light of the potential protectionist measures to be implemented by Argentina, Brazilian president Jair Bolsonaro threatened to withdraw from MERCOSUR. Such increasing political tension and the possible implementation of non-tariff trade barriers may adversely affect Paraguay's economy and Paraguay's ability to perform its obligations under the Bonds.

In 2021, Uruguay expressed its interest in negotiating trade agreements unilaterally. The founding principles of MERCOSUR determine that the constitution of a common market implies, among other aspects, the need to have a common foreign trade policy, which is the basis of for the current negotiations of the bloc. While Uruguay has made public its interest in negotiating trade agreements unilaterally, as of the date of this Offering Memorandum, the country has not submitted a formal proposal to MERCOSUR's executive bodies.

The government may be unable to obtain financing on satisfactory terms in the future, which could have a material adverse effect on Paraguay's ability to make payments on its outstanding public debt, including the Bonds.

Paraguay's future tax revenue and fiscal results may be insufficient to meet its debt service obligations and Paraguay may have to rely in part on additional financing from domestic and international capital markets in order to meet future debt service obligations. In the future, the government may not be able or willing to access international or domestic capital markets, and Paraguay's ability to service its outstanding public debt, including the Bonds, could be adversely affected.

Any revision to Paraguay's official financial or economic data resulting from any subsequent review of such data by the Central Bank or other government entities may reveal that Paraguay's ability to make payments on its outstanding public debt, including the Bonds, has deteriorated.

Certain financial and other information presented in this Offering Memorandum may subsequently be materially adjusted or revised to reflect new or more accurate data as a result of the periodic review of Paraguay official financial and economic statistics. Such revisions could reveal that Paraguay's economic and financial conditions as of any particular date are materially different from those described in this Offering Memorandum. Paraguay can give no assurance that such adjustments or revisions will not have a material adverse effect on the interests of Paraguay's creditors, including any purchasers of the Bonds.

Risk Factors Relating to the Bonds

Paraguay is a foreign sovereign state and, accordingly, it may be difficult to obtain or enforce judgments against it.

Paraguay is a foreign sovereign state. Consequently, it may be difficult for investors to obtain or enforce judgments against it.

The Bonds are governed by the law of the State of New York, and accordingly, Paraguay has irrevocably agreed that any legal action or proceedings in respect of the Bonds issued may be brought in the federal and state courts in the Borough of Manhattan, The City of New York and for such purpose will accept irrevocably, generally and unconditionally, the jurisdiction of such courts. Paraguay has irrevocably designated, appointed and empowered the Consul General of Paraguay in The City of New York for the time being and from time to time to receive for and on its behalf service of process in such jurisdiction in any legal section or proceedings in respect of the Bonds issued. Holders of the Bonds may, however, be precluded from initiating actions based on the Bonds in courts other than those mentioned above.

Paraguay will, to the fullest extent permitted by law, irrevocably waive and agree not to plead any immunity from the jurisdiction of any of the above courts in any action based upon the Bonds. This waiver covers Paraguay's sovereign immunity and immunity from prejudgment attachment, post-judgment attachment and execution. A judgment obtained against Paraguay in a foreign court can be enforced in the courts of Paraguay, if such judgment is ratified by the Paraguayan courts. Based on existing law, Paraguayan courts will ratify such a judgment if (i) a formal request for the payment of the award under the judgment is lodged with the Paraguayan government and not honored (it is not clear how such request must be made, and how and when such request must not have been honored, in order for a party to have the right to seek such ratification) and (ii) there exists a treaty with the country where such judgment was issued providing for reciprocal enforcement of foreign judgments (no such treaty exists at the present time between Paraguay and the United States); or if no such treaty exists (A) such judgment has *res judicata* effects in the jurisdiction where it was rendered, (B) such judgment was issued by a competent court with *in personam* jurisdiction or (if the relevant assets were transferred to Paraguay during or after the complaint was filed) *in rem* jurisdiction, (C) there is no legal action filed and pending judgment at a Paraguayan court with the same cause of action and among the same parties, (D) any person or entity domiciled in Paraguay against whom such judgment is sought to be enforced must have been duly served with process and represented during the trial or adjudged to have failed to appear in accordance with the laws of the country where the trial was held, (E) the obligation that gave rise to the complaint must be valid under Paraguayan law, (F) such judgment is not contrary to the public policy of Paraguay, (G) such judgment must comply with all necessary requirements to be considered as a valid judgment in the foreign jurisdiction and (H) such judgment must not conflict with a judgment rendered previously or simultaneously by a Paraguayan court.

Once a foreign judgment is ratified by the Paraguayan courts, payment of such judgment should be included by Congress as a liability under the budget law for the following fiscal year. Under Paraguayan law, creditors may not be able seek attachment prior to judgment and attachment in aid of execution with respect to property of Paraguay located in Paraguay.

Nevertheless, Paraguay reserves the right to plead sovereign immunity under the U.S. Foreign Sovereign Immunities Act of 1976, as amended (the "Immunities Act"), in actions brought against it under the United States federal securities laws or any state securities laws. Paraguay's appointment of its process agent will not extend to these actions. Without Paraguay's waiver of immunity, you will not be able to obtain a United States judgment against Paraguay unless the court determines that Paraguay is not entitled under the Immunities Act to sovereign immunity in such action. In addition, execution upon property of Paraguay located in the United States to enforce a judgment obtained under the Immunities Act may not be possible except in the limited circumstances specified in the Immunities Act.

The trading market for the Bonds may be volatile and may be adversely affected by many factors.

There can be no assurance that an active trading market for the Bonds will be maintained. If an active trading market for the Bonds is not maintained, investors may not be able to sell their Bonds easily or at prices that

will provide them with a yield comparable to similar investments that have a developed secondary market, and the market or trading price and liquidity of the Bonds may be adversely affected. In addition, the Bonds may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions, and the financial condition of Paraguay. Although an application will be made to list the Bonds on the Luxembourg Stock Exchange, there can be no assurance that such application will be accepted or that an active trading market will be maintained. Illiquidity may have a material adverse effect on the market value of the Bonds.

The Bonds contain provisions that permit Paraguay to amend the payment terms without the consent of all holders.

The Bonds contain provisions, commonly known as "collective action clauses." Under these provisions, certain key terms of the Bonds may be amended, including the maturity date, interest rate and other reserved matters listed in the indenture with the consent of the holders of: (1) with respect to a single series of debt securities, more than 75% of the aggregate principal amount of the outstanding debt securities of such series; (2) with respect to two or more series of debt securities, if certain "uniformly applicable" requirements are met, more than 75% of the aggregate principal amount of the outstanding debt securities of all series affected by the proposed modification, taken in the aggregate; or (3) with respect to two or more series of debt securities, more than 66 ⅔% of the aggregate principal amount of the outstanding debt securities of all series affected by the proposed modification, taken in the aggregate, and more than 50% of the aggregate principal amount of the outstanding debt securities of each series affected by the proposed modification, taken individually. For more information see "Description of the Bonds—Meetings, Amendments and Waivers—Collective Action." These provisions permit defined majorities to bind all holders of the Bonds including holders who did not attend and vote at the relevant meeting and holders who voted in a manner contrary to the majority.

Payments to holders of the Bonds could be attached by creditors to satisfy outstanding judgments against Paraguay. As a result, Paraguay may not be able to make payments to holders of the Bonds.

Judgment creditors may seek to attach payments of interest and principal by Paraguay to holders of the Bonds outside Paraguay claiming that, until payments reach holders of the Bonds, payments could be deemed Paraguay's assets. As of the date of this Offering Memorandum, there is a court judgment in favor of nine banks in the amount of approximately US$85 million, and a judgment in favor of one additional bank in the amount of approximately CHF10 million plus interest outstanding against Paraguay. In July 2015, SACE filed an action in D.C. District Court seeking recognition of the Swiss Judgments against Paraguay, in which SACE holds rights as a result of a settlement agreement between SACE and each of the ten banks, but on March 21, 2017, the D.C. District Court granted Paraguay's motion to dismiss, and the court's judgment is now final and non-appealable. Although SACE's action seeking recognition of the Swiss Judgements against Paraguay was dismissed and is not appealable in the United States, SACE may seek recognition of the Swiss Judgements in other jurisdictions in the future. For more information on these outstanding judgments and the SACE action, see "Risk Factors—Risk Factors Relating to Paraguay—Part of the offering proceeds could be attached by creditors to satisfy outstanding judgments against Paraguay." If SACE or other creditors are successful in attaching payments to holders of the Bonds, Paraguay may not be able to make payments to holders of the Bonds. For more information see "Public Sector Debt—Contingencies—Gramont Berres Litigation."

The ability of holders to transfer the Bonds in the United States and certain other jurisdictions will be limited.

The Bonds issued pursuant to this offer will not be registered under the Securities Act and, therefore, may not be offered or sold in the United States except pursuant to an exemption from the registration requirements of the Securities Act and applicable U.S. state securities laws. Offers and sales of the Bonds may also be subject to transfer restrictions in other jurisdictions. You should consult your financial or legal advisors for advice concerning applicable transfer restrictions with respect to the Bonds.

Credit ratings may not reflect all risks of investment in the Bonds.

Credit ratings are an assessment by rating agencies of Paraguay's ability to pay its debts when due. Consequently, real or anticipated changes in Paraguay's credit ratings will generally affect the market value of the

Bonds. These credit ratings may not reflect the potential impact of risks relating to structure or marketing of the Bonds. Agency ratings are not a recommendation to buy, sell or hold any security, and may be revised or withdrawn at any time by the issuing organization. Each agency's rating should be evaluated independently of any other agency's rating.

Any significant real depreciation of Guaraníes against the U.S. dollar or other major currencies could have a material adverse effect on our ability to make payments on our outstanding debt, including the Bonds.

Any significant real depreciation of Guaraníes against the U.S. dollar or other major currencies might have a negative effect on our ability to repay our debt denominated in currencies other than the Guaraní, including the amounts due under the Bonds.

Any significant real change in the value of Guaraníes or the currency of our trading partners against the U.S. dollar or other major currencies might adversely affect our economy and financial condition, which could have a negative effect on our ability to make payments on our outstanding public debt.

USE OF PROCEEDS

The net proceeds of the issuance and sale of the Bonds, after deduction of underwriting fees, are anticipated to be approximately US$500,069,364. Paraguay is issuing the Bonds offered hereby contemporaneously with the Offer to Purchase. Paraguay expects to apply a portion of the net proceeds of the Bonds to pay the purchase price for the Old Bonds that are validly tendered and accepted in the Offer to Purchase, and the balance for general government purposes, in accordance with the Annual Budget Law No. 6873/22, Liability Management Law No. 6638/20, the Regulatory Decree No. 6567/22, Resolutions No. 21, 22 and 23 issued by the Ministry of Finance and Resolution No. 17/22, Act No. 3 issued by the Central Bank.

COVID-19 AND PARAGUAY

COVID-19 was first detected in Wuhan, Hubei Province, China, and first reported to the World Health Organization ("WHO") country office in China on December 31, 2019, with cases soon confirmed in multiple provinces in China, as well as in other countries. On March 11, 2020, the WHO characterized COVID-19 as a pandemic. COVID-19 has now spread to nearly all regions of the world, including Paraguay. Several measures have been undertaken by governments where COVID-19 has affected broad swathes of the population to control the virus, including mandatory quarantines, lockdowns and travel restrictions.

As of January 4, 2022, Paraguay has confirmed over 470,460 cases of COVID-19 of which over 16,645 were fatal. To date, Paraguay has adopted several measures in response to the COVID-19 pandemic aimed at (i) preventing mass contagion and overcrowding of Paraguay health service facilities and (ii) mitigating the economic effects of the pandemic.

Paraguay's Actions to Combat the Spread of COVID-19 and Mitigate its Impact

On January 23, 2020, the Ministry of Health and Public Welfare (the "Ministry of Health") issued a bulletin on basic procedures for preventing, detecting, diagnosing, and treating COVID-19 addressed to the Paraguayan epidemiological surveillance network and hospitals (the "Epidemiological Alert"). Paraguay began testing suspected cases of COVID-19 on January 23, 2020, and confirmed its first case on March 7, 2020. On March 16, 2020, the President of the Republic declared a state of sanitary emergency, ramping up sanitary measures established in response to COVID-19. On March 26, 2020, in response to the public health emergency, Paraguay enacted the National Emergency Law No. 6524/20 ("NEL") declaring a state of emergency in the entire territory of Paraguay and establishing significant administrative, fiscal and financial measures to mitigate its effects.

From March 16, 2020 to May 7, 2020, the Paraguayan government ordered a country-wide strict lockdown aimed at preventing the spread of COVID-19 and mitigating its impact. The initial lockdown included measures such as closing public spaces and limiting access to spaces such as shopping malls, sporting events, restaurants, bars, corporate offices and educational institutions, among others. Other measures included restrictions on certain services and industrial activities and on Paraguay's border, domestic travel, commerce and employment. In addition, the Paraguayan government established a mandatory 24-hour curfew for the general population, required the use of facemasks in public transport, suspended all flights to Paraguay, with the exception of medical and search and rescue missions that were expressly approved by the Paraguayan airspace authorities. Other measures enacted at the time included the reduction of interest rates and of the mandatory legal reserve for banking entities to promote liquidity in the market, the relaxation of loan payments for the agricultural sector, the creation of interest-free fractioning for payment of taxes and the waiver of fines for delayed tax payments until June 2020, among many others.

"Intelligent Quarantine" and the Gradual Ease of Restrictions

On May 4, 2020, the Paraguayan government began to gradually lift the restrictions on its border, domestic travel, commerce and employment. This process of gradually easing restrictions was titled the "Intelligent Quarantine" and was divided in the following four stages:

Stage 1 took place from May 4, 2020 through May 24, 2020, during which time the limitations on business activity and gatherings were maintained, while restrictions on certain services and industrial activities were lifted and public parks were opened on limited schedules.

Stage 2 took place from May 25, 2020 to June 14, 2020, during which time all restrictions on industrial activities were lifted, corporate offices were authorized to open at 50% capacity, public religious ceremonies were permitted subject to restrictions on number of attendees and retail stores for non-essential items, including shopping malls, were authorized to open on a restricted schedule.

Stage 3 took place from June 15, 2020 to July 19, 2020, during which time restaurants were permitted to open on a limited basis, educational institutions were opened exclusively to academic faculty, and gyms were permitted to open subject to the approval of COVID-19 mitigation protocols by the Ministry of Health.

Stage 4 took place from July 20, 2020 through October 4, 2020, during which time restrictions on cultural and social events were lifted subject to limitations on the number of attendees. The prohibitions placed on sporting events, bars and nightclubs, educational institutions and large public events were maintained during all four stages.

Although the four stages of the Intelligent Quarantine concluded as of October 4, 2020, as of the date of this Offering Memorandum, certain key restrictions, such as mandated mask use in public and evening curfews, remain in effect until further notice. In particular, the arrival of the Omicron variant (confirmed on December 27, 2021 and causing a country-wide surge in COVID-19 cases) is leading Paraguayan health authorities to reinstate measures aimed at mitigating contagion and preparing the public health system. Among these measures, Paraguayan authorities are (i) reorganizing intensive care units in public hospitals, (ii) reopening mass testing sites for COVID-19 and (iii) encouraging employers to reinstate remote working conditions or to limit in-person work. However, Paraguayan health officials have made public statements in December 2021 that country-wide lockdowns will not be reinstated. The government of Paraguay is continuously monitoring COVID-19 infection rates at both national and local levels and restrictions are subject to evolve as the circumstances so require.

Partial Regional Lockdowns

Since May 7, 2020, the executive branch has not reinstated country-wide lockdowns. Instead, it has ordered partial lockdowns imposing restrictions on specific cities or departments in Paraguay for limited periods of time due to surges of Covid-19 cases. From June 9, 2020 to June 24, 2020, the executive branch ordered a total lockdown of the city of San Roque González located in the department of Paraguari, approximately 92 kilometers from the capital city Asunción. On July 30, 2020, the executive branch declared a state of emergency in the department of Alto Parana, located in the east of Paraguay on the border with Brazil, and ordered a total lockdown until August 23, 2020. Similarly, it ordered the lockdown of the departments of Concepcion and Caaguazú from September 13, 2020 to October 4, 2020. Finally, in an attempt to prevent mass gatherings due to annual religious festivities of the "Virgen de Caacupé", it ordered the lockdown of the city of Caacupé, approximately 92 kilometers from the capital city Asunción from December 4, 2020 to December 9, 2020.

Border Control Measures

The Paraguayan government began closing borders on March 16, 2020 by ordering a partial closure of migration control posts throughout Paraguay's borders and prohibiting foreign citizens without a permanent residency from entering the country. On March 24, 2020, the Paraguayan government imposed additional border restrictions, closing airports and suspending all incoming commercial flights to Paraguay. Paraguayan nationals and foreigners were permitted to enter the country with an authorization from the DINAC and the National Defense Council, subject to a 14-day period of mandatory quarantine.

On September 9, 2020, the Paraguayan government ordered the partial opening of its border control checkpoints. On October 21, 2020, Silvio Pettirossi International Airport resumed international commercial flight routes under the strict sanitary measures set forth by the Ministry of Health. With respect to border controls between Paraguay and its neighboring countries, as of October 30, 2020, all restrictions in the migration checkpoints between Paraguay and Brazil were lifted. On November 30, 2020, Bolivia opened all of its land border checkpoints, including those with Paraguay. On December 13, 2021, Argentina reopened border crossings in Puerto Falcón and Alberdi.

In August 2021, the Health Minister set new requirements to enter the country. Travelers are no longer required to undergo a mandatory quarantine. Instead, travelers are only required to complete an online affidavit and to deliver a negative COVID-19 PCR test or a vaccination card.

Peak of COVID-19 Cases and Deaths in Paraguay

Throughout September 2020 to mid-February 2021, Paraguay experienced a plateau in COVID-19 cases, which ranged from an average of 600 to 900 daily infections. Throughout this time, Paraguayan hospitals and public health infrastructure were able to cope with COVID-19 cases throughout the country.

In mid-February 2021, the Gamma variant of COVID-19 (also known as the "Manaos" variant) was first discovered in Paraguay, and from mid-February 2021 until June 2021, COVID-19 cases in Paraguay rose sharply

and consistently, peaking on June 4, 2021 with 3,481 daily cases and almost 150 daily deaths. During this period, Paraguay became the country with the highest rate of COVID-19 deaths per capita.

The surge in COVID-19 infections from March to June 2021 caused the public health system to collapse. The population was confronted by scarcity in hospital beds, supplies and medicines. Vaccines against COVID-19 arrived slowly. This situation resulted in massive protests and riots throughout the country, which led to the resignation and removal of several ministers, including the Health Minister Julio Mazzoleni. The riots also sought the impeachment of the country's president and vice-president. Impeachment proceedings were initiated in the Chamber of Deputies. These attempts were, however, unsuccessful. On March 16, 2021, the Chamber of Deputies rejected the impeachment proceedings with 42 votes rejecting the impeachment against 36 votes in favor. See "Republic of Paraguay—History, Government and Political Parties" for more information.

During this period, the government did not impose new lockdowns, although restaurants and other business in the food and beverage sector were restricted on capacity and working hours. In addition, all public events were limited from 5:00 AM to 11:59 PM and subject to a maximum of 100 people, while gatherings in private residences were limited to a maximum of 12 people and cultural and sport events were restricted.

As of July 2021 and during the second semester of 2021, COVID-19 cases began to drop rapidly. Medical experts attribute the drop to two main factors: (i) an increased vaccination rate between May and June 2021 and (ii) due to the large number of cases registered in the previous months, a significant percentage of the Paraguayan population obtained natural immunity. The sharp drop in COVID-19 cases led public outrage to wane.

After averaging less than 100 COVID-19 cases per week from September 2021 to mid-December 2021, COVID-19 cases began rising rapidly in late December. On December 27, 2021, the Paraguayan health authorities confirmed the arrival of the Omicron variant to Paraguay and attributed the sharp increase of cases to this variant.

As of the date of this Offering Memorandum, Paraguay is facing its second peak of COVID-19 cases. On January 18, 2022, the Paraguayan health authorities reported 5,415 cases, the highest number of cases to be confirmed in a single day. Moreover, the average number of weekly cases in the week prior to the date of this Offering Memorandum rose to 2,813. However, despite the sharp increase in COVID-19 cases, deaths due to COVID-19 did not rise significantly. Likely due to the vaccination campaigns led throughout 20201, the Paraguayan public health authorities reported an average of 8 deaths in the week prior to the date of this Offering Memorandum.

COVID-19 Vaccination in Paraguay

On December 29, 2020, the Ministry of Health issued Resolution S.G. 746/20, authorizing Paraguay's importation and administration of COVID-19 vaccines approved by certain international health regulatory institutions such as the US Food and Drug Administration (FDA) and the European Medicines Agency (EMA), with no additional regulatory approval required. The resolution mandates that Paraguay's National Directorate of Sanitary Surveillance make periodic reports on the status of the COVID-19 vaccines authorized by the aforementioned international regulatory institutions and that local health regulatory agencies closely monitor suspected adverse effects that may be attributed to the administration of any such COVID-19 vaccine.

To help facilitate access to vaccines, Paraguay joined the COVAX program, a global collaboration established by the PAHO and the International Alliance for Access to Vaccines ("GAVI") to accelerate the development, production, and equitable access to COVID-19 tests, treatments, and vaccines. In addition, Paraguay is a member of the PAHO Revolving Fund for Vaccine Procurement (the "Revolving Fund"), through which member states pool their national resources to procure high-quality vaccines and related products at the lowest price. As of the date of this Offering Memorandum, approximately 800,000 vaccines were delivered to Paraguay pursuant to Paraguay's membership in the COVAX program. The government expects to receive 1 million vaccines throughout 2022.

Further, to facilitate the public procurement of COVID-19 vaccines, Congress enacted Law No. 6685/20 on December 22, 2020, granting the Ministry of Health the authority to negotiate and purchase COVID-19 vaccines

directly from vaccine manufacturers. In the last quarter of 2020, the Ministry of Health began directly negotiating with several pharmaceutical laboratories developing COVID-19 vaccines to acquire the doses required by Paraguay and is in advanced stages of negotiations with a few of those laboratories.

The first vaccines against COVID-19 arrived in Paraguay on February 18, 2021. Upon arrival, the Ministry of Health implemented a vaccination plan against COVID-19. The plan was divided into different application phases:

- Phase 1 of the vaccination plan began on February 22, 2021 and included (i) healthcare workers, (ii) adults 50 years of age or older, and (iii) pregnant women. This stage concluded in June 2021.

- Phase 2 of the vaccination plan began in July 2021 and included people within the moderate risk group, which included (i) the general population 35 years of age or older, (ii) the population 18 years of age with underlying health conditions, and (iii) personnel deemed essential, such as policemen, the military, university professors and university students taking health-related majors. This stage concluded at the end of July 2021.

- Phase 3 of the vaccination plan began at the end of July 2021 and coincided with the arrival of more vaccines. It included the general adult population and adolescents with underlying health conditions. As of the date of this Offering Memorandum, this phase is still ongoing. Immunization has reached 41% of the population in 2021 and is expected to reach 60% by the end of 2022.

- In order to strengthen the immunization against COVID-19 and its variants, the government began applying third doses or boosters of the vaccines as of October 25, 2021. The Ministry of Health established a minimum interval of four months from the second dose to the third dose.

- On January 10, 2022, the Paraguayan health authorities authorized the vaccination of children over 5 years old. The Paraguayan government expects to receive 1,500,000 pediatric doses in February 2022.

As of the date of this Offering Memorandum, approximately 42.17% of the Paraguayan population has been fully vaccinated, 6.44% has been partially vaccinated and 9.57% has received a booster.

Overview of the Economic Impact of COVID-19

The initial economic forecasts for 2020 assumed a 4.1% growth of GDP, mainly due to the recovery of key sectors of the economy, such as agriculture, electricity generation, manufacturing and construction, in addition to anticipated improved performance in the services sector. In addition, initial economic forecasts projected an upturn in private consumption and investments, as well as a positive contribution from next exports. However, the economic forecasts for the 2020 fiscal year sharply changed with initial onset of the COVID-19 pandemic and continued to evolve throughout the course of the year. As a result, GDP projections underwent considerable adjustments during 2020. In light of the local and global economic uncertainty in the first half of 2020, the growth forecast for 2020 was revised downward from a 4.1% growth to a 2.5% contraction in April 2020 and a 3.5% contraction in July 2020. However, as time progressed and new data began evidencing a quicker recovery in certain sectors than was initially anticipated, the 2020 forecast was revised upwards to a 1.5% contraction in October 2020 and a 1.0% contraction in December 2020.

According to short-term economic indicators, the greatest negative impact of the COVID-19 pandemic was observed in the months of April and May of 2020. The Monthly Economic Activity Indicator (IMAEP) registered a decline of 13.1% year-over-year in April 2020 and a decline of 6.2% year-over-year in May 2020 and the Estimador de Cifras de Negocios (ECN) registered a decline of 19.8% year-over-year in April 2020 and a decline of 6.3% year over year in May 2020. This substantial decline is principally due to poor performance of certain sectors, namely the services, manufacturing and commerce sectors, resulting from the restrictive measures implemented by the national government in an effort to contain the spread of the COVID-19 virus. The services sector was particularly impacted, namely transportation, restaurants and hotels, business services and household services. The manufacturing sector was also significantly affected, particularly the textiles and clothing, paper and paper products, timber, machinery

and equipment, leather, oil products, beverages and tobacco and metal products subsectors. Finally, commerce was greatly affected, particularly the sale of durable goods, such as vehicles and home equipment, semi-durable goods, such as clothing, and fuel. In addition to the poor performance of certain sectors as a result of COVID-19, the decline in year-over-year economic performance in April and May of 2020 is also partly due to declines in electricity generation resulting from decreased river water flow caused by droughts. Notwithstanding the contraction in each of the services, manufacturing and commerce sectors and the electricity generation subsector, the growth in the agriculture, livestock, construction, communications and finance sectors helped mitigate the decline in aggregate economic activity resulting from the impact of the COVID-19 pandemic and continued droughts.

Economic activity and aggregate demand have recovered since the bottoms seen in the second quarter of 2020, consistent with the easing of restrictive measures implemented by the national government in an effort to contain the spread of the COVID-19 virus. Although GDP contracted by 1.2% in the third quarter of 2020 compared to the same period in 2019, this contraction was considerably lower than the 6.4% contraction observed in the second quarter of 2020 compared to the same period in 2019, largely as a result of recoveries in the construction and manufacturing sectors. Furthermore, investment grew by 9.8% in the third quarter of 2020 compared to the same period in 2019, while private consumption reduced its rate of year-on-year contraction compared to the second quarter of 2020, falling by 5.4% in the third quarter of 2020 compared to the same period in 2019, after having fallen by 7.5% in the second quarter of 2020 compared to the same period in 2019. Net exports increased throughout 2020 as the significant reduction in exports was outweighed by an even larger reduction in imports. Preliminary data for the fourth quarter of 2020 indicates a continuance of the previous quarter's trend of a modest contraction, relative to the more significant contractions experience in the first half of 2020, compared to the same period in 2019.

In 2021, economic activity was largely subject to the evolution of the COVID-19 pandemic. At the beginning of 2021, the COVID-19 pandemic remained relatively under control in Paraguay. As a result of favorable outlook in public health conditions, the initial GDP growth projection for 2021 was 4.0% as of December 2020. Nonetheless, the health situation worsened in mid-February 2021 and reached a peak of infections in early June 2021, with more than 3,000 daily cases of infections. The resulting overflow of the health facilities led the Paraguayan public health authorities to temporarily reinstate restrictive measures on circulation and activities that involved social contact. This new health scenario was reflected in the lower consumer confidence between March and June 2021. As a result, the Central Bank revised the growth forecast from 4.0% to 3.5% in April 2021. This revision is mainly explained by the downward adjustment in the projection of the services sector, from a supply side perspective, and of the domestic demand, from an expenditures perspective.

In July 2021, the economic scenario changed substantially with the improvement in the health sector and better prospects sustained by the arrivals of large quantities of vaccines donated by the United States. As a result, the percentage of immunized people began to increase. This allowed for the easing of the restrictive measures previously put in place by the government and led to improved consumer confidence. The Central Bank revised the growth forecast from 3.5% in April 2021 to 4.5% in July 2021.

The Central Bank, given the evolution of the economy, again revised the growth forecast from 4.5% to 5.0% in December 2021. On the supply side, the Central Bank revised their projection of the secondary sector and of the tertiary sector to be upwards. With regards to spending, the revisions were supported by the domestic demand, mainly in private consumption and investments.

Paraguayan Actions to Mitigate Economic Effects of COVID-19

National Emergency Law

During 2020, the NEL constituted a set of extraordinary measures aimed at providing Paraguay with budgetary tools to counteract the effects of the spread of the virus, especially by aiming at providing the necessary resources for the healthcare system and alleviating the burden of this public health emergency and its economic effect on the most vulnerable. Although initially intended to be limited to 2020, on December 23, 2020, Congress approved an extension of the NEL through June 30, 2021, with a further extension through December 31, 2021, later approved. As of the date of this Offering Memorandum, an additional extension of the NEL is under discussion in Congress.

The financing for the emergency law was accomplished through loans and issuance of bonds for a maximum amount of US$1.6 billion. This amount included the following proceeds allocations: US$514 million for public health, US$408 million for social security, US$553 million for the government's current expenditures, US$64 million for loans to and capitalization of MSMEs and US$62 million for the subsidy of public services. Most of the financial resources of the emergency law were used to strengthen the healthcare system and support healthcare personnel, as well as to protect employment and assist formal and informal workers. Throughout the 2020 fiscal year, approximately 73.7% of the funds procured under the NEL were disbursed.

In an effort to control public expenditure, the NEL reduced the salaries of public officials by 10% for public officials earning from 5 to 10 times the monthly minimal wage, and by 20% for public officials earning more than 10 times the monthly minimal wage (public health workers, military and police forces, members of the judiciary, public attorneys, and diplomats in foreign service are exempt). The NEL also suspended subsidies to political parties, catering services for public agencies, payment of food allowance, vacation bonuses, and other extraordinary allowances granted to public officials and reduced budgets for transport equipment by 50%, except for ambulances and other transport vehicles required by public health, security or military forces.

As a supplement to existing economic subsidies for vulnerable sectors of the population in Paraguay (see "The Paraguayan Economy—Poverty and Income Distribution"), the NEL authorized two sets of additional economic subsidies for workers:

(i) a subsidy of 50% of the monthly minimal wage (approximately US$140) for workers earning between one and two monthly minimum wages covered by the Social Welfare Institute ("IPS") mandatory social security system. The subsidy was financed through a grant of US$100 million awarded to IPS by the NEL. Although initially conceived as a one-time subsidy, additional subsidy payments have been approved, benefitting a total of approximately 100,000 recipients for a total payment amount of US$66 million; and

(ii) a subsidy of 25% of the monthly minimum wage (approximately US$70) for self-employed workers who are not covered by IPS' social security system and for informal workers that are not registered to IPS through a program known as "Pytyvó" and administered through the Ministry of Finance. The initial phase of the subsidy program benefitted approximately 1,250,000 recipients as of mid-May 2020 for a total disbursement of US$191 million. The second phase of this subsidy program was implemented in September 2020 benefitting approximately 500,000 recipients for a total disbursement of US$125 million.

Furthermore, the Paraguayan government established an additional one-time subsidy program known as "Ñangarekó," administered by the National Emergency Secretariat ("SEN"), which consists of individual food grants of approximately US$75 to vulnerable sectors of the population. As of the date of this Offering Memorandum, grants of approximately US$23.5 million have been issued under Ñangarekó to over 300,000 recipients.

The NEL suspended the application of the FRL to the fiscal year 2020, including the requirements that (i) the annual fiscal deficit not exceed 1.5% of GDP and (ii) the public sector's annual primary expenditures not exceed the interannual inflation rate plus 4.0%. This suspension of the FRL has been extended to the fiscal year 2021.

The NEL authorized the Ministry of Finance to procure financing in the aggregate amount of US$1.6 billion from (i) multilateral institutions, (ii) sovereign bond issuances, either in the local or the international capital markets or (iii) the Central Bank without charging interest. The proceeds were utilized to cover all healthcare costs and relief measures related to the COVID-19 pandemic, including current expenditures of the Paraguayan state, as a permitted exception to the Law No. 1535/99, which prohibits proceeds from sovereign debt to be allocated to current expenditures. The NEL also postponed several payments to public agencies, such as tax payments and fees to state-owned public utility agencies.

The implementation of measures and actions contemplated in the NEL were accompanied by measures to foster transparency and prevent corruption. To this end, the Office of the Comptroller General of the Republic ("CGR"), in coordination with the National Anti-Corruption Secretariat and the applicable control bodies, established guidelines regarding transparency within the administration to prevent acts of corruption and promote citizen participation in accountability processes. Among other measures, all public agencies of the executive branch

and the President of the Republic shall present periodic reports regarding public spending every 60 days as long as the NEL remains in force. Moreover, a bicameral commission of six senators and six deputies was created initially for the 2020 fiscal year to oversee public spending during the COVID-19 emergency, notwithstanding the role of other public agencies in charge of accountability and overseeing public spending, such as the CGR, the National Anticorruption Agency and the General Audit of the Executive Power. In December 2020, Congress extended the mandate of the bilateral commission until all of the funds assigned in the NEL are lawfully distributed to the intended designees.

Economic Recovery Plan (Plan Ñapu'a Paraguay)

In July 2020, the national government launched the Ñapu'a Paraguay Program (the "Economic Recovery Plan"), an economic recovery package consisting of the economic measures contained in the NEL combined with additional economic measures. Aimed at mitigating the economic downturn due to the COVID-19 pandemic, the Economic Recovery Plan's additional economic measures are focused on stimulating economic growth through (i) public investment in infrastructure projects, (ii) allocating additional resources to existing economic subsidies contained in the NEL, and (iii) fostering credits directed to small and medium-sized enterprises.

With an estimated total budget of US$2.3 billion, the Economic Recovery Plan allocated US$327.6 million to the existing subsidies under the NEL and to social security, US$1,306.3 million to public investment in infrastructure and public housing projects and US$681 million to credit institutions. Due to the increased budgetary allocations to public investment, the MOPC had a record-breaking budgetary execution of US$1,031 million in 2020.

The Economic Recovery Plan has promoted the formalization of jobs and, as a result, employee's access to the social security programs. It has also fostered the creation of new direct and indirect jobs, facilitated access to MIPYMES (*Micro, Small and Medium Enterprises*) and other similar small and middle business aids, sponsored job retraining, facilitated that the middle class gain access to housing and promoted public investment as part of the economic development drive in 2021.

Law No. 6809/21 on Economic Consolidation and Social Containment was approved for an amount of US$365 million, the main objective of which was to ensure resources for programs that were already in force within the 2021 budget. The law focuses on three areas: health, social programs and employment. The law aims to assist those sectors most affected by the COVID-19 pandemic through a series of transitory measures throughout the exemption of basic services (ANDE and the Paraguay Water Services Enterprise (*Empresa de Servicios Sanitarios del Paraguay, S.A.* — "ESSAP")), the creation of a fund for small and medium size enterprises as well as self-employed workers, the assistance to vulnerable families and subsidy payments for suspended formal workers. In addition, the law seeks to continue promoting economic recovery in three areas: (i) ensuring resources for the public health system; (ii) guaranteeing social programs during the COVID-19 pandemic and (iii) supporting workers and companies affected by the COVID-19 pandemic.

Economic Measures by the Central Bank

Through a series of resolutions approved since March 13, 2020, the Central Bank also enacted a variety of measures to complement the NEL and mitigate the economic impact of COVID-19.

The Monetary Policy Committee of the Central Bank ("CPM") gradually reduced the monetary policy interest rate by a total of 325 basis points, from 4.0% to 0.75% annually. In addition to easing monetary policy, the Central Bank simultaneously reduced the interest rates of (i) the 1-day Permanent Liquidity Facility ("FPL") by 200 basis points, from 4.50% to 2.50 %, (ii) the 30-day FPL by 300 basis points, from 6.0% to 3.0%, and (iii) the 60-day FPL by 350 basis points, from 7.0% to 3.5%.

The Central Bank has reduced the legal reserve rate for deposits in national and foreign currency thereby providing financial entities with US$740 million in liquidity. Likewise, the Central Bank implemented a special credit facility to provide liquidity to financial institutions that require it, for a term of up to 12 months, for credit support to economic agents affected by the healthcare crises, especially MSMEs, in an amount up to US$760 million. Together, these two measures amount to approximately 4.0% of GDP. Additional measures taken to

facilitate liquidity include the reduction of the penalty rates for the cancellation of monetary regulation instruments and the reduction of interest rates for the short-term liquidity facilities.

The Central Bank has authorized local banks to disregard defaults in renewing, refinancing or restructuring loans that are not more than 30 days past due as of February 29, 2020, in order to avoid the deterioration of client credit ratings, allowing them to continue to access credit. In addition, the Central Bank has extended the period for the sale of foreclosed assets, which will enable financial entities to carry out foreclosure under more favorable economic conditions and help sustain the value of the assets.

In 2021, a recovery in economic activity and a rise in commodity prices led to an increase in inflation. In order to contain future inflationary pressures and avoid a de-anchoring of expectations, the reference rate was adjusted by 25 basis points in August 2021, 50 basis points in September 2021 and 125 basis points in each of October, November and December 2021. In addition, the penalty rates for the cancellation of monetary regulation instruments returned to pre-pandemic levels since November 2021 and some temporary liquidity facilities, the Special Credit Facility and the Loan Portfolio Repo Operation, were suspended since August 2021.

MERCOSUR and COVID-19

In March 2020, the presidents of the MERCOSUR member states convened to coordinate measures to combat the spread of COVID-19. The leaders acknowledged the need to coordinate at the regional level and reached agreement with respect to sanitary measures, the free movement of cargo, merchandise and supplies, as well as the adoption of economic measures and access to loans with international organizations such as the IDB and the Development Bank of Latin America (*Corporation Andina de Fomento* – "CAF").

In addition, as the pro-tempore president of MERCOSUR, Paraguay initiated procedures within the regional bloc to strengthen research in immunology and infectious diseases, with a particular emphasis on the detection and treatment of COVID-19. This action is part of a larger project that includes a multi-institutional and multi-state network with central actors within MERCOSUR's public health systems. In the case of Paraguay, the project is expected to strengthen the diagnostic capabilities of COVID-19 by the Central Laboratory of the Ministry of Health, which is in charge of the diagnosis of COVID-19 cases in the country.

During the 57th Annual MERCOSUR Presidential Summit held in December 2020, the MERCOSUR member countries approved new budget extensions for the Structural Convergence Fund of MERCOSUR ("FOCEM") aimed at strengthening the diagnostic and tracing capabilities of COVID-19. Within the framework of this project, regional health centers and institutes were able to increase their capacities in the detection of cases of this disease, through the development of PCR kits and serologic tests, as well as the incorporation of new diagnostic tools, which ensure fast and efficient diagnosis of COVID-19.

REPUBLIC OF PARAGUAY

Introduction

Paraguay is located in central South America and, as of 2021, had an estimated population of approximately 7.35 million. The population is distributed unevenly across the country, with over half the population living in urban areas in the eastern portion of the country, and with less than 3.0% of the population residing in regions that account for 61% of the country's land mass.

Paraguay is rich in hydroelectric power capacity, thanks to a wealth of rivers. It is densely forested in parts, and has extensive farmlands.

Although agriculture continues to play a prominent role in the Paraguayan economy and Paraguayan agricultural resources have attracted significant FDI in recent years, the economy is increasingly diversified, and manufacturing is now the country's largest economic sector.

Paraguay fosters FDI and other investments in the country, in agricultural and other sectors. Paraguay's market economy has been characterized in recent years as having one of the highest growth rates in GDP of any country in Latin America.

Because of its predominantly agrarian economy and unevenly distributed population, Paraguay remains a developing country, with a considerable low-income population. Government economic policies have focused on this issue, adopting measures to increase the overall income levels of Paraguay's population through investment in infrastructure, education and health. Such policies are designed to provide a foundation for sustainable economic development and diversification of productive capacity across the country.

Territory and Population

Paraguay is located in central South America bordering Argentina to the south and west, Bolivia to the north and Brazil to the east. Its territory covers an area of approximately 407,000 square kilometers (157,048 square miles). Paraguay's major cities are Asunción, the nation's capital and seat of government, Ciudad del Este, on the Paraguayan-Brazilian border and a major trading city, and Encarnación, an agricultural center on the Paraguayan-Argentine border.

Based on projections contained in the National Population and Housing Census of 1982, 1992, 2002 and 2012, Paraguay's population was 7.35 million in 2021 with 62.9% of the population living in urban areas (7.2% in Asunción as of 2021). From 2017 to 2021, the population grew at an average annual rate of 1.41%. In 2021, the population is expected to increase from 7,252,672 in 2020 to 7,353,038 in 2021, an increase of 1.38% compared to 2020.

Spanish and Guaraní are the official languages of Paraguay.

The following table sets forth comparative per capita GDP figures and other selected comparative statistics.

Comparative Per Capita GDP and Other Statistics

Indicators	Paraguay[1]	Guatemala	Honduras	Bolivia	Colombia	Brazil	Peru	Venezuela	Argentina	United States of America
Per Capita (Nominal) GDP[2] (US$)	12,224	8,494	5,308	8,554	14,257	14,263	12,252	7,045	21,19	63,826
United Nations Index of Human Development (World Ranking)[3]	103	127	132	107	83	84	79	113	46	17
Life Expectancy at *Birth (years)*[4]	74.3	74.3	75.3	71.5	77.3	75.9	76.7	72.1	76.7	78.9
Infant Mortality (per 1,000 *live* births)[5]	17.2	22.1	15.1	21.8	12.2	12.8	11.1	21.4	8.8	5.6
Adult Literacy Rate (%)[6]	94.0	81.3	87.2	92.5	95.1	93.2	94.4	97.1	99.0	n.a.
Population below the poverty line (%)[7]	1.6	8.7	16.5	4.5	4.1	4.4	2.6	n.a	n.a.	n.a.

(1) This data may differ from official Government data.
(2) 2019 data.
(3) 2019 data.
(4) 2019 data.
(5) 2018 data.
(6) Data refer to the most recent year available during 2008 and 2018.
(7) Data refer to the most recent year available during the period 2007 – 2017. The international poverty line is defined as the population living on a daily per capita income of US$1.90 or less, adjusted for purchasing power parity.

Source: United Nations Development Programme, Human Development Report 2020.

As of 2021, approximately 70.5% of the Paraguayan population was under the age of 40.

2021 Population by Gender and Age Group

				Gender	
Age /years	**Total Population**	**Percentage**	**Cumulative Percentage**	**Men**	**Women**
0-4	707,118	9.6	9.6	360,793	346,324
5-9	701,025	9.5	19.2	357,301	343,724
10-14	692,883	9.4	28.6	352,757	340,126
15-19	677,032	9.2	37.8	344,522	332,510
20-24	657,489	8.9	46.7	334,496	322,993
25-29	628,484	8.5	55.3	318,925	309,559
30-34	593,247	8.1	63.3	300,116	293,132
35-39	528,836	7.2	70.5	266,102	262,734
40-44	431,855	5.9	76.4	214,813	217,042
45-49	374,315	5.1	81.5	185,967	188,348
50-54	330,877	4.5	86.0	164,693	166,184
55-59	283,432	3.9	89.8	141,237	142,195
60-64	239,467	3.3	93.1	120,322	119,145
65-69	189,006	2.6	95.7	94,450	94,556
70-74	130,502	1.8	97.5	63,855	66,647
75-79	87,191	1.2	98.6	41,070	46,120
80 and above	100,280	1.4	100.0	40,863	59,417
Total	**7,353,038**			**3,702,281**	**3,650,758**

Source: Bureau of Statistics and Census. Projection of the National Population, Urban and Rural Areas 2000-2025 -Revision 2015.

History, Government and Political Parties

Paraguay declared its independence from Spain in 1811 after almost 300 years of colonial rule. In 1864, Paraguay was involved in a five-year war against Argentina, Brazil and Uruguay (known as the "Triple Alliance"), during which half of Paraguay's population was killed. Brazilian troops occupied the country for a decade, until 1874. A succession of presidents governed Paraguay under the banner of the Colorado Party from 1880 until 1904, when the Liberal Party seized control, ruling until 1940.

From 1932 to 1935, Paraguay was involved in the Chaco war against Bolivia. Paraguay was successful in regaining part of its territory but lost a significant part of its male population. The Chaco War resulted in political instability that led to a *coup d'état* by Colonel Rafael Franco and the subsequent establishment of an authoritarian regime in 1940 by General Higinio Morinigo, who was overthrown in 1948. Another period of political instability ensued from 1948 until 1954, when General Alfredo Stroessner assumed power in a military *coup*. As the Colorado Party presidential candidate, Stroessner was elected president of Paraguay in 1954. President Stroessner remained in power until 1989. During his 34-year presidency, the Colorado Party dominated Paraguayan politics.

During President Stroessner's presidency, significant efforts were made to increase Paraguay's business relations with its neighboring countries. The construction of the Itaipú dam (14,000 megawatt capacity), the largest hydroelectric facility in the world measured by annual electricity generation, was completed in 1986 by Paraguay and Brazil, and Paraguay began construction of the Yacyretá dam (3,200 megawatt capacity), a smaller hydroelectric facility, in cooperation with Argentina. Inflation averaged 33.7% during the 1950s, 3.5% during the 1960s and 13.4% during the 1970s. The Stroessner administration was able to control inflation during the early 1980s, but decreasing demand for Paraguayan exports during the same period led to increasing levels of unemployment. In addition, starting in 1983, inflation increased and remained high through the early 1990s at an average rate of 13.6% from 1990 to 2000. See "The Paraguayan Economy—Principal Sectors of the Economy—Binational Entities (Binationals)—Electricity Production at Itaipú and Yacyretá Hydroelectric Plants" for information on the hydroelectric projects built during the Stroessner presidency.

In 1989, President Stroessner was overthrown in a coup led by General Andrés Rodríguez, who assumed the presidency and was elected president shortly thereafter. His administration pledged to respect human rights, to establish new links with the international community, to improve relations with the Roman Catholic Church, and to relinquish power to a civilian successor in 1993. The Rodríguez administration has been credited with commencing Paraguay's economic liberalization. In 1993, the Colorado Party's presidential candidate, Juan Carlos Wasmosy, was elected president for a five-year term. President Wasmosy consolidated Paraguay's democratic transition, completed a comprehensive reorganization of the military high command and undertook important reforms to the judicial and electoral systems.

Raul Cubas Grau, the Colorado Party candidate, was elected president in May 1998 and took office three months later. This presidential election marked the first transition of power from one civilian president to another in 50 years. During the 1998 congressional elections, the Colorado Party also won a majority of seats in Congress.

Following a seven-month period of political instability during which Vice President Luis Maria Argaña was killed and President Cubas resigned, the president of the Senate, Luis Gonzalez Macchi of the Colorado Party, became the president of Paraguay in March 1999, as mandated by the Constitution, until 2003.

In May 2003, Nicanor Duarte Frutos, a politician from the Colorado Party, was elected and sworn in as president for the five-year constitutional period. During the Duarte Frutos presidency, Paraguay experienced significant macroeconomic growth, and his administration is credited with initiating the path toward fiscal stability and increasing social investments. Towards the end of the Duarte Frutos presidency, after having actively sought the repeal of the constitutional provision limiting a president to one term to seek reelection, Duarte Frutos was heavily criticized by the opposition and accused of seeking to establish an authoritarian regime. These events are credited, in part, with strengthening the opposition to the Colorado Party establishment and leading to the historic election in 2008 of a non-Colorado Party candidate.

In the 2008 general elections, a non-politician and former Roman Catholic Bishop, Fernando Lugo, was elected president and Federico Franco was elected vice president. With the support of the *Alianza Patriótica para el*

Cambio (Patriotic Alliance for Change), a political coalition of opposing parties, including the center-right Liberal Party, the Colorado Party's traditional opposition, Mr. Lugo received approximately 41% of the votes cast, and the Colorado Party candidate received approximately 31% of the votes. This was the first time since 1954 that the Colorado Party had lost a presidential election.

Mr. Lugo's stated key policy objectives were to reduce extreme poverty, especially in rural areas, to strengthen internal security and to achieve a more equitable distribution of land among farmers and peasants. One of the Lugo administration's first initiatives, the Economic and Social Program 2008-2013 (*Plan Estratégico Económico y Social 2008-2013*) ("PEES"), for example, spurred the adoption of several programs aimed at strengthening commercial competitiveness and financial investment in agriculture, manufacturing, exports and telecommunications.

Mr. Lugo was impeached and removed from office in June 2012. In accordance with the Constitution, Vice-President Franco was sworn in as president and served for the remainder of Mr. Lugo's term. As a direct consequence of Mr. Lugo's impeachment and removal, Paraguay's membership in MERCOSUR and UNASUR was suspended. Such membership was re-established after the 2013 presidential elections, which resulted in the election of Horacio Cartes (a candidate for the Colorado Party).

During President Franco's term in office, President Franco implemented several initiatives to consolidate sustainable medium- and long-term economic growth. In 2012, for example, Congress enacted Paraguay's first Personal Income Tax law (*Impuesto a la Renta del Servicio de Carácter Personal*). President Franco also laid the groundwork for the proposal of the Law of Public-Private Partnerships (the "PPP") (*Ley de Alianza Público Privadas* or the "PPP Law") and related planned infrastructure investment to support growing production through long-term financing provided by the Financial Development Agency (*Agencia Financiera de Desarrollo*), Paraguay's government-owned bank.

President Horacio Cartes succeeded President Federico Franco after the 2013 presidential election, in which he received 45.8% of the total votes cast. The primary policy objectives of the Cartes government were (i) the reduction of poverty and increase of social development, (ii) inclusive economic growth, and (iii) continued integration of Paraguay into the world economy. In addition, the Cartes government sought to increase transparency by implementing a system of public payroll information (and eliminated more than one thousand public employment positions). In light of these goals, the Cartes administration focused on generating more opportunities for the population through sustainable economic and social development. Infrastructure works were key to the Cartes administration's economic policy, based on the belief that infrastructure development would allow Paraguay to further integrate itself in the world economy and attract and connect private capital with public infrastructure. The Cartes government also prioritized the fight against corruption, political patronage, and political blackmail.

After taking office in August 2013, President Cartes submitted to Congress for approval the Protocol of Accession of Venezuela to MERCOSUR as a way of evidencing Paraguay's good will to MERCOSUR and to restore Paraguayan relations with other members of the regional bloc. Venezuela's entry into MERCOSUR became effective in December 2013. Paraguay held the pro-tempore presidency of MERCOSUR from July to December 2015, and holds the pro-tempore presidency again for the first half of 2018.

President Mario Abdo Benítez of the Colorado Party succeeded Horacio Cartes, also of the Colorado Party, on August 15, 2018, and will serve a five-year term. Mr. Abdo Benítez won 46.4% of the votes, defeating Efraín Alegre of the Liberal Party, who ran in coalition with the Frente Guasú (FG). In the general elections, the Colorado Party retained control of most governorships and the Chamber of Deputies, but did not achieve a majority in the 45-seat Senate, where it secured 17 seats, compared with the Liberal Party's 13 and the Frente Guasú's 6.

During the first year of Abdo Benítez's presidency, Paraguay experienced the adverse effects of exogenous events such as floods and droughts, which impacted the output of key economic sectors, such as agriculture, livestock, and hydroelectric power production. During the second half of 2018, the economy slowed its growth pace, ending the year with an overall growth of 3.4% in 2018, somewhat below the 4% average achieved in previous years. These exogenous events continued to impact during 2019, which ended with an overall growth of 0.2%.

In mid-2019, Mr. Abdo Benítez and the Paraguayan government faced a political crisis related to Itaipú. For more information see "The Paraguayan Economy—Principal Sectors of the Economy—Binational Entities (Binationals)—Electricity Production at Itaipú and Yacyretá Hydroelectric Plants."

From March 2021 to May 2021, the executive branch of the Paraguayan government was under intense public pressure because of a peak of COVID-19 cases, primarily caused by the Gamma variant. Allegations of corruption in the procurement of medical supplies for COVID-19, the collapse of the Paraguayan health infrastructure during the peak as well as the shortage of vaccines and medical supplies against COVID-19 led to this crisis. Protests erupted throughout the country, forcing the resignation of the Health Minister Julio Mazzoleni. Further, in March 2021, both President Abdo Benítez and Vice President Hugo Velázquez faced another impeachment trial. The Chamber of Deputies rejected the two requests for impeachments in a vote that resulted in 42 votes against the impeachments and 36 votes in favor.

Constitution

The fundamental law of the Republic of Paraguay is the national constitution (the "Constitution"), which was ratified by a National Constitutional Convention in 1992. Pursuant to the Constitution, Paraguay is a representative democracy that embraces separation of powers. The government has three branches: legislative, executive and judiciary. The Constitution grants the president, as head of the executive branch, and Congress emergency powers to declare a state of exception (suspending the Constitution) in times of war or unrest.

Any amendments to the Constitution relating to the election, composition, term in office or powers of any of the three branches of government and fundamental rights must be introduced pursuant to a request by 25% of the members of either the Senate or the Chamber of Deputies, by the president or by a petition signed by 30,000 voters. The amendment initiative must then be approved by a two-thirds majority of each of the two chambers. If approved, the Supreme Electoral Court must call general elections for a National Constituent Assembly and the amended Constitution becomes effective upon approval by the National Constituent Assembly.

Executive. The president is the head of the executive branch and commander-in-chief of both the armed forces and the police. The president and vice president are elected jointly and directly by the people for a five-year term; neither can be re-elected. The vice president assumes all presidential powers in case of disability or temporary absence of the president, or the permanent vacancy of the presidential office. The vice president is eligible to become president in forthcoming general elections if the vice president resigns from office six months prior to the general election.

Congress. The legislative branch, or Congress, is comprised of two chambers, namely, the Senate (45 members) and the Chamber of Deputies (80 members), and is responsible for enacting all national laws, including the annual General Budget of the Nation, through which any new sovereign debt must be approved. Members of Congress are elected by direct popular vote in each of Paraguay's 17 departments (states) for five-year terms that coincide with the president's five-year term. General elections for the Paraguayan Parliament were held on April 22, 2018. The Colorado Party led the April elections in both Chambers of the Paraguayan Parliament, taking 17 seats in the Chamber of Senators and 42 seats in the Chamber of Deputies. The Liberal Party took 13 seats in the Chamber of Senators and 29 seats in the Chamber of Deputies.

The following table sets forth the representation of each major political party in the Paraguayan Congress as of December 31, 2021.

Congressional Representation by Parties

Party	Senate		Chamber of Deputies	
	Seats	**%**	**Seats**	**%**
Colorado Party (*Asociación Nacional Republicana*)	17	37.8	43	53.75
Liberal Party (*Partido Liberal Radical Auténtico*)	14	31.1	29	36.25
Concertación Nacional Frente Guazú *(FG)*	7	15.6	0	0.0
Democratic Progressive Party *(PDP)*	2	4.4	0	0.0
PPH (*Partido Hagamos*)	2	4.4	2	2.5
PPQ (*Partido Patria Querida*)	3	6.7	3	3.75
National Crusade *(Cruzada Nacional)*	0	0.0	0	0
National Encounter Party *(PEN)*	0	0.0	2	2.5
Independent seat *(Bancada Independiente)*	0	0.0	1	1.25
Total	**45**	**100.0%**	**80**	**100.0%**

Source: Congress of Paraguay.

***Judiciary*.** The judiciary includes a Supreme Court of nine Supreme Court Justices, who are appointed by the president and the Senate for renewable five-year terms. If elected for two consecutive terms, Supreme Court Justices cannot be removed until they reach retirement age, at 75 years. The Supreme Court controls its own budget and heads a system of lower courts and magistrates.

Political and Administrative Structure

Paraguay's political and administrative structure is divided into 17 departments and 254 municipalities, each of which is accorded political, administrative and normative autonomy in their respective jurisdiction and autonomy in the collection and investment of their respective resources, within constitutional limitations.

The city of Asunción is the capital and the seat of all three branches of government. It is a municipality independent from the other 17 departments that constitute the Republic of Paraguay.

The departments of Presidente Hayes, Boquerón and Alto Paraguay are situated in the large western region of the country, covering 61% of the national territory. The remaining departments, which are the most heavily populated, are in the eastern region.

Pursuant to the Constitution, each department has a governor, who exercises executive authority in the department, and a departmental assembly with local legislative authority. Both the governor and members of the departmental assembly are elected by direct popular vote by voters in each department in departmental elections that coincide with general presidential and congressional elections.

Municipalities are local government entities with juridical personality. They have political, administrative and normative autonomy, as well as autonomy in the collection and investment of their respective resources. The municipal government is headed by a mayor and a municipal assembly, and is elected by direct vote. Municipal elections are held independently and do not coincide with the nation's general presidential and congressional elections. The 2020 municipal elections were postponed due to the COVID-19 pandemic and were rescheduled for October 10, 2021, resulting in one-year extensions to the terms of existing elected municipal officials.

Municipal elections took place on October 10, 2021 to elect Mayors and municipal assemblies in all districts of the country. The ruling Partido Colorado obtained the most favorable results in the election, winning 160 of the 261 municipalities being contested. The elected authorities will serve for a four-year term until 2025.

Foreign Policy and Membership in International and Regional Organizations

Paraguay is part of strategic international organizations at the regional and multilateral level, as well as various agencies, programs, funds, specialized organizations and a number of consultation forums. Paraguayan foreign policy has concentrated on maintaining good relations with its neighbors, and Paraguay has been an active proponent of regional cooperation. Paraguay is a founding member of the United Nations and actively participates in many of its specialized agencies. Paraguay is a member of the OAS and the World Trade Organization (the "WTO"). It is also a member of the IMF, the World Bank, the Multilateral Investment Guarantee Agency of the World Bank Group (the "MIGA"), the International Finance Corporation, the IDB and the CAF. Other memberships include the Latin American Integration Institute, the International Atomic Energy Agency and the International Telecommunications Union. For more information on our foreign relations, see "Republic of Paraguay—History, Government and Political Parties."

Paraguay maintains close ties with its neighboring countries and participates in several regional arrangements designed to promote cooperation in trade and investment, the Community of Latin American and Caribbean States (the "CELAC"), which is the successor of the Río Group, and the Latin American and Caribbean Summit on Integration and Development (the "CALC"), an organization composed of Latin American and Caribbean countries with the purpose of promoting political, economic and social integration.

On April 11, 2019, Paraguay gave the depositary of the UNASUR Treaty notice of its decision to withdraw from UNASUR. As of October 11, 2019, Paraguay discontinued its membership of UNASUR.

In 1991, Argentina, Brazil, Paraguay and Uruguay signed the Treaty of Asunción, which resulted in the creation of MERCOSUR. MERCOSUR provides for the gradual integration of the four members' economies, gradual economic convergence and macroeconomic policy coordination. Paraguay, as a member state of MERCOSUR, has also signed trade agreements with countries of the Pacific Alliance, including the Economic Complementation Agreement (the "ECA") No. 35 with Chile in 1996, the ECA No. 36 with Bolivia in 1996, the ECA No. 54 with Mexico in 2002, and the ECA No. 58 with Peru in 2005 and the ECA No. 74 with Colombia in 2017.

Paraguay has also entered into bilateral investment treaties (each, a "BIT") with Argentina, Austria, Belgium, Bolivia, Brazil, Chile, Costa Rica, the Czech Republic, Ecuador, El Salvador, France, Germany, the Republic of Korea, the Netherlands, Peru, Portugal, Romania, South Africa, Switzerland, the UK, Spain, Hungary, Venezuela and in January 2017, with the United Arab Emirates. The Intra-MERCOSUR Investment Corporation and Facilitation Protocol was signed in April 2017, which is not yet in force.

In March 2016, Paraguay became the second South American state to ratify the WTO's Trade Facilitation Agreement, which contains provisions for expediting the movement, release and clearance of goods and delineates measures for the effective cooperation between the countries' customs officers and other relevant authorities on trade facilitation and customs compliance. As a result, the National Committee for Trade Facilitation was created in April 2017 for the purpose of developing a national strategic agenda based on the coordination of the implementation of trade facilitation measures, in accordance with a dialogue between the public administration and the private sector.

Paraguay's fourth Trade Policy Review took place in 2017. These reviews assess the WTO member's applied trade policies and practices, and the impact of these policies and practices on the functioning of the multilateral trade system. The frequency of this review depends on the corresponding country's level of participation in world trade. Paraguay undergoes such evaluation every five years. In connection therewith, Paraguay has presented its Government Report, which discusses aspects of the country's economic and commercial environment, its main economic reforms, multilateral, regional and bilateral trade negotiations, and regulatory framework on its NDP, the tariff profile, agriculture and livestock, trade in services, trade and the environment, the national energy policy, intellectual property, public contracting, defense of competition, electronic commerce, business environment, development of infrastructure and public works, stock market, support for small and medium enterprises, women and commerce.

In 2016, Paraguay joined Development Center of the Organization for Economic Co-operation and Development's ("OECD") Global Forum on Transparency and Exchange of Information for Tax Purposes, a group that works to address the risks to tax compliance posed by non-cooperative jurisdictions, and committed to adhering to OECD's new Base Erosion and Profit Shifting (BEPS) framework, consisting of the gradual adoption of fiscal reforms designed to mitigate erosion of the tax base by companies who strategically avoid taxes by shifting profits to low or no-tax locations. In January 2017, Paraguay joined as a member of the OECD, an intergovernmental economic organization with 35 member countries, founded in 1960 to stimulate economic progress and world trade. In 2018, Paraguay signed the Convention on Mutual Administrative Assistance in Tax Matters, becoming the 119th jurisdiction to sign onto. The Convention on Mutual Administrative Assistance in Tax Matters facilitates international co-operation for a better operation of national tax laws and provides for all possible forms of administrative co-operation between states in the assessment and collection of taxes, in particular with a view to combating tax avoidance and tax evasion. This co-operation ranges from exchange of information, including automatic exchanges, to the recovery of foreign tax claims.

In January 4, 2019, the Government of Paraguay, together with twelve other states, adopted the Lima Group declaration, by which the new presidential mandate of Mr. Nicolás Maduro was not recognized. Based on the foregoing, the Government of the Republic of Paraguay adopted the decision to sever diplomatic relations with the Venezuela and such diplomatic relations have not been reestablished.

Developments in the Agricultural Sector

Agricultural production in Paraguay features a sector of well-capitalized, efficient producers and another sector with a larger number of farmers with smaller plots, composed of subsistence-level individual farmers. Well-capitalized producers tend to focus on the production of grains and meat, which have large, well-developed markets for domestic sale and export. By contrast, individual farmers typically produce only enough to provide for the very basic needs of their families or, in some cases, to sell small amounts of surplus production in a local market. Although concentration of land ownership is in part historically responsible for this bifurcation of the agricultural sector, education and access to capital and technology have been more significant contributors. The lack of opportunity in the small famers sector of the agricultural economy has led to emigration from rural areas in Paraguay to urban areas within Paraguay and to other countries. The ability of urban areas within Paraguay to absorb such inflows of population depends on growth of employment in relatively unskilled industrial labor sectors. Agricultural reforms focused on clarifying title to land and other policy initiatives may make it possible for some individual farmers to develop sustainable agricultural businesses that produce for markets outside the immediate vicinity of their farms.

The central government is aware of the importance of developing other opportunities for participants in the subsistence-level subsector of the agricultural economy. Lack of opportunity for many living in rural areas has led to conflicts, some of them violent. President Lugo's initiatives to address such inequalities in the agricultural sector failed, and outbreaks of violence in the sector in certain regions of Paraguay led to the events that ultimately resulted in his impeachment and removal from office in June 2012.

THE PARAGUAYAN ECONOMY

History and Background

Until the Spanish established Asunción in 1537, economic activity in Paraguay was limited to the subsistence agriculture of the Guaraní Indians. The Spanish, however, found little economic interest in their colony, which had no precious metals and no sea coasts. The typical feudal Spanish economic system did not dominate colonial Paraguay. Economic relations were distinguished by the *reducciones* (reductions or townships) that were established by Jesuit missionaries from the early seventeenth century until the 1760s. The inclusion of the native population in these Jesuit agricultural communes laid the foundation for an agriculture-based economy that survived into the late twentieth century.

Three years after Paraguay overthrew Spanish authority and gained its independence in 1811, the country's economy was controlled by the autarchic policies of José Gaspar Rodríguez de Francia (1814-40), who closed Paraguay's borders to virtually all international trade. Landlocked, isolated, and underpopulated, Paraguay structured its economy around a centrally administered agricultural sector, extensive cattle grazing, and inefficient shipbuilding and textile industries.

After the demise of Rodríguez de Francia, government policies focused on expanding international trade and stimulating economic development. The government built several roads and authorized British construction of a railroad. The Triple Alliance War (1864-70) with Argentina, Brazil and Uruguay fundamentally changed the Paraguayan economy. Economic resources were employed in and consumed by the war effort. Paraguay was occupied by its enemies in 1870, the countryside was in virtual ruin, the labor force was decimated, peasants migrated to Asunción from the east and south of the country, and the modernization of the preceding three decades was undone.

The late 1800s and the early 1900s saw a slow rebuilding of ports, roads, the railroad, farms, cattle stock, and the labor force. The country was slowly being repopulated by former Brazilian soldiers who had fought in the Triple Alliance War, and Paraguay's government encouraged European immigration. Although few in number, British, German, Italian, and Spanish immigrants helped modernize the country. Argentine, Brazilian, and British companies in the late 1800s purchased some of Paraguay's best land and started the first large-scale production of agricultural goods for export. One Argentine company, whose owner had purchased 15% of the immense Chaco region, processed massive quantities of tannin, which were extracted from the bark of the Chaco region's ubiquitous quebracho (break-axe) hardwood. Large quantities of the extract were used by the region's thriving hide industry. Another focus of large-scale agro-processing was the yerba mate bush, whose leaves produced the potent tea that is the national beverage. Tobacco farming also flourished.

The period of steady economic recovery came to an abrupt halt in 1932 as the country entered another devastating war with Bolivia over possession of the Chaco region. The war ended in 1935 after extensive human losses on both sides, and war veterans led the push for general social reform. During the 1930s and 1940s, the state passed labor laws, implemented agrarian reform, and assumed a role in modernization. Reformist policies, however, did not enjoy a consensus, and by 1947 the country had entered into a civil war, which in turn initiated a period of economic chaos that lasted until the mid-1950s.

After centuries of isolation, two devastating regional wars, and a civil war, in 1954, Paraguay entered a period of prolonged economic stability under the authoritarian rule of Alfredo Stroessner. Stroessner's economic policies took a middle course between social reform, *desarrollismo*, and laissez-faire. Relative to previous governments, Stroessner took a fairly active role in the economy but reserved productive activities for the local and foreign private sectors.

By the 1960s, the economy was on a path of modest but steady economic growth. As part of the United States-sponsored Alliance for Progress, the government was encouraged to expand its planning apparatus for economic development. With assistance from the OAS, the IDB, and the United Nations Economic Commission for Latin America, in 1962 Paraguay established the Technical Planning Secretariat (*Secretaría Técnica de Planificación* - "STP"), the major economic planning arm of the government. By 1965, the country had its first National Economic Plan, a two-year plan for 1965-66. This was followed by another two-year plan (1967-68) and

then a series of five-year plans. Compared with most Latin American countries, nevertheless, Paraguay retained a small public sector. Free enterprise dominated the economy, export promotion was favored over import substitution, agriculture continued to dominate industry, and the economy remained generally open to international trade and market mechanisms.

During the 1970s, Paraguay's real GDP grew at over 8% a year and exceeded 10% from 1976 to 1981—a faster growth rate than in any other economy in Latin America. Four coinciding developments accounted for Paraguay's rapid growth in the 1970s. The first was the completion of the road from Asunción to Puerto Presidente Stroessner (currently known as Ciudad del Este) and to Brazilian seaports on the Atlantic, ending traditional dependence on access through Argentina. The second was the signing of the Treaty of Itaipú with Brazil in 1973. The third event was land colonization, which resulted from the availability of land, the existence of economic opportunity, the increased price of crops, and the newly gained accessibility of the eastern border region. Finally, the significant increase in the price of soybeans and cotton led farmers to quadruple the number of hectares planted with these two crops. As the 1970s progressed, soybeans and cotton came to dominate the country's employment, production and exports.

The Paraguayan government's emphasis on industrial activity increased noticeably in the 1970s. Law No. 550, also referred to as Law No. 550/75 or the Investment Promotion Law for Social and Economic Development, opened Paraguay's doors further to foreign investors by providing income-tax breaks, duty-free capital imports, and additional incentives for companies that invested in priority areas, especially in the Chaco region. Law No. 550 was successful. FDI by U.S., European, and Japanese companies increased significantly during the 1970s. Industrial policies also encouraged the establishment of state-owned enterprises, including ones involved in producing liquor from sugar cane (aguardiente), cement and steel.

In the beginning of the 1980s, the completion of the most important parts of the Itaipú project and the drop in commodity prices ended Paraguay's rapid economic growth. Paraguay's economic performance was also set back by world recession, poor weather conditions, and growing political and economic instability in Brazil and Argentina.

The 1995-2003 Period

Paraguay's financial system experienced five financial crises during the 1995-2003 period.

By 1989, with the change in government, Paraguay embarked on a process of financial liberalization, which continued through the mid-1990s. The authorities introduced a unified, managed floating exchange rate regime, liberalized interest rates, reduced reserve requirements and freed public sector deposits from the Central Bank to the banking system. Banking regulations did not establish sufficiently robust prudential norms for asset classification and did not require arm's length lending. The required provisions did not reflect the true risks of banks' assets. In addition, lax licensing requirements and low required capitalization permitted a proliferation of new financial institutions. The 1995 crisis was the by-product of a rapid financial liberalization without adequate safeguards in terms of sound prudential regulations and enforcement.

The 1995 crisis was triggered when two large banks failed to meet their clearing obligations. An inadequate official response to the 1995 crisis was mainly responsible for the 1997 crisis. Lack of regulatory capacity and generous *de facto* deposit guarantees allowed financial institutions to pay insufficient attention to risk. In 1998, the failure of the fourth largest bank, which held approximately 6% of total deposits and whose liquidity dried up while depending increasingly on public sector deposits, had adverse consequences for the Paraguayan financial system as a whole.

The 1995 crisis resulted in the adoption of new banking regulation, intended to overhaul the country's financial system. Law No. 489 and Law No. 861, which were adopted in 1995 and 1996, respectively, continue to be in force with a few minor amendments. These statutes, which were fully implemented by 1999, aimed at increasing supervision powers of the Central Bank and strengthening the stability of the banking sector by improving internal banking procedures and enforcing minimum capitalization ratios, limitations on related party transactions, risk-weighted asset rules and risk control management.

In 2002, further to the effects of the economic downturn, the volatility in South America following Argentina's default, the freeze of deposits and adoption of exchange controls in Argentina led to a run on a Paraguayan subsidiary of an Argentine bank, which held approximately 11% of total deposits in the Paraguayan financial system. This led to a loss of confidence in the banking system as a whole and resulted in a run on several banks, which in combination with the depreciation of the Guaraní against major currencies, resulted in a system-wide financial crisis. Finally, in 2003, the Paraguayan monetary authorities were confronted with an isolated case of fraud in a medium-sized, locally owned bank that did not have systemic repercussions. The Superintendence of Banks responded more appropriately and timely to the 2002 and 2003 crises by closing the failing banks, with a cost to the public sector equivalent to approximately 1% of GDP.

Economic performance stabilized in 2003, albeit at a lower level of GDP growth, as a result of improved performance of the agricultural sector and improved regional conditions. However, there were significant difficulties in financing the fiscal deficit and problems with the government's fiscal position so that there were continued delays in the fulfillment of fixed costs, including wages, pensions and debt service, which together represented more than 90% of total spending.

In 2003, Paraguay enacted Law No. 2334/03 ("*Ley de Garantía de Depósitos*") to provide additional protection to depositors and establish a new liquidation procedure for insolvent entities. The main purpose of this law was to give additional certainty to depositors by preserving public confidence, maintaining stability of the banking sector and providing incentives to encourage the banking sector's discipline.

Economic Recovery Structural Adjustment Loan

In 2002, Paraguay experienced an economic crisis as a result of a combination of factors, including the negative impact of adverse weather conditions on crop production, an FMD outbreak that negatively affected exports from the livestock sector and a decline in the construction sector, all of which collectively adversely affected the Paraguayan economy. In addition, in the same year, Paraguay's largest commercial bank, Banco Alemán Paraguayo S.A., which was a subsidiary of an Argentine bank, was forced into liquidation after the controlling shareholder became subject to the deposit freeze and exchange control measures adopted by the Argentine government upon abandoning 10 years of foreign exchange parity with the U.S. dollar. Paraguay was unsuccessful in negotiating a stand-by credit facility and, in 2003, the government defaulted in the payment of US$210 million worth of debt, of which 65.7% was debt owed to local banks and government suppliers. Thereafter, the government through a law enacted by Congress restructured all of the defaulted debt by exchanging the old bonds for new bonds.

In 2003, Paraguay entered into a stand-by facility with the IMF for special drawing rights equivalent to US$73 million. The economic agreement signed with the IMF included a series of targets that the country agreed to meet during 2004. The US$73 million facility granted by the IMF to strengthen monetary reserves in case of an emergency was not drawn. In addition, Paraguay received an economic recovery credit-line facility from the World Bank for US$30 million, which allowed Paraguay to resume servicing its debt by the end of the first half of 2004. An additional US$30 million credit-line facility was granted to Paraguay by the IDB, of which US$20 million was disbursed to Paraguay. In 2005, Paraguay gave up its right to the remaining US$10 million disbursement.

The average annual real GDP growth from 1992 to 2002 in Paraguay was approximately 1.8%, well below the average growth rates of 8.9% and 4.2% during the 1970s and 1980s, respectively. This decline in the average real GDP growth for the period was mainly the result of an economic slowdown that affected the Paraguayan economy in 1999-2002, including declines of 2.3% in 2000, 0.8% in 2001 and 0.02% in 2002. A significant economic recovery driven by agriculture, construction and trade sectors began in 2003.

Current Economic Policy

COVID-19

Paraguay's economy was in 2020 and 2021, and continues to be in 2022, adversely affected by the COVID-19 pandemic. For more information regarding the economic impact of COVID-19, the measures taken to combat the spread thereof, as well as measures taken to mitigate the adverse economic impact of the pandemic, see "COVID-19

and Paraguay—Overview of the Economic Impact of COVID-19," "COVID-19 and Paraguay—Paraguay's Actions to Combat the Spread of COVID-19 and Mitigate its Impact" and "COVID-19 and Paraguay—Paraguayan Actions to Mitigate Economic Effects of COVID-19."

Overview

Paraguay's macroeconomic performance was robust between 2003 and 2018 (average annual rate of real GDP growth for the 2003-2018 period was 4.4%), but the economy contracted slightly in 2019, and further contracted in 2020 primarily due to the effects of the COVID-19 pandemic. In 2021, the Paraguayan economy experienced real GDP growth of 5.0%. Over most of the past 18 years, in addition to improving per-capita income, Paraguay's economy has shown improvements in productive capacity and diversification of markets. The Central Bank's policies reduced inflation to an average of 3.9% during the 2017-2021 period, while maintaining exchange rate flexibility. Inflation fell in 2019 and 2020, to 2.8% and 2.2%, respectively, and increased by 6.8% in 2021 as a result of an increase in food and energy prices. Structural reforms have been advanced in several areas, including financial supervision, budget management and the tax system. During the 2017-2021 period, real GDP grew annually by an average of 2.4%, although real GDP contracted by 0.4% in 2019 and by 0.8% in 2020.

The real GDP contraction in 2019 was the result of a multiple factors, including adverse weather conditions (drought and floods) which directly impacted agricultural production, electricity generation, livestock and construction, as well as a reduction in commodity prices and the deterioration of the external and regional economic environment.

The real GDP contraction in 2020 was mainly a result of the restrictive measures implemented by the national government in an effort to contain the spread of the COVID-19 virus, that negatively impacted the services sector (namely transportation, restaurants and hotels, business services and household services), the manufacturing sector (particularly the textiles and clothing, paper and paper products, timber, machinery and equipment, leather, oil products, beverages and tobacco and metal products subsectors) and the commerce sector (particularly the sale of durable goods, such as vehicles and home equipment and semi-durable goods, such as clothing, and fuel), while the decreased river water flow caused by droughts and a lower demand of energy from Brazil explained the falls in the electricity generation subsector.

Real GDP growth in 2021 was mainly sustained by the recovery of the services sector. Progress made in the process of immunization of Paraguay's population against COVID-19 and the easing of restrictive mobility measures implemented by the national government beginning in 2021 boosted the demand for certain services that were heavily impacted by the COVID-19 pandemic in 2020. In the secondary sector, the expansion was mainly explained by the performance of the manufacturing and construction sectors, which was partially offset by a contraction in the electricity and water sectors. The primary sector registered a drop due to lower agricultural production while the livestock sector continued its upward trend.

Total international reserves increased by US$1.8 billion between December 31, 2017 and December 31, 2021. In 2018 and 2019, international reserves registered a decrease compared to previous years as a result of current account deficits, a result that was reversed in 2020. As of December 31, 2021, total international reserves amounted to US$9.95 billion, an increase of US$456.5 million compared to December 31, 2020.

An important component of Paraguay's economic policies is the FRL, which was enacted into law in October 2013. The FRL aims to promote fiscal discipline by containing current spending and setting limits on fiscal deficits. The FRL governs the preparation and approval of budgets, but not their execution. In order to achieve the fiscal discipline goals, the FRL establishes a ceiling of 1.5% of GDP (or 1.0% average over a three-year period) on the government's fiscal deficit, limits any increase in annual expenditures to 4.0% in real terms and provides that wage increases in the public sector must be in line with increases in the minimum wage. Following the passage of the FRL, the government has taken steps to reduce non-discretionary expenses related to the public sector payroll by controlling salary expenditures, a hiring freeze and the reallocation of existing resources within the public sector to improve performance and productivity.

The limitations set by the FRL on the government's fiscal deficits were suspended for 2020 and 2021, including the requirements that (i) the annual fiscal deficit not exceed 1.5% of GDP and (ii) the public sector's

annual primary expenditures not exceed the inter-annual inflation rate plus 4.0%. Additionally, the executive branch has presented the Proposed New FRL to Congress which aims to repeal and replace the existing FRL. See "—COVID-19 and Paraguay—Paraguayan Actions to Mitigate Economic Effects of COVID-19–National Emergency Law" and "The Paraguayan Economy—Current Economic Policy—Proposed New Fiscal Responsibility Law" for more information.

Access to the international capital markets by the public sector as well as by the private sector is viewed as a priority and has been key to the generation of the resources needed to enhance the physical and social infrastructure required to develop Paraguay's economy on a sustainable basis. The government's financing strategy, which includes accessing the international capital markets, has created greater visibility for Paraguay's economy and allowed private sector issuers to equally access the market as source of funding for the infrastructure projects to which they are being invited to participate under the public-private partnership initiatives.

The basis for sustained growth has been a combination of prudent fiscal and monetary policies. Paraguay has followed a fiscal policy aimed at strengthening institutional and fiscal transparency, within a framework of sustainable public finances, with a low fiscal deficit compliant with the FRL, while also implementing a monetary policy which has resulted in stable inflation, in line with the objective of maintaining inflation at or below 4% and maintaining the stability of the local financial system. The restrictive measures implemented by the national government to contain the spread of the COVID-19 virus negatively impacted economic activity, particularly in the commercial and services sector, and consequently resulted in decreased tax collection during 2020. For 2021, tax revenues are expected to increase by 15.0% compared to a 3.6% nominal decrease in 2020. The collection of internal taxes by the Taxation Secretariat (SET) is estimated to increase by 11.0% in 2021, due to the economic recovery resulting from the easing of the restrictive measures previously put in place by the government to address the COVID-19 pandemic. Additionally, because of an increase in imports of goods and services compared to 2020, it is estimated that the revenue collection by the National Customs Directorate (DNA) on account of import duties will increase by 21.4% in 2021, compared to an 8.6% decrease in 2020. Tax revenues are estimated to represent 9.6% of GDP in 2021, a 0.1% increase from 9.5% of GDP in 2020.

As of November 2021, the fiscal deficit of the central administration totaled G. 5,623.2 billion, which represents 2.1% of GDP, with an operating surplus of G. 789.7 billion, which represents 0.3% of GDP. Tax revenues increased by 18.5% when compared to the same period in 2020, mainly due to the economic recovery resulting from the easing of the restrictive measures previously put in place by the government to address the COVID-19 pandemic. As of the date of this Offering Memorandum, the Republic estimates that the fiscal deficit of the central administration as of December 31, 2021 represented 3.6% of GDP.

Liability Management Law

In November 2020, Congress enacted Law No. 6638/20 (the "Liability Management Law"). The Liability Management Law expressly grants the executive branch and the Ministry of Finance broad powers to, among others: (i) conduct liability management operations with bonds issued by the Republic without requiring additional authorizations by Congress; (ii) modify maturity dates of bonds issued by the Republic in accordance with the terms of the relevant indentures; (iii) issue bonds on par, below par or above par, according to market conditions; (iv) conduct any operation accepted in international market practice in connection with liability management operations, including debt restructuring, interest swaps and currency swaps; and (v) modify budgetary line items related to liability management operations without congressional approval. However, the Liability Management Law limits the amounts of bonds that may be subject to liability management transactions in a single fiscal year to 40% of the aggregate face value of all outstanding bonds issued by the Republic.

In addition to governing specific matters related to liability management operations, the Liability Management Law includes complementary provisions that govern general matters applicable to all bond issuances by the Republic, including: (i) granting tax exemption over capital gains, increases, interests and any income derived from the possession or transfer of public debt securities issued by Paraguay and (ii) granting powers to the executive branch and to the Ministry of Finance to submit to foreign law and foreign jurisdictions as well as to waive sovereign immunity.

Modernization and Simplification Act of the National Tax System

In September 2019, Congress enacted legislation reforming the national tax system (the "Modernization and Simplification of the National Tax System Law"), aimed at improving the current tax system by making it simpler, more efficient, equitable and competitive. The Modernization and Simplification of the National Tax System Law reflects certain principles that prevail in modern tax systems, aimed at reducing tax avoidance and tax evasion.

Through the new Modernization and Simplification of the National Tax System Law, the government seeks to raise revenue with an emphasis on fairness and direct taxation, implementing a more progressive tax system in which the tax rate increases as the taxable amount increases. In addition, the Modernization and Simplification of the National Tax System Law intends to improve fairness while maintaining market competitiveness, supporting micro and small businesses, and strengthening middle-income families.

The reform of the tax system is part of a broader reform strategy that consists of an overall fiscal reform designed to promote development, which emphasizes on human capital as well as education, health and infrastructure. In addition to the commitment to maintaining fiscal balance in a medium-term sustainability framework as well as improving the quality of spending and tax equality, the government has formed two public-private commissions (the "PPC"). The first PPC, the Public-Private Inter-institutional Commission for the Analysis of Public Expenditure, was created to analyze and propose measures designed to improve the efficiency of spending and generate tax savings, with a focus on public procurement, budgets, salary policy and social protection. The second PPC, the Technical Tax Economic Commission, was largely responsible for drafting the Modernization and Simplification of the National Tax System Law.

The Organization for Economic Cooperation and Development (OECD) has developed 15 actions, or standards in the context of the OECD/G20 BEPS Project, for governments with domestic and international rules and instruments to address tax avoidance, providing that profits are taxed where economic activities generating the profits are performed and where value is created. The convergence agenda to adhere to such standards poses significant challenges to Paraguay's national tax system. Likewise, there are challenges related to the adoption of the recommendations of the Pan-American Health Organization and World Health Organization, which recommend taxing, to the extent possible, products that generate negative externalities on public health or the environment with a tax rate determined taking into account the damages caused and the expenses produced by such externalities, in order to discourage its use or consumption. Paraguay is confronting these challenges through the implementation of the Modernization and Simplification of the National Tax System Law and increasing the maximum tax rate for all goods subject to excise taxes.

The Modernization and Simplification of the National Tax System Law became effective in January 2020 and is expected to increase tax revenue by 0.7% of GDP (approximately US$300 million) upon full implementation by 2024. The expected increase in revenues will be applied to fund public expenditure in education, public health, infrastructure and social protection.

Proposed New Fiscal Responsibility Law

On December 3, 2020, the executive branch submitted the Proposed New FRL to Congress to repeal and replace the existing FRL, with the aim of limiting the levels of public debt and further restricting the growth of current expenditures. The Proposed New FRL seeks to ensure the stability, sustainability, and predictability of public finances in the medium term, and to promote fiscal results that do not negatively impact macroeconomic stability. As of the date of this Offering Memorandum, the Proposed New FRL was pending Congressional approval.

The principal modifications contained in the Proposed New FRL are:

- Establishment of a public debt cap of 40% of the GDP;
- Maintenance of a yearly fiscal deficit ceiling of 1.5% of GDP to the extent that total public debt is below 36% of GDP, with a reduction of the yearly fiscal debt ceiling to 1.0% if total debt is equal to or higher than 36% of GDP;

- Limiting the annual increase in primary current expenditure of the central administration and public sector to the inter-annual inflation rate plus 2.0%;

- Limiting primary current expenditures from January to July to 60% of the budget in election years, excluding expenses allocated to national election authorities;

- Creation of a special fund, principally funded with future budget surpluses and net profits from the fund's own investments, aimed at financing public investment projects and fiscal deficits, thus contributing to the Republic's economic stability; and

- Formation of a fiscal advisory council, with the participation of independent economic experts, to provide greater transparency in the management of public finances.

The Proposed New FRL provides for exceptions if (i) Congress declares a national emergency or (ii) economic growth falls below 75% of the average GDP of the previous ten years. In such cases, the following exceptions and/or restrictions apply:

- Permission for public debt to exceed 40% of the GDP;

- Permission for the fiscal deficit to be increased to a maximum of 3.0% of GDP, provided that the government commits to converge the fiscal deficit back to 1.5% of GDP within the following three consecutive years;

- Requirement that during such convergence period, wage increases in the public sectors must be proportionally inferior to any increase in the minimum wage; and

- Prohibition on the allocation of funds obtained through public debt to current expenditures.

Finally, as a result of the increase in public debt incurred by the Republic as a response to the COVID-19 pandemic, it is estimated that the 2020 fiscal deficit will reach 6.2%. Due to this increase in the fiscal deficit, the Proposed New FRL contains transitory measures which aim to control public spending for the four years following its enactment. During those four years, the following exceptions and/or restrictions apply:

- fiscal deficit may exceed 1.5% of the GDP, provided that it converge back to 1.5% of GDP within a maximum period of four consecutive years;

- primary current expenditures of the public sector may not increase; and

- wage increases in the public sector must be proportionally lower to any increase in the minimum wage.

The Proposed New FRL is expected to contain the government's current expenses and achieve debt sustainability. Further, in the medium-term, the government expects to receive additional tax revenues given enactment of the Modernization and Simplification of the National Tax System Law, facilitating the convergence of the deficit back to 1.5% of GDP.

Environmental Concerns and Remedial Efforts

Paraguay has a strong commitment to Environmental, Social and Governance ("ESG") concerns with ongoing initiatives ranging from a focus on the de-carbonization of the energy sector, the development of a green financing strategy to the pursuit of a government environmental policy that seeks to further develop ESG goals. In addition, Paraguay is the only country in the world with 100% clean and renewable energy generation implementation, having implemented several action plans through its National Climate Change Office. Paraguay's agenda for 2022 includes (i) ESG labelling in the national budget, (ii) developing a fiscal policy with programs

directed towards climate change, (iii) establishing a roadmap for green financing that defines the priorities for green financing facilities and assesses their social and economic effectiveness and (iv) collaboration with the World Bank's evaluation on Paraguay's strategies to assess their impact and opportunities on climate change matters, in connection with the World Bank's preparation of the Country Climate and Development Report on Paraguay.

Educational transformation and quality health

The government intends to improve the current education system by focusing on implementing technology and innovation as a component of education and a means of reinforcing the learning process. Also, the administration aims to improve healthcare by creating a unified healthcare system characterized by universal access and coverage, expanded preventive medicine and greater responsiveness.

Digital government and the "orange economy"

Paraguay, through its Digital Agenda Support Program (DASP), seeks to increase the speed and efficiency of online governmental services to the Paraguayan people and promote economic and personal growth through greater access for its citizens to technology, interconnectivity and business innovation. The DASP is intended to be a collaborative effort of the government and the private and academic sectors. Additionally, the government has prioritized the development of the creative economy (the "orange economy") by spurring innovation and productive diversification of the Paraguayan economy. In March 2018, Paraguay, the Center for Information and Resources for Development (CIRD), as the executing body, and Multilateral Investment Fund (FOMIN), as financier, entered into an agreement to implement the Project for the Promotion of the Creative Economy in Paraguay. This program is aimed at promoting the orange economy by supporting public and private actors in creative businesses, particularly small and medium-sized businesses, to help them turn their ideas into cultural goods and services whose value is determined by their intellectual property.

In 2020, spurred by the restrictions implemented due to COVID-19, the Paraguayan government created a digital platform where public documents can be accessed. The government has also created websites publicizing the allocation of public funds to contain the COVID-19 pandemic. See "COVID-19 and Paraguay—Paraguayan Actions to Mitigate Economic Effects of Covid-19—National Emergency Law" for more information on these reports regarding COVID-19 and associated public spending.

Employment and competitiveness

The government seeks to develop quality employment training programs and the promotion of entrepreneurship. Through the installation of an inter-disciplinary commission between the Ministry of Finance, the IPS, the Ministry of Industry and Commerce (*Ministerio de Industria y Comercio*) and the Secretariat for the Prevention of Money Laundering (*Secretaría de Prevención de Lavado de Dinero*), among other governmental agencies, the government intends to combine the supervision, protection and promotion of employment and social security, and reduce informal employment by 20% by the year 2023.

The government also seeks to improve the competitiveness of Paraguay's production chains, as well as its spot in the World Bank's "Doing Business" ranking, while also fostering the development of food chains, manufacturing, transportation logistics and the chemical industry by providing support to marketing, exports, the development of technological centers, and co-financing projects within these sectors. The government also aims to improve the process of opening new businesses, obtaining credit and addressing insolvency through the work of the inter-disciplinary commission. The government plans to increase Paraguay's competitiveness in part through the introduction of regulatory proposals to offer increased legal certainty, flexibility and efficiency for investors. The proposals, some of which have been enacted into law, include (i) the creation of a registry of security interests, (ii) the creation of a digital database for factoring operations and (iii) the introduction of simplified business entities.

In March 2019, the Ministry of Finance submitted a draft bill regarding security interests in movable property to Congress. The draft bill was based on the Model Law on Secured Transactions of the United Nations Commission on International Trade Law. If the bill is enacted by Congress, it will modernize the process for

creating security interests in movable assets. As of the date of this Offering Memorandum, the bill is pending in Congressional approval.

In June 2020, Congress enacted Law No. 6542/20 thereby creating a digital database system (the "SEOG") designed to register factoring operations. Prior to the enactment of such law, factoring operations lacked adequate regulations in Paraguay and, as a result, have been rare. SEOG became operational on December 21, 2020 and is administered by the Central Bank.

In September 2020, the executive branch issued Decree No. 3988/20 regulating Law No. 6480/20 in an effort to formalize economic activities, simplify the incorporation of companies and reduce associated administrative costs.

In February 2021, Congress enacted Law No. 6480/20 thereby creating simplified share companies ("EASs"), which include expedited incorporation procedures, broad permitted corporate purposes and optional single-membership. As of December 14, 2021, over one thousand companies have been formed using this legislation and that approximately 6% correspond to the cattle sector, approximately 17% correspond to the industrial sector and approximately 77% correspond to the service sector.

The government believes that these proposals, if enacted, along with the legislation already enacted mentioned above, will reduce bureaucratic burdens on business and will contribute to commercial dynamism and greater economic diversification in Paraguay.

Infrastructure and transportation

Paraguay's overall public investment plan focuses on road infrastructure, energy, water and sanitation, education, hospitals, social housing and other related areas.

Between 2017 and 2021, the government conducted tenders for three of the turnkey projects contemplated under Law No. 5074/13 (the "Turnkey Infrastructure Projects") and awarded the following contracts to the selected bidders: (i) the construction and paving of the San Cristobal - Naranjal Segment - Route No. 6 in 2017; (ii) a project for the design and construction of a new road between Loma Plata and Carmelo Peralta (the "Corredor Bioceanico Project") in 2018; and (iii) a project for the design and construction of Avenida Costanera Sur in 2019. As of the date of this Offering Memorandum, the San Cristobal – Naranjal Segment – Route No. 6 has been completed, while the Corredor Bioceanico and the Avenida Costanera Sur are still under construction. Additional turnkey infrastructure projects are under evaluation by different public agencies as of the date of this Offering Memorandum. For more information see "The Paraguayan Economy—State-Owned Enterprises—Turnkey Projects (Law No. 5074/13)." Additional turnkey infrastructure projects are under design by different public agencies as of the date of this Offering Memorandum. The San Cristobal – Naranjal Segment – Route No. 6 has now been completed. However, the Corredor Bioceanico and the Avenida Costanera Sur are still under construction.

The government's current economic policy seeks to increase connectivity with neighboring countries to improve economic relations and promote tourism. To achieve this goal, the government is focused on facilitating Paraguay's connection with Brazil through new international bridges. The first bridge, which is currently under construction, will cross the Paraná River, connecting Puerto Presidente Franco in Paraguay with Foz de Iguazú in Brazil, and the second bridge, for which construction is scheduled to begin in 2022 with an investment of US$85 million, will cross the Paraguay River, connecting Carmelo Peralta in Paraguay with Porto Murtinho in Brazil, as part of the Corredor Bioceanico Project. Other upcoming projects in the infrastructure and transportation sectors include: (i) the expansion of Route 1 connecting Cuatro Mojones with Quiindy within Paraguay; (ii) the improvement, expansion and operation of Route 6 connecting Encarnación with Pirapó within Paraguay; (iii) the construction of the second stage of the Corredor Bioceanico Project, connecting Centinela in Paraguay with Pozo Hondo in Argentina; (iv) the paving of Route 21 connecting the Puerto Indio to the superhighway junction within Paraguay; (v) the paving of the Route 12 connection section Chaco´i with General Bruguez within Paraguay; (vi) the construction of a sanitary sewer system, wastewater treatment plant and improvement of the drinking water system for each of the cities of Carapeguá, Santa Rita, San Ignacio Guazú and Santa Rosa del Aguaray; (vii) the construction of approximately 1,000 housing units for indigenous families located in Alto Paraguay, Alto Paraná, Boquerón, Canindeyú and Presidente Hayes; (viii) the construction of approximately 600 integrated community

homes, which include basic services, recreation spaces and access to public transportation, in the San Blas neighborhood of Mariano Roque Alonso; (ix) the construction of the National Hospital of Coronel Oviedo and (x) the construction of a telecommunications network to improve learning conditions and management in educational institutions in Paraguay. Some of these projects are, as of the date of this Offering Memorandum, under construction.

In 2022, an international tender is expected to commence for ANDE's electric power distribution and transmission projects under Law No. 6324/19. Bidders participating in the international tender must have the necessary financing secured for the complete execution of their respective projects. As of the date of this Offering Memorandum, Regulatory Decree No. 5226/2021 has been enacted to facilitate the tender process.

As of the date of this Offering Memorandum, the MOPC has approved pre-feasibility studies for the opening, dredging, signaling, operation and maintenance of the Paraguay River waterway. Further, the MOPC has the following projects under the PPP modality under initial study and structuring: (i) the expansion of Route 1 (between the Cuatro Mojones and Quiindy section) (ii) the improvement, expansion and operation of Route 6 (a 60km route between Cambyretá and Pirapó Access) and (iii) the development of a passenger commuter train between the cities of Asunción and Ypacarai.

The government is promoting the use of new financial tools, provided for by Law No. 5102/13 (PPP Law) and Law No. 5074/13 (Turnkey Projects Law), to meet the new infrastructure investment objectives and plans, including financing through the issuance of bonds, loans from multilateral and bilateral organizations, as well as funding with institutional resources. With these alternatives, the government seeks to expand and improve the financing options available to develop infrastructure, involving the private sector.

The aforementioned upcoming projects will foster public investment and private sector participation, strengthening the framework of the existing PPP and Turnkey Infrastructure Projects, to support the country's economic growth and its ability to meet fiscal policy targets. The PPP Law approved on November 1, 2013 provides a consolidated legal framework for the formation of partnerships between the public and private sectors to finance and provide the necessary public services required for infrastructure development. Likewise, the Turnkey Projects Law provides alternative financing methods for infrastructure investment. The Turnkey Projects Law provides that the government is only obliged to pay capital amortization on project financing facilities once the related projects are completed and operational, thereby encouraging efficient and timely completion of such projects. The Ministry of Public Works and Communications has also implemented an infrastructure investment plan on similar terms.

On December 2, 2020, the executive branch issued regulatory Decree No. 4436/20, which introduces additional procedures to facilitate the implementation of Law No. 6490/20. On January 2, 2020, Paraguay passed Law No. 6490/20 to regulate the actions of the National Public Investment System (the "SNIP") and to strengthen the SNIP within the framework that plans, formulates, evaluates, prioritizes and executes public investment projects that are fully or partially financed with resources from the General Budget of the Nation or guaranteed by the Treasury.

Energy, science and security

Paraguay's goals in these areas include improving the distribution system of energy and services, improving internet speeds to be on par with average speeds in South America, and implementing a national fiber optic network. Paraguay also aims to create a laboratory for governmental innovation to develop e-government projects. In terms of security, Paraguay's goals are to strengthen overall security for the citizenry by, among other measures, providing structural, technical and technological resources to security forces, fighting against drug trafficking and associated illicit activities and improve the penitentiary system.

Climate Change Mitigation

The central government is implementing a package of contingency measures related to the country's primary sector to mitigate the impact caused by the droughts in 2021. These measures are based on four main lines of action established to prevent the impact caused by weather-related events: (i) assistance to small producers with

inputs (e.g., fuels, seeds, agricultural defensives) for the replanting of crops; (ii) tax measures such as the suspension of retainers related to the corporate income tax as well as delays of retainers of the simple regime; (iii) support measures through the establishment of credit facilities by public financial institutions, such as the BNF, the Financial Development Agency (*Agencia Financiera de Desarrollo*) and Agricultural Credit (*Crédito Agrícola de Habilitación*) and (iv) the refinancing of certain loans in the agricultural and livestock sector through transitory facilities issued by the Central Bank.

The Maquila Regime

The Maquila Regime, established in 1997, is an export production framework and important source of employment aimed at supporting Paraguayan companies that seek to export domestically produced goods and services. This regime provides exemptions from import tariffs for a number of inputs involved in this production, such as machinery, equipment, and tools, as well as other tax benefits. With the exception of the Maquila Only Tax, which equals one percent of value added in Paraguay, maquiladoras are exempt from all other Paraguayan taxes, including the Value Added Tax (VAT). Although production under the Maquila Regime is primarily destined for export, maquiladoras are permitted to sell on the domestic market as well, up to a cap of ten percent of the volume of their previous year's exports. As of November 30, 2021, there were 232 enterprises operating under the Maquila Regime in 14 departments of Paraguay. During the 11-month period ended November 30, 2021, 17 programs were approved under the Maquila Regime, amounting to US$13.0 million in private investment, which represents a decrease of 24% compared to US$17.1 million during same period in 2020. Accumulated exports as of November 30, 2021 amounted to US$807 million, an increase of 62% compared to US$498 million during the same period in 2020. The main exports under the Maquila Regime were automotive spare parts, clothing and textile articles, oilseed production, aluminum containers and plastics.

Central Bank's New Organic Law

In July 2018, Congress passed the new organic law of the Central Bank (Law No. 6104/18), updating a twenty-year-old law as part of a series of reforms in Paraguay's financial system. The new law expands the Central Bank's oversight to some institutions that were previously beyond its purview and gives the Central Bank greater authority to intervene and sanction noncomplying financial entities. In addition, the law strengthens the autonomy of the Central Bank, permitting, for example, the Central Bank to sign agreements with its counterparts in other countries without restrictions or conditions.

Judicial Reform

Law No. 5360/14, as amended, was enacted in 2014, which initiated a process of judicial reform in Paraguay. Law No. 5360/14 created a national commission in charge of proposing draft bills to modify the existing laws which govern the judiciary in Paraguay. The commission is composed by representatives of all three branches of government, including members of both houses of Congress, members of the executive branch, members of the judicial branch, which in turn include members of the Supreme Court of Justice, the Attorney General, and public defenders. By January 2019, the commission had presented four bills to Congress which seek to modify the current structure of the judiciary in Paraguay, including modifications to the existing Judicial Organization Code, and to broaden the administrative powers of the Supreme Court of Justice.

Moreover, the administration is seeking to strengthen the judicial system via a constitutional reform. The current administration has started a debate with all political parties on how best to implement such reforms. The aim is to improve the selection of magistrates, while de-politicizing and strengthening the Supreme Court.

Gross Domestic Product and Structure of the Economy

In 2018, Paraguay conducted a periodic re-basing of its real GDP calculations, updating the base year of such calculations from 1994 to 2014. One effect from this re-basing is the reduction of the historical volatility of GDP growth and a decrease in the debt-to-GDP ratio when compared to the same statistics but based on 1994 dollars.

During the 2017-2021 period, real GDP grew at an average annual rate of 2.4%. Total GDP in real terms grew by 4.8% in 2017 and 3.2% in 2018 and contracted 0.4% in 2019 and 0.8% in 2020. In 2021, total GDP in real terms grew by 5.0%, as a result of a recovery in the household services, restaurants and hotels services, commerce, business services and manufacturing sectors. GDP per capita in real terms increased at an average annual rate of 0.9% from 2017-2021, with increases of 3.3% and 1.8% in 2017 and 2018, respectively, and decreases of 1.8% and 2.2% in 2019 and 2020, respectively. In 2021, the real GDP per capita increased by 3.6%.

In 2017, real GDP grew by 4.8% and real GDP per capita increased by 3.3%, driven mainly by growth in the manufacturing, commerce and agricultural sectors, which grew by 6.2%, 9.6% and 6.4%, respectively. The electricity and water sector instead experienced a 2.5% contraction.

In 2018, real GDP grew by 3.2% and real GDP per capita increased by 1.8%, driven mainly by growth in the manufacturing, commerce, finance and household services sectors, which grew by 2.4%, 4.6%, 4.5% and 7.3%, respectively. The livestock sector instead experienced a 3.2% contraction.

In 2019, real GDP contracted by 0.4%, largely due to adverse climatic factors that persistently affected key sectors of the economy such as agriculture, forestry, fishing and mining, and electricity and water, which declined 4.4%, 1.1% and 11.5%, respectively. Likewise, manufacturing and commerce also contracted with reductions of 1.1% and 1.2%, respectively. In contrast, various services helped mitigate the decline in GDP, driven mainly by an increase in the household services, business services, telecommunications and restaurant and hotel services sectors as well as expansion in the government sector and the financial sector, each of which grew 5.7%, 1.0%, 4.6%, 5.4%, 4.3% and 3.7%, respectively.

In 2020, the rate of economic activity substantially declined primarily due to the restrictive measures implemented by the national government to contain the spread of the COVID-19 virus. The services, manufacturing and commerce sectors were the most directly affected by these measures and exhibited poor performance. Restaurant and hotel services, business services and household services were impacted due to the social nature of such services, whereas manufacturing, trade and transport were negatively affected by the general decreases in consumption and decreased trade in border areas. In addition, a decrease in the water flow of the Parana River also resulted in a contraction in the electrical power and water subsector. In contrast, the favorable performance of the agriculture, livestock, construction, communications and finance sectors helped mitigate the fall in aggregate economic activity.

In 2021, real GDP grew by 5.0% and real GDP per capita increased by 3.6%, driven mainly by a recovery in the household services, restaurant and hotel services, commerce, business services and manufacturing sectors, which grew by 21.3%, 20.0%, 14.0%, 13.5%, 8.8% and 7.2%, respectively. The agriculture sector instead experienced an 8.0% contraction.

The following table sets forth information regarding nominal GDP and domestic expenditures, in US$, for the periods indicated.

Nominal GDP and Domestic Expenditures

	12-month period ended December 31,				
	2017	**2018**	**2019**	**2020[1]**	**2021[1]**
	(in millions of US$, at current prices)				
GDP	$39,394	$40,692	$38,757	$36,146	$40,305
Imports of goods and services	13,016	14,480	13,621	10,659	13,200
Total supply of goods and services	52,411	55,172	52,378	46,805	53,504
Less: Exports of goods and services	15,143	15,034	14,023	12,147	14,069
Total goods and services available for domestic expenditures	$37,267	$40,138	$38,355	$34,658	$39,436
Allocation of goods and services					
Private Consumption	24,776	26,180	25,310	22,843	25,192
Public Consumption	4,376	4,688	4,630	4,570	4,895
Total Consumption	29,152	30,867	29,950	27,414	30,086
Gross fixed investment	7,561	8,118	7,251	7,187	8,769
Changes in inventory	555	1,153	1,153	57	581
Total domestic expenditure	**$37,267**	**$40,138**	**$38,355**	**$34,658**	**$39,436**

(1) Preliminary data.
Source: Central Bank.

The following table sets forth the composition of nominal GDP by expenditures for the periods indicated.

Nominal GDP by Expenditures

	12-month period ended December 31,				
	2017	**2018**	**2019**	**2020[1]**	**2021[1]**
	(as percentage of total nominal GDP)				
Government consumption	11.1%	11.5%	11.9%	12.6%	12.1%
Private consumption	62.9	64.3	65.3	63.2	62.5
Gross fixed investment	19.2	19.9	18.7	19.9	21.8
Changes in inventories	1.4	2.8	3.0	0.2	1.4
Exports of goods and services	38.4	36.9	36.2	33.6	34.9
Imports of goods and services	33.0	35.6	35.1	29.5	32.7
GDP	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

(1) Preliminary data.
Source: Central Bank.

The following table sets forth the percentage change in real GDP by expenditures for the periods indicated.

Change in Real GDP by Expenditure

	12-month period ended December 31,				
	2017	**2018**	**2019**	**2020[1]**	**2021[1]**
	(percentage change from previous year)				
Government consumption	2.7%	3.0	4.7	5.1	2.5
Private consumption	4.8%	4.4	1.8	(3.6)	5.6
Gross fixed investment	5.9	6.9	(6.1)	5.3	18.3
Changes in inventories	172.5	111.2	(10.1)	(69.2)	165.6
Exports of goods and services	8.5	(0.4)	(3.4)	(9.0)	3.6
Imports of goods and services	12.3	8.3	(2.0)	(15.2)	17.3
GDP	**4.8**	**3.2**	**(0.4)**	**(0.8)**	**5.0**

(1) Preliminary data.
Source: Central Bank.

Principal Sectors of the Economy

The composition of real GDP by economic sector has remained generally stable from 2017 to 2021. Manufacturing, commerce, agriculture, and electricity and water make up the bulk of the GDP, representing 19.5%, 10.6%, 7.6% and 7.5%, respectively, of real GDP in 2021, compared to 19.1%, 9.8%, 8.7% and 6.9%, respectively, of real GDP in 2020. The increase in commercial activity (as a percentage of GDP) was the result of the easing of the restrictive measures previously put in place by the government to address the COVID-19 pandemic. The decrease in agricultural sector (as a percentage of real GDP) was due to a drop in main products (i.e., soybeans, corn, wheat, sugar cane, etc.) in 2021 compared to 2020.

The following table sets forth the composition of Paraguay's nominal GDP by economic sector for the periods indicated.

Nominal GDP by Sector

	12-month period ended December 31,				
	2017	**2018**	**2019**	**2020[1]**	**2021[1]**
	(in millions of US$, at current prices)				
Goods					
Agriculture	$ 2,721	$ 2,754	$ 2,657	$ 2,839	$ 2,806
Livestock	1,039	1,035	859	821	1,156
Forestry, Fishing and Mining	387	382	359	336	369
Total Primary Sector	**$ 4,147**	**$ 4,172**	**$ 3,874**	**$ 4,006**	**$ 4,331**
Manufacturing	7,663	7,729	7,284	6,761	8,163
Construction	2,469	2,436	2,413	2,545	3,125
Electricity and Water	3,282	3,367	3,155	2,929	3,005
Total Secondary Sector	**$ 13,414**	**$ 13,532**	**$ 12,852**	**$ 12,235**	**$ 14,292**

	12-month period ended December 31,				
	2017	**2018**	**2019**	**2020[1]**	**2021[1]**
	(in millions of US$, at current prices)				
Commerce	$ 4,307	$ 4,486	$ 4,138	$ 3,711	$ 4,028
Transportation	1,479	1,481	1,444	1,336	1,659
Communications	1,258	1,314	1,185	1,039	1,064
Finance	2,183	2,293	2,342	2,085	2,293
Real-estate Services	2,553	2,679	2,534	2,482	2,556
Business Services	999	1,022	976	795	899
Restaurants and Hotels	958	963	981	638	745
Household Services	1,769	1,989	1,990	1,731	2,099
Government	3,348	3,665	3,617	3,618	3,632
Total Services Sector	**$ 18,894**	**$ 19,890**	**$ 19,207**	**$ 17,406**	**$ 18,976**
Gross Value Added[2]	36,455	37,594	35,934	33,647	37,599
Taxes on products	2,939	3,098	2,823	2,499	2,705
Total GDP	**$ 39,394**	**$ 40,692**	**$ 38,757**	**$ 36,146**	**$ 40,305**

(1) Preliminary data.
(2) Aggregate gross value of the production of Paraguay's electricity and water sector is included in total GDP.
Source: Central Bank.

The following table sets forth the percentage of total real GDP by sector for the periods indicated.

Percent of Total Real GDP by Sector

	12-month period ended December 31,				
	2017	**2018**	**2019**	**2020[1]**	**2021[1]**
			(in percentages)		
Agriculture	8.3%	8.3%	7.9%	8.7%	7.6%
Livestock	2.2	2.1	2.1	2.2	2.3
Forestry, Fishery and Mining	1.0	0.9	0.9	1.0	1.0
Total Primary Sector	**11.5%**	**11.3%**	**11.0%**	**11.9%**	**10.9%**
Manufacturing	19.5	19.3	19.2	19.1	19.5
Construction	6.2	6.0	6.2	6.9	7.5
Electricity and Water	8.2	8.1	7.2	7.1	6.2
Total Secondary Sector	**33.9%**	**33.5%**	**32.6%**	**33.2%**	**33.2%**
Commerce	10.5	10.6	10.5	9.8	10.6
Transportation	3.9	3.8	3.8	3.9	3.9
Communications	3.4	3.4	3.6	3.9	3.9
Finance	5.4	5.4	5.6	5.9	5.7
Housing	6.2	6.2	6.4	6.5	6.4
Business Services	2.3	2.3	2.3	2.1	2.2
Restaurants and Hotels	2.5	2.6	2.7	1.9	2.1
Household Services	4.3	4.4	4.7	4.2	4.8
Government	8.6	8.7	9.1	9.8	9.1
Total Services Sector	**47.0%**	**47.5%**	**48.9%**	**47.8%**	**48.7**
Gross Value Added[2]	92.4	92.4	92.5	92.9	92.8
Taxes on products	7.6	7.6	7.5	7.1	7.2
Total GDP	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

(1) Preliminary data.
(2) Aggregate gross value of Paraguay's portion of total electricity production is included in total GDP.
Source: Central Bank.

The following table sets forth the percentage change in real GDP by sector for the periods indicated.

Change in Real GDP by Sector

	12-month period ended December 31,				
	2017	**2018**	**2019**	**2020[1]**	**2021[1]**
	(percentage change from previous year, at constant prices)				
Agriculture	6.4%	3.4%	(4.4)%	9.0%	(8.0) %
Livestock	2.9	(3.2)	1.2	4.4	6.0
Forestry, Fishery and Mining	(1.7)	1.1	(1.1)	0.9	8.0
Total Primary Sector	**5.0%**	**1.9%**	**(3.1)%**	**7.4%**	**(4.1)%**
Manufacturing	6.2	2.4	(1.1)	(1.3)	7.2
Construction	3.5	0.3	2.5	10.5	13.5
Electricity and Water	(2.5)	1.9	(11.5)	(2.3)	(8.4)
Total Secondary Sector	**3.5%**	**1.9%**	**(3.0)%**	**0.7%**	**5.2%**
Commerce	9.6	4.6	(1.2)	(8.1)	14.0
Transportation	7.8	1.4	0.5	0.9	6.4
Communications	5.5	5.1	4.6	6.1	5.0
Finance	1.5	4.5	3.7	3.2	2.8
Housing	4.7	3.3	1.8	0.6	3.2
Business Services	3.8	3.0	1.0	(11.3)	8.8
Restaurants and Hotels	6.8	8.0	5.4	(32.0)	20.0
Household Services	5.6	7.3	5.7	(12.2)	21.3
Government	1.6	4.3	4.3	6.4	(2.5)
Total Services Sector	**5.2%**	**4.5%**	**2.4%**	**(3.1)%**	**7.1%**
Gross Value Added[2]	4.5	3.2	(0.2)	(0.5)	5.0
Taxes on products	8.1	3.3	(2.7)	(5.1)	5.5
Total GDP	**4.8%**	**3.2%**	**(0.4)%**	**(0.8)%**	**5.0%**

(1) Preliminary data.
(2) Aggregate gross value of Paraguay's portion of total electricity production is included in total GDP.
Source: Central Bank.

Production of Goods

The primary sectors in the production of goods, namely agriculture, livestock, forestry, fishery and mining represented 10.9% of real GDP in 2021.

Agriculture. The agricultural sector grew at an average annual rate of 1.3% from 2017 to 2021. In 2021, the agricultural sector accounted for 7.6% of real GDP. The agricultural sector in 2021 contracted by 8.0%, compared to a 9.0% growth in 2020, primarily as a result of the increase in the production of soybean, corn, wheat and sugar cane, among other main products. In 2019, the agricultural sector decreased by 4.4%. In 2017 and 2018 the agricultural sector grew by 6.4% and 3.4%, respectively.

Soybeans, sugar cane, corn, manioc, wheat, rice and sunflowers are the main crops of the Paraguayan agricultural sector, representing the largest share of Paraguay's agricultural production from 2017 to 2021. According to the United States Agricultural Department (USDA), Paraguay is a leading producer and exporter of soybeans (world's third largest exporter) and soybean oil (world's fifth largest exporter). The performance of the agricultural sector is highly dependent on weather and the international prices of Paraguay's main agricultural products.

The growth of the agricultural sector for the 2017-2021 period was driven mainly by an increase in soybean production, which is a main agricultural product of Paraguay. Despite a 4.4% decrease in volume, largely due to a 4.7% drop in crop yield, soybeans accounted for approximately 62.1% of Paraguay's agricultural production for 2021. In recent years, the agricultural sector has benefited from capital investment and increased use of advanced genetics technology and mechanization, which has resulted in Paraguay being ranked third in the world among soy grain-exporting countries by the USDA in 2021. In addition to being exported in raw form, soybeans are used to produce oil and derivatives for animal feed. The Paraguayan Chamber of Oilseeds and Cereals Processors and Exporters (CAPPRO) gathers the most important oilseed crushing companies (including ADM and CAIASA, among others), and its members account for 95% of Paraguayan produced and exported soybeans, oil and flour. As of November 2021, CAPPRO processed 2.71 million tons, of which 2.68 million tons were of soybeans.

The following table sets forth the production of selected primary agricultural products for the periods indicated.

Selected Agricultural Production

	12-month period ended December 31,			
	2017	**2018**	**2019**	**2020[1]**
			(in tons)	
Soybeans	10,478,000	11,045,970	8,520,350	11,024,460
Corn	5,155,900	5,344,650	5,576,900	5,834,593
Manioc	3,166,800	3,294,000	3,384,000	3,329,331
Wheat	722,400	1,358,000	1,302,870	927,776
Sugar Cane	6,608,000	6,160,000	5,819,500	7,430,975
Rice	924,000	894,600	1,069,200	1,187,768
Beans	61,200	62,050	65,520	69,776
Sunflower	65,440	48,800	39,200	34,760
Cotton	14,000	18,896	27,000	29,040
Peanuts	26,780	27,483	21,250	25,009
Tobacco	6,400	6,825	7,175	7,452

(1) Preliminary data.

Source: Compilation based on the information supplied by the Ministry of Agriculture and Livestock through the Office of Agricultural Census and Statistics.

The following table sets forth average international commodity prices for the periods indicated.

Selected International Commodity Prices[1]

	12-month period ended December 31,				
	2017	**2018**	**2019**	**2020**	**2021**
			(in US$/ton)		
Soybeans[2]	$358.6	$342.4	$326.9	$350.0	$505.2
Soybeans Oil[2]	735.1	658.8	645.2	691.3	1,277.6
Soybeans Meal[2]	347.7	371.8	333.8	349.8	421.3
Beef[3]	2,598.8	2,524.3	2,554.5	2,332.1	2,699.4
Corn[2]	141.5	144.9	150.9	143.3	228.9
Sunflower Seeds[4]	355.2	370.4	372.3	405.8	645.2
Wheat[2]	160.2	181.7	181.6	201.6	257.8

(1) Average prices for each year as published by Bloomberg for each market indicated.
(2) Chicago Board of Trade.
(3) Chicago Eastern Young Cattle Indicator.
(4) South Africa Futures Exchange.

Source: Compilation based on information extracted from Bloomberg.

The following table sets forth information regarding changes in the production of selected agricultural products in Paraguay for the periods indicated.

Selected Agricultural Production

	12-month period ended December 31,				
	2017	**2018**	**2019**	**2020[1]**	**2021[1]**
	(percentage change from previous year)				
Soybeans	14.4%	5.4%	(22.9)%	29.4%	(4.4)%
Corn	0.1	3.7	4.3	4.6	(29.9)
Manioc	0.0	4.0	2.7	(1.6)	1.6
Wheat	(29.2)	88.0	(4.1)	(28.8)	(19.7)
Sugar Cane	(1.5)	(6.8)	(5.5)	27.7	(2.8)
Rice	7.7	(3.2)	19.5	11.1	(0.6)
Beans	5.1	1.4	5.6	6.5	(0.5)
Sunflower	0.1	(25.4)	(19.7)	(11.3)	(1.9)
Cotton	(1.1)	35.0	42.9	7.6	2.6
Peanuts	0.0	2.6	(22.7)	17.7	0.5
Tobacco	7.2	6.6	5.1	3.9	0.1

(1) Preliminary data.
Source: Prepared by the Central Bank based on information supplied by the Ministry of Agriculture and Livestock through the Office of Agricultural Census and Statistics.

Livestock. The livestock sector increased in real terms in 2017 by 2.9%, decreased by 3.2% in 2018, and increased again in 2019 and 2020 by 1.2% and 4.4%, respectively. In 2021, the livestock sector represented 2.3% of real GDP and grew by 6.0% in real terms compared to 2020, primarily as a result of growth in the number of cattle slaughtered.

The following table sets forth the value of selected livestock production for the periods indicated.

Selected Livestock Production

	12-month period ended December 31,				
	2017	**2018**	**2019**	**2020[1]**	**2021[1]**
	(in millions of US$, at current prices)				
Livestock	$1,039	$1,035	$859	$831	$1,156

(1) Preliminary data.
Source: Central Bank.

The following table sets forth the percentage change from the previous year at constant prices of selected livestock production for the periods indicated.

Change in Selected Livestock Production

	As of December 31,				
	2017	**2018**	**2019**	**2020[1]**	**2021[1]**
	(percentage change from previous year, at constant prices)				
Livestock	2.9%	(3.2)%	1.2%	4.4%	6.0%

(1) Preliminary data.
Source: Central Bank.

Growth in the livestock sector in recent years is in part the product of investments in genetics, general infrastructure and the health and sanitation system, including vaccinations against diseases such as FMD, all of which have improved the quality of cattle stock. This has allowed Paraguay to diversify its meat exports to markets such as Chile, Russia, Israel, Brazil, Taiwan and Vietnam in recent years. As of November 30, 2021, Paraguay exported beef to Chile (42.8% of Paraguay's total beef exports), Russia (20.5% of Paraguay's total beef exports), Taiwan (9.4% of Paraguay's total beef exports), Brazil (9.0% of Paraguay's total beef exports), Israel (6.0% of Paraguay's total beef exports), Uruguay (1.7% of Paraguay's total beef exports) and Kuwait (1.5% of Paraguay's total beef exports). In the 11-month period ended November 30, 2021, meat exports totaled US$1.54 billion, a 45.5% increase compared to the same period in 2020. In 2021, Paraguay was the fourteenth largest exporter of beef worldwide (in nominal U.S. dollar terms).

Additionally, the livestock sector could benefit from the negotiations between MERCOSUR and the EU, in which MERCOSUR has been awarded an export quota of 99,000 tons of beef with a preferential tariff. Paraguay, through negotiations at the regional level will seek to confirm the equitable distribution of quotas among the MERCOSUR members. In 2021, Paraguay was the eighth largest exporter of beef worldwide, as measured in volume of beef exported.

The following table sets forth the main destinations of Paraguayan beef exports in 2020.

Main Destinations of Paraguayan Beef Exports[(1)]

	As of November 30, 2021
	(% of Total)
Chile	42.8
Russia	20.5
Taiwan	9.4
Brazil	9.0
Israel	6.0
Uruguay	1.7
Kuwait	1.5
Hong Kong	1.3
Egypt	1.1
Italy	0.6
Others	6.1
Total	**100.0%**

(1) Based on data from the Customs Office and the Ministry of Industry and Commerce.
Source: Central Bank.

Manufacturing. In 2021, the manufacturing sector represented 19.5% of real GDP and increased in real terms by 7.2%. The manufacturing sector fell by 1.3% in 2020 and 1.1% in 2019 and grew by 2.4% in 2018 and 6.2% in 2017. The recent decrease is a result of a lower production in textiles and clothing, paper and paper products, timber, machinery and equipment, leather and shoes, oil products, beverages and tobacco and metal products.

Manufacturing in Paraguay primarily focuses on the production of foodstuffs for human and animal consumption, such as dairy products, meat, animal feed, beverages and tobacco and textiles. Paraguay's manufacturing sector is characterized by small- and medium-sized enterprises in various industries, larger and more developed beverage companies that produce alcoholic and non-alcoholic beverages, and manufacturers of dairy products. Dairy production has developed significantly, producing many diverse export-quality products such as yogurt, probiotic yogurt, cheese, caramel, cream and ultra-high temperature processing milk, among others. In June 2018, Cooperative Chortitzer Ltda., a producer of dairy products, began operations of Paraguay's second milk powder production plant in the city of Loma Plata, department of Boquerón, with a daily production capacity of 30,000 kilograms of powdered milk, equal to 250,000 liters of milk. As of the date of this Offering Memorandum, Cooperative La Holanda Ltda., a producer of dairy products, is finishing the construction of Paraguay's second milk

powder production plant in the department of Caaguazu, with a daily production capacity of powdered milk, equal to 750,000 liters of milk. Paraguay intends to grow powdered milk production beyond domestic consumption and in order to make it an attractive product for export to markets such as Brazil, Central America, the Dominican Republic, South Africa and a number of Middle Eastern countries, therefore benefiting many small and large producers in Paraguay.

Paraguay's Maquila Regime remains a priority for the government. There are 232 enterprises operating in the departments of Alto Paraná, Central, Amambay, Capital, Canindeyú, Caaguazú, Presidente Hayes, Guairá, Paraguarí, San Pedro, Itapúa, Caazapá, Ñeembucú and Cordillera. During the 11-month period ended November 30, 2021, 17 programs were approved, amounting to US$13.0 million of private investment and the creation of 461 new direct jobs. Under the Maquila Regime, Paraguay is promoting the development of diverse industries, with maquila exports (which, as of November 30, 2021, represented 8.0% of total exports, compared to 5.9% as of November 30, 2020) being made up of the following sectors (with accompanying percentages of the total maquila exports they represent): automobile parts (27.0%), apparel (17.0%), food products (14.0%), aluminum products (14.0%) and other goods (28%). See "The Paraguayan Economy—Current Economic Policy—The Maquila Regime" for more information on the Maquila Regime.

The following table sets forth information regarding the value of selected manufacturing products measured by gross value added for the periods indicated.

Selected Manufacturing Products

	12-month period ended December 31,									
	2017	**% of Total**	**2018**	**% of Total**	**2019**	**% of Total**	**2020[1]**	**% of Total**	**2021[1]**	**% of Total**
	(in millions of US$, at current prices)									
Processed Meats	$ 1,071	14.0%	$ 1,011	13.1%	$ 1,009	13.9%	$ 1,022	15.1%	$ 1,361	16.7%
Beverages and Tobacco	864	11.3	859	11.1	750	10.3	655	9.7	627	7.7
Textiles and Clothing	550	7.2	574	7.4	528	7.3	428	6.3	429	5.3
Timber	200	2.6	208	2.7	194	2.7	174	2.6	191	2.3
Chemicals	894	11.7	1,000	12.9	1,028	14.1	971	14.4	1,283	15.7
Milling and Bakery	453	5.9	419	5.4	366	5.0	365	5.4	421	5.2
Paper and Paper Products	455	5.9	461	6.0	464	6.4	397	5.9	443	5.4
Oil Products [2]	493	6.4	500	6.5	434	6.0	430	6.4	574	7.0
Leather and Shoes	130	1.7	115	1.5	99	1.4	83	1.2	123	1.5
Sugar	175	2.3	183	2.4	187	2.6	192	2.8	174	2.1
Other Foodstuff	398	5.2	413	5.3	413	5.7	401	5.9	459	5.6
Dairy Products	333	4.3	322	4.2	288	4.0	252	3.7	283	3.5
Non-Metallic Products	364	4.7	341	4.4	314	4.3	294	4.4	349	4.3
Metallic Products	453	5.9	471	6.1	415	5.7	396	5.9	604	7.4
Machinery and Equipment	136	1.8	131	1.7	115	1.6	111	1.6	141	1.7
Base Metal Products	74	1.0	68	0.9	72	1.0	73	1.1	91	1.1
Other Manufactured Products	620	8.1	654	8.5	607	8.3	517	7.7	608	7.4
Total	**$ 7,663**	**100.0%**	**$ 7,729**	**100.0%**	**$ 7,284**	**100.0%**	**$ 6,761**	**100.0%**	**$ 8,163**	**100.0%**

(1) Preliminary data.
(2) Including soybean and sunflower oil, among others.
Source: Central Bank.

The following table sets forth information regarding percentage changes from the previous year in selected manufacturing products at constant prices for the periods indicated.

Selected Manufacturing Products

	12-month period ended December 31,				
	2017	**2018**	**2019**	**2020[1]**	**2021[1]**
	(percentage change from previous year, at constant prices)				
Processed Meats	2.3	(2.0)	(1.0)	5.1	6.7
Beverages and Tobacco	8.4	5.1	(5.5)	(4.7)	4.0
Textiles and Clothing	9.9	2.1	(5.5)	(10.9)	3.0
Timber	1.8	5.9	(0.3)	(4.3)	6.7
Chemicals	11.6	10.8	9.0	1.5	18.0
Milling and Bakery	9.8	1.3	(0.3)	3.6	4.6
Paper and Paper Products	10.4	1.0	4.7	(9.3)	13.4
Oil Products[2]	(2.6)	0.1	(7.0)	(2.3)	(15.0)
Leather and Shoes	(1.9)	(12.7)	(5.4)	(6.0)	33.0
Sugar	(19.9)	(2.3)	16.5	12.1	(7.0)
Other Foodstuff	7.0	7.7	(0.5)	5.9	10.5
Dairy Products	4.4	0.4	3.7	2.2	(3.0)
Non-Metallic Products	2.0	(3.6)	(1.4)	(1.0)	9.0
Metallic Products	7.7	3.7	(9.4)	(0.7)	20.0
Machinery and Equipment	3.9	1.0	(8.4)	(0.1)	6.5
Base Metal Products	9.9	(5.0)	15.8	7.6	17.0
Other Manufactured Products	17.8	3.6	(4.7)	(9.6)	7.5
Total	**6.2%**	**2.4%**	**(1.1)%**	**(1.3)%**	**7.2%**

(1) Preliminary data.
(2) Including soybean and sunflower oil, among others.
Source: Central Bank.

Construction. The construction sector, which focuses mainly on residential housing and commercial buildings, represented 7.5% of real GDP in 2021. This sector contributes significantly to the economy and has received significant domestic and international investment during recent years. The sector grew by 3.5% in 2017, 0.3% in 2018, 2.5% in 2019 and 10.5% in 2020. In 2021, the construction sector grew by 13.5%, which represents an improvement over the previous years, driven by an increase in public and private construction.

Mining. Traditionally, mining in Paraguay has been closely linked with the extraction of stones for construction. However, in recent years, metal mining has gained grown in popularity with the arrival of a Canadian company engaged in the extraction of gold in the eastern region of the country. The gold exports in 2021 were approximately US$6.7 million. The government is also working to attract more companies that invest in the exploration and subsequent exploitation of other mineral resources of which there are indications that the country could have deposits. In 2021, the mining sector grew at a rate of 8.6%, accounting for 0.4% of real GDP. This sector grew by 7.0% in 2017, declined by 6.8% in 2018 and grew by 6.2% in 2019 and 7.1% in 2020. There were approximately 32 companies holding licenses for prospecting and exploration of metallic and non-metallic mineral mines in 2021, and another 187 were exploiting quarries of basalt, sandstone, granite, quartzite and limestone.

Services. In 2021, the services sector (including trade) accounted for 48.7% of real GDP. The services sector grew by 3.2% on average during the 2017-2021 period. Growth in the sector was 5.2% in 2017, 4.5% in 2018 and 2.4% in 2019. In 2020, this sector decreased 3.1%. In 2021, the services sector increased 7.1%, mainly a result of better performance in commerce and business services, which increased by 14.0% and 8.8%, respectively, as well as increases in transportation, household services and restaurants and hotels.

Transportation services grew by 7.8% in 2017, 1.4% in 2018, 0.5% in 2019 and 0.9% in 2020. In 2021, the transportation services sector increased by 6.4%. This growth in 2021 is partly explained by the effects of the pandemic in transportation modes in 2020 and the fact that in 2021 Paraguay eased the restrictive measures for

mobility that had been implemented to address the COVID-19 pandemic the year before. Further, positive results have been recorded for land and river freight transport, even though the latter has been impacted by the unfavorable navigability conditions due to a marked decrease in river water levels.

Household services grew by 5.6% in 2017, 7.3% in 2018 and 5.7% in 2019 and decreased by 12.2% in 2020. In 2021, the household services sector increased by 21.3%, as a result of the termination of the restriction measures affecting mobility previously put in place to address the pandemic.

Hotel and restaurant services grew by 6.8% in 2017, 8.0% in 2018 and 5.4% in 2019 and decreased 32.0% in 2020. In 2021, the hotel and restaurant sector grew by 20.0% as a result of the easing of the restrictive measures affecting mobility previously put in place by the government to address the pandemic.

Commerce. Commerce grew by 9.6% in 2017 and 4.6% in 2018, decreased by 1.6% in 2019 and 6.8% in 2020 and grew by 14.0% in 2021. Growth in the sector during the 2017-2018 period was mainly driven by increasing domestic demand, a higher volume of trade in agricultural goods and an increase in imports. However, in 2019, commerce shrank as a result of the reduction in imports. In 2020, the slowdown in commercial activity was principally the result of the restrictive measures implemented by the national government to contain the spread of the COVID-19 virus. Growth in 2021 is mainly explained by the normalization of economic activity resulting from the easing of the restrictive measures affecting mobility previously put in place by the government to address the pandemic.

Government. The government sector is largely composed of expenditures in wages of the central government, local governments and decentralized entities (excluding state-owned companies). In 2021, the government sector represented 9.1% of real GDP. This sector grew by 1.6% in 2017, 4.3% in 2018, 4.3% 2019 and 6.4% in 2020. In 2021 the government sector decreased by 2.5%, mainly as a result of lower current expenditures.

Communications. In 2021, communications represented 3.9% of real GDP. The communications sector is comprised of telecommunication companies operating in the country, and mail services, such as private courier companies. The communications sector grew at an average annual rate of 5.3% during the 2017-2021 period. The sector grew by 5.5% in 2017, 5.1% in 2018, 4.6% in 2019, 6.1% in 2020 and 5.0% in 2021. The sector continued to perform well in 2021 given that the restrictive measures affecting mobility put in place by the government to address the pandemic increased the use of communication through cellphone and computer applications, which led to increased data consumption. Further, higher education institutions have implemented an intensive use of technology to facilitate virtual classroom settings.

Finance. The finance sector includes all the banks as well as financial and insurance companies in the financial system. The sector grew by an average annual rate of 3.1% during the 2017-2021 period. The sector grew by 1.5% in 2017, 4.5% in 2018, 3.7% in 2019, 3.2% in 2020 and 2.8% in 2021. The recent growth was the result of an increase in loans and deposits.

Binational Entities (Binationals) – Electricity Production at Itaipú and Yacyretá Hydroelectric Plants

Paraguay is the largest exporter of electricity in South America, and the fourth largest in the world, the bulk of which is produced at the Itaipú hydroelectric plant and, to a lesser extent, at the Yacyretá hydroelectric plant. Electricity accounted for approximately 15.1% of Paraguay's total exports as of November 30, 2021 (compared to 20.5% as of November 30, 2020). The vast majority of electricity consumed in Paraguay is produced by the Itaipú hydroelectric plant located on the Paraná River on the border of Paraguay and Brazil and, to a lesser extent, by the Yacyretá hydroelectric plant located on the Paraná River on the border of Paraguay and Argentina. Revenues from Itaipú and Yacyretá hydroelectric plants contribute significantly to Paraguay's public sector revenues. Paraguay's portion of the aggregate gross value of total electricity produced by these binational hydroelectric plants is included in the calculation of Paraguay's GDP. Electricity and water represented 6.2% of Paraguay's real GDP in 2021, compared to 7.1% in 2020 and 7.2% in 2019. The decrease in the electricity and water sector (as a percentage of GDP) over the past two years has primarily been a result of drought-induced decreased river water flow.

Acaray, a hydroelectric facility owned by ANDE, is also a part of the energy system, and its production is used entirely locally. As of September 30, 2021, according to the Commission for Regional Energy Integration (*Organismo supervisor de la inversión en mina y energia* – Osinergmin), Paraguay had the second lowest energy costs in South America for commercial uses at US$46.70 per MW/hour and the lowest energy cost for industrial uses at US$41.50 per MW/hour.

Itaipú, the world's largest hydroelectric plant measured by annual electricity generation, is located on the Paraná River in eastern Paraguay on the border with Brazil. Itaipú has an installed capacity of 14,000 MW/hour, and its construction extended over 17 years at a cost of US$18.0 billion. Not only is Itaipú a significant source of low-cost electric power for Paraguay, but it is also a significant source of revenues in U.S. dollars for the government. The accumulated electricity generation for the 11-month period ended November 30, 2021 at Itaipú was 60,994 GW/hour, a 13% decrease compared to the same period in 2020.

Itaipú was built after Paraguay and Brazil entered into a treaty in 1973 (the "Itaipú Treaty"). Pursuant to the Itaipú Treaty, Itaipú Binational was created for the administration, supervision and operation of the Itaipú hydroelectric plant. Paraguay owns a 50% equity stake in Itaipú Binational through ANDE, a Paraguayan state-owned company. Eletrobras, a partially state-owned Brazilian company, owns the remaining 50%. Among other provisions, the Itaipú Treaty states that the electricity produced by Itaipú Binational will be equally divided between Paraguay and Brazil, and requires Brazil to purchase all of Paraguay's unused electricity. The Itaipú Treaty also provides that all payments to and from Itaipú Binational are to be made in U.S. dollars. Itaipú Binational is managed by a Board of Directors and an Executive Board, composed of an equal number of members from each country.

The construction of Itaipú began in 1974, and its first turbine began operations in 1984. Itaipú has 20 turbines in operation as of the date of this Offering Memorandum. As of November 30, 2021, Itaipú Binational's electricity reached a production of US$61.0 million MW/hour, compared to US$70.0 million MW/hour as of the November 30, 2020, and supplied 88% and 11% of the electric power consumed in Paraguay and Brazil, respectively, compared to 88% and 11.0%, respectively, as of November 30, 2020.

The Itaipú Treaty remains in force until 2023. Pursuant to the Itaipú Treaty, Paraguay is entitled to receive (i) an annual royalty from Itaipú Binational in an amount determined on the basis of a formula set forth in the Treaty and (ii) compensation from the Brazilian government for the unused portion of Paraguay's share of electricity produced by Itaipú that must be sold to Eletrobras at cost in accordance with the Treaty. The amount of compensation stood at US$10,680.6 per GW/hour as November 2021, an increase compared to the US$9,871.1 per GW/hour registered during the same period in 2020. Paraguay received royalty payments and compensation payments of US$444.8 million (1.2% of GDP) in 2020, US$567 million (1.5% of GDP) in 2019, US$556.1 million (1.4% of GDP) in 2018 and US$617 million (1.6% of GDP) in 2017. From 2017 to 2021, revenues decreased by 34.5%, as a result of the variation in the total production of electricity, which itself depends on the water flow of the Paraná River. In 2021, Paraguay received royalty payments and compensation payments of US$404.2 million, a reduction of 9.1% compared to US$444.8 million payments received during 2020. This was a result of lower electricity production.

As of November 30, 2021, Itaipú recorded an annual production of 60,994 GW/hour, while a drought caused water flows of the Paraná River to decrease significantly thereby reducing electricity production by 4.0%, compared to 70,323 GW/hour as of November 30, 2020.

The following table sets forth the revenues received from Itaipú for the periods indicated.

Revenues from Itaipú

	12-month period ended December 31,				
	2017	**2018**	**2019**	**2020**	**2021**
	(in millions of US$)				
Royalties	257.9	238.1	271.7	203.9	201.5
Compensation	359.0	327.4	295.3	240.9	202.7
Total	616.9	565.5	567.0	444.8	404.2

Source: Itaipú.

Eletrobras provided 85% of the financing for the construction of Itaipú, with third parties providing the balance. After startup of operations, when the debt began to amortize, Itaipú Binational experienced difficulties in servicing its debt to Eletrobras. In September 1997, Eletrobras entered into a restructuring agreement with Itaipú Binational covering Itaipú Binational's principal repayment obligations and accrued interest, retroactive to January 1997. Pursuant to the terms of the agreement, approximately US$16.2 billion of principal was recorded as long-term debt denominated in U.S. dollars and indexed to U.S. inflation. It was agreed that approximately (i) US$4.2 billion of this debt would bear interest at an annual rate of 4.1%, which was repayable through 2001, (ii) US$10.3 billion would bear interest at an annual rate of 7.5% and is repayable through 2023, with a grace period through 2001 during which time interest was capitalized, and (iii) US$1.8 billion would bear interest at an annual rate of 4.1% and is repayable through 2023, with a grace period through 2006 during which time interest was capitalized. As of December 31, 2020, Itaipú Binational owed Eletrobras and the National Treasury of Brazil approximately US$1.8 billion, and had a total outstanding indebtedness of approximately US$2.0 billion.

Under the Itaipú Treaty, Itaipú Binational receives the revenues required to cover its operating expenses, service its debt obligations and pay royalties to each of Paraguay and Brazil, selling capacity to each of ANDE and Eletrobras on a firm basis. Excess production is also sold to those entities on a 50/50 basis. To the extent not used in Paraguay, ANDE must resell the electricity to Eletrobras at cost. The Brazilian government compensates Paraguay directly for the amounts sold by ANDE to Eletrobras, at a rate that in November 2021 was approximately US$10,680.6 per GW/hour. An increase in the amount of electricity consumed in Paraguay reduces the compensation payments to the Paraguayan government, a revenue contraction that would normally be offset by additional tax revenues generated by the increased levels of economic activity that use the electricity that would otherwise be diverted to Brazil.

In mid-2019, Mr. Abdo Benítez and the Paraguayan government faced a political crisis related to Itaipú. On a yearly basis, ANDE and Eletrobras, the respective Paraguayan and Brazilian state-owned electric utility companies, negotiated the power production forecasts for Itaipú. On the basis of such forecasts, the two companies negotiated a power purchase agreement that sets forth each company's annual purchase of electric power produced at Itaipú as well as the price at which any excess over the 50% allocation to which each of the parties is entitled will be sold to the other party. In the yearly negotiations conducted in 2019, ANDE and Eletrobras were unable to reach agreement. Negotiations continued through diplomatic channels. Paraguayan and Brazilian diplomats reached agreement on May 24, 2019 (the "May 24, 2019 Agreement"), but the terms of the agreement only became public two months later, sparking a political crisis. Members of Congress claimed that the agreement was unfavorable for Paraguayan interests and questioned the involvement of several members of the government.

On July 24, 2019, ANDE´s president resigned from office. On July 26, 2019, the Chamber of Senators (the upper house) created a special congressional committee tasked with conducting an investigation on the negotiation of the May 24, 2019 Agreement. On July 29, 2019, President Mario Abdo Benitez accepted the resignation of several high-level government officials involved in the negotiation of the May 24, 2019 Agreement, including the Minister of Foreign Affairs, the Paraguayan General Director of Itaipú, the President of ANDE and the Paraguayan Ambassador to Brazil. On August 1, 2019, Paraguay and Brazil agreed to terminate the May 24, 2019 Agreement.

On August 5, 2019, the Chamber of Deputies (the lower house) received a formal request to initiate impeachment proceedings against President Mario Abdo Benitez, Vice President Hugo Velazquez and Minister of

Finance Benigno Lopez from various Congressmen. The impeachment proceedings were grounded on the alleged misconduct of government in connection with the May 24, 2019 Agreement. However, on August 20, 2019 the Chamber of Deputies voted to reject the impeachment request, with 43 votes against and 36 votes in favor.

ANDE and Eletrobras resumed negotiations regarding their planned electric power purchases for the years 2019 through 2022. A new agreement signed between ANDE and Itaipú on December 13, 2019 governs the power supply from Itaipú to ANDE from January 1, 2020 to December 31, 2022. In 2021, Brazilian President Jair Bolsonaro and Paraguayan President Mario Abdo Benítez held meetings to discuss the power purchase tariff of Itaipú during 2022 prior to the renegotiation of "Annex C" of the Itaipu Treaty. As of the date of this Offering Memorandum, both countries are still in negotiations to determine what tariffs will apply for the energy generated from Itaipú.

Yacyretá. The Yacyretá hydroelectric plant is located on the Paraná River in southern Paraguay on the border with Argentina. Although it started operating partially in 1994, the construction of Yacyretá is still ongoing. As of the date of this Offering Memorandum, Yacyretá is operating at its planned total capacity of 3,200 MW/hour.

The Yacyretá project began after Paraguay and Argentina entered into a treaty in 1973 (the "Yacyretá Treaty"). Pursuant to the Yacyretá Treaty, Yacyretá Binational was created for the administration, supervision and operation of the Yacyretá hydroelectric plant. Yacyretá Binational is owned by Paraguay's state-owned ANDE and Argentina's state-owned Emprendimientos Binacionales S.A. in a 50/50 joint venture. The Yacyretá Treaty establishes that the electricity produced by Yacyretá Binational will be equally divided between Paraguay and Argentina, and requires Paraguay and Argentina to purchase jointly or severally, depending on their agreement, all of Yacyretá's installed capacity. The Yacyretá Treaty also provides that all payments to and from Yacyretá Binational are to be made in U.S. dollars.

The construction of Yacyretá began in 1975. Yacyretá's first turbine commenced operations in 1994, and there are 20 turbines in operation as of the date of this Offering Memorandum. In 2021, Yacyretá's production of electricity produced at a rate of 13,372 GW/hour, a 10.0% decrease compared to the 14,857 GW/hour produced in 2020. The Yacyretá Treaty remains in force until Argentina and Paraguay mutually agree to terminate the treaty.

According to the Yacyretá Treaty, Paraguay receives (i) royalty payments and (ii) compensation payments based on revenues from the sale of Paraguay's unused electricity to Argentina. The latter is paid by Yacyretá Binational directly to Paraguay. The construction of Yacyretá was originally largely financed by loans from the World Bank and the IDB to Yacyretá Binational, which were guaranteed by Argentina. As of the date of this Offering Memorandum, Argentina is the creditor of such debt.

In January 1992, the governments of Paraguay and Argentina signed notes related to the Yacyretá Treaty to amend its provisions concerning the cost of the project. At that time, Paraguay and Argentina agreed to defer the payment of accumulated royalties and compensation (for the electricity Paraguay sold to Argentina) for the 1994 to 2004 period until 2019, and to reinvest such deferred amounts in construction and operational improvements. The deferred amounts shall be paid in equal, monthly installments over eight years, and without interest beginning in 2019. Despite the agreement, since Yacyretá commenced operations in 1994, Paraguay has received advances on deferred royalties and compensation based on revenues from the sale of Paraguay's unused electricity to Argentina. However, a substantial part of the early payments due to Paraguay for the periods prior to 2004 is at Yacyretá Binational's discretion and is agreed to on an annual basis by Argentina and Paraguay.

In 2017, Paraguay received US$64.9 million from Yacyretá Binational on account of royalties and compensation, of which US$32 million corresponded to payments due for 2016. In 2018, 2019, 2020 and 2021, Paraguay received US$46.2 million, US$125.1 million, US$46.0 million and US$45.8 million, respectively, from Yacyretá Binational on account of royalties and compensation due for prior years.

The Yacyretá Treaty provides that the financial terms contained in Annex C of the treaty are to be renegotiated at 40 years from the effective date of the treaty. In May 2017, Paraguay and Argentina signed a bilateral agreement that outlined their political will to restructure the financial situation of Yacyretá, modify the financial terms of the treaty and increase the profitability of the entity. As a result of this agreement, the debt initially claimed by Argentina could be reduced by 76%, from US$17,088 million to US$4,084 million. As of the

date of this Offering Memorandum, the Paraguayan Congress has approved the proposal presented by Yacyretá (*Acta de entendimiento 2017 para el ordenamiento economico financiero de la Entidad Binacional Yacyretá*), however, the proposal has not yet been approved by the Argentine Congress. The following table sets forth the revenues from Yacyretá Binational for the periods indicated:

Revenues from Yacyretá

	12-month period ended December 31,				
	2017	**2018**	**2019**	**2020**	**2021**
	(in millions of US$)				
Others[1]	64.9	46.2	125.1	46.0	45.8

(1) Corresponds to payments received from Yacyretá Binational in connection with Paraguay's share of operating expenses relating to Yacyretá Binational.

Source: Central Bank.

Pursuant to the Law No. 3984/10, royalty and compensation payments made by Itaipú and Yacyretá must be distributed as follows: 50% to the Paraguayan government, 40% to municipalities and 10% to departmental governments. The law also states that these resources must be used to finance infrastructure projects.

State-Owned Enterprises

There are nine state-owned enterprises ("SOEs"). In the aggregate, the SOEs generate positive net revenue for the government, and the SOEs with the highest share of total revenues from SOEs are ANDE, responsible in 2019 for 50.2% of total SOE revenues, and Petróleos Paraguayos ("PETROPAR"), responsible in 2019 for 29.8% of total SOE revenues. Of the nine SOEs, three operate in goods-producing sectors such as alcohol, oil and cement, and the other six are principally engaged in providing services.

ANDE, INC (cement), PETROPAR (importer and marketer of fuels), ANNP (port) and DINAC (airport) are wholly owned by Paraguay. In addition, Paraguay has a majority participation in Essap S.A. (water), Copaco S.A. (telecommunications), CAPASA (alcohol) and the inactive FEPASA (railway). Lastly, Paraguay owns a minority share (5.02%) in LAPSA (Paraguayan subsidiary of the LATAM Airlines Group). ACEPAR (steel) and FLOMERPASA (merchant marine) were formerly owned by Paraguay but were fully privatized.

In July 2014, pursuant to a judicial decision, the government displaced the board of directors of ACEPAR and a judicial administrator was appointed to manage the company. The displacement was a result of breaches of contract on the part of the Paraguayan steel consortium COSIPAR (majority shareholder of ACEPAR) in connection with the non-implementation of an agreed-upon investment plan, and a reforestation and environmental care program; and to a lesser extent, shortages in the domestic market for steel wires and rods in part due to the mismanagement of ACEPAR. In accordance with Law No. 1037/97, which authorized the sale of ACEPAR, poor management, domestic shortages and non-implementation of agreed-upon plans are all grounds for termination of ACEPAR's concession. The Paraguayan government subsequently decided to lease ACEPAR's facilities to VETORIAL Paraguay S.A. for a period of ten years. However, the proposed arrangement failed to accomplish the intended results and the lease agreement between ACEPAR and VETORIAL was terminated in January 2018.

In March 2018, in order to re-establish the government's control over ACEPAR, a bill was proposed in Congress through which ACEPAR would once again become a public company overseen by the National Council of Public Companies. This bill is still under review by Congress.

In August 2018, ACEPAR's judicial administrator entered into a lease agreement over ACEPAR's facilities with the Chinese company Henan Complant Mechanical & Electrical Equipment Group Co. Ltd. ("Henan"). However, Henan failed to fulfill its initial obligations and in February 2019, ACEPAR's judicial administrator terminated the lease agreement between Henan and ACEPAR. ACEPAR continues to seek investors interested in leasing and investing in ACEPAR.

SOEs Wholly-Owned by Paraguay	SOEs Majority Owned by Paraguay	Privatized Former SOEs
ANDE	ESSAP S.A.	LAPSA (LATAM) (5.0% state-owned)
INC	COPACO S.A.	ACEPAR (100% privately-owned)
PETROPAR	CAPASA	FLOMEPARSA (100% privately-owned)
ANNP	FEPASA	
DINAC		

Source: Ministry of Finance.

SOEs have played a significant role in the Paraguayan economy. All nine SOEs have accounted for roughly 6.2% of GDP, while the five SOEs that are in the General Budget of the National, represent 27.8% of central government expenditures, and 15.9% of public sector expenditures in 2021.

Although SOEs provide essential goods and services—including petroleum, water, telecommunications and electricity—their service delivery and management performance are limited, in part due to the distorted or monopolized markets in which they operate. In many cases, SOEs show high levels of underinvestment, failure to receive full compensation for basic services rendered to the public sector, increased levels of indebtedness and material inefficiencies. In March 2016 and 2017, the Ministry of Finance agreed to pay in the aggregate G.262.7 billion (US$48.9 million) out of a total of G.395.4 billion owed to ANDE. These payments settled almost half of the debt owed by the public sector for basic services, and also partially paid debt still owed to ANDE for electrification projects it had completed years ago but for which no payments had previously been made. As of October 15, 2021, the remaining amount owed by Central Administration to ANDE for basic service is G.85.3 billion (US$12.5 million).

In an effort to remedy high levels of underinvestment in ANDE's electrical substations, the Paraguayan government negotiated several loans with the CAF, Inter-American Development Bank (IADB), International Bank for Reconstruction and Development (IBRD) and with the European Investment Bank (BEI) for approximately US$1.06 billion to finance a master investment plan to be rolled out over a period of five years which commenced in 2020. This master financing plan includes US$100 million in financing for a 500 KW electricity transportation line connecting Asunción with Yacyretá, and a US$94 million loan to be applied to the modernization of electrical substations in the greater Asunción metropolitan area, reinforcing the transmission system in Asunción and the modernization and replacement of systems in San Lorenzo.

To a large extent, SOEs mediocre performance has been attributed to the institutional limitations that prevailed until 2008. For instance, before the PEES reform process, the responsibilities of the different government actors overseeing the SOE were fragmented. This led to overlapping bureaucratic functions and authorities. Furthermore, there was a severe information asymmetry between management and the public regarding SOE operation and financial performance.

In 2008, in furtherance of the PEES, Paraguay strengthened oversight of SOEs while building on the existing institutional structures. A key part of the reform was increasing inter-ministerial coordination under the leadership of the Ministry of Finance by establishing the National Council of Public Enterprises (the "CNEP") in 2013. The CNEP is comprised of representatives from the Ministry of Finance, the Ministry of Public Works, the Ministry of Industry and Trade and the Attorney General. The CNEP's role is to act as the SOE shareholder on the government's behalf and to supervise SOEs' corporate governance and financial and business management.

The CNEP relies on a workforce composed of highly trained technical professionals, each dedicated to closely monitoring each SOE. To fulfill its functions, the CNEP has begun monitoring some SOEs' financial and administrative affairs by concluding performance contracts with each of the SOEs. The CNEP assesses the

management of each SOE based on qualitative and quantitative targets set forth in the performance contracts and provides recommendations for improvement to the president of Paraguay. The targets outlined in the performance contracts fall under the following categories:

(i) financial liquidity;

(ii) basic debt service of controlled entities;

(iii) achievement of goals measured by technical indicators;

(iv) creation of specialized technical teams;

(v) improved management of and access to financial and operational data;

(vi) publication of annual external audits; and

(vii) infrastructure investments (ANDE, ESSAP and INC).

The CNEP also requires that the SOEs file financial audits conducted by independent professional audit firms. The SOEs must subsequently submit the financial reports to the SOE monitoring body and make the audits available to the public. The oversight body also established an audit follow-up mechanism, including field visits, letters highlighting the main findings and recommendations of the audits, and, if needed, a warning report to the Minister of Finance to discuss the content during the next CNEP meeting. All SOEs publish audit reports within six months after the closing of the fiscal year. These measures are designed to help increase the SOEs' financial management soundness and provide a venue for civil society and the media to exert additional oversight of SOEs. With the progressive adoption of the practice and follow-up activities of the oversight body, it is expected that the timeliness and quality of audit reports will continue to improve. Audited financial statements of SOEs are published on the Ministry of Finance's website.

As of the date of this Offering Memorandum, the CNEP meets regularly to receive technical inputs from the General Directorate of each SOE. A quarterly SOE performance report is presented to the President of the Republic, who in turn holds a meeting with SOE presidents to discuss the performance of each SOE.

In addition, the CNEP defined goals that include the strengthening of the regulatory framework for the supervision of financial and operational data so as to ensure that the reforms carried out in accordance with the Law of the National Council of Public Enterprises (Law No. 5058/13) are being implemented in a sustainable manner. Moreover, the CNEP follows all of the certified ISO 9001:2008 procedures for assessing the management of public companies. In 2014, with the support of the World Bank, Paraguay developed a Strategic Plan for the 2014-2018 period, which was approved in August 2014 by the members of the CNEP. The Strategic Plan proposes the adoption of certain coordinated and verifiable actions to promote an efficient and transparent management of SOEs, ensuring that the decisions are taken based on economic criteria.

The Strategic Plan's main guidelines to modernize SOEs are the following:

(i) adopt a clear cost efficiency pricing and tariff policy;

(ii) adopt a subsidy policy designed to benefit end-users;

(iii) develop payment plans of inter-SOEs debt and public sector debt with SOEs;

(iv) eliminate consolidated outstanding debts between SOEs and between the central government and SOEs by compensation or payment of debts;

(v) prohibit the use of inter-SOEs debt as a financing mechanism;

(vi) develop an appropriate dividend policy for SOEs that does not compromise their mid-term and long-term business plans;

(vii) review SOEs' current activities and functions to guarantee SOEs are exclusively focused on providing goods or services efficiently;

(viii) develop regulation and incentives that improve SOEs' management and investments;

(ix) adopt uniform corporate governance guidelines for SOEs; and

(x) provide the General Directorate of Public Enterprises (DGEP) with financial and human resources required to implement the Strategic Plan.

Following the adoption of the Strategic Plan, CNEP has taken significant steps toward implementing the guidelines. One such step was the approval of Resolution No. 11 in September 2014, which established heightened requirements for SOEs seeking debt financing. Progress has been also made in reducing the debt held by basic services companies, such as companies providing water, electricity and telecommunication services. Further progress has been made on the first strategic guideline, adopting cost efficiency pricing and tariff policy for ANDE. In furtherance of these initiatives, the CNEP approved an increase in ANDE's electricity tariffs in early 2017, since those tariffs had been last modified in 2002, and failed to cover the cost of energy. New electricity tariffs are intended to cover the average cost of production, and also finance infrastructure projects planned for the next ten years.

According to such process, SOEs submitted efficiency plans for CNEP's approval for the 2015-2017 period. Such efficiency plans served as the basis for reviewing SOE management contracts signed for such two-year period. As of the date of this Offering Memorandum, CNEP is considering analyzing which management tool is more efficient in monitoring public companies.

The project undertaken by the CNEP to review the status of existing corporate governance practices since 2015 resulted in the issuance of Executive Branch Decree No. 6381/16 (Code Arandú), which regulates and formalizes the mandatory adoption of uniform principles of corporate governance in order to ensure SOEs follow international standards (such as the OECD principles of Corporate Governance for SOEs and Guidelines for Best Corporate Governance of CAF State Companies) to promote a legal, regulatory and institutional environment that favors the best practices of corporate governance for state-owned enterprises.

In the field of public procurement, Decree No. 5520/16 establishes guidelines for public contracting by SOEs and corporations, and governs engagement in commercial activities that require SOEs to perform as suppliers in competitive markets and which present the opportunity for such SOEs to improve their competitive position in the market. In addition, it establishes the SOEs' obligation to report on the public contracting process that was carried out to the CNEP, within 30 calendar days after the award resolution.

The reform of the SOEs Accounts Plan, as well as its harmonization, could not be implemented due to the significant delay in the reform of the Integrated System of the Administration of State Resources (SIARE). The Ministry of Finance is working with the SOEs achieving implementation and have a new proposed goal of implementing these by 2023. As of December 1, 2021, the physical progress of the project is approximately 70% complete.

In addition, the Integrated System of Management Indicators (SIGIGEP) is designing, with the support of the Inter-American Development Bank and the Organization of Ibero-American States, a consulting agency that will be implemented by the DGEP. The project was completed in December 2019.

Public-Private Partnerships (Law No. 5102/13)

The Paraguayan government, through the MOPC, signed the PPP Contract No. 01/17 on March 14, 2017 for the design, financing, construction, maintenance and operation of national Route 2 (Ypacarai - Coronel Oviedo)

and 7 (Coronel Oviedo – Km 183) (the "Routes 2 y 7 Project"). The Routes 2 and 7 Project is the first PPP project undertaken by the Paraguayan government and aims to improve the efficiency and quality of Paraguay's infrastructure.

The estimated cost of the Routes 2 and 7 Project is US$527 million and includes nine segments and eleven sub-segments of national routes 2 and 7, all of which have a corresponding PDI (as defined below). In 2019, the MOPC issued an order to proceed with phases 3, 4 and 5 of the Routes 2 and 7 Project. In December 2020, the MOPC signed the second addendum to the contract for the Routes 2 and 7 Projects. As of the date of this Offering Memorandum, the MOPC is working on a third addendum, which modifies the construction project as a result of the changes requested by several municipalities affected by the project's layout. As of December 31, 2021, the physical progress of the project is 70% complete.

The contract for the Routes 2 and 7 Project was awarded to "Rutas del Este" S.A., a special purpose vehicle (SPV) partially owned by each of the following entities: the Spanish construction company Sacyr Concesiones S.L. (60%), the Portuguese construction company Mota Engil S.A. (20%) and the Paraguayan construction company Ocho A S.A. (20%). In October 2018, Mota Engil S.A. exited the Routes 2 and 7 Project, leaving Sacyr Concesiones S.L. and Ocho A S.A. with 60% and 40% ownership of "Rutas del Este" S.A., respectively.

In July 2019, Rutas del Este S.A. and its financing parties achieved the financial closing of the Routes 2 and 7 Project. An addendum to the PPP agreement was executed on November 28, 2018, amending certain provisions relating to the project's financing. In October 2019**,** the Routes 2 and 7 Project secured project financing through a credit facility of US$200 million granted by IDB Invest (IDB Private Sector) and the issuance by the project company of a US$458 million zero coupon senior secured note. Payments for the project will be made by the Paraguayan government once the milestones are completed and accepted by the MOPC.

The Routes 2 and 7 Project agreement requires the government to make three different types of periodic payments to "Rutas del Este" S.A. , each type of payment being linked to the achievement of certain milestones: (i) deferred investment payments (PDI) over 15 years, (ii) availability payments (PPD) for operations and maintenance and (iii) traffic related payments (PVT). Milestone 0 does not require a proportional PPD payment since it is not subject to maintenance or operation by the project company.

As of the date of this Offering Memorandum, the MOPC has approved the pre-feasibility studies for the opening, dredging, signaling, operation and maintenance of the Paraguay River waterway for an amount of US$110 million. Further, the MOPC has the following projects under the PPP modality under initial study and structuring: (i) the expansion of Route 1 (between the Cuatro Mojones and Quiindy sections), (ii) the improvement, expansion and operation of Route 6 (a 60km route between Cambyretá and Pirapó Access) and (iii) the development of a passenger commuter train between the cities of Asunción and Ypacarai.

On October 20, 2020, the Paraguayan government enacted a decree incorporating various best practices learned by Paraguay in the implementation of PPP projects, such as mandatory prequalification, competitive dialogue, abbreviated processes in the issuance of opinions and variable term contracts, among others.

Turnkey Projects (Law No. 5074/13)

Since 2013, Paraguay's regulatory framework for turnkey projects allows the government, through the MOPC, to assume payment obligations either (i) upon total completion of the public works or (ii) upon completion of milestones. The payment obligation described on (ii) above is known as a *Certificado de Reconocimiento de Obligación de Pago* ("CROP"), which are issued upon acceptance by the government of the satisfactory completion of a milestone. CROPs represent Paraguay's unconditional and irrevocable recognition of its payment obligation, maturity dates, and payment method. CROPs bear the sovereign guarantee (full faith and credit) of Paraguay. Each CROP expressly precludes all set-off rights, and states that all payment obligations arising therefrom shall have no relation to any termination events or breaches that may be incurred in the construction of the remaining sections (milestones) of the relevant project. Each CROP accrues interest from the date of the issuance of an *Acta de Recepción Provisoria* ("ARP"), which is an MOPC ministerial resolution accepting the works related to the milestone. The payment rights arising under the CROPs are governed by Paraguayan law, transferable upon authorization by the MOPC.

Between 2017 and 2019, the government entered into agreements setting out the terms of three of the turnkey projects contemplated under Law No. 5074/13: (i) the construction and paving of the San Cristobal - Naranjal Segment - Route N ° 6 in 2017 (ii) a project for the design and construction of a new road between Loma Plata and Carmelo Peralta (the "Corredor Bioceanico Project") in 2018, and (iii) a project for the design and construction of Avenida Costanera Sur of Asunción in 2019. The MOPC is also considering the application of the "turnkey" model to additional projects, such as the construction of the second stage of the Corredor Bioceanico Project (Loma Plata - Pozo Hondo). The project for the construction and paving of San Cristóbal - Naranjal - Route No. 6 Section began in May 2017 and was completed in August 2019 and all tranches have been delivered by the contractor to the government. The total cost of the project was US$46 million. The MOPC has issued 5 CROPs as a result of the completion and delivery of all functional segments for the project.

On May 11, 2018, the MOPC and the *Consorcio Corredor Vial Bioceánico*, formed by the Brazilian construction company Constructora Queiroz Galvão S.A., and the Paraguayan construction company Ocho A S.A, entered into an agreement for the Corredor Bioceanico Project the execution of which is underway as of the date of this Offering Memorandum. The project includes 20 construction milestones, all of which, once completed, will trigger the MOPC's obligation to issue the respective CROPs. The project contract has established the price for each milestone, the sum of which amounts to US$443 million. As of December 1, 2020, 16 of the 20 construction milestones for the Corredor Bioceanico Project had been completed and the corresponding CROPs have been issued. As of December 11, 2021, the physical progress of the project is 93% complete.

In October 2019, the MOPC and the Consorcio del Sur, a consortium formed by the Spanish company Eurofinsa S.A. and the Paraguayan Ingeniería TyC S.A, entered into an agreement for the design and construction of Avenida Costanera Sur in Asunción. The contract was amended on April 30, 2020, temporarily suspending contractual obligations through July 30, 2020. In July 2021, the financial closure of the "Costanera Sur Project" was achieved between Banco Itau Paraguay S.A. and Consorcio del Sur.

An international tender is expected to commence for ANDE's electric power distribution and transmission projects under Law No. 6324/19, which will grant a guarantee from the National Treasury of US$300 million. Bidders participating in the international tender must have the necessary financing secured for the complete execution of the works, their respective projects, as well as consultancies and audits. As of the date of this Offering Memorandum, the Ministry of Finance is coordinating with the National Electricity Administration the bidding documents for the future tender under the Law No. 6324/2019.

Environment

The Constitution establishes the right to have a clean and safe environment and further provides that this right must be balanced with the right to social and economic progress. The Constitution also forbids the importation of toxic waste.

The Ministry of the Environment and Development (*Ministerio del Ambiente y Desarrollo* – "MADES") is responsible for developing a national environmental policy. MADES is the enforcement authority under the Office of Environmental Control, which is responsible for the protection of the environment and the evaluation of projects that may have a potential adverse impact on the environment. A report containing specific information about the ecological impact of such projects must be submitted to the Office of Environmental Assessment. Once the report is evaluated, the Office of Environmental Assessment either approves the project or proposes alternatives to minimize or eliminate the adverse effects on the environment. If the approval is not granted or if the Office of Environmental Assessment's alternatives are not satisfied, the project will not be authorized by the government.

Paraguayan environmental law regulates the establishment of national forests and natural reserves, reforestation plans, and the administration of forest resources and programs to prevent erosion. Paraguay also offers tax incentives to encourage reforestation and the preservation of forests.

The National Service of Environmental Health, an agency of the Ministry of Health and Public Welfare, regulates waste disposal and water, air, and land pollution and treatment, including the construction of treatment plants for waste recycling. The National Service of Environmental Health has the power to initiate administrative

investigations concerning the contamination of water, air and land, impose fines and shut down industries or establishments causing damage to the environment.

Environmental Concerns and Remedial Efforts

Environmental studies and assessments made over the past years have indicated that Paraguay faces serious and growing environmental problems. Cumulative effects of the misuse of natural resources have seriously compromised the sustainability of natural ecosystems, air quality, water and land. Water is one of the most important natural resources and groundwater provides 80% of Paraguay's drinking water supply. The quality of groundwater and surface water has deteriorated as a result of inappropriate land use, pollution of aquifer recharge areas, misuse of toxic agrochemicals and inappropriate disposal of household and industrial waste.

Deforestation, which has increased in recent years, causes erosion. In addition, deforestation has led to the degradation and depletion of soil as a result of improper use of the land in agriculture and infrastructure projects. Deforestation has also resulted in the unplanned expansion of urban areas, which, in turn, leads to inadequate waste management. Other adverse impacts of deforestation include loss of wildlife habitat, loss of biodiversity and the disruption of water cycles.

Since 1998, certain acts against the environment are criminally punishable offenses. The criminal code penalties include fines and imprisonment. A national prosecutor is responsible for investigating and prosecuting environmental offenses under the criminal code.

Current environmental regulation includes two 2006 statues that promote the conservation, protection, recovery and sustainable development of Paraguay's biodiversity and natural resources through the evaluation and fair remuneration of timely and adequate environmental services, and direct funding of conservation projects. With Paraguay's entrance into the Paris Agreement, the country has committed to a 10% reduction of its greenhouse gas emissions, and another 10% reduction if it obtains the international cooperation in financing and technology transfer from developed countries contemplated by the Paris Agreement.

Another important environmental initiative is the Project for a Sustainable Paraguay (*Proyecto Paraguay Sostenible*), a five-year, US$30 million project in conjunction with the World Bank which is expected to take effect in 2022. This initiative is aimed at promoting greater transparency regarding environmental issues, reducing deforestation while increasing natural regeneration, and increasing national agricultural production to create greater sustainable biomass.

Construction of the Itaipú and Yacyretá dams led to periodic flooding of adjacent areas. Itaipú and Yacyretá binationals compensated the population affected by the floods by purchasing the flooded land. In addition, from time to time each of the binational companies implements remedial measures to mitigate any environmental damage that the operation of hydroelectric plants could cause, such as reforestation of adjacent areas and conservation of the underwater ecosystem.

Throughout mid-2019, forests in Paraguay suffered widespread bushfires, including in Alto Paraguay, a region hosting the largest public and private protected areas in the country. Approximately 325,000 hectares were affected in Alto Paraguay, mainly in the areas of the Cerro Chovoreca Natural Monument and the Park National Río Negro. Forest fires affected biodiversity of the affected areas, livestock establishments, small settlements and ancestral territories of indigenous communities. These bushfires have been attributed to slash-and-burn agriculture, a common practice in Paraguay, which was aggravated by adverse weather conditions, such as droughts and strong winds. In 2020, there were several fire outbreaks throughout Paraguay, largely due to a combination of high temperatures, low humidity, and high wind speeds. This trend continued through 2021. August 2021 was the most critical period for forest fires, particularly in the Occidental region of the country. As in 2020, the fire outbreaks throughout Paraguay in 2021 were largely due to a combination of high temperatures, low humidity and a lack of rain.

Recently, Law No. 6676/20 was enacted, which establishes a 10-year extension on the prohibitions on transforming forest areas in the eastern region of Paraguay to areas destined for agricultural use, human settlements, production, transport and the commercialization of wood, firewood, charcoal, or any other forest product.

Employment and Labor

The labor force in Paraguay increased from 2.9 million in 2011 to 3.72 million in 2020. The labor force includes any person above the age of 15 who is currently employed or looking for employment. In the third quarter of 2021, 3.71 million people were employed, compared to 3.61 million in the third quarter of 2020. The national labor rate was 71.4%, 0.7 percentage points higher than in the third quarter of 2020.

The following table sets forth certain information related to the employment in the main sectors of the Paraguayan economy for the indicated years.

Employed Population (1)

	As of December 31,				As of September 30,	
	2017	**2018**	**2019**	**2020**	**2020**	**2021**
Primary Sector	**20.1**	**20.1**	**19.7**	**20.8**	**23.5**	**18.2**
Agriculture, Livestock, Hunting and Fishing	20.2	20.1	19.7	20.8	23.5	18.2
Secondary Sector	**19.6**	**18.7**	**18.7**	**18.8**	**18.0**	**18.7**
Manufacturing	11.7	11.5	10.9	10.0	10.0	11.1
Construction	8.0	7.2	7.8	8.8	8.0	7.6
Services Sector	**60.2**	**61.2**	**61.6**	**60.7**	**57.8**	**62.5**
Trade, Restaurants and Hotels	27.2	26.0	26.5	26.7	24.5	27.7
Community, Social and Personal	23.5	25.0	25.5	24.6	23.3	25.6
Others(2)	9.5	10.2	9.6	8.4	10.0	9.2
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

(1) Includes any person above the age of 15 who is currently employed.
(2) Includes Electricity, Gas and Water, Transport, Storage and Communications, and Finance, Insurance and Real Estate.
Source: Bureau of Statistics and Census.

As of December 2021, there were roughly 990 labor unions active according to the Ministry of Labor, Employment and Social Security. The Constitution provides that workers have a right to strike when disputes among workers and employers are not settled according to the process established by the labor law. However, workers that provide essential services such as water, electricity and hospital services are limited in their right to strike. The Constitution does not allow members of the military and police to strike. Strikes and other labor actions by unions have tended to be brief and they occur infrequently.

Employment

The labor force in Paraguay increased from 2.9 million in 2011 to 3.72 million in 2020. The labor force includes any person above the age of 15 who is currently employed or looking for employment. The unemployment rate for 2020 was 7.2%, compared to 6.5% in 2019. As of the third quarter of 2021, the unemployment rate was 5.7%, a decrease of approximately 1.6% compared to the same period in 2020. In nominal terms, as of the third quarter of 2021, unemployment affected approximately 242,000 people, of which about 119,000 were men and 123,000 were women.

Approximately 45.1% of the employed people above the age of 15 who receive a salary or worked as employees were covered by a retirement or pension system in 2020. More men (57.2%) were covered by a retirement or pension system than women (42.8%). This discrepancy is a result of the predominance of female workers in the services sector, which includes all public sector institutions, like education and health.

The percentage of people employed in an occupation classified as informal was 64.2% in 2013 and 63.1% as of the third quarter in 2021, according to quarterly data from the Bureau of Statistics and Census. The definition

of "informal occupation" adopted by the Bureau of Statistics and Census includes public and private employees who do not contribute to the retirement or pension system; employers whose company is not registered in the Unique Taxpayers Registry (RUC) of the Ministry of Finance, self-employed workers that are not registered in the RUC, unpaid family workers, and domestic employees who do not contribute to the retirement system, but excludes agricultural workers.

The estimated underemployment rate was 7.2% in 2020. Underemployed individuals are those who are unable to obtain full-time work, if they work fewer than 30 hours per week and are actively seeking more hours of employment. As of the third quarter of 2021, the underemployment rate was 5.4%, an increase of approximately 3.8% compared to the same period in 2020. In nominal terms, as of the third quarter of 2021, underemployment affected approximately 179,000 persons.

However, the labor market is segmented, where formal jobs with highly trained employees and working conditions above the national average exist on the one hand, and on the other hand there is a large segment of the labor market that can be characterized as informal, unskilled and with earning wages below the legal minimum.

The following table sets forth certain information referring to unemployment and underemployment for the periods indicated.

Estimated Unemployment and Underemployment (percentage)

	As of December 31,				As of September 30,	
	2017	**2018**	**2019**	**2020**	**2020**	**2021**
Unemployment rate	5.9	6.2	6.4	6.9	8.2	6.5
Underemployment rate	5.4	5.4	7.1	6.8	9.2	5.4

Source: Bureau of Statistics and Census.

Wages

Workers of 18 years of age or older and formally employed are entitled to a minimum monthly wage of approximately US$324.6. Based on the 2020 annual employment survey, 63.5% of the employed population receiving a salary or working as an employee receive a monthly salary that is equal at least to the monthly minimum wage.

The minimum wage is set by the National Commission of Minimum Wage, which is composed of eight members, including two representatives of workers, two representatives of employers and four representatives of the government. The minimum wage is adjusted annually in June by the Executive Power, on the proposal of the National Commission of Minimum Wage, based on the year-over-year variation of the CPI. In 2021, the executive branch decided to increase the salaries and wages of the private sector in accordance with the provisions set forth in Decree No. 5562/2021. The increase was 4.4%, after accounting for inflation.

Along with the minimum wage, Paraguayan workers are also entitled to various benefits in the workplace, such as social security, health and severance benefits.

Unless otherwise indicated, the following table sets forth annual changes in the wage index for the periods indicated.

Changes in Nominal Wages[(1)]

Year	% Change
2013	5.0
2014	6.9
2015	2.9
2016	5.7
2017	3.5
2018	6.0
2019	3.2
2020	1.1
2021	2.7

(1) Wage index based on survey conducted by the Central Bank.
Source: Central Bank.

Wages in the public sector increased by 30% in 2012, primarily as the result of upward adjustments to salaries of police, military, teachers, public healthcare personnel and civil servants in the executive branch. No adjustments of public sector wages were made in 2013, 2014 and 2015, other than for police and military forces who had a wage increase. In 2016 and 2017 there were no adjustments of public wages, and in 2018 public teachers and public health employees received wage increases. Although the 2020 Annual Budget included wage increases of 16% for public school teachers, these increases were suspended due to the economic and fiscal effects of the COVID-19 pandemic. The 2022 Draft Budget approved by Congress mandates a 5% wage increase for public teachers.

Education

The total literacy rate in Paraguay was 94.5% in 2020.

The following table sets forth the illiteracy rate of individuals of 15 years or older for the years indicated.

Illiteracy Rate

	2016	2017	2018	2019	2020
	(in percentages of total population)				
Illiterate	5.4	5.8	6.0	6.8	5.5

Source: Bureau of Statistics and Census.

In 2011, the government sanctioned free, mandatory primary and middle school education. In addition, three-year secondary schooling is available to all Paraguayan citizens and the government provides substantial subsidies for the National University, with students responsible only for nominal examination fees.

Under the Constitution, at least 20% of the expenditures in the central government's annual budget must be allocated to education. See "Public Sector Finances—Budget Process" for more information on the central government's budget. New educational programs for public primary schools include teacher training and free distribution of textbooks. In 2013, a program providing for two school meals per day was implemented in public schools to alleviate food deficiency for school-age children. In addition, in February 2016, the IDB approved a US$20 million credit to finance an initiative to implement an 8-hour school day and the Scholas methodology (a method approved by Pope Francis in 2013, whose mission is to achieve the integration of communities, with special

focus on the poorer ones, by committing all social actors and incorporating schools and educational networks worldwide to technological, sports and artistic proposals) that will benefit approximately 156,000 students in several educational institutions across the country. New programs at the university-level include international exchange programs, need- and merit-based scholarships and the establishment of research institutes.

Until the early 1990s, there were only two universities in Paraguay, the public National University and the Catholic University of Asunción. In recent years, the government has authorized through law the establishment of new private universities. As of the date of this Offering Memorandum, there were 47 private universities established in Paraguay, some of them servicing rural areas.

The following table sets forth the level of education achieved by Paraguayan citizens of 15 years of age or older for the periods indicated.

Educational Levels

	2016	2017	2018	2019	2020
			(in percentages)		
Population uneducated	2.7	2.6	2.6	2.3	2.3
From 1 to 6 years of study	34.6	34.0	32.8	31.3	30.7
From 7 to 12 years of study	43.2	42.8	42.7	43.0	44.1
From 13 to 18 years of study	19.6	20.6	22.0	23.1	22.9

Source: Bureau of Statistics and Census (2019).

Non-attendance in school increases with age, and 72.3% of those 19 to 25 years old did not study as of 2020. For those between 13 and 18 years old, this rate drops to 16.8%, and 1.1% for those between 5 and 12 years old. Non-attendance in school is higher in the poorest segment of the population. Approximately 78.9% of people 5 years and older attend public institutions, while 21.1% attend private institutions; 95.7% of the poor attend public institutions, together with 71.2% of the non-poor.

The average number of years of education of people aged 15 years and over is 9.6. This average is clearly differentiated by poverty level, with the non-poor having an average of 10.2 years of schooling while the non-extreme poor have an average of 7.8 years and the extreme poor an average of 6.7 years of schooling.

The government is developing a comprehensive educational reform plan known as National Plan for Educational Transformation 2030 (the "Education Plan 2030") which aims to improve the quality of education and will serve as the primary public policy in education for the next decade. Initially approved in 2017, the Education Plan 2030 is being led by the Ministry of Education and a strategic committee consisting of representatives from the Ministry of Finance, the Technical Secretariat for Economic and Social Development Planning, the Management Unit of the Presidency of the Republic, and members of civil society. The Ministry of Education is conducting public hearings to promote dialogue on educational policies in different sectors of the population, and is collaborating with national specialists, foreign universities and local organizations to obtain assistance in developing the Education Plan 2030. The implementation of a comprehensive reform in education is essential to achieve quality, equity and inclusion in Paraguay's educational curriculum.

Poverty and Income Distribution

According to data of a survey conducted by the DGEEC in 2020, 26.9% of the Paraguayan population was considered to live in poverty, including 3.9% considered to be extremely poor. Most people in these two categories are located in rural areas.

Based on DGEEC's classifications, the poor people in urban areas received a monthly income of approximately US$105.2 or less, and the extremely poor received a monthly income of approximately US$40.2 or less. In rural areas, poor people received a monthly income of approximately US$74.8 or less, and the extremely poor received a monthly income of about US$36.7 or less. Poverty in Paraguay is primarily attributable to relatively

low levels of education and economic activity. In 2020, according to INE, 5.5% of the Paraguayan population was illiterate (with "illiterate" defined as an individual older than 15 years old who cannot read and write).

In 2020, 26.9% of the population was living in poverty or extreme poverty, as noted above. Before 2020, this percentage has generally declined over the past years, with total poverty rates at 23.5% in 2019, 24.2% in 2018, 26.4% in 2017 and 28.9% in 2016. The increase in the percentage of people living in poverty in 2020 was driven by the crisis generated by the COVID-19 pandemic. In 2020, people living in extreme poverty represented 3.9% of the population, compared to 4.0% in 2019, 4.8% in 2018, 4.4% in 2017 and 5.7% in 2016.

The following table sets forth the percentages of those living in poverty and extreme poverty for the periods indicated showing a sustained reduction since 2016.

Poverty and Extreme Poverty Rates
(in percentages of the total population)

	2016	2017	2018	2019	2020
Total poverty	**28.9**	**26.4**	**24.2**	**23.5**	**26.9**
Extreme poverty	5.7	4.4	4.8	4.0	3.9
Non extreme poverty	23.1	22.0	19.4	19.5	23.0
Non poverty	**71.1**	**73.6**	**75.8**	**76.5**	**73.1**

Source: Bureau of Statistics and Census.

Poverty reduction in recent years has been accompanied by an expansion of the middle class, which included approximately 1.4 million people (21.7% of the population) in 2011, but had grown to approximately 2 million (29.5% of the population) by 2019, an overall increase of 44.2% of the Paraguayan population considered to be middle class during this period. In 2020, as a result of the COVID-19 pandemic, the middle class contracted to approximately 1,850 million (25.9%) of the population.

Despite improvements in the reduction of poverty, inequality remains a problem for Paraguay. The Gini-index, the most commonly used measure of inequality, ranges from 0, which represents complete equality, to 1, which represents complete inequality. Paraguay's Gini index was 0.437 in 2020, 0.458 in 2019, 0.461 in 2018, 0.488 in 2017 and 0.482 in 2016.

The average monthly household income in 2020 was approximately G.4,629 thousand (approximately US$683.7). The disposable income for the wealthiest 20% of Paraguayans is 6 times higher than the total disposable income of a household in the poorest quintile.

The following table sets forth the average monthly income by monthly per capita income quintiles for the periods indicated.

Average Monthly Income
(in US$)

	2016	2017	2018	2019	2020
Lowest 20%	$193.29	$226.51	$238.85	$220.76	$206.51
20% below	364.96	410.98	435.94	392.18	343.81
20% below	533.01	585.42	633.18	608.83	496.67
20% below	757.03	825.36	877.50	837.75	695.94
Top 20%	1,697.49	1,922.77	1,787.72	1,640.58	1,331.17
Total	**$796.01**	**$892.45**	**$890.51**	**$829.64**	**$892.45**

(1) Calculated based on the annual average exchange rate.
Source: Bureau of Statistics and Census.

The government has created programs to address poverty, including Tekopora and a pension for older adults living in extreme poverty, and has promoted healthcare accessibility. The main purpose of Paraguay's National Health System, established under the Constitution, is to allocate funds and medical resources to provide for those in need of medical assistance.

Tekopora is a monthly cash transfer with co-responsibilities granted by the Social Action Secretariat to previously selected families. It is intended for households living in extreme poverty in urban and rural areas and seeks to ensure access to health, education and food security for children, pregnant women, the elderly, indigenous communities and people living with disabilities. As of December 2021, 165,870, families were receiving benefits under the Tekopora program.

The Food Pension for Seniors in Poverty Law, which became effective in 2012, establishes the right to maintenance for senior adults in poverty who do not receive state pension or retirement payments, and it determines pension payments for people aged 65 and over, corresponding to 25% of the minimum wage. As of December 2021, approximately 253,647 were receiving pension payments.

The government also allocates funds to provide those in need with education, vocational work training and basic services.

The National Vocational Promotion Service (the "SNPP") is an agency under the Ministry of Labor, Employment and Social Security created in 2013, which offers courses designed for people of different levels of education and belonging to different sectors of the economy. The services are provided through use of the SNPP's headquarters, regional and sub-regional collaborating centers and mobile units that can reach anywhere in the country. Its primary objectives are organization, promotion and development of vocational training, qualifying workers of both sexes (preferably over 18 years old) and preparing them to enter a variety of professions.

Paraguay's Competitive Advantages

In comparison with other countries in South America, Paraguay presents a number of competitive advantages in terms of input costs, as illustrated in the following table.

Item	Paraguay	Brazil	Argentina	Chile
Energy Cost (c$/kWh)[1]	6.6	16.8	10.8	10.2
Indirect Tax Rate[2]	10.0%	17.0%	21.0%	19.0%
Corporate Tax Rate[3]	10.0%	34.0%	35.0%	10.0%
MFN Applied Tariff: Trade-Weighted Average[4]	9.6%	13.3%	13.4%	6.0%
Social Security Contribution[5]	25.5%	31.0%	40.0%	10.0%

(1) Doing Business 2020, Comparing Business Regulation in 190 Economies. https://www.doingbusiness.org/en/doingbusiness.
(2) CIAT (2021). Indirect taxation on the digital economy and its potential revenue in Latin America.
(3) Tax Foundation (2021), Report: Corporate Taxes around the World, 2021, Fiscal Fact No. 783, Nov. 2021. Source: Tax Foundation.
(4) World Tariff Profiles 2021. WTO, ITC, UNCTAD. SPECIAL TOPIC Non-tariff measures: Estimating analytical indicators using UNCTAD's Trade Analysis Information System (TRAINS).
(5) Social Security Contribution is the sum of the contribution to the social security system of the employer and the employee, and assumes contribution level for the highest wage brackets. Source for Argentina, Brazil and Chile: "Pensions at a Glance – Country Profiles – OECD Publishing, 2019." Source for Paraguay: "IPS, Legal Statutes, 2013."

Paraguay has the second lowest electricity costs in South America, as well as both the lowest indirect and corporate tax rates in South America, at 10% each. In addition, labor costs in Paraguay are also low, with a minimum wage of approximately US$1.6 per hour, and Paraguay has a youthful labor force, with approximately 25.6% of its population between the ages of 20 and 34.

BALANCE OF PAYMENTS AND FOREIGN TRADE

Balance of Payments

In 2017, Paraguay recorded a balance of payment surplus of US$877 million (2.2% of GDP), as a result of surplus in the current account and the capital account with a net inflow in the financial account. In addition, Paraguay's export of electricity contributed to maintaining a current account surplus during this period. In 2018, Paraguay registered balance of payment deficit of US$ 183 million (0.4% of GDP) mainly as a result of a deficit in the current account due to a lower trade surplus, a higher deficit in the service sector and a higher deficit in net income.

In 2019, Paraguay recorded a balance of payments deficit of US$54.9 million (0.1% of GDP), mainly as a result of a deficit in the current account due to a lower trade surplus and a higher deficit in the service sector. The lower trade surplus in 2019 was mainly due to adverse weather conditions, which negatively influenced agricultural production and electricity generation, coupled with a decrease in the price of Paraguay's main export commodities.

In 2020, Paraguay recorded a balance of payments surplus of US$1,805.2 million (5.0% of GDP), resulting primarily from a higher surplus in the current account due to a sharp decrease in net imports that exceeded the decrease in exports. Imports and exports in 2020 decreased compared to 2019 due to a combination of internal and external factors, including, but not limited to, a decrease in the electricity sector due to adverse weather conditions, a decrease in imports of goods for domestic consumption as a result of the COVID-19 pandemic and lower international oil prices.

In the third quarter of 2021, Paraguay recorded a balance of payments surplus of US$374.6 million (1.4% of GDP), compared to the third quarter of 2020, where Paraguay recorded a balance of payments surplus of US$1,239.2 million (4.5% of GDP), mainly as a result of a decrease in the current account surplus. A sharp increase in imports in the third quarter of 2021 moderated the trade balance, mainly as a result of a surplus in the current account due to a higher trade surplus, as well as a surplus in the service sector.

The Central Bank's international reserves increased by US$1.8 billion from 2017 through 2021, which resulted in total international reserves of US$9.95 billion as of December 31, 2021.

The total international reserves of Paraguay in December 2020 represented 26.1% of GDP, and provided approximately 14.3 months of coverage for imports of goods and services (excluding goods imported for re-export). In the nine month period ended September 30, 2021, international reserves represented 37.2% of total GDP and provided approximately 12.4 months coverage for imports of goods and services (excluding goods imported for re-export), compared to the same period in 2020, where international reserves represented 32.8% of total GDP and provided approximately 13.6 months of coverage for imports of goods and services (excluding goods imported for re-export).

The global economic slowdown and disruptions in global supply chains, particularly in manufactured goods, attributable to the COVID-19 pandemic had an adverse effect on Paraguay's foreign trade performance. However, in the 11-month period ended November 30, 2021, trade along our borders rebounded as a result of the ease of the restrictions adopted to limit the spread of COVID-19. This had a positive impact on our total export, re-exports in particular. This situation also had an impact on the growth in exports of key products such as soybeans and meat. Imports increased as a result of the rebound of imports for internal use and imports for use by the tourism sector and destined for re-exports and as a result of higher international prices for oil products.

As of December 2021, the Central Bank of Paraguay published data for the Balance of Payments in accordance with the fifth and sixth edition of the IMF's Balance of Payments and International Investment Position Manual (BPM5 and BPM6). The following data and descriptions are presented according to the methodology set by the BPM6.

Balance of Payments[1]

	12-month period ended December 31,				Nine-month period ended September 30,	
	2017	2018	2019	2020	2020	2021
Current account	**1,411.8**	**(159.4)**	**(145.8)**	**843.7**	**636.0**	**721.0**
Trade balance[2]	1,688.7	573.1	203.5	1,225.8	981.6	1,311.3
Exports	12,987.2	13,181.6	12,116.3	10,954.9	8,065.1	10,031.9
Imports	11,298.6	12,608.6	11,912.8	9,729.2	7,083.5	8,720.6
Services balance	438.5	(18.8)	194.0	252.3	155.4	(2.3)
Manufacturing services on physical inputs owned by others	188.1	238.3	246.6	223.3	129.3	255.2
Transportation	(202.5)	(367.0)	(206.0)	7.0	14.6	(241.8)
Travel	420.4	112.0	136.4	(10.7)	(5.5)	(28.7)
Other services[3]	32.4	(2.1)	17.0	32.7	17.0	13.0
Primary income	(1,295.6)	(1,354.1)	(1,120.5)	(1,157.6)	(889.4)	(963.1)
Secondary income [4]	580.2	640.4	577.3	523.2	388.5	375.1
Capital account	**166.3**	**152.6**	**151.1**	**171.7**	**121.5**	**165.7**
Net lending (+) / net borrowing (-)	**1,578.1**	**(6.8)**	**5.3**	**1,015.5**	**757.4**	**886.7**
Financial account	**26.2**	**(725.3)**	**(140.0)**	**(1,406.4)**	**(559.6)**	**30.1**
Direct investment[5]	(78.5)	(279.5)	(350.9)	(120.0)	(156.4)	(118.3)
Direct investment assets[6]	420.0	(85.7)	(7.0)	(27.1)	(122.3)	(189.6)
Direct investment liabilities[7]	498.5	193.8	343.9	92.9	34.0	(71.3)
Portfolio investment[8]	(486.0)	(520.0)	(409.0)	(2,162.9)	(1,801.4)	(496.4)
Financial derivatives (other than reserves)	0.0	0.0	0.0	0.0	0.0	0.0
Other investment	590.7	74.2	619.9	876.6	1,398.2	644.8
Assets	177.4	(44.3)	168.4	1,292.3	1,290.8	232.9
Other equity	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	137.2	(78.3)	140.8	1,210.1	1,244.7	(19.9)
Loans	3.4	2.3	(20.4)	43.7	5.1	220.2
Insurance, pension entitlements and provisions for calls under standardized guarantees	0.0	0.0	0.0	0.0	0.0	0.0
Trade credit and advances	36.4	28.4	33.0	38.2	34.3	34.8
Other accounts receivable	0.5	3.2	15.0	0.4	6.6	(2.2)
Liabilities	(413.3)	(118.5)	(451.5)	415.7	(107.4)	(411.8)
Other equity	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	4.2	4.2	4.2	4.2	2.2	2.2
Loans	(476.5)	(97.2)	(467.8)	447.2	(50.8)	(629.8)
Insurance, pension entitlements and provisions for calls under standardized guarantees	0.0	0.0	0.0	0.0	0.0	0.0
Trade credit and advances	31.9	41.9	22.0	35.5	24.5	27.2
Other accounts payable	27.1	(67.4)	(9.9)	(71.1)	(83.4)	(83.7)
SDR allocations	0.0	0.0	0.0	0.0	0.0	272.2
Errors and omissions	**(674.8)**	**(901.5)**	**(200.2)**	**(616.6)**	**(77.8)**	**(481.9)**
Total balance of payments	**877.0**	**(183.0)**	**(54.9)**	**1,805.2**	**1,239.2**	**374.6**

(1) Preliminary data.
(2) Includes Itaipú Binational and Yacyretá Binational electricity exports.
(3) Other services include diplomatic services, banking and insurance commissions (including insurance and reinsurance premiums) from commercial transactions outside of Paraguay and communications services.
(4) Net debits and credits of worker remittances and donations.
(5) Includes private sector and National Treasury.
Source: Central Bank.

Current Account. In the nine month period ended September 30, 2021, Paraguay recorded a current account surplus of US$721.0 million (2.7% of GDP) compared to a current account surplus of US$636.0 million in the same period in 2020, mainly attributable to the increase in the trade balance surplus. In 2020, Paraguay recorded a current account surplus of US$843.7 million (2.3% of GDP) compared to a current account deficit of US$145.8 million (0.4% of GDP) in 2019, mainly attributable to a large surplus in the trade balance. In 2018, Paraguay recorded a current account deficit of US$159.4 million (0.4% of GDP), while in 2017, Paraguay recorded a current account surplus of US$1,411.8 million (3.6% of GDP), caused by a larger trade balance surplus.

Trade. The trade balance includes electricity exports made by Itaipú Binational and Yacyretá Binational, drawn from unutilized production capacity.

Services. The services balance of Paraguay's current account comprises three components, namely transportation, travel and other services. Transportation makes up the key component of the services balance. The transportation component of Paraguay's services balance reflects payments made for the use of foreign vessels and ground transportation to move merchandise into and out of Paraguay. The net travel component of the services balance records the difference in the expenditures incurred by inbound and outbound tourists travelling to and from Paraguay.

Primary income. The primary income component of the current account consists primarily of: (i) income associated with the production process such as the compensation of employees (income for the contribution of labor inputs to the production process), (ii) taxes and subsidies on products and production (income related to production) and (iii) income associated with the ownership of financial and other non-produced assets such as property income (return for providing financial assets and renting natural resources), investment income (the return for providing financial assets consisting of dividends and withdrawals from income of quasi-corporations, reinvested earnings, and interest).

Primary income maintained a deficit from 2017 to the nine-month period ended September 30, 2021. This was mainly the result of debt service payments by the binational entities, and remittances and dividend payments by majority foreign-owned companies to their foreign shareholders and affiliates.

Secondary income. Secondary income is mainly comprised of workers' remittances and donations submitted and received from abroad and from the public and private sectors. In 2020, accumulated remittances represented 5.1% of Paraguay's total international reserves. As of September 30, 2021, accumulated remittances represented 3.6 % of Paraguay's total international reserves.

Capital account. In the nine-month period ended September 30, 2021, the capital account recorded a surplus of US$165.7 million (0.6% of GDP) compared to US$ 121.5 million in the same period in 2020, mainly as a result of the increase in capital transfers. During the 2017-2020 period, the capital account registered successive surpluses due to the entry of capital transfers.

Financial Accounts. The private sector is a large recipient of capital inflows, mainly through FDI and returns on deposits and loans. FDI is the main long-term source of funds for the private sector. The public sector received a large portion of the capital inflows since 2013 and through 2021, derived from the issuance of sovereign bonds in the international capital markets. In 2017, the financial account recorded net outflows of US$26.2 million (0.1% of GDP). In 2018 and 2019, the financial account recorded a net inflow of US$725.3 million (1.8% of GDP) and US$140 million (0.4% of GDP), respectively, as a result of larger FDI inflows and larger sovereign bond issuances, as compared to the previous years. In 2020, the financial account recorded net inflows of US$1,406.4 million (3.9% of GDP) mainly from proceeds of sovereign bonds issued in the international capital markets and FDI inflows. In the nine-month period ended September 30, 2021, the financial account recorded net outflows of US$30.1 million (0.1% of GDP) compared to net inflows of US$559.6 million in the same period in 2020, mainly as a result of the decrease in net flow inflows of portfolio investments compared to the same period in 2020.

Foreign Trade

Paraguay's cumulative exports (excluding electricity exports) in the 11-month period ended November 30, 2021 totaled US$8,381.6 million, an increase of 34.5% compared to the same period in 2020. The main destination for Paraguayan exports is MERCOSUR, and exports to this region (excluding electricity exports) increased to US$4,692.6 million in the 11-month period ended November 30, 2021 from US$3,229.7 million during the same period in 2020. Exports to MERCOSUR accounted for almost 56.0% of Paraguay's total exports in the 11-month period ended November 30, 2021. Other major destinations for Paraguayan exports are the rest of Latin American Integration Association (the "LAIA"), the EU and Russia.

The second largest destination of Paraguayan exports is the rest of the LAIA, primarily Chile and Peru. Exports to the rest of the LAIA countries increased to US$1,150.8 million in the 11-month period ended November 30, 2021 from an annual average of US$896.2 million during the preceding four years. In the 11-month period ended November 30, 2021, exports to Chile accounted for 79.9% of exports to the rest of the LAIA countries, while exports to Peru accounted for 13.4% of exports to the rest of the LAIA countries.

In the 11-month period ended November 30, 2021, exports to the EU totaled US$439.2 million, accounting for approximately 5.2% of total exports. Compared to the same period in 2020, the value of exports to the EU increased by approximately 25.1% during the 11-month period ended November 30, 2021. The EU also allows Paraguay to export 1,000 tons of beef with a preferential tariff under the Hilton quota arrangement. According to the European Union Meat Market Observatory, Paraguay used 98.3% of the 2016/2017 quota, 96.2% of the 2017/2018 quota and through October 31, 2019, 93.5% of the 2018/2019 quota, 68.04% of the 2019/2020 quota and 63.1% of the 2020/2021 quota. The underutilization of the 2020/2021 quota has been driven by a reduction in exported beef to the EU, largely due to COVID-19 restrictions.

In the 11-month period ended November 30, 2021, exports to Russia increased by 44.8%, to US$653.4 million from US$451.3 million in the same period in 2020. Exports to Russia represented 7.8% of total exports in the 11-month period ended November 30, 2021.

Paraguay's main import trade partners are MERCOSUR members, which accounted for US$4,191.2 million, or 34.4% of total imported goods in the 11-month period ended November 30, 2021, and China, which accounted for US$3,653.5 million, and represented 30.0% of total imported goods in the same period.

According to the IMF, the impact of Argentina's exchange rate volatility on trade with neighboring countries remain uncertain. Foreign exchange controls in Argentina had previously led to a surge in non-declared imports, which appears to have subsided following the lifting of exchange controls in late 2015. Businesses involved in the formal distribution and retail chain had been negatively affected by contraband trade. Exports from Paraguay to Argentina increased since December 2015. Argentina's former president, Mauricio Macri, removed export taxes on agricultural products such as wheat, beef and corn and reduced taxes on soybeans. Although President Macri's administration lifted exchange controls in December 2015, allowing the Argentine peso to float freely, exchange controls were reinstated in September 2019, in anticipation of the October presidential elections, and have been maintained since then.

In September 2020, the Central Bank of Argentina (the "BCRA") tightened conditions for the purchase of foreign currency to prevent hoarding, preserve reserves and discourage demand for the U.S. dollar. The BCRA announced new measures, including a 35% tax on U.S. dollar purchases by retail savers which will apply on top of the existing 30% 'solidarity tax.' This additional levy also affects credit card purchases in U.S. dollars. The existing quota of US$200 per citizen per month, implemented by President Macri's administration in 2019 to exchange currency for the formation of external capital and to transfer funds abroad, remains in place. Despite the currency controls and difficulties faced by Argentines in purchasing U.S. dollars, bilateral exports between Argentina and Paraguay increased by 32.6% as of November 30, 2021 on a year-on-year basis, primarily due to the positive performance of soybeans, oil and flour of soybeans, corn, and yerba mate.

Geographical Distribution of Merchandise Trade

The following table sets forth Paraguay's exports and imports by geographical distribution for the periods indicated.

Exports by geographical distribution

Trade Blocs	12-month period ended December 31, 2017	2018	2019	2020	11-month period ended November 30, 2020	2021[1]	% Change Nov. 2020 - Nov. 2021	% of Total Exports 2021
	Exports by geographical distribution (in millions of US$, FOB value of exports)							
Exports								
LAIA	$ 867.5	$ 878.3	$ 881.2	$ 957.8	$ 869.7	$ 1,150.8	32.3%	13.7%
Chile	629.6	626.2	625.9	769.7	694.0	919.5	32.5	11.0
Peru	119.9	121.6	139.1	99.6	93.4	154.0	64.9	1.8
Bolivia	48.0	54.5	50.7	47.0	42.7	50.0	17.1	0.6
Venezuela	2.6	18.6	2.5	9.7	9.5	1.3	(86.3)	0.0
Ecuador	60.0	44.5	43.8	9.2	8.5	12.1	42.4	0.1
Colombia	6.5	10.7	17.6	22.1	21.1	13.3	(37.0)	0.2
Cuba	0.8	2.2	1.6	0.5	0.5	0.5	0.0	0.0
MERCOSUR	2,019.6	3,021.6	2,697.8	3,518.0	3,229.7	4,692.6	45.3	56.0
North America Free Trade Agreement (NAFTA)	185.8	157.7	180.0	232.9	215.7	205.7	(4.6)	2.5
Central American Integration System (SICA)	15.4	53.3	27.6	34.7	33.6	22.2	(33.9)	0.3
Caribbean Community (CARICOM)	1.0	1.6	0.6	4.5	4.4	0.5	(88.6)	0.0
Rest of the Caribbean	10.8	4.3	12.4	12.3	12.0	11.0	(8.3)	0.1
European Union[2]	1,149.3	823.4	587.8	507.5	351.2	439.2	25.1	5.2
Russia	601.2	783.8	615.1	479.0	451.3	653.4	44.8	7.8
Rest of Europe	59.2	25.1	32.2	24.9	122.9	121.1	(1.5)	1.4
East Asia	260.2	151.4	211.4	274.5	254.0	291.4	14.7	3.5
China	27.6	26.0	10.7	13.8	12.2	28.9	136.9	0.3
South Korea	99.7	29.6	84.3	24.8	23.7	23.6	(0.4)	0.3
Japan	55.7	31.0	30.4	59.9	56.3	42.6	(24.3)	0.5
Rest of East Asia	77.2	64.9	85.9	176.0	161.8	196.3	21.3	2.3
Association of Southeast Asian Nations (ASEAN)	135.7	212.0	140.1	81.6	78.7	91.2	15.9	1.1
Western Asia	636.7	328.8	305.4	260.7	233.7	271.7	16.3	3.2
Gulf Cooperation Council (GCC)	97.4	88.7	88.3	76.9	70.4	49.1	(30.3)	0.6
Other countries of Western Asia	539.3	240.1	217.0	183.8	163.4	222.7	36.3	2.7
Rest of Asia	387.5	340.8	253.6	205.2	200.3	241.8	20.7	2.9
Africa	217.7	131.5	116.3	125.9	112.1	156.1	39.3	1.9
Southern Africa Custom Union (SACU)	3.0	2.3	2.6	2.1	2.0	1.9	(5.0)	0.0
Other countries of Africa	214.7	129.2	113.7	123.8	110.1	154.3	40.1	1.8
Closer Economic Relations (CER)	2.4	2.4	3.9	1.8	1.7	2.5	47.1	0.0
Rest of the World	25.4	17.5	17.9	61.1	59.1	30.4	(48.6)	0.4
Total	**$6,575.3**	**$6,933.5**	**$6,083.3**	**$6,782.2**	**$6,230.0**	**$8,381.6**	**34.5%**	**100.0%**
% Change	3.2%	5.4%	(12.3)%	11.5	-	34.5		

(1) Preliminary data.

(2) For purposes of this table, the United Kingdom is excluded from the European Union category and included in the "Rest of Europe" category for the data corresponding to November 2020 and November 2021.

Source: Integration Division; Ministry of Finance, including data from the Central Bank of Paraguay.

Paraguay is the largest exporter of electricity in South America, with electricity accounting for approximately 15.1% of Paraguay's total exports in in the 11-month period ended November 30, 2021. The destinations for Paraguayan electricity are Brazil and Argentina.

Total Exports and Exports of Electricity

Trade Blocs	12-month period ended December 31, 2017	2018	2019	2020	11-month period November 30 2020	2021	% Change Nov. 2020-Nov. 2021	% of Total Exports 2021
	Exports including binational energy sales (in millions of US$, FOB value of exports)							
Exports								
Mercosur	$4,124.1	$ 5,130.2	$ 4,582.3	$ 5,253.7	$ 4,839.5	$ 6,188.2	27.9%	62.7%
Argentina	1,134.9	2,176.0	1,643.3	2,125.1	2,010.4	2,677.6	33.2	27.1
Brazil	2,775.0	2,808.9	2,836.1	3,023.9	2,736.0	3,315.8	21.2	33.6
Uruguay	214.1	145.3	102.9	104.7	93.1	194.8	109.2	2.0
Rest of the world	4,555.7	3,911.9	3,385.5	3,264.2	3,000.3	3,689.0	23.0	37.3
Total	**$ 8,679.8**	**$ 9,042.2**	**$ 7,967.8**	**$ 8,517.9**	**$ 7,839.9**	**$ 9,877.2**	**26.0%**	**100.0%**

Trade Blocs	12-month period ended December 31, 2017	2018	2019	2020	11-month period ended November 30, 2020	2021
	% of Electricity of Total Export					
MERCOSUR	51.0%	41.1%	41.1%	33.0%	33.3%	24.2%
Argentina	39.5%	21.5%	23.4%	13.8%	13.7%	8.4%
Brazil	59.7%	58.4%	52.9%	47.7%	48.8%	38.4%
Uruguay	-	-	-	-	-	-
Rest of the world	-	-	-	-	-	-
Total	**24.2%**	**23.3%**	**23.7%**	**20.4%**	**20.5%**	**15.1%**

Source: Integration Division; Ministry of Finance, including data from the Central Bank of Paraguay.

Imports by Geographical Distribution

Trade Blocs	12-month period ended December 31, 2017	2018	2019	2020	11-month period ended November 30, 2020	2021[1]	% Change Nov. 2020-Nov. 2021	% of Total Exports 2021
	Imports by geographical distribution (in millions of US$. CIF value of imports)							
LAIA	$ 257.1	$ 249.8	$ 253.6	$ 213.4	$ 192.0	$ 237.4	23.7%	1.9%
Chile	151.9	142.1	131.7	117.8	105.4	108.7	3.1	0.9
Bolivia	55.1	57.4	70.3	43.4	38.9	65.8	69.0	0.5
Colombia	27.2	27.6	28.9	34.9	32.2	40.3	25.1	0.3
Peru	11.4	13.7	14.1	11.7	10.1	16.1	59.7	0.1
Ecuador	6.3	8.2	7.2	5.2	5.0	6.3	26.3	0.1
Cuba	0.6	0.6	0.9	0.4	0.4	0.1	(81.0)	0.0
Venezuela	4.5	0.2	0.5	0.1	0.1	0.2	285.6	0.0
MERCOSUR	4,057.8	4,454.0	3,855.5	3,445.3	3,075.9	4,191.2	36.3	34.4
North America Free Trade Agreement (NAFTA)	1,198.4	1,390.2	1,292.8	871.9	803.7	1,085.9	35.1	8.9
Central American Integration System (SICA)	93.9	139.4	99.4	17.0	15.7	13.9	(11.2)	0.1
Caribbean Community (CARICOM)	1.1	1.1	0.9	0.3	0.3	0.3	2.3	0.0
Rest of the Caribbean	0.6	4.6	0.8	0.5	0.5	1.1	137.5	0.0
European Union[2]	1,272.0	1,476.2	864.5	829.4	705.3	904.7	28.3	7.4
Russia	73.8	100.8	135.7	124.8	117.4	165.5	41.1	1.4
Rest of Europe	98.9	105.1	126.0	148.7	183.7	152.9	(16.8)	1.3
East Asia	4,283.5	4,490.9	4,762.8	3,483.7	3,090.6	4,127.5	33.6	33.9
China	3,671.1	3,764.2	4,172.1	3,013.6	2,662.5	3,653.5	37.2	30.0
South Korea	206.9	237.9	200.7	151.9	142.6	167.4	17.4	1.4
Japan	310.6	372.9	286.1	236.3	210.8	237.6	12.7	2.0
Rest of East Asia	95.0	115.9	104.0	82.0	74.6	69.0	(7.5)	0.6
Association of Southeast Asian Nations (ASEAN)	171.6	294.6	646.2	529.3	484.7	474.2	(2.2)	3.9
Western Asia	168.0	335.9	199.1	241.5	208.0	314.3	51.1	2.6
Gulf Cooperation Council (GCC)	111.3	241.5	119.1	162.3	138.1	206.7	49.7	1.7
Other countries of Western Asia	56.7	94.4	80.1	79.2	69.8	107.6	54.0	0.9
Rest of Asia	164.0	214.1	208.0	239.0	218.7	426.3	95.0	3.5
Africa	25.8	37.6	44.6	33.2	32.3	54.5	68.6	0.4
Southern African Custom Union (SACU)	10.8	10.1	6.8	1.4	1.3	1.9	47.6	0.0
Other countries of Africa	15.0	27.6	37.8	31.8	31.1	52.7	69.5	0.4
Australia & New Zealand (Closer Economic Relations (CER))	3.4	4.4	2.2	8.0	6.6	6.1	(7.6)	0.1
Rest of the World	4.7	35.7	51.9	31.1	30.7	26.9	(12.4)	0.2
Total	**$11,874.8**	**$13,334.5**	**$12,544.0**	**$10,217.1**	**$9,166.0**	**$12,182.9**	**32.9%**	**100.0%**
% Change	21.8%	12.3%	(5.9)%	(18.5)%	-	32.9%		

(1) Preliminary data.
(2) For purposes of this table, the United Kingdom is excluded from the European Union category and included in the "Rest of Europe" category for the data corresponding to November 2020 and November 2021.
Source: Integration Division; Ministry of Finance, including data from the Central Bank of Paraguay.

Paraguay's exports (in addition to electricity) have historically been dominated by agricultural products such as soybeans, meat, fats and oils, and wheat and other cereals. Revenues from exports are therefore highly dependent on international commodity prices and weather conditions. In the 11-month period ended November 30, 2021, exports of oil seeds (including soybeans), vegetable oils and fats, and bovine meat products totaled US$5.9

billion, and accounted for 70.3% of Paraguay's total exports, an increase of 37.7% for these products from US$4.3 billion in the same period in 2020.

In the 11-month period ended November 30, 2021, electricity exports decreased by 7.1%, compared to the same period in 2020, due to adverse weather conditions (droughts) that caused water flows in the Paraná river to decrease significantly, thus affecting the electricity sector generating capacity.

Exports of oilseeds (mainly soybeans) increased by 39.0% in the 11-month period ended November 30, 2021 compared to the same period in 2020. This increase in oilseeds exports is supported by the substantial harvest achieved in the 2020-2021 harvest period. The value of bovine meat exports in the 11-month period ended November 30, 2021 increased by 47.0% compared to the same period in 2020, which was also a record number for this sector. Finally, cereal grain exports increased by 39.8% in the 11-month period ended November 30, 2021, compared to the same period in 2020. This change was mainly due to the rise of prices paid for the shipments of corn.

The following tables set forth the amount and percentage of total exports by products for the periods indicated.

Total Exports by Products

	12-month period ended of December 31,				11-month period ended November 30,		% of Change
Sector[1]	**2017**	**2018**	**2019**	**2020**	**2020**	**2021[2]**	**Nov 2020-Nov 2021**
			(in millions of US$ in FOB prices)				
Oil seeds (including soy beans)	$ 2,196.6	$ 2,286.3	$ 1,679.6	$ 2,265.7	$ 2,178.5	$ 3,028.5	39.0%
Vegetable oils and fats	1,228.2	1,433.9	1,105.2	1,125.0	1,028.0	1,287.6	25.3
Bovine meat products	1,229.7	1,182.8	1,100.3	1,200.3	1,074.6	1,580.1	47.0
Cereal grains nec	244.8	223.6	401.3	323.5	275.9	385.6	39.8
Chemical, rubber, plastic products	254.3	301.9	277.7	238.9	216.7	288.6	33.2
Machinery and equipment nec	261.3	307.0	317.5	225.6	201.5	259.9	29.0
Wheat	60.4	83.5	82.6	60.9	54.3	81.7	50.5
Leather products	146.5	111.3	92.9	80.0	68.4	119.9	75.3
Processed rice	139.3	147.6	149.6	171.7	162.9	148.3	(9.0)
Metals nec	52.6	59.4	62.5	50.2	43.9	94.6	115.5
Textiles	126.7	146.0	166.7	193.7	175.8	198.5	12.9
Food products nec	77.8	89.9	88.6	88.9	81.2	103.0	26.8
Sugar cane	62.8	61.7	49.7	58.3	53.6	43.7	(18.5)
Animal products nec	67.7	72.8	54.4	57.2	51.3	66.5	29.6
Paddy rice	54.6	71.6	77.1	123.3	119.8	115.0	(4.0)
Wood products	40.1	39.7	32.8	28.2	24.5	41.7	70.2
Transport equipment nec	61.5	28.7	9.9	19.9	2.4	12.6	425.0
Petroleum, coal products	45.9	0.1	0.1	1.7	1.7	0.0	(100.0)
Wearing apparel	39.1	44.9	41.5	35.7	32.6	55.7	70.9
Manufactures nec	11.9	7.2	5.9	18.6	17.5	8.6	(50.9)
Paper products, publishing	29.2	35.9	40.2	39.0	34.8	48.5	39.4
Beverages and tobacco products	21.4	48.5	100.3	135.2	114.0	107.1	(6.1)
Mineral products nec	11.5	15.2	10.9	12.9	12.1	14.8	22.3
Crops nec	22.8	17.5	17.9	37.2	35.8	24.0	(33.0)
Bovine cattle, sheep and goats, horses	0.0	0.1	0.6	0.1	0.1	0.1	0.0
Vegetables, fruit, nuts	13.2	13.4	17.7	23.9	22.0	27.1	23.2
Ferrous metals	18.8	33.6	29.6	19.1	16.5	35.4	114.5
Dairy products	6.1	13.2	24.6	26.5	23.8	26.2	10.1
Electronic equipment	5.7	6.2	4.2	10.4	10.0	9.5	(5.0)
Plant-based fibers	3.6	4.8	4.5	5.1	4.2	7.3	73.8
Motor vehicles and parts	2.6	3.0	4.1	3.4	3.1	5.2	67.7
Other	38.6	42.3	32.9	101.9	88.4	156.3	76.8
Total	**$6,575.3**	**$6,933.5**	**$6,083.3**	**$6,782.2**	**$6,230.0**	**$8,381.6**	**34.5%**
% Change	3.2%	5.4%	(12.3)%	11.5%	-	34.5%	

(1) Sectors are classified according to the Global Trade Analysis Project (GTAP) sector classifications of goods.
(2) Preliminary data.
Source: Integration Division; Ministry of Finance, including data from the Central Bank of Paraguay.

Percentage of Total Exports by Products

Sector[1]	12-month period ended December 31, 2017	2018	2019	2020	11-month period ended November 30, 2020	2021[2]
	(in percentages)					
Oil seeds (including soy beans)	33.4%	33.0%	27.6%	33.4%	35.0%	36.1%
Vegetable oils and fats	18.7	20.7	18.2	16.6	16.5	15.4
Bovine meat products	18.7	17.1	18.1	17.7	17.2	18.9
Cereal grains nec	3.7	3.2	6.6	4.8	4.4	4.6
Chemical, rubber, plastic products	3.9	4.4	4.6	3.5	3.5	3.4
Machinery and equipment nec	4.0	4.4	5.2	3.3	3.2	3.1
Wheat	0.9	1.2	1.4	0.9	0.9	1.0
Leather products	2.2	1.6	1.5	1.2	1.1	1.4
Processed rice	2.1	2.1	2.5	2.5	2.6	1.8
Metals nec	0.8	0.9	1.0	0.7	0.7	1.1
Textiles	1.9	2.1	2.7	2.9	2.8	2.4
Food products nec	1.2	1.3	1.5	1.3	1.3	1.2
Sugar cane	1.0	0.9	0.8	0.9	0.9	0.5
Animal products nec	1.0	1.0	0.9	0.8	0.8	0.8
Paddy rice	0.8	1.0	1.3	1.8	1.9	1.4
Wood products	0.6	0.6	0.5	0.4	0.4	0.5
Transport equipment nec	0.9	0.4	0.2	0.3	0.0	0.2
Petroleum, coal products	0.7	0.0	0.0	0.0	0.0	0.0
Wearing apparel	0.6	0.6	0.7	0.5	0.5	0.7
Manufactures nec	0.2	0.1	0.1	0.3	0.3	0.1
Paper products, publishing	0.4	0.5	0.7	0.6	0.6	0.6
Beverages and tobacco products	0.3	0.7	1.6	2.0	1.8	1.3
Mineral products nec	0.2	0.2	0.2	0.2	0.2	0.2
Crops nec	0.3	0.3	0.3	0.5	0.6	0.3
Bovine cattle, sheep and goats, horses	0.0	0.0	0.0	0.0	0.0	0.0
Vegetables, fruit, nuts	0.2	0.2	0.3	0.4	0.4	0.3
Ferrous metals	0.3	0.5	0.5	0.3	0.3	0.4
Dairy products	0.1	0.2	0.4	0.4	0.4	0.3
Electronic equipment	0.1	0.1	0.1	0.2	0.2	0.1
Plant-based fibers	0.1	0.1	0.1	0.1	0.1	0.1
Motor vehicles and parts	0.0	0.0	0.1	0.1	0.0	0.1
Other	0.6	0.6	0.5	1.5	1.4	1.9
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

(1) Sectors are classified according to the Global Trade Analysis Project (GTAP) sector classifications of goods.
(2) Preliminary data.
Source: Integration Division; Ministry of Finance, including data from the Central Bank of Paraguay.

The leading imports in recent years have been chemicals, rubber and plastic products, electronic machinery and equipment, petroleum and coal products, and motor vehicles and parts, which together generated 74.2% of the import bill in the 11-month period ended November 30, 2021, and accounted for approximately US$9.0 billion of total imports. As compared to the same period in 2020, imports of these goods increased by 34.2%. In the 11-month period ended November 30, 2021, the most significant increase in imports were in cereal grains (89.9%), ferrous metals (84.2%) and metals (67.5%). The growth of imports in general is in line with the improvement of the economic activity in the country.

The following table sets forth Paraguay's imports by economic sector for the periods indicated.

Imports by Economic Sector

Sector[1]	12-month period ended December 31, 2017	2018	2019	2020	11-month period ended November 30, 2020	2021[2]	% of Change Nov 2020-Nov 2021
	(in millions of US$ in CIF prices)						
Chemical, rubber, plastic products	$ 2,533.2	$ 2,818.5	$ 2,692.2	$ 2,383.3	$ 2,169.3	$ 2,895.9	33.5%
Electronic equipment	1,867.6	1,886.3	2,435.1	1,604.0	1,403.3	1,766.7	25.9
Machinery and equipment	1,697.9	1,869.8	1,712.9	1,539.5	1,374.8	1,972.6	43.5
Petroleum, coal products	1,372.0	1,826.8	1,610.8	1,228.2	1,129.7	1,530.8	35.5
Motor vehicles and parts	1,001.4	1,214.9	922.4	738.7	658.3	874.9	32.9
Food products	385.7	404.9	379.4	348.5	313.9	369.8	17.8
Manufactures	391.5	378.0	299.9	142.7	127.2	156.6	23.1
Beverages and tobacco products	325.7	326.1	298.8	246.6	214.6	267.5	24.7
Textiles	311.5	305.9	288.3	274.0	248.9	272.5	9.5
Paper products, publishing	237.2	281.4	242.5	217.7	198.3	212.4	7.1
Metal products	271.5	296.8	273.8	197.9	175.7	261.2	48.6
Ferrous metals	273.0	377.4	280.5	257.9	227.0	418.0	84.2
Transport equipment	195.5	252.6	140.6	108.6	100.6	154.0	53.1
Mineral products	198.9	218.6	203.7	223.5	193.9	270.7	39.6
Leather products	159.9	154.0	125.7	75.0	67.3	81.4	20.9
Crops	138.8	168.9	133.6	113.1	105.0	78.5	(25.3)
Wearing apparel	114.9	105.4	99.3	70.8	65.0	66.8	2.7
Wood products	78.0	82.7	76.1	61.0	53.5	73.4	37.2
Metals	63.9	53.8	67.6	107.9	98.3	164.7	67.5
Cereal grains	46.5	46.4	46.4	53.0	35.7	67.9	89.9
Vegetables, fruit, nuts	36.3	32.2	32.2	43.7	40.1	40.5	1.1
Minerals	29.6	26.2	22.4	21.8	20.1	23.8	18.1
Animal products	33.4	44.9	52.2	61.2	54.6	62.8	14.9
Vegetable oils and fats	38.5	38.2	36.0	36.6	34.3	30.9	(10.0)
Dairy products	33.5	34.8	34.8	28.2	25.5	25.4	(0.3)
Other	38.9	88.6	36.7	33.4	30.9	43.2	39.5
Total	**$11,874.8**	**$13,334.5**	**$12,544.0**	**$10,217.1**	**$9,166.0**	**$12,182.9**	**32.9%**
% Change	21.8%	12.3%	(5.9)%	(18.5)%	-	32.9%	

(1) Sectors are classified according to the Global Trade Analysis Project (GTAP) sector classifications of goods.
(2) Preliminary data.
Source: Ministry of Finance and Central Bank.

The following table sets forth the percentage of total imports by products for the periods indicated.

Percentage of Total Imports by Products

Sector[1]	12-month period ended December 31, 2017	2018	2019	2020	11--month period ended November 30, 2020	2021[2]
	(in percentages)					
Chemical, rubber, plastic products	21.3%	21.1%	21.5%	23.3%	23.7%	23.8%
Machinery and equipment	15.7	14.1	19.4	15.7	15.3	14.5
Petroleum, coal products	14.3	14.0	13.7	15.1	15.0	16.2
Electronic equipment	11.6	13.7	12.8	12.0	12.3	12.6
Motor vehicles and parts	8.4	9.1	7.4	7.2	7.2	7.2
Manufactures	3.2	3.0	3.0	3.4	3.4	3.0
Food products	3.3	2.8	2.4	1.4	1.4	1.3
Beverages and tobacco products	2.7	2.4	2.4	2.4	2.3	2.2
Ferrous metals	2.6	2.3	2.3	2.7	2.7	2.2
Textiles	2.0	2.1	1.9	2.1	2.2	1.7
Paper products, publishing	2.3	2.2	2.2	1.9	1.9	2.1
Metal products	2.3	2.8	2.2	2.5	2.5	3.4
Mineral products	1.6	1.9	1.1	1.1	1.1	1.3
Transport equipment	1.7	1.6	1.6	2.2	2.1	2.2
Leather products	1.3	1.2	1.0	0.7	0.7	0.7
Crops	1.2	1.3	1.1	1.1	1.1	0.6
Wearing apparel	1.0	0.8	0.8	0.7	0.7	0.5
Metals	0.7	0.6	0.6	0.6	0.6	0.6
Wood products	0.5	0.4	0.5	1.1	1.1	1.4
Cereal grains	0.4	0.3	0.4	0.5	0.4	0.6
Animal products	0.3	0.2	0.3	0.4	0.4	0.3
Vegetables, fruit, nuts	0.2	0.2	0.2	0.2	0.2	0.2
Minerals	0.3	0.3	0.4	0.6	0.6	0.5
Vegetable oils and fats	0.3	0.3	0.3	0.4	0.4	0.3
Dairy products	0.3	0.3	0.3	0.3	0.3	0.2
Other	0.3	0.7	0.3	0.3	0.3	0.4
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

(1) Sectors are classified according to the Global Trade Analysis Project (GTAP) sector classifications of goods.
(2) Preliminary data.
Source: Integration Division; Ministry of Finance, including data from the Central Bank of Paraguay.

MERCOSUR

MERCOSUR is the most important of Paraguay's preferential trade agreements. It was established in 1991 by the governments of Argentina, Brazil, Uruguay and Paraguay pursuant to the Treaty of Asunción. MERCOSUR's objective is to create a common market and ensure the free movement of goods, services, capital and labor among member countries.

In 1995, MERCOSUR established a common external tariff ("CET"), aimed at unifying tariff policies of the member states in order to facilitate trade exchanges. In 2004, MERCOSUR established an origin status for products imported from outside MERCOSUR that complies with MERCOSUR's common tariff policy. The aim was to achieve the free movement of goods and eliminate the double charging of a CET. The first stage in this process, which began in January 2006, refers to goods with a 0% rating in all the member countries or with a tariff preference of 100% within the framework of the agreements concluded by MERCOSUR with third parties. The second stage, which is expected to cover all the goods subject to the CET, has not been implemented yet, although a first step, the entry into force of a MERCOSUR Customs Code, has already been initiated.

As of the date of this Offering Memorandum, the CET has not been fully implemented by the MERCOSUR member states due to the continuous application of exceptions. Each member state maintains a list of CET

exceptions that, in Paraguay's case, cover 23.0% of all tariff lines and establish an average tariff that is lower than MERCOSUR's average CET. The modification of CET rates requires the consent of all MERCOSUR members. The MERCOSUR member states recognize the need to revise the CET in order to achieve greater competitiveness for the bloc.

In 2021, the MERCOSUR States Parties continue with the revision of the CET but without being able to reach an agreement. Paraguay intends prioritize this issue during the first half of 2022, when it will hold the bloc's presidency.

The following table sets forth the exceptions to the CET and tariff averages as of November 30, 2021.

Exceptions to the Common External Tariff and Tariff Averages
As of November 30, 2021

Tariff Lines NCM (8 digits)	Total Simple Average			List of Exceptions	
	Total	Agricultural goods	Non-agricultural goods	Nº of Tariff Lines (*)	% over total Tariff lines
10,302	8.13	9.9	7.9	2,368	23.0

(*) List of National Exceptions, Capital, Computing and Telecommunication Goods
Source: Direction of Integration, Ministry of Finance.

With respect to services, the Protocol of Montevideo on Trade in Services in MERCOSUR became effective in 2005, following ratification by Argentina, Brazil and Uruguay. Paraguay ratified the Protocol in July 2014. The Protocol is for an indefinite term and is intended to implement the provisions of the Treaty of Asunción relating to services by establishing a program for the liberalization of intra-MERCOSUR trade in services.

MERCOSUR, as a group, acceded to the Global System of Trade Preferences among developing countries in 2006. Free-trade agreements have been signed by MERCOSUR with Israel (2007), Egypt (2010), Palestine (2011) and SACU (2008), which includes Botswana, Lesotho, Namibia, South Africa, and Swaziland. With the exception of Palestine, all these agreements have been ratified and are in force.

MERCOSUR has also signed framework agreements to formally initiate preferential trade negotiations with Jordan (2008), which has been ratified by all parties and is in full force; Turkey (2008), which is pending ratification by the Paraguayan and Turkish governments; Pakistan (2006), which is pending ratification by the Paraguayan and Turkish governments; the GCC (which includes the United Arab Emirates, Bahrain, Saudi Arabia, Oman, Qatar and Kuwait) (2005), which is pending ratification by the GCC; and Morocco (2004), which has been ratified by all parties and is in full force. These framework agreements generally involve the establishment of a negotiating committee, composed of the respective parties, to exchange information and propose measures, inter alia.

In addition, Memoranda of Understanding on the promotion of trade and investment have been signed by MERCOSUR with Trinidad and Tobago (1999), Guyana (1999), Syria (2010), Tunisia (2014), Suriname (2015) and the Eurasian Union (2018). These cover, inter alia, exchange of information, identification of areas of mutual interest and measures for expanding trade and investment.

On July 17, 2015 MERCOSUR's State Parties approved the accession protocol of the Plurinational State of Bolivia and the status of partner-states of MERCOSUR of the Republic of Surinam and Cooperative Republic of Guyana. Both treaties are pending ratification.

In September 2016, MERCOSUR's coordinators imposed on the Bolivarian Republic of Venezuela a deadline for compliance with the incorporation of legal instruments listed in the Protocol of Accession to MERCOSUR, which signed on July 4, 2006. In August 2017, Argentina, Brazil, Paraguay and Uruguay decided to

suspend the Bolivarian Republic of Venezuela in all rights and obligations to its status as a MERCOSUR member state for its failure to comply with the Ushuaia Protocol regarding commitment to democracy.

In 2017, the MERCOSUR members executed (i) the MERCOSUR Investment Agreement, a common instrument that intends to promote the growth of investment at the regional level, (ii) the MERCOSUR Public Procurement Agreement, which intends to allow companies established in any MERCOSUR country to participate in national public procurement bidding without having a domicile in the country that requests proposals, and (iii) the new MERCOSUR-Colombia Agreement, which refers to the Economic Complementation Agreement (ACE No. 72) which replaces the ACE 59 signed in 2004 by MERCOSUR with Colombia, Ecuador and Venezuela, creating a free trade zone in 2018, and includes special rules agreed by Argentina and Brazil with Colombia for the automotive, chemical and plastics sectors. The legal regulation to implement the MERCOSUR-Colombia Agreement was approved by Congress in January 2019; however, the legal regulations to implement the MERCOSUR Investment Agreement and the MERCOSUR Public Procurement Agreement are still pending Congressional approval.

On June 28, 2019, after more than 20 years of longstanding negotiations, MERCOSUR and the EU reached a landmark agreement regarding economic cooperation and integration. Such agreement is intended to grant MERCOSUR access to the EU's market, of strategic importance for MERCOSUR members, with lower costs and trade restrictions, and it is expected to increase exports from regional economies, consolidate the participation of local companies in the global economy, promote investment, foster technological transfers and increase competiveness. On August 23, 2019, MERCOSUR and members of the European Free Trade Association ("EFTA") substantially concluded the negotiations for a comprehensive free trade agreement, intended to increase the flow of MERCOSUR's exports to the members of EFTA (the "EU-MERCOSUR Free Trade Agreement"). During the 57th Annual MERCOSUR Presidential Summit, the MERCOSUR member states reiterated their willingness to ratify the EU-MERCOSUR Free Trade Agreement. However, as of the date of this Offering Memorandum, the EU-MERCOSUR Free Trade Agreement is still pending ratification by each of the EFTA and MERCOSUR member states, and ratification of the agreement has been met with resistance from certain EFTA member states.

In addition, during the 57th Annual MERCOSUR Presidential Summit, the member states of the MERCOSUR confirmed the importance of continuing the work with the Pacific Alliance for the implementation of the Puerto Vallarta Action Plan. The Puerto Vallarta Action Plan was established in 2018 with the firm goal of continuing to promote sustainable and inclusive economic development, and the competitiveness of Pacific Alliance members by supporting free trade and regional integration.

As of the date of this Offering Memorandum, negotiations between MERCOSUR and each of Canada, South Korea, Singapore, and Lebanon are in progress. In addition, MERCOSUR has initiated efforts to present free trade agreement proposals to various Central American countries and has commenced exploratory meetings with Vietnam and Indonesia. During the second half of 2020, MERCOSUR also submitted proposals for free trade agreements to various Central American countries and the Dominican Republic with a view to strengthening regional integration through deeper business ties.

In 2021, MERCOSUR has continued to hold exploratory meetings with Vietnam and Indonesia as well as with Ecuador. In addition, the organization continues to work in its efforts to expand the existing commercial agreement in place with Israel, India, Egypt, SACU and the various ALADI members (i.e., Chile, Colombia and Peru). During this past year, MERCOSUR has submitted proposals of free trade agreements to other Central American and Caribbean countries such as El Salvador and the Dominican Republic. It has also submitted a proposal for a memorandum of understanding with the Pacific Alliance with the intention of strengthening regional integration through deeper business and commercial ties.

Other Preferential Trade Relationships

Paraguay offers preferential access to imports from a total of 13 countries: Argentina, Brazil, Uruguay, Venezuela, Bolivia, Chile, Colombia, Cuba, Ecuador, Mexico, Peru, India and Israel (the first four being MERCOSUR member states). These preferences are granted through its participation in MERCOSUR, MERCOSUR agreements with countries outside the region and preferences negotiated in the context of Paraguay's

membership of the LAIA, including preferences granted under the Regional Tariff Preference Agreement No. 4, Economic Complementary Agreements and Regional Scope Agreements.

The arithmetic mean of applied most favored nation ("MFN") tariff in 2021 was 9.9% for agricultural products (WTO definition) and 7.9% for non-agricultural products. Paraguay grants at least MFN treatment to all of its trading partners. All rates are levied on the CIF value of the product imported. Paraguay did not make use of temporary or variable levies on imports between 2009 and 2021.

In the Uruguay Round, the eighth round of multilateral trade negotiations conducted under the General Agreement on Tariffs and Trade (the "GATT"), Paraguay bound its tariff rate at a ceiling of 35%. When it joined the GATT, Paraguay had bound its tariffs at rates ranging from 10% to 35%, giving Paraguay an average bound tariff of 33.5%. The gap between applied and bound tariff remains relatively wide. Market access commitments on agricultural products are not subject to tariff-quota-based limitations.

In addition to tariffs, imports are subject to other duties and taxes, including a "valuation fee" of 0.5% of the transaction value, a consular fee for endorsing documents, and a duty equivalent to 7% of the consular fee to finance the National Indigenous Institute. Value-added tax ("VAT") is imposed on sales of imported and domestic goods and services alike. In 2021, VAT applied at a general flat rate of 10%, with the exception of certain household necessities, pharmaceuticals and books, to which a reduced rate of 5% applies. Sales of agricultural products in their natural condition are subject to VAT at a rate of 5%. Excise taxes apply to a group of products, whether imported or domestically produced, including mainly tobacco, alcoholic beverages, perfumes and petroleum fuels at rates ranging from 1% to 38%.

In 2020, Paraguay's automotive trade agreements with each of Brazil and Argentina became effective, marking a key step in advancing the establishment of the MERCOSUR automotive policy and imposing predictability and legal certainty to attract investment in the automotive sectors in the relevant countries. These agreements determine the liberalization of trade in products originating from the member countries, the regional index content for automobiles and auto parts (rules of origin), the treatment of used vehicles, as well as the treatment of new products.

Foreign Direct Investment

Paraguayan law grants equal treatment to foreign and domestic investment, except for the ownership of land near borders by foreigners. Sectors reserved to the Paraguayan state are not open to private investment (either domestic or foreign). Pursuant to the Paraguayan Constitution, Paraguay owns all deposits of hydrocarbons and solid, liquid or gaseous minerals, with the exception of rocky, earthy or calcareous substances, and may grant concessions for their exploitation.

The National Development Plan - Paraguay 2030 (NDP) adopted in 2014 is a strategic document aimed to coordinate actions among the different sectors of the economy and contains Paraguay's economic development goals. The NDP has three main purposes: to reduce poverty and to increase social development, to seek inclusive economic growth, and to insert Paraguay properly into the global economy. Compliance with the NDP is part of the guidelines for the development of budget proposals put forward by the Ministry of Finance. The NDP recognizes that public infrastructure and public services are key factors to achieve its goals. The approval of the PPP law in October 2013 and the issuance of its regulations in March 2014 evidenced the commitment of the Paraguayan Government to overcome the public infrastructure deficit by providing a framework for the formation of partnerships between the public and the private sectors (including foreign investment) to finance and provide services required for building infrastructure. The first PPP initiatives may include management of infrastructure projects and services, including improvement and expansion of routes, development of water distribution systems, dredging and signaling of the Paraguay-Parana waterway and modernization of the main airports. Other initiatives are meant to broaden the existent sewage system, establish wastewater treatment plants and improve electricity transmission lines.

Paraguay has entered into 30 (thirty) agreements on Reciprocal Investment Promotion and Protection, including agreements with South Africa, France, UK, Switzerland, Taiwan, Belgium, Luxembourg, the Netherlands, Korea, Hungary, Germany, Austria, Spain, Peru, Romania, Chile, Venezuela, Costa Rica, El Salvador, Czech

Republic, Portugal, Cuba and Italy. For the 2013-2018 period, Paraguay signed but has not yet ratified agreements with the United Arab of Emirates (signed in January 2017) and the State of Qatar (signed in February 2018). These agreements establish favorable conditions and provide a framework of legal certainty to investors and their investments.

Paraguay has agreements to Avoid Double Taxation and Prevent Tax Evasion with Germany (air transport, 1985), Belgium (air transport, 1987), Uruguay (air transport, 1993), Chile (air and land transport, 1995 and tax on the income and wealth, 2008), Argentina (air, river and land transport, 2000) and China (income tax, 2010). The latest such agreements have been entered into with the United Arab of Emirates (subscribed in January 2017), Uruguay (signed in September 2017) and State of Qatar (signed in February 2018). These agreements aim to promote, through the elimination of double taxation, the exchange of goods and services and the movement of capital and persons, while also preventing tax avoidance and tax evasion.

In order to improve the business and investment environment, Paraguay has developed and implemented reforms of its judicial system, including the introduction of amendments to the Criminal Code (made effective in 2009), with stricter provisions on money laundering, human trafficking and intellectual property rights.

Paraguay is also a member of the Multilateral Investment Guarantee Agency ("MIGA"), which offers foreign investment guarantees for non-commercial risks in developing countries, as well as dispute settlement services for the investments covered. Paraguay has also accepted the terms and conditions of the Overseas Private Investment Corporation of the United States of America, which finances and insures investment projects against risks such as the non-convertibility of currency, expropriation and political violence, inter alia.

FDI is the main long-term source of funds for the private sector, accounting for 0.45% of nominal GDP in the nine-month period ended September 30, 2021. FDI flows totaled US$1.0 billion between 2017 and the nine-month period ended September 30, 2021. FDI flows totaled US$336.5 million in 2017, US$156.2 million in 2018, US$224.5 million in 2019 and US$120.0 million in 2020. In the nine-month period ended September 30, 2021, FDI flows totaled US$118.3 million, a decrease of 24.4% compared to the same period in 2020. The decrease in FDI flows in 2020 and 2021 is the result of the worldwide economic crisis due to the COVID-19 pandemic, which led to lower flows in the form of reinvested earnings and debt instruments. From 2017 through the nine-month period ended September 30, 2021, the largest source of FDI in Paraguay was Brazil, accounting for 38.8% of FDI flows, while the second largest source was the United States, accounting for 27.8% of FDI flows.

The following table sets forth annual FDI flows by country for the periods indicated.

Annual FDI Flows by Country of Origin
(in millions of US$)

	12-month period ended December 31, 2019				9-month period ended September 30,	
Country	**2017[1]**	**2018[1]**	**2019[1]**	**2020[1]**	**2020[1]**	**2021[1]**
Brazil	116.9	49.3	82.7	75.8	43.0	45.9
United States	(11.9)	104.1	136.9	3.5	65.0	32.9
Netherlands	31.2	93.1	95.7	7.1	1.8	32.1
Guatemala	91.4	(0.0)	(0.0)	(0.0)	(0.0)	12.9
Spain	103.5	3.5	29.0	(48.4)	(21.9)	12.4
Colombia	20.6	22.3	24.9	15.4	12.0	11.8
Chile	(1.0)	7.5	54.7	20.7	(0.4)	11.6
Cayman Islands	10.2	40.0	21.2	8.0	5.9	11.2
Germany	0.9	17.8	43.6	5.4	3.7	9.6
Uruguay	27.0	18.4	19.6	(1.0)	(11.3)	9.0
Ireland	7.6	6.0	18.4	23.4	12.2	7.8
Panama	25.4	5.9	7.2	(5.9)	(5.3)	4.6
Mexico	19.2	7.8	2.4	(8.8)	(3.6)	2.9
Sweden	0.0	(1.4)	19.6	(5.2)	(5.1)	1.8
Others[2]	(104.7)	(217.9)	(331.3)	30.1	60.5	(88.1)
Total	**336.5**	**156.2**	**224.5**	**120.0**	**156.4**	**118.3**

(1) Preliminary data.
(2) Includes Germany, Japan, Ireland, Italy, British Virgin Islands, Hong Kong, France, UK, Bermudas, Australia, Venezuela, Bahamas, Costa Rica, China, Austria, Sweden, South Korea, Canada, Peru, Bolivia, Portugal, India, Belgium, Russia, Taiwan, Philippines, Ecuador, Jersey and Curaçao.
Source: Central Bank.

MONETARY SYSTEM

The Central Bank

The Central Bank was established in 1952 and works together with the government on monetary, credit and foreign exchange policies. The Central Bank is also responsible for the supervision and regulation of the financial system. Congress approved a new charter of the Central Bank in 1995 to define more clearly the Central Bank's monetary and foreign exchange management capacity and to enhance its supervisory powers. The Central Bank also serves as a financial agent and economic advisor of the government.

The Central Bank is governed by a five-member board of directors, including the president of the Central Bank. All board members are appointed by the president and ratified by the Senate. Board members serve five-year terms with no limit on the number of terms a member may serve. The Central Bank, acting through the Superintendence of Banks, exercises supervision, reorganization and regularization powers over all banks, financial companies, warehousing companies and foreign exchange trading institutions in Paraguay, which together comprise the financial sector. Acting through the Superintendence of Insurance, the Central Bank also exercises supervision powers over all insurance and reinsurance entities.

The principal law governing the financial sector is Law No. 861/96 as amended by Law No. 5787/16. This law, as amended, provides rules for the creation and supervision of financial entities, as well as for the protection of the financial system as a whole. Law No. 861/96 incorporates the Basel Committee on Banking and Supervision ("Basel") provisions relating to the supervision of banks and minimum capital requirements. The Board of the Central Bank must authorize the opening of banks, finance companies and other credit institutions. There are no limits on the participation of foreign capital in financial entities or requirements with respect to the nationality of the members of the board of directors or the shareholders. Law No. 861/96 establishes that foreign investment in financial entities will receive the same treatment as domestic capital. According to Article 23 of Law No. 861/96, owners of shares in a bank that allows them to exercise shareholder control or decisively influence the corporate actions of the bank may not hold more than 20% of the shares of another bank, finance company or credit institution. On the other hand, a bank is permitted to be the principal shareholder of an insurance company.

In 2003, Paraguay enacted Law No. 2334/03, which created the concept of a deposit guarantee fund and set up a procedure for winding down companies based on a system of asset and liability transfers intended to ensure rapid and efficient liquidation. See "— Reorganization Regime" and "—Deposit Guarantee Fund." In 2005, the Central Bank and the central government proposed reforms to the legislation of the financial system, including a reform to the Central Bank's Organic Law (Law No. 489/95), intended to provide the Central Bank with greater powers, tools and effective instruments in order to supervise the financial sector.

In 2018, Congress enacted Law No. 6104/18 further amending the Central Bank's Organic Law, enhancing the Central Bank's powers and instruments to supervise the financial sector and providing greater autonomy to the Superintendence of Banks, thus enabling it to adapt its supervision in response to increasingly sophisticated international financial practices. These measures were in addition to other reforms promulgated in December 2016, which aimed at strengthening the adoption of a risk-based regulatory and prudential supervision.

As of November 30, 2021, the Central Bank had an equity of G. 1,255 billion (approximately US$185.4 million), mainly explained by the increase in the revaluation account of the international monetary reserves. The negative equity of the Central Bank observed in previous years is explained by a legacy of non-performing claims related to loans to the public and to the financial sector that were largely incurred before the Central Bank's 1995 charter prohibited such practices. In 1992, the Central Bank paid US$350 million on behalf of the government to certain commercial banks and foreign governments to cover arrears accumulated with respect to certain external borrowings. The Central Bank's balance sheet deteriorated further in the mid-1990s, when it confronted a series of problems in the financial system, including by liquidating financial institutions. In August 1998, under the domestic debt restructuring law enacted in March 1997, the government issued US$425 million in domestic bonds to restructure the principal plus accrued interest and other lines of credit extended by the Central Bank to the government. In 2012, this debt was included in the recapitalization agreement between the Central Bank and the Ministry of Finance. Since the 1998 restructuring, the Central Bank has recorded losses, which have been exacerbated by the need to conduct large sterilization operations.

As part of a strategy of providing a framework for medium- and long-term macroeconomic stability, over the past decade, the government began to address the Central Bank's negative equity and adopted measures to strengthen the financial position of the Central Bank. In April 2010, Congress enacted Law No. 3974/10, which authorized the Ministry of Finance to issue and transfer to the Central Bank securities in an aggregate principal amount of up to 6.25% of the 2009 GDP (approximately US$1 billion) in exchange for the irrevocable cancellation and discharge of all debt and nonperforming legacy claims held by the Central Bank against public entities and the assignment to the Ministry of Finance of any remaining legal claims on guarantees by third parties. Interest rates and maturities on the bonds to be transferred were to be agreed between the Central Bank and the Ministry of Finance. On December 19, 2012, both institutions signed an agreement defining the financial conditions and the agreement was ratified by the President of the Republic on the same date. As a result, the Ministry of Finance issued a perpetual bond to the Central Bank, having a principal amount of G.3,927.5 billion (about US$0.9 billion) initially carrying a 0.25% annual interest rate. Pursuant to a request by the Central Bank to the Ministry of Finance, the interest rate can be adjusted to offset losses the Central Bank may incur in connection with the implementation of its monetary policy.

Financial Supervision

The Superintendence of Banks has the authority to establish the accounting principles under which banks, financial companies, warehousing companies and foreign exchange trading institutions must prepare their books and records. These books and records must be audited annually by external independent auditors. As part of its supervisory powers, the Superintendence of Banks also requires these institutions to submit to the Central Bank daily and monthly reports regarding their operations. In addition, the Superintendence of Banks requires banks to publish annual and quarterly financial statements together with the names of directors and managers in a national newspaper. The Superintendence of Banks may also require the disclosure of any other financial information that it deems necessary to present to the public. In 2019, through resolutions issued by each of the Central Bank and the Superintendence of Banks, non-deposit holding companies that lend money solely from their own capital were included under the supervision of the Superintendence of Banks, and in 2020, through the enactment of Law No. 6534/20, credit bureaus were also included under the supervision of the Superintendence of Banks.

As of the date of this Offering Memorandum, the Superintendence of Banks requires financial institutions to maintain a minimum total capital to risk-weighted assets (loans) ratio of 8.0. The Superintendence of Banks has the regulatory authority to increase this ratio to 14.0%. As of November 30, 2021, all Paraguayan banks and financial companies were in compliance with the Central Bank's capital adequacy requirements.

In addition to accounting standards and capital adequacy requirements, the Central Bank imposes cash and liquidity reserve requirements. In determining their compliance with various Central Bank standards and requirements, financial institutions must classify loans according to specific categories. On the one hand, the category used for classification depends on the debtors' ability to pay, and on the other hand, the category used for classification depends on the length of time a loan obligation has been past due. The most recent regulation provides a new scale of provisions and terms of past due loans. A loan is deemed non-performing after obligations under the loan have been past due for more than 60 days.

The following table sets forth the categories used to classify past due loans and the provisions made according to each category.

Category	Obligations past due between	Provisions
1.a	1 to 30 days	0.5%
1.b	31 to 60 days	1.5%
2	over 60 to 90 days	5.0%
3	over 90 to 150 days	25.0%
4	over 150 to 180 days	50.0%
5	over 180 to 270 days	75.0%
6	over 270 days	100.0%

Source: Central Bank.

The following table sets forth the classification of aggregate loan assets of the Paraguayan banking system by categories as of November 30, 2021.

Classification of Aggregate Loan Assets of the Paraguayan Banking System

	As of November 30, 2021							
	1	1a	1b	2	3	4	5	6
	(in percentages of total loan assets)							
Stated-owned bank (BNF).....	92.38%	2.63%	1.10%	0.54%	0.67%	0.37%	0.38%	1.93%
Branches of foreign banks.....	93.36%	1.02%	0.22%	4.42%	0.01%	0.04%	0.01%	0.92%
Majority Foreign Participation.....	93.36%	3.38%	1.34%	0.29%	0.36%	0.13%	0.24%	0.90%
Private domestic local majority property .	88.24%	5.06%	1.14%	1.18%	1.24%	0.45%	0.68%	2.01%
Total Banks.....	90.50%	4.20%	1.20%	0.85%	0.86%	0.32%	0.48%	1.59%
Total Financial companies	77.65%	10.05%	4.59%	3.01%	1.88%	0.73%	0.98%	1.10%

Source: Central Bank.

The Superintendence of Banks may conduct inspections of the institutions it supervises at its discretion. In practice, these inspections are conducted according to an inspection plan approved by the Superintendence of Banks the risk profile of the financial institution and the supervision cycle. Based on the findings of these inspections or daily reports submitted by the institutions, as well as on warnings provided by the on-site supervision management, if the Superintendence of Banks believes that the operations of an institution it supervises require further investigation, the Superintendence of Banks may send inspectors to the institutions to monitor their day-to-day operations. Alternatively, the Superintendence of Banks may conduct a full audit. All financial institutions are required to give access to the Superintendence of Banks to conduct such investigations. If the Superintendence of Banks finds management deficiencies or liquidity problems, it may make specific recommendations, including a change of senior management and/or the board of directors.

Reorganization Regime

Law No. 2334/03 provides that all financial sector entities must submit a reorganization plan that must be approved by the Superintendence of Banks in case any one or more of the following situations arise:

(i) legal reserve deficiency larger than the level determined by regulation of the Central Bank;

(ii) excesses in the legal or regulatory prudential limits set by the Superintendence of Banks for a period exceeding 10 consecutive calendar days;

(iii) recorded losses for two consecutive quarters, which forecast for the next quarter will affect the capital of the entity and, given the continuity of this trend, reduce the capital ratio below the minimum level required by law;

(iv) deficit in the capital ratio below the limit legally required, for a period of at least five working days;

(v) when the entity requires use of facilities provided by the Central Bank as a lender of last resort, except for those facilities which terms and amounts were determined by the Central Bank;

(vi) repeated infringement of recommended measures or mandatory resolutions issued by the Superintendence of Banks and/or the board of Central Bank, according to current laws and regulations;

(vii) when the Superintendence of Banks proceeds to reclassify the credit risk classification made by the financial institution in a higher percentage than the level prescribed by regulations; and

(viii) when reorganization is determined by the Superintendence of Banks, provided a well-founded decision is given that the entity is acting in a way that endangers the safety of public deposits or the liquidity and capital situation of the entity.

Moreover, the Superintendence of Banks will oversee the reorganization process, having the authority to require immediate correction of other abnormalities presented by the entity under reorganization, without the need to require a new reorganization plan. The decision to put an entity of the financial system into the reorganization process will be kept under strict confidentiality, communicating it only to the concerned institution. During reorganization, the competence and authority of governing bodies of the entity will remain, with no other restrictions than those resulting from provisions of other articles of the law.

Deposit Guarantee Fund

Confidence in the Paraguayan banking sector was bolstered in 2003 by the establishment, through Law No. 2334/03, of the Deposit Guarantee Fund and a special liquidation procedure for financial companies, intended to ensure efficient liquidation and guarantee deposits.

The Deposit Guarantee Fund is administered by the Central Bank and functions as a bank deposit insurance program. It is financed by contributions from financial institutions (including the subsidiaries of foreign banks) and the Central Bank. Under Law No. 2234/03, financial institutions are required to make mandatory quarterly contributions to the bank deposit insurance program in an amount equal to 0.12% of the quarterly average balance of their deposits.

The deposit insurance system guarantees deposits up to an amount equivalent to 75 times the minimum wage, per natural or legal person, in the event that a financial institution is liquidated, and is broadly consistent with international standards. The agency works as a paybox and can contribute to the bank liquidation process under the "least-cost solution." As of November 30, 2021, coverage amounted to US$25,360 or 4.6 times GDP per capita, and 15.4% of deposits were fully covered. Accordingly, the risk premium is also among the highest in South America. The large coverage was believed necessary to promote confidence in the banking system after the banking crisis of 1995-2003.

Financial Sector

In 1989, Paraguay embarked on a process of financial liberalization, which continued through the mid-1990s. The authorities introduced a unified, managed floating exchange rate regime, liberalized interest rates, reduced reserve requirements, gradually eliminated the discount facility at the Central Bank and released public sector deposits from the Central Bank to the banking system. Financial liberalization, however, which led to a rapid expansion of the financial sector, was not accompanied by the strengthening of prudential regulations and supervision. Banking regulations did not determine prudential norms for asset classification and did not require arms' length lending. Relaxed reserve requirements failed to reflect the true risks of banks' assets. In addition, lax licensing requirements and low required capitalization levels permitted a proliferation of new financial institutions. On June 25, 1992, the Central Bank issued Resolution No. 2, which was the first attempt by the Paraguayan authorities to regulate credit risk and asset classification in the Paraguayan banking system. The 1995 crisis was the byproduct of a rapid financial liberalization without adequate safeguards in terms of sound prudential regulations and enforcement.

Paraguay experienced five financial crises during the 1995-2003 period. The response to the first three crises (1995, 1997 and 1998) was generally inadequate, and the remedial action taken by the public sector resulted in a cost of approximately 15% of GDP. The lack of legislation governing banking insolvency procedures and the absence of protections for local deposits aggravated the financial crises throughout this period.

The 1995 crisis was triggered when two large banks failed to meet their clearing obligations. The inadequate response to the 1995 crisis was mainly responsible for the 1997 crisis. Lack of regulatory capacity and generous de facto deposit guarantees allowed financial institutions to pay insufficient attention to risk. In 1998, the failure of the fourth largest bank that held approximately 6% of total deposits and whose liquidity dried up while depending increasingly on public sector deposits had consequences for the financial system as a whole.

The 1995 crisis resulted in the adoption of new banking regulations, intended to overhaul the country's financial system. Law No. 489/95 and Law No. 861/96, which were adopted in 1995 and 1996, respectively, continue to be in force with a few amendments. These statutes, which were fully implemented by 1999, were aimed at increasing supervision powers of the Central Bank and strengthening the stability of the banking sector by improving internal banking procedures and enforcing minimum capitalization ratios, limitations on related party transactions, risk weighted asset rules and risk control management.

In 2002, further to the effects of the economic downturn and the volatility in South America following Argentina's default, the freeze of deposits in Argentina led to a run on a Paraguayan subsidiary of an Argentine bank, which held approximately 11% of total deposits in the Paraguayan financial system. This led to a loss of confidence in the banking system as a whole and resulted in a run on several banks, which in combination with the depreciation of the Guaraní against major currencies, resulted in a system-wide financial crisis. Finally, in 2003, the Paraguayan monetary authorities were confronted with an isolated case of fraud in a medium-sized locally owned bank that did not have systemic repercussions. The Superintendence of Banks responded more appropriately and timely to the 2002 and 2003 crises by closing the failing banks, with a cost to the public sector equivalent to approximately 1% of GDP.

Economic performance stabilized in 2003, albeit at a lower level, as a result of improved performance of the agricultural sector and improved regional conditions. However, there were significant difficulties in financing the fiscal deficit which resulted in continued shortfalls and delays in covering of fixed costs of the public sector, including wages, pensions and debt service, which together represented more than 90% of total spending.

In 2003, Paraguay enacted Law No. 2334/03 to provide additional protection to depositors and establish a new liquidation procedure for insolvent entities. The main purpose of this law was to give additional certainty to depositors by preserving public confidence, maintaining stability of the banking sector and providing incentives to encourage the banking sector's discipline.

Paraguay continues to strengthen its regulatory framework and supervision of the financial sector, evidenced by its Financial Sector Assessment Program. Reforms include more stringent information requirements for the granting of loans, stricter conditions for classifying assets and a higher level of reserves requirement. In 2007, a new regulation was introduced that provides for improved risk assessment and the establishment of an assets/reserves ratio that provides better coverage for credit risks. The scale provided in the 2007 regulation for past due terms and provisions was changed in 2011. In addition, further regulation introduced in 2007 established stricter prudential rules for the classification of assets, credit risk and reserves.

Other institutional reforms introduced include the adoption of new regulations on the opening of financial institutions and the strengthening of on-site and off-site supervision and the supervisory capacity of the Superintendence of Banks through the creation of various intendancies. With respect to forward strategy for supervision, financial institutions continue to improve compliance with Basel principles. According to the IMF and the World Bank report, the degree of compliance with Basel principles, which stood at 17% in 2005, had increased to 63% by the end of 2010.

As of November 30, 2021, Paraguay's financial sector consisted of 17 banks (including one state-owned bank, nine private domestic banks and seven branches of foreign banks), eight financial companies, 46 savings and

loan cooperative type A, three warehousing companies, 26 foreign exchange trading institutions and 35 insurance companies.

Paraguay's banking sector is regulated by Law No. 861/96 and supervised by the Superintendence of Banks. Under Law No. 861/96, banks are authorized to provide a full range of banking services. Banks account for the largest portion of loans and deposits in the financial system.

As of November 30, 2021, the assets of banks operating in Paraguay totaled G.173,666 billion (US$25.4 billion), equivalent to approximately 63.0% of the 2021 GDP (compared to 65.8% of GDP in 2020), while bank deposits totaled G.125,207 billion (US$18.3 billion). As of November 30, 2021, the finance companies were holding G.7,544.0 billion (US$1.1 billion) in assets and G.5,551 billion (US$818 million) in deposits. Bank loans to clients represent about 63.1% of bank assets. The remaining bank assets are predominantly liquid resources held in Central Bank accounts. Approximately 82.6% of bank liabilities are deposits, while the balance is represented by liabilities to the public sector, to foreign creditors and a small amount of subordinated bonds.

The following table sets forth the aggregate balance sheet of Paraguayan banks as of November 30, 2021.

Aggregate Balance Sheet of Banks

As of November 30, 2021

(in percentage of total assets and liabilities)			
Assets		**Liabilities**	
Cash	*5.5%*	Deposits	*72.1%*
In Guaraníes	*2.3%*	*In Guaraníes*	*38.8%*
In U.S. dollars	*3.1%*	*In U.S. dollars*	*33.3%*
Legal Reserves	9.2%	Liabilities of the Central Bank	0.2%
Free Reserves	5.6%	International Financial Liabilities	7.6%
Total Investment	10.1%	Other Liabilities	7.4%
Public Instruments	6.9%	Net Worth	12.7%
Others	3.2%		
Credits (Net of Provisions)	*62.7%*		
Financial Sector	*6.1%*		
Banking Sector	*0.0%*		
Non-Financial Sector	*58.8%*		
NPL	*1.5%*		
Provisions	*-2.2%*		
Other Assets	7.6%		
Total Assets	100.0%	**Total Liabilities**	100.0%

Source: Central Bank.

Banks are classified according to the origin of their capital as follows:

(i) if its capital is fully foreign-owned, a bank is considered a direct foreign subsidiary;

(ii) if the majority of its capital is foreign-owned, a bank is considered a branch of a foreign bank;

(iii) if the majority of its capital is locally-owned, a bank is considered a local bank; and

(iv) if the majority of its capital is owned by the state, a bank is considered state-owned. There is only one state-owned bank in Paraguay, the National Development Bank (*Banco Nacional de Fomento* - the "BNF").

Foreign capital continues to maintain a substantial presence in the Paraguayan banking sector. Foreign banks are allowed to set up branches in Paraguay with the authorization of the Central Bank. They enjoy the same

operating privileges as domestic banks, but are also subject to the same obligations applicable to them under the Law No. 861/96. Branches of foreign banks are not required to have a board of directors; however, each branch must have at least two officers with full authority to operate such branches. In addition, branches of foreign banks are required to provide to the Central Bank letters of guarantee from their parent bank for all aspects of their foreign branch operations in Paraguay. As of November 30, 2021, direct foreign subsidiaries and banks with majority foreign participation held 39.8% of bank assets and 40.1% of deposits, while the majority locally-owned banks had 49.7% of assets and 48.5% of deposits.

As of November 30, 2021, the four largest banks (one of them with majority foreign participation) controlled 50.7% of total bank assets; these were Banco Itaú Paraguay S.A. (15.5% of the total assets of the financial system), Banco Continental S.A.E.C.A. (14.8%), BNF (10.5%) and Banco Regional S.A.E.C.A. (9.9%).

The BNF acts primarily as a first-tier development bank for the activities of the agricultural and manufacturing sectors, but also conducts regular commercial banking activities. In 2003, the government recapitalized the BNF and imposed limits on the loans granted by the bank, assigning it the role of assisting small- and medium-sized enterprises. In addition, Law No. 5800/17 enacted in 2017, which reforms its Organic Law, provided the BNF more independence and ability to operate on equal conditions as the private sector entities. As of November 30, 2021, the BNF held 10.5% of banking system assets and 10.5% of deposits.

Financial companies (*empresas financieras*) are also regulated by Law No. 861/96, as amended, and supervised by the Superintendence of Banks. Financial companies generally concentrate their operations on providing short-term loans and holding deposits, but are not allowed to offer current or checking accounts. As of November 30, 2021, financial companies were the third most important providers of loans and holders of deposits in the Paraguayan financial system, accounting for G.5,824 billion (approximately US$852 million) in loans, and G.5,551 billion (approximately US$812 million) in deposits. The Central Bank also supervises financial leasing companies, mutual funds, securitization companies and financial trusts.

Savings and loan cooperatives ("Cooperatives") are regulated by the Savings and Loan Cooperatives Law (Law No. 438/94), enacted in October 1994 and amended in 2015 (Law No. 5501/15) and in 2020 (Law No. 6608/2020), and are supervised by the National Institute of Cooperatives. Cooperatives provide loans and hold deposits exclusively for their members, and their business services cover a majority of micro-loans and small-business financing, which is the reason why they have progressively expanded their participation in Paraguay's financial system.

Reforms to the General Regulatory and Supervisory Framework for Cooperatives (adopted in 2004), which establishes the minimum capital, liquidity and provisioning requirements and the loan classification that cooperatives must follow, have also been introduced, together with a basic framework for supervision, which is starting to be implemented in the country, demonstrating a commitment to long-term stability in the sector. In 2017, the National Institute of Cooperatives issued Resolution 16.847/17, which approved the Regulatory and Supervisory Framework for Saving and Loan Cooperatives, updating and strengthening the regulatory and supervisory framework for Cooperatives.

Warehousing companies and foreign exchange trading institutions are also supervised by the Superintendence of Banks. Warehousing companies act as depositaries for commodities and other agricultural products, and they issue property titles known as "commodity warrants" over the deposited commodities. The commodity warrants can be pledged to banks and financial companies as collateral for financing. Foreign exchange trading institutions purchase and sell foreign currencies on the spot market.

Insurance companies offer life, property and casualty insurance and reinsurance and invest their funds subject to compliance with applicable regulations. They are not permitted to grant loans or take deposits. The principal law governing insurance companies and insurance activity provides the procedures for establishing, operating and winding down insurance companies, requirements that are imposed on insurance companies, including, among others, reserves, solvency margins and their investment regime, as well as the responsibilities and obligations of the supervisory authority and the provisions applicable to its operation and the appointment of its members. The Superintendence of Insurance is responsible for supervising insurance and reinsurance entities. Its main objective is to ensure the financial and technical capacity of the market operators and the proper administration

of the sector's risks and resources. Its responsibilities include framing sectorial policies, regulating, supervising and ensuring compliance with all the corresponding legal provisions, and intervening in those companies in which serious irregularities are detected.

The AFD, established in 2005, serves as a second-tier bank and makes credit lines available through authorized financial institutions, which include BNF, the Livestock Fund (*Fondo Ganadero*), finance companies, Cooperatives and private banks. In 2006, the AFD began channeling long-term loans from multilateral international financial institutions to local banks and other financial entities, particularly in the area of mortgage lending.

The following table sets forth the loans and deposits of financial institutions as of November 30, 2021.

Financial Sector of Paraguay

	As of November 30, 2021			
	Loans	**% of Total**	**Deposits**	**% of Total**
	(in millions of US$ and percentages)			
Private domestic local majority property	$ 8,700	51.5%	$ 8,872	46.4%
Majority Foreign Participation	$ 5,809	34.4%	$ 6,946	36.3%
BNF (state-owned)	$ 1,318	7.8%	$ 2,094	11.0%
Branches of foreign banks	$ 209	1.2%	$ 398	2.1%
Financial Companies	$ 852	5.0%	$ 812	4.2%
Savings and loans associations*	$ 2,273	11.9%	$ 2,185	10.3%
Total	$ 19,161	100.0%	$ 21,306	100.0%

* Data provided by the INCOOP (Instituto Nacional de Cooperativismo, November 30, 2021).
Source: Central Bank.

The following table sets forth total deposits in the Paraguayan financial sector as of the dates indicated.

Deposits in the Financial Sector

	As of December 31,				As of November 30,	
	2017	**2018**	**2019**	**2020**	**2020**	**2021**
	(in millions of US$)					
Private domestic local majority property	7,275	7,831	8,016	8,431	8,522	8,872
Direct foreign subsidiaries	6,088	5,995	6,280	6,697	6,738	6,946
BNF (state-owned)	1,252	1,430	1,370	2,025	1,819	2,094
Branches of foreign banks	401	371	366	254	295	398
Financial Companies	694	757	602	650	659	812
Savings and loans cooperatives *	1,752	1,989	1,972	2,016	1,937	2,185
Total	17,462	18,373	18,606	20,064	19,970	21,306

* Data provided by the INCOOP (Instituto Nacional de Cooperativismo, November 30, 2021).
Source: Central Bank.

The following table sets forth the allocation of deposits in the financial sector as of the dates indicated.

Deposits in the Financial Sector as a Percentage of Total

	As of December 31,				As of November 30,	
	2017	**2018**	**2019**	**2020**	**2020**	**2021**
			(in percentages)			
Private domestic local majority property	41.7%	42.6%	43.1%	42.0%	42.7%	41.6%
Direct foreign subsidiaries	34.9%	32.6%	33.8%	33.4%	33.7%	32.6%
BNF (state-owned)	7.2%	7.8%	7.4%	10.1%	9.1%	9.8%
Branches of foreign banks	2.3%	2.0%	2.0%	1.3%	1.5%	1.9%
Financial Companies	4.0%	4.1%	3.2%	3.2%	3.3%	3.8%
Savings and loans cooperatives*	10.0%	10.8%	10.6%	10.0%	9.7%	10.3%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

* Data provided by the INCOOP (Instituto Nacional de Cooperativismo, November 30, 2021).
Source: Central Bank.

The following table sets forth total loans in the Paraguayan financial sector as of the dates indicated.

Loans in the Financial Sector

	As of December 31,				As of November 30,	
	2017	**2018**	**2019**	**2020**	**2020**	**2021**
			(in millions of US$)			
Private domestic local majority property	7,317	8,196	8,400	8,016	8,028	8,700
Direct foreign subsidiaries	4,677	5,466	5,458	5,455	5,525	5,809
Branches of foreign banks	171	254	244	192	200	209
Financial Companies	722	867	662	678	679	852
BNF (state-owned)	504	834	980	1,242	1,255	1,318
Savings and loans cooperatives*	1,843	2,143	2,155	2,081	1,255	1,318
Total	**15,234**	**17,760**	**17,899**	**17,663**	**17,713**	**19,161**

* Data provided by the INCOOP (Instituto Nacional de Cooperativismo. November 30, 2021).
Source: Central Bank.

The following table sets forth the allocation of total loans in the Paraguayan financial sector as of the dates indicated.

Loans in the Financial Sector as a Percentage of Total

	As of December 31,				As of November 30,	
	2017	**2018**	**2019**	**2020**	**2020**	**2021**
			(in percentages)			
Private domestic local majority property	48.0%	46.1%	46.9%	45.4%	45.3%	45.4%
Direct foreign subsidiaries	30.7%	30.8%	30.5%	30.9%	31.2%	30.3%
Branches of foreign banks	1.1%	1.4%	1.4%	1.1%	1.1%	1.1%
Financial Companies	4.7%	4.9%	3.7%	3.8%	3.8%	4.4%
BNF (state-owned)	3.3%	4.7%	5.5%	7.0%	7.1%	6.9%
Savings and loans cooperatives *	12.1%	12.1%	12.0%	11.8%	11.4%	11.9%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

* Data provided by the INCOOP (Instituto Nacional de Cooperativismo, November 30, 2021).
Source: Central Bank.

The following table sets forth the number of financial institutions of Paraguayan financial sector as of the dates indicated.

Number of Financial Institutions

	As of December 31,				As of November 30,	
	2017	**2018**	**2019**	**2020**	**2020**	**2021**
Insurance companies	35	35	36	35	35	34
Foreign exchange trading	29	29	26	26	26	26
Private Banks	16	16	16	16	16	16
Financial companies	9	9	8	8	8	8
Warehousing companies	4	3	3	3	3	3
Public Banks.....	1	1	1	1	1	1

Source: Central Bank.

Indicators of Financial System Efficiency

The following table sets forth main efficiency indicators of Paraguay's financial sector as of the dates indicated.

Indicators of Banks Efficiency

	As of December 31,				As of November 30,	
	2017	**2018**	**2019**	**2020**	**2020**	**2021**
			(in percentages)			
Return on assets.....	2.3%	2.2%	2.4%	1.6%	1.7%	1.7%
Return on equity	24.2%	22.5%	23.7%	15.5%	16.3%	15.0%
Non-Performing Loans as a percentage of total loans	2.7%	2.4%	2.4%	2.3%	2.8%	2.6%
Gross Operational Margin/Assets	4.8%	4.6%	4.8%	3.9%	3.8%	3.4%
Operating Expenses/Operating Revenues	86.8%	84.9%	88.9%	88.3%	86.1%	93.2%
Operating Expenses/Total Assets	31.3%	25.9%	37.9%	39.6%	23.6%	62.9%
Regulatory capital to risk weighted assets.....	18.5%	17.6%	17.2%	19.1%	18.9%	18.8%

Source: Central Bank.

Indicators of Financial Companies Efficiency

	12-month period ended December 31,				11-month period ended November 30,	
	2017	2018	2019	2020	2020	2021
			(in percentages)			
Return on assets	1.4%	2.1%	2.1%	1.4%	1.1%	1.7%
Return on equity	11.9%	17.7%	16.1%	11.6%	9.4%	15.3%
Non-Performing Loans as a percentage of total loans	5.2%	4.7%	5.1%	4.0%	4.9%	4.8%
Gross Operational Margin/Assets	7.9%	7.5%	7.8%	6.1%	5.9%	5.2%
Operating Expenses/Operating Revenues	74.1%	73.2%	77.6%	78.2%	76.0%	84.4%
Operating Expenses/Total Assets	22.5%	20.4%	27.2%	37.6%	18.6%	51.5%
Regulatory capital to risk weighted assets	16.5%	16.1%	16.3%	18.3%	17.7%	15.4%

Source: Central Bank.

Anti-Money Laundering

With respect to the prevention and combat of money-laundering and terrorist financing, Paraguay has strengthened its three subsystems (preventive, intelligence and repressive). It has strengthened the regulatory framework as well as the supervision and control of financial and non-financial subjects, as was pointed out by the Financial Action Task Force (the "FATF") in February 2012, who expressed their view that Paraguay had largely met its commitments in its action plan regarding the strategic deficiencies that the FATF had identified in its 2010 evaluation.

Paraguay has recently placed special emphasis on implementing adequate mechanisms to allow for the control of transactions carried out through its financial system, and transparent, accurate and timely information regarding the final beneficiaries of such transactions. Measures taken in this regard have included mandating that all electronic transfers be reported to the Central Bank in order to facilitate its supervisory responsibilities and requiring that all non-electronic remittances abroad be reported to the Central Bank and be made only through legally authorized banks that meet the requirements for the identification of foreign counterparts.

The supervision of the country's financial and exchange system migrated to a risk-based approach. The Legislative Power approved the draft amendment of Law No. 861/96 in 1996 while maintaining the Law of Modernization and Strengthening of the norms that regulate Paraguayan financial system operations (Law No. 5787/16) in force.

In 2017, Congress enacted Law No. 5895/17, which established transparency standards for corporate governance and imposes the mandatory conversion of bearer shares to registered shares. In 2019, the enactment of Law No. 6446/19 further strengthened transparency standards for corporate governance, imposing mandatory obligations on Paraguayan corporations to disclose ultimate beneficial ownership to the Ministry of Finance. Both laws were enacted in order to comply with FATF Recommendation No. 24.

The Central Bank has broad powers to control beneficiaries of Paraguayan financial entities, including powers to prevent persons under investigation for or criminals convicted for money laundering and/or terrorism financing from becoming beneficiaries of financial institutions. Additionally, the Central Bank and the Paraguayan Agency for Prevention of Money or Property Laundering (the "SEPRELAD") issue rules on anti-money laundering and counter financing of terrorism ("AML / CFT") in Paraguay, provide for their enforcement, and maintain continuous communication with the financial system.

Progress has also been made in the implementation of the Paraguayan Strategic Plan, which has strengthened the AML / CFT regime (Presidential Decree No. 507/18). Through the same decree, the National Risk Assessment was updated to identify new vulnerabilities and threats. Moreover, Presidential Decree No. 2209/19 launched a national risk assessment on the financing of terrorism.

Congress is considering the legal reforms proposed by the SEPRELAD, aimed at revamping the AML / CFT prevention system for the mitigation of money laundering, financing of terrorism and other similar acts that threaten to destabilize the economic order.

The Financial Action Task Force of Latin America (*Grupo de Acción Financiera de Latinoamérica* — "GAFILAT") began its evaluation of Paraguay's compliance with the international AML / CFT standards system regarding the recommendations of FATF. In December 2019, following FATF recommendations, Paraguay enacted a number of laws aimed at reinforcing money laundering and crime prevention rules, which created a special procedure for the seizure of assets representing the proceeds of crime. In addition, rules for the freezing of assets pertaining to persons linked with terrorism and financing of mass destruction weapons were also introduced. In line with the adoption of these regulations, the criminal code was modified to introduce stricter rules and more severe sanctions.

From August 23 to September 3, 2021, GAFILAT representatives visited Paraguay to conduct a mutual evaluation of the Paraguayan AML/CFT framework and to evaluate its compliance with FATF recommendations. GAFILAT representatives held meetings with Paraguayan authorities from the executive, the legislative and the judicial branches (including authorities from SEPRELAD and the Central Bank) and visited the country's border with Brazil. GAFILAT acknowledged Paraguay's cooperation during the entire evaluation.

Paraguayan AML/CFT authorities received the first draft of the GAFILAT Mutual Evaluations Report ("MRE") on October 22, 2021 and received the second draft on December 22, 2021. Paraguayan AML/CFT authorities have presented their response to the first draft of the MRE on November 26, 2021 and are currently preparing their response to the second draft. GAFILAT expects to deliver the final draft MRE in July 2022.

Anti-Corruption

Paraguay has ratified the United Nations Convention against Corruption, and the Interamerican Convention against Corruption (together, the "Anticorruption Conventions"), and created the National Anticorruption Secretariat (the "SENAC") as the enforcing authority for the Anticorruption Conventions and other anticorruption matters. Specifically, the SENAC is in charge of monitoring complaints relating to bribery, graft, and/or other unwarranted benefits provided to public officials, and designs anticorruption policies for the Paraguayan government. In 2017, the SENAC set up an anti-corruption whistleblowing portal for reporting alleged acts of corruption committed by government officials, representatives of private entities or individuals. However, the SENAC has no power to prosecute private parties or public agents.

Over the past decade, Paraguay has enacted a number of laws promoting transparency, publicizing information concerning public tenders, publicly-owned corporations, public officials, annual budgets, and information concerning the three branches of the Paraguayan government. Moreover, Paraguayan banking regulation promotes the transparency of financial operations and requires financial institutions to inform clients and banking authorities (the Central Bank, the SIB and/or the SEPRELAD) of credit card interest rates, banking commissions, shareholders' equity, the identity of members of boards of directors and internal balance sheets.

Under Law No. 1160/97, as amended (the "Paraguayan Criminal Code"), solicitation of gifts or favors or any type of "benefit" by or on behalf of public officials is a criminal offense. Additionally, in November 2019, Paraguay enacted Law No. 6452/19 which criminalizes solicitation of gifts or favors or any type of "benefit" by or on behalf of private parties acting as representatives or agents of private entities in exchange of accepting offers of goods or services in conditions disadvantageous to other competitors in the market.

Paraguay's ranking in Transparency International's Corruption Perceptions Index has materially improved throughout the last decade, with Paraguay moving from the 150th position in the rankings in 2014 to the 137th position in 2019. This 13-position improvement in the ranking is largely attributable to the enactment and implementation of Law No. 5282/14 on Access to Public Information and Government Transparency. Law No. 5282/14 became a platform for promoting transparency, contributing to the fight against corruption and building bridges between the public sector and citizens, which has led to an improvement in the perception of corruption in the Paraguay public sector.

Securities Markets

The Asunción Stock Exchange (the "BVPASA"), established in 1993, is the only securities exchange in Paraguay. As of December 2021, the total trading volume was composed primarily of non-governmental securities offerings (76.48%). There has been a large increase in the volume of public-sector securities trading in recent years, with public sector securities representing 23.32% of the total trading volume as of December 31, 2021 compared to 18.6% as of December 31, 2020. The total volume traded on the BVPASA in 2021 represented an increase of approximately 72.66% compared to 2020, marking the most successful year in its history in terms of volume traded.

During the months of March and April 2020, despite the strictest stage of the COVID-19 lockdown, BVPASA experienced high volume growth, as it had already been operating virtually prior to the pandemic as required by National Securities Commission (CNV). In March 2020, Paraguay became the first country in South America to classify and incorporate guidelines for the issuance of Sustainable Development Goal (SGD) bonds, consistent with the 2030 agenda. Beginning in 2021, issuing companies will be obligated to apply the financial information standards issued by the Council of Accountants and Auditors of Paraguay, as a transition to the application of the International Financial Reporting Standards (IFRS).

The Paraguayan equity and bond market is governed by the capital markets law adopted in 2017 (the "Capital Markets Law"). The Capital Markets Law governs, among other things, public offerings of equity and fixed income securities, and financial intermediaries in the stock exchange. The Paraguayan securities regulatory agency, the National Stock Commission, has the authority to regulate and supervise the securities markets, including the formulation of professional ethical standards, the promotion of corporate disclosure such as annual and interim reporting by listed companies, the establishment of compliance regulations, controls and penalties and the regulation of the relationships between securities issuers and investors in the securities market.

The implementation of an electronic trading system for securities in the third quarter of 2010 and the first issue of Treasury Bonds (medium- and long-term) through BVPASA of approximately US$5 million in 2012 demonstrates Paraguay's commitment to providing transparent and secure securities markets.

The following table summarizes the listed companies and trading volume in the BVPASA for the periods indicated.

Asunción Stock Exchange: Listed Companies and Trading Volume

	12-month period ended December 31,				
	2017	**2018**	**2019**	**2020**	**2021**
	(in thousands of US$)				
Number of listed companies (end of period)	76	78	85	90	94
Private sector securities					
Equities	$25,094	$39,666	$44,219	$21,996	$24,522
Certificates of deposit and others	374,140	481,766	750,675	1,536,376	2,543,280
Public Sector Securities					
Bonds	104,599	129,181	88,196	362,387	789,667
Total	**$503,832**	**$650,614**	**$883,089**	**$1,920,759**	**$3,357,469**

Source: Central Bank and Paraguayan National Securities Commission.

Monetary Policy

The fundamental objectives of the Central Bank are to preserve and safeguard the stability of the currency and to promote efficiency, integrity and stability of the financial system. In July 2018, Congress passed the Central Bank's new organic law (Law No. 6104/18), updating a twenty-year-old law as part of a series of reforms in Paraguay's financial system. The new law expands the Central Bank's oversight to certain institutions (for example, credit and money transfer institutions) that were previously beyond its purview and gives the Central Bank greater

authority to intervene and sanction noncomplying financial entities. In addition, the law strengthens the autonomy of the Central Bank.

In May 2011, the Central Bank adopted an inflation targeting scheme to manage monetary policy. The Central Bank focuses its efforts on maintaining a low, stable and predictable level of inflation. The main instrument to develop the inflation targeting system in Paraguay is the benchmark short-term interest rate, which allows the Central Bank to influence aggregate demand and inflation.

To implement its inflation targeting scheme, the Central Bank develops and releases Monetary Policy Reports, which were initially published semi-annually, and have been published quarterly since September 2014. The objectives of the Monetary Policy Report are to:

(i) inform and explain the views of the Central Bank on recent and expected inflation and its consequences for monetary policy;

(ii) make public the analytical framework used in the formulation of the monetary policy's horizon; and

(iii) provide useful information to the market to build economic agents' expectations about the future path of inflation and economic activity.

The Central Bank has introduced operational instruments to manage liquidity and develop the money market, in order to increase efficiency and deepen the transmission of its monetary policy decisions. As of the date of this Offering Memorandum, the operational instruments used by the Central Bank are:

(i) the short-term liquidity facility;

(ii) the short-term liquidity deposit;

(iii) monetary regulation instrument ("IRM");

(iv) legal reserves; and

(v) market operations in the money market.

The Central Bank makes liquidity projections on the overall balance of the banks' current accounts in the Central Bank to determine the liquidity request of the system in order to guide the interbank rate to its target rate. The Central Bank extracts from or injects liquidity into the banking system in order to align the interbank rate to its target rate. These operations are made by auctions of overnight deposits or intra-day repos, IRM and other open market operations.

The Central Bank manages its financial liabilities by placing long-term bills, the IRM, which are issued with monthly expiration dates. The auctions are held at least once a month and the expiration date of the IRM is, generally, the last Friday of each month that is a business day.

The purpose of the IRM loans is to manage financial system liquidity in the long term, as well as certain legacy liabilities of the Central Bank incurred in the 1990s in connection with financial crises that affected Paraguay.

As a result of the various measures taken in the 2017-2020 period and in response to the internal and external macroeconomic environment, the profile of monetary policy during this period adjusted from a more contractive profile to a more expansive one. However, in August 2021, the Central Bank decided to move from a highly expansionary monetary policy to a more neutral one. The Central Bank's new monetary policy was influenced by the better economic outlook, the risks of second-round effects of external shocks on inflation and a potential de-anchoring of medium-term inflation expectations in order to maintain inflation in line with the target.

Thus, the weighted average IRM rate was 6.2% in 2017, 5.7% in 2018, 5.7% in 2019, 1.5% in 2020 and 1.9% in 2021.

The following table sets forth the weighted average interest rate of the IRM for the periods indicated.

Weighted Average Interest Rate of IRM

	(in percentages)
2017	6.2
2018	5.7
2019	5.7
2020	1.5
2021	1.9

Source: Central Bank.

The following table sets forth the composition of Paraguay's monetary base (expressed in terms of the Central Bank's monetary liabilities) and the Central Bank's international reserves (net), as of the dates indicated.

Monetary Base and the Central Bank's International Reserves (Net)
(in millions of US$)

	12-month period ended December 31,				11-month period ended November 30,	
	2017	2018	2019	2020	2020	2020
Currency in circulation, including cash in vaults at banks in US$	$2,305	$2,400	$2,299	$ 2,527	$ 2,226	$ 2,387
Banks' reserves at the Central Bank	958	1,037	971	693	811	907
Monetary Base	3,264	3,437	3,270	3,221	3,036	3,294
International reserves (net)	8,146	8,010	7,970	9,490	8,915	9,878

Source: Central Bank.

The ratio of the Central Bank international reserves (net) to the monetary base was approximately 2.50 to 1 as of December 31, 2017, remaining at the same level as of November 30, 2021.

The following table sets forth liquidity and credit aggregates as of the dates indicated.

Liquidity and Credit Aggregates

	12-month period ended December 31,				11-month period ended November 30,	
	2017	**2018**	**2019**	**2020**	**2020**	**2021**
	(in millions of US$)					
Liquidity aggregates						
Currency in circulation, excluding cash in vaults at banks	$ 1,559	$ 1,939	$ 1,837	$ 2,068	$ 1,830	$ 1,917
Add: Deposits in current accounts	3,284	3,322	3,370	3,794	3,590	3,837
M1	5,164	5,261	5,207	5,862	5,420	5,755
Add: Savings and term deposits	3,176	3,414	3,333	3,550	3,425	3,657
M2	8,340	8,675	8,540	9,412	8,845	9,411
Add: Deposits in foreign currency	5,892	6,107	6,377	7,089	7,199	7,782
M3	**$14,232**	**$14,782**	**$14,917**	**$16,501**	**$16,044**	**$17,193**
Credit aggregates						
Private sector credit	$12,486	$14,099	$14,371	$14,269	$14,259	$15,589
Public sector credit	400	358	423	645	621	892
Total domestic credit	**$12,886**	**$14,456**	**$14,794**	**$14,914**	**$14,880**	**$16,481**

Source: Central Bank.

The following table sets forth the percentage changes in nominal value in money supply and credits as of the dates indicated.

Selected Monetary Indicators

	As of December 31,				As of November 30,	
	2017	**2018**	**2019**	**2020**	**2020**	**2021**
	(percentage change from previous year in Guaraníes)					
Currency in circulation. including cash in vaults at banks	13.1%	6.2%	4.3%	19.3%	21.5%	7.5%
M_1(1)	16.8	3.9	7.8	22.1	26.0	6.4
M_2(2)	16.4	6.1	7.2	19.6	20.4	6.6
M_3(3)	9.1	6.0	9.9	20.0	20.1	7.4
Credit from the financial system(4)	4.4	14.7	9.8	9.5	9.7	11.8
Deposit in the financial system(4)	8.2	7.1	10.5	18.6	19.1	6.8

(1) Currency in circulation, excluding cash in vaults at banks, plus Guaraníes-denominated current accounts.
(2) M_1 plus Guaraníes-denominated savings and term deposits.
(3) M_2 plus foreign currency deposits.
(4) Includes banks and financial companies. Excludes Cooperatives.
Source: Central Bank.

From 2017 through November 2021, the average annual change in Paraguay's monetary aggregate M2 was 9.9% while average GDP growth was 2.4%.

From 2017 through November 2021, M2 grew by 36.0% because the Central Bank increased the amount of currency in circulation to provide adequate liquidity consistent with non-inflationary growth. Further, from 2017 through November 2021, M3 increased by 45.6% as a result of growth in foreign currency deposits.

Private sector credit consists primarily of trade, consumer and service/financial sector credit. From 2017 through November 2021, credit extended to private sector borrowers increased by 50.4% as a result of general

economic growth and the increase in imports and domestic consumption. During the same period, public sector credit increased by 168.5% as a result of a 414.5% increase in credits in foreign currency and a 130.9% increase in credits in national currency.

As of November 30, 2021, total outstanding loans in the financial system, which includes loans by banks and other financial companies to the non-financial system, totaled G.117,321.8 billion or US$17.3 billion, which represents an increase of US$1.8 billion from the level of outstanding loans at November 30, 2020. These figures exclude inter-bank loans. Total deposits in the financial system increased by 6.8% in Guaraníes terms from November 2020 to November 2021 and totaled US$18.5 billion as of November 30, 2021.

Inflation

The following table shows changes in the CPI for the periods indicated.

Percentage Change of Consumer Price Index from Previous Year

	CPI % change
2017	4.5%
2018	3.2%
2019	2.8%
2020	2.2%
2021	6.8%

Source: Central Bank.

The Central Bank has adopted an inflation targeting scheme in order to maintain relatively low rates of inflation. In December 2014, the Central Bank set the target annual inflation rate at 4.5% within a range of 2.5% and 6.5%. This reduction was implemented as of January 1, 2015. In January 2017, the Central Bank reduced the inflation target to 4% within a range of 2.0% and 6.0%. Maintaining low inflation, as compared to Paraguay's historical average, is closely related to the Central Bank's commitment to developing a monetary policy that focuses primarily on achieving price stability.

In the 2017-2020 period, the annual inflation rate, CPI, remained within the government target range. However, in December 2021, the annual inflation rate, CPI, overcame the government target range by 0.8%. Inflation was 4.5% in 2017, 3.2% in 2018, 2.8% in 2019 and 2.2% in 2020. In December 2021, inflation increased by 4.7% when compared to the same period in the previous year, standing at 6.8%.

During this period, the inflation dynamics can be explained by the fluctuations in food and oil derivatives prices. Decreases in the price of petroleum products were the result of the trend of the international price of crude oil. Given that Paraguay is a net importer of crude oil, decreases in international crude oil prices usually result in decreases in domestic price.

Foreign Exchange and International Reserves

Foreign Exchange

Paraguay has maintained a managed free floating exchange rate system since 1989. Paraguay has also maintained free capital flows; there are no restrictions on the purchase or sale of foreign exchange by Paraguayan residents or on the repatriation of funds in foreign currency by foreign investors in Paraguay. Government revenues from Itaipú and Yacyretá are denominated in U.S. dollars whereas most of the government's expenses are denominated in local currency. The Central Bank buys the government's U.S. dollar revenues in return for local currency, and conducts compensatory operations selling those U.S. dollars back into the market through planned and pre-announced auctions.

Exchange Rates

Paraguay has a floating exchange rate regime. From time to time, the Central Bank intervenes in the foreign exchange market in order to stabilize the Guaraní, without changing the market trend. During the first quarter of 2017, the Guaraní appreciated, although the trend decelerated slightly in the second quarter of 2017. Appreciation in 2017 was due to external factors, such as the weakening of the dollar due to uncertainty surrounding the economic policies of the United States, and, in part, due to internal factors, including Paraguay's macroeconomic performance. In 2018, exchange rate depreciation followed the larger global trend due to a better economic outlook in the United States that led to increases in the federal funds rate. In 2019, the exchange rate depreciation followed the global and regional trends of the U.S. dollar. Despite the reduction of the federal funds rate, global commercial, technological and political developments strengthened the U.S. dollar. In addition, at the domestic level, lower agricultural production and the decrease of commodity prices resulted in a significant reduction in exports income, which also contributed to the depreciation of the Guaraní. In 2020, during the beginning of the COVID-19 pandemic, the Guaraní exhibited a significant depreciation against the U.S. dollar consistent with the South American regional trend. However, towards the end of 2020, the U.S. dollar weakened against the Guaraní, as well as against most currencies in South America, in the context of optimism related to COVID-19 vaccines, mitigating the cumulative depreciation in 2020. As of November 30, 2021, the cumulative depreciation of the Guaraní against the U.S. dollar was 0.22%. The Guaraní appreciated against the U.S. dollar in the first quarter of 2021 as a result of a large inflow of U.S. dollars from agricultural exports. A subsequent decrease in agricultural exports between the second and third quarters of 2021 resulted in for the depreciation of the Guaraní against the U.S. dollar. The exchange rate has remained relatively stable since August 2021. The exchange rate as of November 30, 2021 was 6,831.4 Guaraníes per US$1.00.

The following table sets forth the high, low, average and period end Guaraníes to U.S. dollar exchange rates for the dates and periods indicated.

Exchange Rates(1)

	High(2)	Low(2)	Average(3)	Period End(4)
		(Guaraníes per US$)		
2017	5,790.3	5,403.5	5,618.9	5,590.5
2018	6,018.8	5,488.8	5,732.1	5,960.5
2019	6,496.2	5,961.8	6,241.7	6,453.1
2020	7,061.0	6,463.7	6,771.1	6.916.8
2020*	7,061.0	6,463.7	6,755.4	7,036.7
2021*	6,993.7	6,092.7	6,770.4	6,831.4

(1) Exchange rates for transactions between financial institutions and non-financial clients.
(2) Daily Bid and Offer exchange rates for transactions between financial institutions and non-financial clients.
(3) Annual simple average of monthly average bid/offer exchange rates.
(4) Average bid/offer US$/G. exchange rate as of the close of business for the last business day of December each year.
* As of November 30
Source: Central Bank.

International Reserves

The following table sets forth the international net reserves of the Central Bank for the periods indicated.

International Net Reserves of the Central Bank

	As of December 31,				
	2017	**2018**	**2019**	**2020**	**2021**
Gold[1]	340.7	336.8	399.1	496.6	475.6
Foreign Exchange	7,601.7	7,433.9	7,077.1	8,786.6	9,269.3
Subtotal	7,942.4	7,770.6	7,476.2	9,283.2	9,744.9
Special Drawing Rights	136.5	133.9	133.7	139.5	136.1
Reserve Position at IMF	66.7	65.2	64.8	67.5	65.6
Subtotal	203.3	199.0	198.5	206.9	201.7
Total	**8,145.7**	**7,969.6**	**7,674.7**	**9,490.1**	**9,946.6**

(1) Gold valued for each period at London market prices at the end of each year.
Source: Central Bank.

Under the charter of the Central Bank, international reserves are earmarked to maintain the stability of the free exchange rate system, to solve transitory difficulties of the balance of payments and preserve the value of the Guaraní.

The international reserves of the Central Bank increased, on average, between 2017 and 2021. In 2017, international reserves increased, primarily as a result of current account surpluses, while during 2018 and 2019, international reserves decreased mainly as a result of current account deficits, explained by a reduction in trade balance surpluses and decreased FDI inflows. In 2020, international reserves increased primarily as a result of record levels of bond issuances by the public and private sectors, directly impacting international reserves and creating a current account surplus. As of December 31, 2021, international reserves were US$ 9.9 billion, an increase of 4.8% compared to 2020, reflecting the borrowings undertaken by the central government to address the effects of the COVID-19 crisis. To a lesser extent, the current account surplus and the expected moderate increase of FDI flows also support the increase.

PUBLIC SECTOR FINANCES

General

Paraguay's public sector consists of the central government, financial public institutions (including the Central Bank and the BNF), non-financial public institutions (including SOEs) and other general government agencies (including the social security system, departments, national universities, and the custom department and other decentralized government entities). Central government revenues are derived mainly from tax collection (VAT, excise taxes, corporate income tax and personal income tax since 2013) and non-tax revenue (royalty payments from Itaipú Binational and Yacyretá Binational, compensation payments from the Brazilian and Argentine governments for sales of capacity generated in Itaipú and Yacyretá, respectively, and unused by Paraguay, and social security contributions). Central government expenditures consist mainly of compensation of employees, payments for goods and services, interest paid on public debt and transfer payments to other public sector institutions. Other public sector institutions derive revenue from operating income or transfers from the central government. The budgets of all public sector institutions (including SOEs) are included in the government's annual budget for each year. Public sector institutions must obtain authorization from both the government and Congress to incur medium-and long-term financing, and the amount and sources of such financing must be contemplated in the annual budget. For more information see "Public Sector Debt."

Municipalities are not included in the government's annual budget and do not require authorization from the government to obtain financing. However, there would be no recourse to the central government for any such financing. Accordingly, all information regarding the consolidated public sector finances excludes any finances related to municipalities.

The following table sets forth consolidated public sector finances for the periods indicated below.

Consolidated Public Sector

	12-month period ended December 31,			
	2017	**2018**	**2019**	**2020**
	(in millions of US$)			
Revenue	**$8,940.4**	**$9,434.5**	**$8,920.9**	**$7,749.9**
Taxes	3,988.7	4,161.9	3,939.7	3,497.3
On income, profits and capital gains	898.2	917.7	963.5	881.7
On goods and services	2,503.7	2,618.0	2,358.2	2,136.1
Value-added taxes	1,989.7	2,060.7	1,873.2	1,725.8
Excises	514.0	557.3	484.9	410.3
Other taxes on goods and services	7.4	7.5	1.7	1.7
On international trade and transactions	392.9	439.8	387.9	295.3
Other taxes	186.4	178.9	228.4	182.4
Social Contributions	1,443.2	1,442.0	1,407.4	1,331.9
Grants	(24.4)	48.3	41.3	57.2
Other revenue	3,532.9	3,782.3	3,532.5	2,863.4
Property income	963.2	903.7	1,044.6	893.3
Royalties[1]	284.1	259.5	334.0	229.0
Sales of goods and services	2,241.6	2,536.3	2,189.3	1,727.8
Compensation transfer of energy[2]	221.5	304.4	324.8	214.2
Miscellaneous revenue	328.1	342.3	298.5	242.4
Expense	7,439.0	8,196.5	7,935.0	8,022.6
Compensation of employees	3,484.4	3,693.0	3,560.0	3,491.5
Use of goods and services	1,879.4	2,010.0	1,829.9	1,756.6
Interest	302.2	359.7	410.9	484.8
Subsidies	0.0	0.0	0.0	0.0
Grants	(193.3)	3.6	0.6	(234.5)
Social Benefits	1,494.1	1,652.1	1,637.8	2,060.8
Other Expense	472.1	478.1	495.8	463.5
Net Operating Balance[3]	1,501.3	1,238.0	985.9	(272.7)
Net Acquisition of Nonfinancial Assets	1,602.9	1,416.1	1,627.2	1,844.9
Net Lending (Borrowing)	**$(101.5)**	**$(178.1)**	**$(641.2)**	**$(2,117.7)**

(1) Includes royalty payments from Itaipú and Yacyretá binationals.
(2) Includes compensation payments by Brazil and Argentina for sales of unused capacity generated by Itaipú and Yacyretá, respectively.
(3) Revenue minus expense.
Source: Ministry of Finance.

During the 1980s, the public sector ran significant deficits. A complex tax regime lacking consistency and clarity resulted in weak enforcement and an increasing deterioration of central government revenues. In 1991, Congress passed a comprehensive tax reform that reduced the number of taxes, eliminated complexity and introduced VAT. These developments translated into an improvement of central government balances.

In 2000, 2001 and 2002, public sector finances once again deteriorated materially. During 2003, in the aftermath of the economic and financial crisis of 2002, measures were adopted to improve central government efficiency by streamlining public procurement procedures and further simplifying the tax regime. The combined effect of these initiatives, the economic growth experienced during the period, and the efforts undertaken to control central government expenditures resulted in central government primary surpluses from 2004 through 2011.

Central Government Fiscal Balance

In 2017, central government primary expenditures totaled US$4.8 billion, an increase of 8.6% compared to 2016. Central government revenues in 2017 totaled US$5.5 billion, an increase of 10.2% compared to 2016. The central government's overall balance recorded a deficit of US$443.2 million (1.1% of GDP). The central government primary balance showed a deficit equivalent to 1.3% of GDP.

In 2018, central government primary expenditures totaled US$5.1 billion, an increase of 6.7% compared to 2017, with central government revenues in 2018 totaling US$5.7 billion, an increase of 2.7% compared to 2017, and an overall central government deficit of US$526.4 million (1.3% of GDP). The central government's primary balance in 2018 showed a deficit equivalent to 0.7% of GDP.

In 2019, central government primary expenditures totaled US$5.0 billion, a decrease of 1.6% compared to 2018, with central government revenues totaling US$5.4 billion, a decrease of 5.0% compared to 2018, a net operating surplus (revenue minus expense) of G. 304.0 billion (US$48.7 million) and an overall central government deficit of US$1.07 billion (2.8% of GDP). The central government's primary balance in 2019 showed a deficit equivalent to 2.0% of GDP for that period.

In 2020, central government primary expenditures totaled US$5.3 billion, an increase of 5.6% compared to 2019, with central government revenues totaling US$4.8 billion, a decrease of 11.0% compared to 2019, a net operating deficit (revenue minus expense) of G. 6,016 billion (US$888.5 million) and an overall central government deficit of US$2.18 billion (6.1% of GDP). The central government's primary balance in 2020 showed a deficit equivalent to 5.1% of GDP for that period.

As of November 30, 2021, central government primary expenditures totaled US$4.4 billion, a decrease of 4.1% compared to the same period in 2020, with central government revenues totaling US$4.9 billion, an increase of 14.2% compared to the same period in 2020, and an overall central government deficit of US$820 million (2.1% of GDP). The central government's primary balance as of November 30, 2021 showed a deficit equivalent to 1.0% of GDP for that period.

The FRL governs the preparation and approval of budgets, but not their execution, and is intended to prevent discretionary increases in expenditures, setting targets for the central government's overall balance. Ultimately, the FRL pursues the adoption of balanced budgets that conform to the financial capacity of the government. In order to provide the government with fiscal flexibility to address the economic effects of COVID-19, the application of the FRL has been suspended for the fiscal year 2021 and the fiscal deficit ceiling of central administration for the year has been increased from 1.5% to 4% of GDP. Additionally, the executive branch has presented the Proposed New FRL to Congress which aims to repeal and replace the existing FRL. See "The Paraguayan Economy—Current Economic Policy—Proposed New Fiscal Responsibility Law" for more information.

The 2022 Draft Budget submitted by the central government to Congress was prepared in accordance with the key principles of austerity and fiscal responsibility, strategically formulated to face the existing complex economic context. The 2022 Draft Budget was designed to promote the economic and social recovery of the country, transforming the exceptional context due to the COVID-19 pandemic into opportunities for improvement by prioritizing spending needs that guarantee attention to the health sector, social protection and the reactivation of economic activity generating development with equity. See "—Budget Process—2022 Annual Budget" for more information on the 2022 budget.

The following table sets forth a summary of the central government's overall balance for the periods indicated below.

Central Government Fiscal Balance

	12-month period ended December 31,				11-month period November 30,	
	2017	**2018**	**2019**	**2020**	**2020**	**2021**
Net Lending (Borrowing) (in millions of US$)	(443.2)	(526.4)	(1,065.7)	(2,175.3)	(1,568.2)	(820.0)
Net Lending (Borrowing)/GDP (%)	(1.1)	(1.3)	(2.8)	(6.1)	(4.4)	(2.1)

Source: Ministry of Finance.

Economic reforms aimed at increasing the formality of the Paraguayan economy have been a priority for the government. A broader tax base with improved collection initiatives have generated increases in tax revenue. VAT collection, the central government's main source of tax revenues, averaged a growth rate of 6.4% for the period from 2017 through November 2021. The number of registered taxpayers during the 11-month period ended November 30, 2021 totaled 1,353,116, a 49.2% increase compared to 906,730 registered taxpayers during the same period in 2020. The increase in registered taxpayers was mainly driven by the subsidies granted by the Paraguayan government to informal workers throughout 2020, which were contingent upon their registration to tax and social security authroities. These subsidies are part of a set of economic measures aimed at mitigating the economic effects of the COVID-19 pandemic. For more information, see "COVID-19 and Paraguay—Paraguayan Actions to Mitigate Economic Effects of COVID-19—National Emergency Law."

The following table sets forth the increase in the number of registered taxpayers (as a percentage) from the previous year.

Registered Taxpayers

	As of December 31,				As of November 30,	
	2017	**2018**	**2019**	**2020**	**2020**	**2021**
Taxpayers (percentage increase from the previous year)	6.6	6.9	(0.3)	59.5	1.4	49.2

Source: Ministry of Finance

From 2017 to 2020, tax revenue increased by an average of 4.1% per year. Tax revenues as of November 30, 2021 totaled G.24.2 billion (approximately US$3.5 billion), equivalent to a tax burden of 8.8% of GDP, a decrease of 0.3% of GDP the same period in 2020.

The central government's policy for public spending since 2008 has prioritized social services to focus on effective reduction of poverty and inequality. The government regards social spending as a key component of public spending. In recent years, there has been a steady increase in social spending measured in relation to total central government expenditure. In 2010, social spending accounted for 50.1% of total central government expenditure and by November 2021, social spending increased to 55.7% of total central government expenditure. In 2017, the composition of government spending was dominated by public-sector salaries (49.3%), followed by transfers to other government entities such as municipalities (16.6%) and social services (16.4%). More recently, government spending has been characterized by a significant decrease in transfers and public-sector salaries, which in the 11-month period ended November 30, 2021 represented 12.2% and 45.6%, respectively, of spending. This has been accompanied by increases in investment (net acquisition of non-financial assets), which in the period from 2017 through November 30, 2021 increased 16.6% on average.

The following table sets forth a summary of central government finances for the periods indicated below.

Central Government Finances

	12-month period ended December 31,				11-month period ended November 30,	
	2017	**2018**	**2019**	**2020**	**2020**	**2021**[1]
	(in millions of US$)					
Revenue	$5,524.4	$5,675.7	$5,389.2	$4798.9	$4281.8	$4890.5
Taxes	3,867.3	4,036.4	3,778.0	3,358.3	3,019.9	3,534.4
On income, profits and capital gains	898.2	917.7	963.5	881.7	669.7	855.7
On goods and services	2,503.7	2,618.0	2,358.1	2,135.6	1,746.6	2,045.7
Value-added taxes	1,989.7	2,060.8	1,874.0	1,725.8	1,401.9	1,669.2
Excises	513.9	557.2	484.1	409.8	344.8	376.5
Other taxes on goods and services	0.0	0.0	0.0	0.0	0.0	0.0
On international trade and transactions	329.9	439.8	387.9	295.3	262.5	315.8
Other taxes	72.5	61.0	68.4	45.6	341.1	317.2
Social Contributions	429.0	368.8	340.7	360.8	335.4	380.4
Grants	204.0	304.8	244.3	213.0	153.5	229.5
Other revenue	1,024.0	965.8	1,026.3	866.8	773.0	746.1
Property income	489.0	342.1	399.8	325.9	294.8	324.4
Royalties[2]	284.1	259.5	334.0	228.0	209.1	206.4
Sales of goods and services	420.5	518.6	536.8	367.8	335.1	282.9
Compensation transfer of energy[3]	221.5	304.4	324.8	214.2	198.3	107.8
Miscellaneous revenue	114.5	105.1	89.7	173.1	143.1	138.9
Expense	5,015.2	5,377.3	5,340.5	5,687.4	4,904.3	4,775.3
Compensation of employees	2,474.9	2,656.6	2,633.0	2,586.3	2,195.7	2,176.3
Use of goods and services	454.6	508.0	499.9	511.1	447.5	576.3
Interest	227.2	270.3	314.3	377.3	369.6	424.4
Subsidies	0.0	0.0	0.0	0.0	0.0	0.0
Grants	832.9	836.6	756.9	673.7	575.2	583.5
Social Benefits	824.1	916.4	916.3	1,341.4	1,147.7	818.3
Other Expense	201.6	189.3	220.2	197.6	168.7	196.4
Net Operating Balance[4]	509.2	298.5	48.7	(888.5)	(622.5)	115.2
Net Acquisition of Non-financial Assets	952.4	824.9	1114.4	1,286.8	945.7	935.1
Net Lending (Borrowing)	**$(443.2)**	**$(526.4)**	**$(1065.7)**	**$(2,175.3)**	**$(1,568.2)**	**$(820.0)**

(1) Preliminary data.
(2) Includes royalty payments from Itaipú and Yacyretá binationals.
(3) Includes compensation payments by Brazil and Argentina for sales of unused capacity generated by Itaipú and Yacyretá, respectively.
(4) Revenues minus expenses.
Source: Ministry of Finance

The following table sets forth a summary of central government sector finances expressed as a percentage of nominal GDP for the periods indicated below.

Central Government Finances as a Percentage of GDP

	12-month period ended December 31,				11-month period ended November 30,	
	2017	**2018**	**2019**	**2020**	**2020**	**2021**[1]
	(as a percentage of GDP)					
Revenue	14.2%	14.1%	14.2%	13.5%	12.1%	12.2%
Taxes	9.9	10.0	10.0	9.5	8.5	8.8
On income, profits and capital gains	2.3	2.3	2.5	2.5	1.9	2.1
On goods and services	6.4	6.5	6.2	6.0	4.9	5.1
Value-added taxes	5.1	5.1	4.9	4.9	4.0	4.2
Excises	1.3	1.4	1.3	1.2	1.0	0.9
Other taxes on goods and services	0.0	0.0	0.0	0.0	0.0	0.0
On international trade and transactions	1.0	1.1	1.0	0.8	0.7	0.8
Other taxes	0.2	0.2	0.2	0.1	1.0	0.8
Social Contributions	1.1	0.9	0.9	1.0	0.9	1.0
Grants	0.5	0.8	0.6	0.6	0.4	0.6
Other revenue	2.6	2.4	2.7	2.4	2.2	1.9
Property income	1.3	0.8	1.0	0.9	0.8	0.8
Royalties[2]	0.7	0.6	0.9	0.6	0.6	0.5
Sales of goods and services	1.1	1.3	1.4	1.0	0.9	0.7
Compensation transfer of energy[3]	0.6	0.8	0.9	0.6	0.6	0.3
Miscellaneous revenue	0.3	0.3	0.2	0.5	0.4	0.3
Expense	12.9	13.4	14.1	16.1	13.8	11.9
Compensation of employees	6.3	6.6	6.9	7.3	6.2	5.4
Use of goods and services	1.2	1.3	1.3	1.4	1.3	1.4
Interest	0.6	0.7	0.8	1.1	1.0	1.1
Subsidies	0.0	0.0	0.0	0.0	0.0	0.0
Grants	2.1	2.1	2.0	1.9	1.6	1.5
Social Benefits	2.1	2.3	2.4	3.8	3.2	2.0
Other Expense	0.5	0.5	0.6	0.6	0.5	0.5
Net Operating Balance[4]	1.3	0.7	0.1	(2.5)	(1.8)	0.3
Net Acquisition of Non-financial Assets	2.4	2.1	2.9	3.6	2.7	2.3
Net Lending (Borrowing)	(1.1)%	(1.3)%	(2.8)%	(6.1)%	(4.4)%	(2.1)%

(1) Preliminary data.
(2) Includes royalty payments from Itaipú and Yacyretá binationals.
(3) Includes compensation payments by Brazil and Argentina for sales of unused capacity generated by Itaipú and Yacyretá, respectively.
(4) Revenues minus expenses.
Source: Ministry of Finance

Revenues

The following table sets forth the composition of central government revenues as a percentage of total central government revenues for each of the periods indicated below.

Central Government Revenue

	12-month period ended December 31,				11-month period ended November 30,	
	2017	**2018**	**2019**	**2020**	**2020**	**2021**[1]
	(as percentage of total revenue)					
Taxes	70.0%	71.1%	70.1%	70.0%	70.5%	72.3%
On income, profits and capital gains	16.3	16.2	17.9	18.4	15.6	17.5
On goods and services	45.3	46.1	43.8	44.5	40.8	41.8
Value-added taxes	36.0	36.3	34.8	36.0	32.7	34.1
Excises	9.3	9.8	9.0	8.5	8.1	7.7
Other taxes on goods and services	0.0	0.0	0.0	0.0	0.0	0.0
On international trade and transactions	7.1	7.7	7.2	6.2	6.1	6.5
Other taxes	1.3	1.1	1.3	0.9	8.0	6.5
Social Contributions	7.8	6.5	6.3	7.5	7.8	7.8
Grants	3.7	5.4	4.5	4.4	3.6	4.7
Other revenue	18.5	17.0	19.0	18.1	18.1	15.3
Property income	8.9	6.0	7.4	6.8	6.9	6.6
Royalties[2]	5.1	4.6	6.2	4.8	4.9	4.2
Sales of goods and services	7.6	9.1	10.0	7.7	7.8	5.8
Compensation transfer of energy[3]	4.0	5.4	6.0	4.5	4.6	2.2
Miscellaneous revenue	2.1	1.9	1.7	3.6	3.3	2.8
Total Revenue	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

(1) Preliminary data.
(2) Includes royalty payments from Itaipú and Yacyretá binationals.
(3) Includes compensation payments by Brazil and Argentina for sales of unused capacity generated by Itaipú and Yacyretá, respectively.
Source: Ministry of Finance

Tax Revenue

Tax revenues increased steadily from 2004 through 2021 as a result of reforms in tax legislation and improved management of tax administration. Two key tax laws were approved in 2013, the Agricultural Activities Income Tax and the extension of VAT to agricultural products at a rate of 5%, which were previously exempted from VAT. In 2019, a new tax law was enacted implementing a modernized and simplified tax system.

Tax revenues averaged 70.3% of total central government revenues for the 2017-2020 period. However, the COVID-19 pandemic had a strong effect on the central government's tax revenue in 2020. In the 11-month period ended November 30, 2021, tax revenues accounted for 72.3% of the total central government revenues, an increase of 1.7% compared to the same period in 2020.

Taxes on income, profits and capital gains. Revenues from personal, corporate and agricultural income taxes represented 24.2% of total central government tax revenues in the 11-month period ended November 30, 2021. Since the enactment of the new tax law in 2019, corporate income is taxed at a rate of 10.0% for commercial and industrial activity and services sectors, with no distinctions between agricultural and non-agricultural activities, but

gross profits distributions are taxed at 8.0% for distributors and a 15.0% withholding tax applies on any payments to non-residents, if such dividends are remitted abroad.

The Personal Income Tax ("PIT") is assessed at a rate that ranges from 8% to 10% for personal income, capital income, capital gains and other income after certain exemptions and deductions. In 2019, PIT was assessed separately for personal income and capital gains income. For personal income, a rate of 10% is applied over the difference between revenues and expenditures. For capital gains income, a rate of 8% is applied over revenues and expenditures.

Taxes on goods and services. In the 11-month period ended November 30, 2021, taxes on goods and services (VAT and excise taxes) represented 57.9% of total tax revenues. Tax rates are moderate with the general VAT rate being 10.0%, and a reduced rate of 5% applying to certain household necessities, pharmaceuticals and books. Commencing in 2013, livestock, soybeans and other agricultural products in their natural state ceased to be exempt from VAT and became subject to VAT at a rate of 5.0%. Excise tax is levied primarily on fuel, beverages and cigarettes. As of the date of this Offering Memorandum, cigarettes are taxed at 18.0%, after a 2% increase in September 2018, and are expected to gradually increase to a maximum rate of 24%; alcoholic beverages are taxed at 11% and 13% respectively; and non-essential goods are taxed at a range between 1% and 5%. Fuel is subject to a special tax levied at a rate of up to 50.0%.

Taxes on international trade and transactions. Revenue from international trade and transactions, which corresponds entirely to import duties, represented approximately 8.9% of total tax revenues in the 11-month period ended November 30, 2021. A significant part of VAT and excise taxes are derived from foreign trade and is collected by customs.

Modernization and Simplification of the National Tax System. In September 2019, the Modernization and Simplification of the National Tax System Law was enacted. The main objective of the Modernization and Simplification of the National Tax System Law is to improve the current tax system by making it simpler, more efficient, equitable and competitive. The Modernization and Simplification of the National Tax System Law reflects certain principles that prevail in modern tax systems, aiming to reduce tax avoidance and tax evasion.

The Modernization and Simplification of the National Tax System Law seeks to raise revenue with an emphasis on fairness and direct taxation, implementing a more progressive tax system, in which the tax rate increases in line with the taxable amount.

The Modernization and Simplification of the National Tax System Law became effective in January 2020 and is expected to increase tax revenue for 0.7% of GDP (approximately US$300 million) upon full implementation by 2024. The expected increase in revenues will be applied to increase public expenditure in education, public health, infrastructure and social protection.

Non-tax Revenue

Non-tax revenues (social contributions, grants and other revenue) represent, on average, 29.3% of the total central government revenues for the period from 2017 through November 2021. The largest contribution is derived from royalty payments from Itaipú Binational and Yacyretá Binational and compensation payments by Brazil and Argentina, which in the period from 2017 through November 2021 accounted for an average of 9.4% of total central government revenues. Social security contributions also represent a significant source of non-tax revenue, accounting for 7.2% on average for the period from 2017 through November 2021.

Pursuant to the Itaipú Treaty, Paraguay is entitled to receive (i) an annual royalty from Itaipú Binational in an amount determined on the basis of a formula set forth in the Treaty and (ii) compensation from the Brazilian government for the unused portion of Paraguay's share of electricity produced by Itaipú that must be sold to Eletrobras at cost in accordance with the Treaty. The amount of the compensation is negotiated between both governments and is US$9.2 per GW/hour as of the date of this Offering Memorandum.

In the 11-month period ended November 30, 2021, Paraguay received royalty payments and compensation payments of US$366.9 million (equivalent to 0.9% of GDP), a 4.7% decrease compared to royalty payments and

compensation payments of US$406.1 million (equivalent to 1.1% of GDP) during the same period in 2020. This decrease in royalty payments and compensation payments was mainly due to (i) decreased electricity production resulting from drought- induced poor water flow in the Paraná River in the 11-month period ended November 30, 2021 and (ii) an extraordinary US$125.1 million payment for overdue amounts corresponding to prior years, which was recorded in 2019 and there was no similar payment. Paraguay received royalty payments and compensation payments of US$384.9 million in 2020 (1.1%), US$519.9 million in 2019 (1.3 of GDP), US$556.1 million in 2018 (1.4% of GDP) and US$666.9 million in 2017 (1.7% of GDP). Revenues fluctuate from one year to another as a result of the total production of electricity, which itself depends on the water flow of the Paraná River, as well as the receipt of overdue amounts in one year which correspond to prior years. Further, while compensation payments have increased as a result of the negotiations with the Brazilian government, they would decrease to the extent that energy generated by Itaipú is consumed domestically. For more information regarding Itaipú see "The Paraguayan Economy—Principal Sectors of the Economy—Binational Entities (Binationals)—Electricity Production at Itaipú and Yacyretá Hydroelectric Plants" and "Republic of Paraguay—History, Government and Political Parties."

According to the Yacyretá Treaty, Paraguay receives (i) royalty payments and (ii) compensation payments based on revenues from the sale of Paraguay's unused electricity to Argentina. The latter is paid by the government of Argentina directly to Paraguay. The construction of Yacyretá was largely financed by loans from the World Bank and the IDB to Yacyretá Binational, which were guaranteed by Argentina.

In 1992, the governments of Paraguay and Argentina signed notes related to the Yacyretá Treaty to amend its provisions concerning the cost of the project. Paraguay and Argentina agreed in January 1992 to defer the payment of accumulated royalties and compensation (for the electricity Paraguay sold to Argentina) for the 1994 to 2004 period until 2019, and to reinvest such deferred amounts in construction and operational improvements. The deferred amounts shall be paid in equal, monthly installments over eight years, and without interest beginning in 2019. Despite the agreement, since Yacyretá commenced operations in 1994, Paraguay has received advances on deferred royalties and compensation.

However, a substantial part of the early payments due to Paraguay for the periods prior to 2004 is at Yacyretá Binational's discretion and is agreed to on an annual basis by Argentina and Paraguay. Revenues received by Paraguay from Yacyretá Binational totaled US$124 million in 2012, US$105 million in 2013 and US$37 million in 2014. Beginning in 2014, the Argentine government halted the transfer of any revenue from Yacyretá to Paraguay. However, in 2016, Argentina promised to honor the royalties and compensation payments for 2014 and 2015 due to Paraguay from the Yacyretá hydroelectric plant. In 2015, Paraguay received US$108 million as discretionary payments from Yacyretá Binational on account of royalties and compensation corresponding to agreements for the years 2014 and 2015. In 2016, Paraguay received payments for US$61 million from Yacyretá Binational. In 2017, Paraguay received US$64.9 million from Yacyretá Binational on account of royalties and compensation, of which US$32 million corresponded to payments due for 2016. In 2018, 2019, 2020 and 2021, Paraguay received US$46.2 million, US$125.1 million, US$46.0 million and US$45.8 million, respectively, from Yacyretá Binational on account of royalties and compensation due for prior years.

In May 2017, the Presidents of Paraguay and Argentina signed an agreement of understanding, approved by Congress that same year, to establish guidelines for the settlement of Yacyretá Binational's debt to both countries. The agreement also provides guidelines for the calculation of Yacyretá Binational's compensation in favor of both countries relating to territories flooded for its construction. In addition, the nations agreed on the expansion and modernization of the hydroelectric plant.

Expenditures

Central government expenditures consist primarily of compensation of employees, use of goods and services, interest payments, subsidies, grants, social benefits and other expenses. The main component of expenditures is compensation of employees, representing an average of 48.3% of total expenditures for the period from 2017 through November 2021. Grants also represent an important component of expenditures, accounting for an average of 14.5% of total expenditures for the period from 2017 through November 2021. Grants include the current and capital transfers to foreign governments, international organizations and local governments units. The provision of social benefits, including social security, social assistance and social benefits from employer is another

significant component of central government expenditures, representing, on average, approximately 17.8% of total expenditures for the period from 2017 through November 2021.

Analysis of Public Spending. The government has promoted the creation of a Public-Private Inter-Institutional Commission for the Analysis of Public Spending. This commission aims to work on an analysis and proposal for the implementation of best practices in planning, management, budget and control, which will allow responding to the needs of citizens through the generation of more efficient goods and services, through an improvement in the quality of public expenditure.

The following table sets forth central government expenditures by category for the periods indicated below.

Central Government Expenditures

	12-month period ended December 31,				11-month period ended November 30,	
	2017	**2018**	**2019**	**2020**	**2020**	**2021**[1]
	(as percentage of total central government expenditure)					
Compensation of employees	49.3%	49.4%	49.3%	45.5%	44.8%	45.6%
Use of goods and services	9.1	9.4	9.4	9.0	9.1	12.1
Non-personal services	4.7	4.7	4.6	3.6	3.7	4.6
Consumer goods	4.0	4.4	4.4	4.9	4.9	7.0
Commissions	0.1	0.1	0.2	0.2	0.3	0.2
Other use of goods and services	0.3	0.3	0.3	0.2	0.3	0.3
Interest	4.5	5.0	5.9	6.6	7.5	8.9
Subsidies	0.0	0.0	0.0	0.0	0.0	0.0
Grants	16.6	15.6	14.2	11.8	11.7	12.2
To foreign governments	0.0	0.0	0.0	0.0	0.0	0.0
To international organizations	0.3	0.2	0.2	0.1	0.1	0.1
To local governments	16.4	15.4	14.0	11.7	11.6	12.1
Social Benefits	16.4	17.0	17.2	23.6	23.4	17.1
Other Expense	4.0	3.5	4.1	3.5	3.4	4.1
Current	1.5	1.5	1.3	1.5	1.4	1.1
Capital	2.5	2.0	2.8	2.0	2.0	3.0
Total Expenditures	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0**

(1) Preliminary data.
Source: Ministry of Finance

Capital expenditures (Net Acquisition of Non-financial Assets)

Central Government Finance

	12-month period ended December 31,				11-month period ended November 30,	
	2017	**2018**	**2019**	**2020**	**2020**	**2021**[1]
	(in millions of US$)					
Net acquisition of non-financial assets	952.4	824.9	1,114.4	1,286.8	945.7	935.1

(1) Preliminary data.
Source: Ministry Of Finance

Net acquisition of non-financial assets comprise payments for the construction of infrastructure such as roads, buildings, hospitals and schools, as well as research laboratories, computers and modern equipment. During the 2017-2020 period, net acquisition of non-financial assets has increased on average 19.9% per year. In the 11-

month period ended November 30, 2021, net acquisition of non-financial assets represented 2.3% of the GDP, a decrease of 0.3% compared to the same period of 2020, which results from the government measures taken to achieve fiscal convergence in the medium term.

The following table sets forth government expenditures by purpose for the periods indicated. The table includes the amortization of public debt and all expenses related to public debt, including the issuance, management and cancellation of public debt, and service.

Government Expenditures by Purpose

	12-month period ended December 31,				11-month period ended November 30,	
	2017	**2018**	**2019**	**2020**	**2020**	**2021**[1]
	(in millions of U.S. dollars)					
Social Services	$ 3,503.5	$ 3,750.4	$ 3,898.5	$ 4,214.5	$ 3,523.4	$ 3,344.5
Health	740.9	779.2	809.8	925.4	778.7	930.9
Promotion and social action	869.1	881.0	852.6	1,232.3	1,060.9	680.9
Social security	586.8	639.7	768.1	636.0	485.7	544.3
Education and culture	1,181.5	1,302.4	1,303.1	1,283.3	1,085.6	1,047.7
Science, technology and dissemination	33.6	29.5	31.5	31.1	20.9	25.9
Labor	43.8	43.5	44.3	37.5	29.8	33.9
Housing and community	47.6	75.2	88.4	68.3	61.3	80.3
General Services	1,464.6	1,516.2	1,443.7	1,352.3	1,153.5	1,178.1
Public services	727.3	737.5	694.0	628.8	530.5	564.6
Defense and security services	737.3	778.7	749.7	723.5	623.0	613.5
Economic Services	927.6	794.6	919.3	1,489.8	1,149.4	756.8
Energy, fuels and mining	0.8	0.5	0.6	0.3	0.3	0.6
Transport	24.9	25.3	33.1	20.5	14.7	8.7
Ecology and environment	0.0	0.0	7.4	6.7	5.3	5.9
Agriculture, livestock and fishing	162.8	100.8	95.9	113.5	90.1	80.9
Manufacturing/Industry	10.5	2.5	3.7	2.1	1.9	1.8
Commerce, storage and tourism	30.5	30.2	29.5	20.1	17.1	15.8
Economic services and public work	689.2	626.0	749.2	1,326.6	1,020.2	643.1
Public debt service	570.0	566.1	589.4	675.8	656.1	715.1
Regulation and control services	5.0	6.7	9.8	12.9	11.8	15.0
Total	**$ 6,470.7**	**$ 6,634.1**	**$ 6,860.7**	**$ 7,745.3**	**$ 6,494.2**	**$ 6,009.4**

(1) Preliminary data.
Source: Ministry of Finance

The following table sets forth government expenditures by purpose as a percentage of total expenditures for the periods indicated below.

Percentage Distribution of Central Government Expenditures by Purpose

	12-month period ended December 31,				11-month period ended November 30,	
	2017	**2018**	**2019**	**2020**	**2020**	**2021**[(1)]
	(as percentage of central government total expenditure)					
Social Services	54.1%	56.5%	56.8%	54.4%	54.3%	55.7%
Health	11.4	11.7	11.8	11.9	12.0	15.5
Promotion and social action	13.4	13.3	12.4	15.9	16.3	11.3
Social security	9.1	9.6	11.2	8.2	7.5	9.1
Education and culture	18.3	19.6	19.0	16.6	16.7	17.4
Science, technology and dissemination	0.5	0.4	0.5	0.4	0.3	0.4
Labor	0.7	0.7	0.6	0.5	0.5	0.6
Housing and community	0.7	1.1	1.3	0.9	0.9	1.3
General Services	22.6	22.9	21.0	17.5	17.8	19.6
Public services	11.2	11.1	10.1	8.1	8.2	9.4
Defense and security services	11.4	11.7	10.9	9.3	9.6	10.2
Economic Services	14.3	12.0	13.4	19.2	17.7	12.6
Energy, fuels and mining	0.0	0.0	0.0	0.0	0.0	0.0
Transport	0.4	0.4	0.5	0.3	0.2	0.1
Ecology and environment	0.0	0.0	0.1	0.1	0.1	0.1
Agriculture, livestock and fishing	2.5	1.5	1.4	1.5	1.4	1.3
Manufacturing/Industry	0.2	0.0	0.1	0.0	0.0	0.0
Commerce, storage and tourism	0.5	0.5	0.4	0.3	0.3	0.3
Economic services and public work	10.7	9.4	10.9	17.1	15.7	10.7
Public debt service	8.8	8.5	8.6	8.7	10.1	11.9
Regulation and control services	0.1	0.1	0.1	0.2	0.2	0.2
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

(1) Preliminary data.
Source: Ministry of Finance

A significant portion of the increases in non-discretionary current expenditures have resulted from the introduction of new laws that increased compensation for public sector employees without generating additional revenue. However, the approval of the FRL was intended to avoid future discretionary increases in compensation of employees. Although non-discretionary government expenditures continue to represent a high percentage of total expenditure, a lower increase in compensation of public sector employees has resulted in an improvement in the ratio of non-discretionary expenditures to total expenditures. Non-discretionary expenditures totaled US$4.1 billion in 2017, representing 67.2% of total expenditures in 2017. In 2018 and 2019, non-discretionary expenditures totaled US$4.4 billion for each year, representing 70.2% and 66.3% of total expenditures, respectively. In the 11-month period ended November 30, 2021, non-discretionary expenditures totaled US$3.9 billion, representing 67.6% of total expenditures, compared to the same period in 2020, when non-discretionary expenditures totaled US$4.2 billion, representing 71.8% of total expenditures.

Budget Process

The government's fiscal year runs from January to December. Pursuant to applicable regulation, the Ministry of Finance prepares the annual government budget, where it presents the goals and specific characteristics

of the budget (including estimates of revenues and expenses for the budget year), implementation of the government's social and economic development policies and the provision of public services.

The budget bill process begins with the submission by each governmental agency of its proposed budget to the Ministry of Finance, which in turn then drafts the initial annual budget. The Ministry of Finance may revise, modify or amend each agency's proposed budget prior to presenting the annual budget to the president for approval. The president is required to submit a bill setting forth the annual budget for the following year to the Chamber of Deputies by September 1 of each year that meets the requirements of the FRL.

A special commission composed of members of the Senate and the Chamber of Deputies then convenes for 60 days to review the proposed annual budget. At the completion of this period, the proposed annual budget is submitted to the Senate and the Chamber of Deputies for an additional 15-day review period. The budget process is subject to the rules and limitations set forth in the Fiscal Responsibility Law. If Congress, for example, decides to modify the annual budget by increasing expenditures, it must comply with the Fiscal Responsibility Law's requirement that the source of each additional expenditure be identified. The president may veto the congressionally amended budget, but following such a veto, the annual budget from the preceding year remains in effect. In no event is the government required to spend all the amounts that are provided in the annual budget. In addition, Paraguay includes in its annual budget the external borrowings it needs according to estimates of payments for projects underway and projects pending approval by Congress.

As part of the budget implementation process, the Ministry of Finance prepares a financial plan based on actual revenue flows and the actual ability of governmental agencies and institutions to implement the budget. The financial plan may make adjustments to the budget if necessary, including the reduction of expenditures to the extent that revenues contemplated in the budget do not materialize, and such budget, as modified, is the one that is implemented. In addition to the financial plan, the treasury's *Plan de Caja* allows for monthly adjustments to expenditures depending on the treasury's ability to finance particular expenditures. Governmental entities use the *Plan de Caja* to conform their execution of the budget to the resources they actually have available. Through the financial plan and the *Plan de Caja*, the Ministry of Finance is able to adjust expenditures subject always to the maximum amounts approved in the budget.

The government can cover a shortfall of forecasted revenues by transferring credits, changing funding sources or through short-term loans from the Central Bank. If the deficit at the end of the first quarter exceeds 3% of the budget, the government must submit to Congress a revised national budget by no later than June 30th of that year. Congress can transfer or reduce expenditures, change funding sources or remove budgetary expenditures that do not affect budgetary commitments under special laws. In addition, Congress can also authorize the issuance of treasury bonds to cover the projected deficit, which would be recorded as public debt of the next fiscal year.

2022 Annual Budget

On September 1, 2021, the Executive submitted the 2022 Draft Budget to Congress. The bill contemplates aggregate expenditures for a total of US$13.8 billion, an increase of 4.9% compared to the previous year. The 2022 Draft Budget allocates 56% of total resources to the central government and 44% to decentralized entities. The 2022 Draft Budget contemplates a 16.5% increase in tax revenue and a resultant tax burden of approximately 9.7% of GDP for 2022, in each case, when compared to the 2021 budget.

The 2022 Draft Budget submitted by the central government to Congress was prepared in accordance with the key principles of austerity and fiscal responsibility, strategically formulated to face the existing complex economic context. The 2022 Draft Budget was designed to promote the economic and social recovery of the country, which went through an unprecedented health, economic and social crises due to the COVID-19 pandemic. In this context, even as the financial conditions are limited, the central government maintains its austerity policies and resources targeting with the goal of attaining the 1.5% fiscal deficit limit as established by the FRL.

The 2022 Draft Budget was prepared in compliance with the FRL, capping the annual deficit at 1.5% of GDP. However, given a scenario of uncertainty and the projected return to a path of development and gradual recovery of the economy, the 2022 Draft Budget seeks to promote public investment projects, especially the ones that already have approved financing. For this reason, the Executive asked the National Congress for an exception

for 2022 to raise the fiscal deficit limit to 3% for one year. Temporarily increasing the fiscal deficit will avoid paralyzing public investment projects currently in progress and permit the management of new projects. In turn, the government intends to apply a fiscal convergence plan to gradually return to the fiscal deficit ceiling of 1.5% of GDP over the next three years.

The following table sets forth a comparison between the main macroeconomic assumptions used in September 2020 for the preparation of the 2021 budget and the main macroeconomic assumptions used in September 2021 for the preparation of the 2022 Draft Budget.

Main Macroeconomic Assumptions for 2022

	2021 Budget Assumptions*	2022 Draft Budget Assumptions**
Real GDP Growth	3.8%	3.8%
Domestic inflation CPI	4.0%	4.0%
Imports (US$ million)	$12,455	$11,799
Average Nominal G./US$ Exchange Rate	G.7,234	G.6,992

Source: Ministry of Finance – (*) Public Finance Report (2021 budget); (**) Public Finance Report (2022 Draft Budget).

The following table sets forth a comparison between the macroeconomic assumptions used in preparation of the 2021 budget and the final macroeconomic indicators for 2021.

Main Macroeconomic Assumptions for 2021 vs. Current 2021(1)

	Assumptions	Current 2021
Real GDP Growth	5.0%	5.0%
Domestic Inflation CPI	3.8%	6.8%
Imports (US$ million)	$11,022	$12,140
Average Nominal G./US$ Exchange Rate	G.7,092	G.6,780

(1) The macroeconomic assumptions included in this table were published in the notice of public finance that accompanied the 2021 budget presented to Congress in September 2020.
Source: Ministry of Finance, Central Bank of Paraguay.

In December 2020, the main projections of macroeconomic indicators were revised, adjusting the projected GDP growth to 4.0% for 2021. However, the latest revision by the Central Bank, presented in December 2021 adjusted the projected growth rate for 2021 to 5.0% supported by the improvement of the secondary and service sectors.

The Paraguayan economy has demonstrated resilience in the face of the significant shock resulting from the COVID-19 pandemic. The appropriate fiscal, social and financial measures that were established, first, through the Emergency Law and, then, with the beginning of the Ñapu'a Economic Recovery Plan in the second half of 2020 were essential to reduce the negative impact of the pandemic and underpin the recovery in 2021.

Inflationary pressures were, on the other hand, observed mainly due to the increase in food and fuel prices. These were in turn affected by an increase in the prices of commodities. The inflation projection for 2021 was adjusted from 3.8% to 7.1%, to be consistent with the recent behavior of prices.

In relation to the average exchange rate, for the 11-month period ended November 30, 2021, the recent evaluation reflected the strengthening of the U.S. dollar, registering an average depreciation of the Guaraní against the U.S. dollar of 0.22% during the 11-month period ended November 30, 2021, lower than the 8.5% depreciation observed in 2020 and the initially estimate for 2021. By the end of the year, an average level of G. 6,780 is expected per dollar, which translates into a depreciation of the Guaraní against the US dollar of 0.13% with respect to the

average exchange rate of G. 6,771 observed during 2020. Imports of goods are estimated to amount to US$12,140 million as of December 31, 2021, a 28% increase compared to 2020.

Social Security

Paraguay's social security system is a government-administered system, financed by a combination of contributions from employees, employers and the government. The current contributions to the social security system are used to finance the retirement funds and services provided to current users. Paraguay's social security system is composed of eight entities according to the type of employees to which they relate:

(i) the Institute of Social Welfare for private sector workers;

(ii) the General Bureau for Retirement Funds (the "Caja Fiscal") for public sector workers;

(iii) railroad workers;

(iv) bank employees;

(v) electricity workers;

(vi) members of parliament;

(vii) municipal employees; and

(viii) Itaipú workers.

The Caja Fiscal has a direct impact on the central government's fiscal balance because it is responsible for payments to central government employees.

Paraguay's social security system provides coverage to approximately 44.8% of the total population that receive a salary or work as employees. The IPS and the Caja Fiscal are the largest entities of the social security system. The IPS is the main component of Paraguay's social security system covering retirement and pensions, as well as health insurance. Coverage extends to all employees in the formal private sector, non-government entities and mixed private-public enterprises, public and private school teachers, domestic services employees, retirees and veterans of the Chaco War. Benefits can generally be made available to dependents.

Under the IPS, the ordinary retirement age is 60, together with a minimum of 25 years of contributions. In such a case, an individual receives 100% of the average salary during the last 36 months.

The Caja Fiscal is run by the Ministry of Finance and administers the pension system for public sector employees. It is divided into two broad schemes: the civil servants and the non-civil servants schemes. The civil servants scheme covers university professors, national teachers, judicial magistrates and public officials and employees. The non-civil scheme covers the armed forces and the police forces.

In the 11-month period ended November 30, 2021, the contributive scheme of Caja Fiscal ran a deficit of G.1,040.8 billion (approximately US$153.7 million, representing 0.381% of GDP), higher than the deficit of G.924.0 billion recorded in November 2020 (approximately US$136.8 million, representing 0.378% of GDP), primarily due to payments to military, police, and teachers, the covered sectors with the highest deficits.

Any individual covered by the Caja Fiscal who has worked for at least 20 years and reaches 62 years of age may retire. Individuals of 50 years or older who have worked for at least 20 years are eligible for retirement benefits.

In addition, the Ministry of Finance administers a non-contributory pension scheme. In 2018, the non-contributory pensions paid G.1,566 billion (approximately US$275 million, representing 0.8% of GDP), exceeding amounts paid in 2019 of G.1,425 billion (approximately US$228 million, representing 0.6% of GDP).

The non-contributory pensions cover veterans of the Chaco War and gratuitous pensions granted to individuals who have no retirement funds. The non-contributory scheme is composed mainly of pensions defined by the parliament and has significantly influenced overall results of public finance, because it represents only expenditures without any contribution in return.

Paraguay's pension system faces significant structural challenges, such as heterogeneity in terms of benefit payments despite homogeneity across sectors in terms of contributions. Additionally, the results of a July 2017 actuarial study by the IMF indicate that the accumulated 50-year deficit of the Caja Fiscal has a present value of 28% of GDP. Pursuant to certain Finance Ministry projections, the Caja Fiscal shows a discounted present value of unfunded liability of approximately 28.5% of GDP as of 2019.

The strengthening of the institutional framework of the entire Paraguayan pension system and the supervision and regulation of the management and investment of pension funds, through the creation of an independent, technical and specialized regulatory institution, with appropriate standards of regulation and supervision, will be essential to keep the system in balance and improve the efficiency and transparency of pension savings management.

In April 2017, the executive branch submitted a bill to Congress introducing certain reforms in Paraguay's pension system. The bill included the creation of a Pension Superintendence, with the power to regulate, supervise and intervene in the management of pension savings, both for public and private entities. It also included the creation of a Pension Advisory Council led by the Ministry of Labor, Employment and Social Security, and would include representatives from the Ministry of Finance and the Central Bank as council members. This council would be responsible for developing guidelines for the design and implementation of measures to reform the national retirement and pension system. This bill was rejected by Congress in 2018. However, given the importance of the supervision and regulation of the management and investment of funds in the pension system, the government has continued in its efforts with the objective of presenting, for the consideration of Congress and the other sectors involved, a simplified and focused proposal on general guidelines that allow the creation of a pension superintendence as an institution integrated into the Central Bank. This new entity would work with functional specialization, institutionalism, independence, budgetary and financial capacity and experience in the spaces of finance and insurance industries regulation. In this sense, as of the date of this Offering Memorandum, the Ministry of Finance is working on a proposal to address the concerns of all the sectors involved.

PUBLIC SECTOR DEBT

General

Paraguayan public sector debt is composed of debt incurred by the central government, financial public institutions (BNF, AFD, Livestock Fund (*Fondo Ganadero*), and Agricultural Credit (*Crédito Agrícola de Habilitación*)), and non-financial public institutions (including SOEs). In general, Paraguay has relied on public external and public sector domestic debt to finance capital expenditures, primarily to expand the country's infrastructure, invest in education, grant low-interest rate loans and provide assistance to the manufacturing and agricultural sectors. As of November 30, 2021, 99.9% of public sector external debt and approximately 2.4% of public sector domestic debt were denominated in foreign currencies.

All public sector domestic and external debt incurred by the central government is backed by the full faith and credit of Paraguay and medium- and long-term debt must be authorized by both the Ministry of Finance and Congress.

Incurrence of public sector debt is limited each year to the amount authorized by Congress in the annual budget.

The principal guidelines in the government's public debt policies are the ratio of total outstanding public sector debt to GDP, and the ratio of total principal, interest payments and other financial costs (including interest, commissions and others) on public sector external debt to GDP. As of November 30, 2021, the ratio of total outstanding public sector debt to GDP was 33.7%.

The following table sets forth a summary of Paraguay's total gross public sector debt as a percentage of GDP for the periods indicated below.

Total Gross Public Sector External Debt by Creditor

	As of December 31,								As of November 30,			
	2017		2018		2019		2020		2020		2021	
	US$	% of GDP	US$	% of GDP	US$	% of GDP	US$	% of GDP	US$	% of GDP	US$	% of GDP
	(in millions of U.S. dollars and percentages)											
Public Sector Debt[1]	$7,166.0	18.2%	$8,040.9	19.8%	$8,859.1	22.9%	$12,212.9	33.6%	$11,540.9	31.7%	$13,522.9	33.7%
External Public Debt	5,590.1	14.2%	6,402.4	15.7%	7,238.5	18.7%	10,488.5	28.8%	9,903.9	27.2%	11,645.2	29.0%
Domestic Public Debt[2]	$1,575.9	4.0%	$1,638.5	4.0%	$1,620.6	4.2%	$1,724.4	4.7%	$1,637.0	4.5%	$1,877.7	4.7%

(1) Public sector debt is classified as external and domestic. Domestic public debt comprises debt contracted with individuals or legal entities resident or domiciled in the Republic of Paraguay, whose payment may be payable within the national territory. External public debt comprises debt contracted with another state or international organization, or any other natural or legal person without residence or domicile in the Republic of Paraguay, the payment of which may be due outside the national territory.

(2) The domestic debt includes since 2012 the result of the capitalization of the Central Bank in the amount of US$915.5 million, through the issuance of a perpetual bond. This amount represented 1.4% of GDP and 4.2% of total public debt as of November 30, 2021 (US$574.3 million).

Source: Ministry of Finance and Central Bank.

Public Sector External Debt

Paraguay's current strategy focuses on minimizing the cost of its public sector external debt. As of November 30, 2021, public sector external debt represented 86.1% of outstanding public sector debt, most of which was incurred to finance infrastructure projects in the form of bilateral and multilateral loans.

The following table sets forth gross public sector external debt by creditor for the periods indicated below.

Gross Public Sector External Debt by Creditor

	As of December 31,								As of November 30,			
	2017		2018		2019		2020		2020		2021	
	US$	%	US$	%	US$	%	US$	%	US$	%	US$	%
	(in millions of U.S. dollars and percentages)											
Official creditors	**2,651.1**	**47.4**	**2,966.8**	**46.3**	**3,224.0**	**44.5**	**4,916.2**	**46.9**	**4,330.7**	**43.7**	**5,442.6**	**46.7**
Multilateral organizations	**2,460.2**	**44.0**	**2,768.0**	**43.2**	**3,007.2**	**41.5**	**4,686.9**	**42.8**	**4,102.4**	**41.4**	**5,219.7**	**44.8**
I D B	1,294.5	23.2	1,469.2	22.9	1,671.3	23.1	2,393.8	23.6	2,207.0	22.3	2,490.6	21.4
I B R D	599.8	10.7	631.7	9.9	572.0	7.9	849.2	8.4	849.2	8.6	879.9	7.6
C A F	328.7	5.9	386.4	6.0	467.7	6.5	1,075.2	7.2	726.5	7.3	1,386.9	11.9
F O N P L A T A	122.1	2.2	137.2	2.1	146.6	2.0	180.3	1.8	168.8	1.7	272.8	2.3
I F A D	21.1	0.4	19.6	0.3	20.4	0.3	22.0	0.2	21.7	0.2	23.7	0.2
A I D	5.2	0.1	4.3	0.1	3.5	0.0	2.7	0.0	2.9	0.0	2.1	0.0
O P E C	31.5	0.6	40.1	0.6	46.2	0.6	53.9	0.5	46.7	0.5	56.2	0.5
B E I	57.3	1.0	79.6	1.2	79.6	1.1	109.7	1.1	79.6	0.8	107.7	0.9
Bilateral organizations	**190.9**	**3.4**	**198.8**	**3.1**	**216.7**	**3.0**	**229.3**	**2.3**	**228.3**	**2.3**	**222.8**	**1.9**
J I C A	155.8	2.8	161.3	2.5	177.2	2.4	188.9	1.9	187.0	1.9	175.4	1.5
K F W	15.0	0.3	12.8	0.2	10.9	0.2	10.1	0.1	10.7	0.1	8.5	0.1
U S A I D	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FINAME	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
I C O	19.5	0.3	24.4	0.4	28.6	0.4	30.2	0.3	30.6	0.3	39.0	0.3
NATIXIS	0.7	0.0	0.3	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Private creditors	**2,939.0**	**52.6**	**3,435.6**	**53.7**	**3,917.3**	**54.1**	**5,363.3**	**52.9**	**5,364.2**	**54.2**	**5.858.0**	**50.3**
Banks	**20.3**	**0.4**	**12.7**	**0.2**	**7.3**	**0.1**	**3.3**	0.0	**4.2**	**0.0**	**1.7**	**0.0**
B B V A Spain	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EXIMBANK CHINA	20.3	0.4	12.7	0.2	7.3	0.1	3.3	0.0	4.2	0.0	1.7	0.0
Bonds	**2,918.7**	**52.2**	**3,422.9**	**53.5**	**3,910.0**	**54.0**	**5,360.0**	**52.9**	**5,360.0**	**54.1**	**5,856,4**	**50.3**
Bonds due 2023/44/26/27/48/ 50/31/33	2,880.0	51.5	3,410.0	53.3	3,910.0	54.0	5,360.0	52.9	5,360.0	54.1	5,856.4	51.3
Chinese Bonds (CHINA TRUST COMM. B.)	38.7	0.7	12.9	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Turnkey Law (5.074/13)	**31.5**	**0.0**	**0.0**	**0.0**	**97.2**	**1.3**	**209.0**	**2.1**	**209.0**	**2.1**	**344.6**	**3.0**
Consorcio Corredor Vial Bioceánico	0.0	0.0	0.0	0.0	97.2	1.3	209.0	1.1	209.0	2.1	344.6	3.0
Total external debt	**5,590.1**	**100.0**	**6,402.4**	**100.0**	**7,238.5**	**100.0**	**10,488.5**	**100.0**	**9,903.9**	**100.0**	**11,645.2**	**100.0**

Source: Ministry of Finance.

As of November 30, 2021, Paraguay's gross public sector external debt was US$11.6 billion, an increase of approximately 17.6% compared to November 30, 2020. Central government borrowings represented 39.0% of Paraguay's gross total public sector external debt as of the same period.

The following table sets forth a summary of Paraguay's total public sector external debt by type of debtor.

Total Gross Public Sector External Debt

	As of December 31,								As of November 30,			
	2017	**% of Total**	**2018**	**% of Total**	**2019**	**% of Total**	**2020**	**% of Total**	**2020**	**% of Total**	**2021**	**% of Total**
Central Government.	$5,192.5	93.0	$5,917.8	92.4	$6,685.6	92.4	$9,800.3	93.2	$9,251.6	93.4	$10,989.5	94.4
Financial public sector[(1)]	108.4	1.9	118.6	1.9	144.5	2.0	157.5	1.6	157.5	1.6	151.7	1.3
Non-financial public sector	289.2	5.1	365.9	5.7	408.4	5.6	530.7	5.2	494.8	5.0	504.1	4.3
Total.....	**$5,590.1**	**100.0**	**$6,402.4**	**100.0**	**$7,238.5**	**100.0**	**$10,488.5**	**100.0**	**9,903.9**	**100.0**	**$11,645.2**	**100.0**
Total public external debt/GDP.....	**14.2%**		**15.7%**		**18.7%**		**28.8%**		**27.2%**		**29.0%**	

(1) Includes the Central Bank.
Source: Ministry of Finance and Central Bank.

The following table shows the total public sector external debt net of international reserves.

Total Public Sector External Debt, Net of International Reserves

	As of December 31,				As of November 30,	
	2017	**2018**	**2019**	**2020**	**2020**	**2021**
			(in millions of U.S. dollars)			
Total public external debt.....	$ 5,590.1	$ 6,402.4	$7,238.5	$ 10,488.5	$ 9,903.9	$ 11,645.2
Less: Gross international reserves of Central Bank	$ 8,145.7	$ 7,969.6	$7,674.7	$ 9,490.1	$ 8,915.1	$ 9,878.2
Total public external debt, net of international reserves.....	**$ (2,555.6)**	**$ (1,567.2)**	**$ (436.2)**	**$ 998.3**	**$ 988.8**	**$ 1,767.1**

Source: Ministry of Finance and Central Bank.

Paraguay has historically relied on multilateral organizations, bi-lateral loans and commercial banks as sources of public sector external debt. Multilateral and bilateral organizations accounted for 46.8% of total gross public sector external debt outstanding as of November 30, 2021. As of the date of this Offering Memorandum, the IDB and the World Bank are Paraguay's largest creditors, accounting for 45.7% and 16.2% as of November 30, 2021, respectively, of gross total public sector external debt owed to multilateral organizations and 21.4% and 7.6%, respectively, of total public sector external debt. Paraguay's borrowings from multilateral organizations are used primarily for infrastructure and social development programs.

On March 31, 2016, Paraguay issued bonds under the indenture dated March 31, 2016 (as amended, modified and/or supplemented from time to time) for an aggregate principal amount of US$600 million (the "2026 Bonds"), which mature on April 15, 2026. The 2026 Bonds bear interest at a rate of 5%, payable semi-annually in arrears on April 15 and October 15 of each year.

On March 27, 2017, Paraguay issued bonds for an aggregate principal amount of US$500 million (the "2027 Bonds"), which mature on March 27, 2027. The 2027 Bonds bear interest at rate of 4.7%, payable semi-annually in arrears on September 27 and March 27 of each year.

On March 8, 2018, Paraguay issued bonds for an aggregate principal amount of US$530 million (the "2048 Bonds"), which mature on March 8, 2048. The 2048 Bonds bear interest at rate of 5.6%, payable semi-annually in arrears on September 8 and March 8 of each year.

On February 7, 2019, Paraguay issued bonds for an aggregate principal amount of US$500 million (the "Initial 2050 Bonds"), to mature on March 30, 2050. The Initial 2050 Bonds bear interest at rate of 5.4%, payable semi-annually in arrears on March 30 and September 30 of each year. On January 21, 2020 and January 20, 2021, Paraguay reopened the Initial 2050 Bonds and made further issuances, under the indenture dated March 31, 2016 (as amended, modified and/or supplemented from time to time), for an aggregate principal amount of US$450 million and an aggregate principal amount of US$225.8 million, respectively. These issuances were consolidated with the Initial 2050 Bonds to form a single series of 5.4% bonds due 2050.

On April 23, 2020, Paraguay issued bonds for an aggregate principal amount of US$1 billion (the "2031 Bonds"), which mature on April 28, 2031. The 2031 Bonds bear interest at a rate of 4.950%, payable semi-annually in arrears on April 28 and October 28 of each year.

On January 29, 2021, Paraguay issued bonds for an aggregate principal amount of US$600 million (the "2033 Bonds"), which mature on January 29, 2033. The 2033 Bonds bear interest at a rate of 2.739%, payable semi-annually in arrears on January 29 and July 29 of each year. On the same date, Paraguay entered into its first liability management transaction, which resulted in the purchase of US$329.5 million principal amount of bonds originally issued in 2013 and maturing in 2023. As such, the outstanding principal amount of these bonds was reduced to US$450.5 million.

The following table sets forth information regarding gross public sector external debt service.

Public Sector Gross External Debt Service

	12-month period ended December 31,								11-month period ended November 30,			
	2017	**% of Total**	**2018**	**% of Total**	**2019**	**% of Total**	**2020**	**% of Total**	**2020**	**% of Total**	**2021**	**% of Total**
	(in millions of U.S. dollars. and percentages)											
Interest payments[1]	$211.8	50.1%	$257.2	56.3%	$318.5	61.4%	$367.4	62.8%	$330.1	64.0%	$403.9	67.4%
Principal amortization.....	$211.1	49.9%	$199.9	43.7%	$200.6	38.6%	$217.5	37.2%	$185.9	36.0%	$195.3	32.6%
Total.....	**$422.9**	**100.0%**	**$457.2**	**100.0%**	**$519.1**	**100.0%**	**$584.9**	**100.0%**	**$516.0**	**100.0%**	**$599.2**	**100.0%**
Debt service as a percentage of registered exports	3.2%		3.9%		4.1%		5.1%		5.0%		4.6%	

(1) Includes financial costs.
Source: Ministry of Finance.

The following table sets forth information regarding gross public sector external debt amortization schedule by creditor.

Gross Public Sector External Debt Amortization Schedule by Creditor[1]

	As of November 30,						
	Amortization Schedule for						
	Total Outstanding Domestic Debt as of November 30, 2021	2021	2022	2023	2024	2025	2026 and thereafter
	(in millions of U.S. dollars)						
Multilateral organizations	$ 5,219.8	$ 0.0	$ 232.2	$ 237.9	$ 361.2	$ 343.5	$ 4,044.9
Foreign governments	224.5	1.4	38.3	35.6	19.9	16.6	112.6
Bonds	5,856.4	0.0	0.0	450.5	0.0	0.0	5,405.9
Turnkey Projects (Law 5074/13)	344.6	0.0	0.0	0.0	9.9	19.7	315.0
Total	**$11,645.2**	**$ 1.4**	**$ 270.5**	**$ 724.1**	**$ 390.9**	**$ 379.8**	**$ 9,878.4**

(1) Includes only loans approved by Congress and not those under negotiation or pending approval by Congress.
Source: Ministry of Finance.

On October 16, 2019, the IDB converted the interest rates on five loans from floating to fixed rates. With this conversion, the amount of outstanding public sector external debt at a fixed rate increased from 64.6% as of October 31, 2018 to 68.6% as of October 31, 2019, thereby reducing the exposure to the risk of interest rate fluctuations. However, as of November 30, 2021, the amount of outstanding public sector external debt at a fixed rate was 64.0%, decreasing from 66.3% as of November 30, 2020, mainly due to the disbursements of loans contracted to mitigate the effects of COVID-19.

The following table sets forth a summary of Paraguay's gross public sector external debt by interest rate type.

Summary of Gross Public Sector External Debt by Interest Rate Type

	As of December 31,								As of November 30,			
	2017	% of Total	2018	% of Total	2019	% of Total	2020	% of Total	2020	% of Total	2021	% of Total
	(in millions of U.S. dollars and percentages)											
Fixed Rate	$ 3,548.1	63.5%	$ 4,077.8	63.7%	$ 4,984.0	68.9%	$ 6,649.4	63.4%	$ 6,675.8	67.4%	$ 7,313.5	62.8%
0-3%	379.5	6.8	395.9	6.2	750.2	10.4	874.6	8.3	933.4	9.4	1,544.6	13.3
More than 3%-6%	2,161.9	38.7	2,681.9	41.9	3,129.9	43.2	4,555.1	43.4	4,533.5	45.8	4,424.3	38.0
More than 6%-9%	1,000.0	17.9	1,000.0	15.6	1,103.9	15.3	1,219.7	11.6	1,209.0	12.2	1,344.6	11.5
Floating Rate[1]	2,042.0	36.5	2,324.6	36.3	2,254.5	31.1	3,839.1	36.6	3,228.4	32.6	4,331.7	37.2
Total	**$ 5,590.1**	**100.0%**	**$ 6,402.4**	**100.0%**	**$ 7,238.5**	**100.0%**	**$ 10,488.5**	**100.0%**	**$ 9,903.9**	**100.0%**	**$ 11,645.2**	**100.0%**

(1) Primarily LIBOR-based.
Source: Ministry of Finance.

The following table sets forth a summary of Paraguay's gross public sector external debt outstanding by maturity.

Summary of Gross Public Sector External Debt Outstanding by Maturity of Indenture Date

	As of December 31,								As of November 30,			
	2017	% of Total	2018	% of Total	2019	% of Total	2020	% of Total	2020	% of Total	2021	% of Total
	(in millions of U.S. dollars and percentages)											
0-5 years	-	-	-	-	-	-	-	-	-	-	-	-
Between 5-10 years	$ 1,883.1	33.7%	$ 1,888.0	29.5%	$ 1,893.8	26.2%	$ 1,969.8	18.8%	$ 1,969.3	19.9%	$ 1,722.2	14.8%
Between 10-15 years	413.5	7.3	483.4	7.5	622.2	8.6	763.6	7.3	763.6	7.7	1,477.2	12.7
More than 15 years	3,293.5	58.9	4,031.0	63.0	4,722.5	65.2	7,755.0	73.9	7,171.0	72.4%	8,445.8	72.5
Total	**$ 5,590.1**	**100.0%**	**$ 6,402.4**	**100.0%**	**$ 7,238.5**	**100.0%**	**$ 10,488.5**	**100.0%**	**$ 9,903.9**	**100.0%**	**$ 11,645.2**	**100.0%**

Source: Ministry of Finance.

The following table sets forth gross public sector external debt denominated in foreign currency, by currency as of the dates indicated.

Summary of Gross Public Sector External Debt Outstanding by Currency

	As of November 30, 2020	% of Total	As of November 30, 2021	% of Total
	(in millions of U.S. dollars and percentages)			
United State Dollar	$ 9,605.2	97.0%	$ 11,363.8	97.6%
Japanese Yen	187.4	1.9%	175.7	1.5%
Euro	92.3	0.9%	89.0	0.8%
Canadian Dollar	0.4	0.0%	0.4	0.0%
Special Drawing Rights(1)	18.4	0.2%	16.3	0.1%
British Pound	0.1	0.0%	0.4	0.0%
Swedish Krona	0.0	0.0%	0.1	0.0%
Norwegian Krone	0.1	0.0%	0.0	0.0%
Paraguay Guaraní	0.0	0.0%	0.0	0.0%
Total	**$ 9,903.9**	**100.0%**	**$ 11,645.2**	**100.0%**

(1) Units of account used by IMF and reflects disbursements from the International Fund for Agricultural Development, an agency of the United Nations.

Source: Ministry of Finance.

Public Sector External Debt Owed to Multilateral Organizations and Credit Agencies

IDB. The IDB is Paraguay's principal multilateral financial institution creditor. As of November 30, 2021, the balance of this multilateral debt was US$2,490.6 million, representing 21.4% of Paraguay's total public sector external debt.

The country strategy from 2018 to 2022 aims to continue with the objective of promoting the diversification of credit sources and seeking to ensure government access to resources in circumstances of external shocks that generate fiscal imbalances and unexpected increases in financing needs. This strategy includes the financing of investment projects through multilateral and bilateral organizations in addition to the use of new investment financing instruments.

World Bank. The World Bank is the second major multilateral financial institution active in Paraguay, and provides lending operations, funding studies and technical and financial assistance. As of November 30, 2021, the projects in Paraguay financed by the World Bank totaled US$879.9 million, representing 7.6% of Paraguay's total public sector external debt.

The World Bank finances projects in, among others, the following priority areas:

- Strengthening of the Paraguayan economy to increase its capacity to resist risks and volatility by strengthening households and producers' economic capacity, enhancing management of public finances and promoting investment by the private sector.

- Promoting public goods and public services that benefit the poor by supporting initiatives that increase tax collection, enhance accountability and transparency on expenditures of the public sector, and improve access of the poor to public services of good quality.

- Development of inclusive markets by enhancing agricultural productivity and improving access to markets for small producers by increasing private investment in infrastructure projects that reduce logistics costs.

JICA. Paraguay's principal bilateral creditor is the Japan International Cooperation Agency ("JICA"). JICA finances projects focused on reducing social disparities (improvement of public health, and assistance for the self-reliance of small-scale farmers) and advancing sustainable economic development (improvement of water and sanitation, and of economic infrastructure).

As of November 30, 2021, loans outstanding owed to JICA totaled US$175.4 million, representing 1.5% of Paraguay's total public sector external debt.

The following table sets forth the loans of official institutions approved by law in the year 2021.

Creditor	**Project/Program**	**Date of Contract Signing**	**Amount (Millions of US$)**	**Original Currency**	**Law No.**	**Objective**
IDB	Investment in Public Finance for Sustainable Development	05-Apr-19	25	US$	6693/2021	To improve public revenue and expenditure management through increased: (i) efficiency in revenue intake; (ii) effectiveness in expenditure execution (at the national and municipal levels); and (iii) efficiency in expenditure.
CAF	Support Program for Economic Reactivation and Strengthening of State Institutions	25-Aug-21	150	US$	6824/2021	To support the fiscal management of the national government and contribute to promoting the availability and timely execution of public resources to address the economic and social impacts caused by the COVID-19 pandemic in the country, strengthening the counter-cyclical effect of the fiscal policy through the measures framed within the Ñapu'ã Paraguay Economic Recovery Plan promoted by the Executive Power.

Creditor	Project/Program	Date of Contract Signing	Amount (Millions of US$)	Original Currency	Law No.	Objective
CAF	Support Program for Economic Reactivation and Strengthening of State Institutions	23-Aug-21	100	US$	6850/2-21	To support the fiscal management of the national government and contribute to promoting the availability and timely execution of public resources to address the economic and social impacts caused by the COVID-19 pandemic in the country, strengthening the counter-cyclical effect of fiscal policy through the measures framed within the Ñapu'ã Paraguay Economic Recovery Plan promoted by the Executive Power.
CAF	Program for the Improvement of the Electricity Transmission and Distribution System and the Modernization of the Distribution Management of the Republic of Paraguay	9-Nov-21	250	US$	6876/2021	To improve the quality of the electricity supply service, providing the distribution and transmission systems with greater reliability, capacity, safety and sustainability by reducing system interruptions and downtime, as well as a better management through the development, implementation and use of information systems that will manage assets efficiently and timely support the management of planning, projects, works, operation and maintenance.
IDB	Program to Strengthen Paraguay's National Statistic System	08-Jul-2021	43	US$	6880/2021	To improve the quality of official statistics in terms of relevance, timeliness, reliability and accessibility. Achieving this objective will contribute to the general objective of increasing the use of official statistics for public and private decision-making.
Total USD			**568**			

Source: Ministry of Finance.

Public Sector Domestic Debt

Medium- and long-term public sector domestic debt of Paraguay can be issued by the central government and financial public sector institutions with the authorization of the Ministry of Finance and congressional approval. Paraguayan public sector domestic debt may be in bills having a maturity of less than one year or bonds. Under the Constitution, the Central Bank may not extend any loans to the government, except for short-term cash advances and loans for national emergencies.

The Central Bank issues IRMs, with terms ranging from 14 to 392 days to refinance liabilities incurred in the 1990s in connection with the liquidation of financial institutions. The government issues medium- and long-term treasury bonds guaranteed by the state, which can be placed through the Central Bank, the BVPASA or directly. In addition, AFD issues medium- and long-term bonds through BVPASA without a guarantee by the state.

As of the date of this Offering Memorandum, the maturity of domestic instruments issued by the government range from one to twenty years. As of November 30, 2021, gross public sector domestic debt outstanding was approximately US$1,877.7 million, of which US$1,235.7 million was issued by the central government and US$641.9 million was issued by AFD (34.19% of total public sector domestic debt).

The following table sets forth Paraguay's public sector domestic debt outstanding as at the dates indicated below.

Gross Public Sector Domestic Debt

	As of December 31,				As of November 30,	
	2017	*2018*	*2019*	*2020*	*2020*	*2021*
	(in millions of U.S. dollars)					
Central Government						
Guaraní-denominated[1]	$1,185.4	$1,114.5	$1,037.4	$1,062.5	$1,041.6	$1,189.9
Foreign currency-denominated[2]	0.2	13.7	46.0	46.0	46.0	45.8
Subtotal	1,185.6	1,128.2	1,083.4	1,108.5	1,087.6	1,235.7
AFD						
Guaraní-denominated[1]	389.9	510.0	536.9	615.9	549.1	642.0
Foreign currency-denominated[2]	0.3	0.3	0.3	0.0	0.3	0.0
Subtotal	390.3	510.3	537.3	615.9	549.4	641.9
Total	**$1,575.9**	**$1,638.5**	**$1,620.6**	**$1,724.4**	**$1,637.0**	**$1,877.7**

(1) Translated at average Paraguay Guaraní-U.S. Dollar exchange rate at the close of business for the last business day of December of each year as reported by the Central Bank.
(2) Denominated in United States Dollars in its entirety.
Source: Ministry of Finance.

The following table sets forth the amortization schedule of Paraguay's outstanding public sector domestic debt as of November 30, 2019.

Domestic Debt Amortization Schedule

	Total Outstanding Domestic Debt as of November 30, 2021	2021	2022	2023	2024	2025	2026 to Final Maturity[3]
	(in millions of U.S. dollars)						
Central Government							
Guaraní-denominated[1]	$1,189.9	-	$52.0	$74.8	-	$135.5	927.6
Foreign currency-denominated[2]	45.8	-	4.6	4.6	4.6	4.6	27.5
Subtotal	1,235.7	-	56.6	79.4	4.6	140.1	955.0
AFD							
Guaraní-denominated[1]	642.0	53.4	134.2	105.7	107.3	58.5	182.8
Foreign currency-denominated[2]	-	-	-	-	-	-	-
Subtotal	642.0	53.4	134.2	105.7	107.3	58.5	182.8
Total	**$1,877.7**	**$53.4**	**$190.8**	**$185.1**	**$111.9**	**$198.6**	**$1,137.8**

(1) Converted at average Paraguay Guaraní-United States Dollar exchange rate at the close of business for the last business day of December of each year as reported by the Central Bank.
(2) Denominated in United States Dollars in its entirety.
(3) This amount includes (i) the perpetual bond in favor of the Central Bank for an amount equivalent to US$574.3 million as of November 30, 2021, and (ii) several treasury bonds issued for the capitalization of the deposit guarantee fund of the Central Bank.
Source: Ministry of Finance.

Treasury Bonds

Since 2006, Paraguay has issued treasury bonds in the domestic market through the Central Bank, as financial agent of the government, and starting in July 2012, on the Asunción Stock Exchange ("BVPASA").

Until 2008, bonds were issued in both Guaraníes and U.S. dollars. Starting in 2009, bonds were issued only in local currency. The bonds' maturities range from one to twenty years, with the largest placement of bonds having a maturity of three years, representing 23.7% of the total amount placed in the period 2012-2016. Long-term bonds, which are bonds that have maturities of five or more years, have been issued since 2010 and only in Guaraníes.

As of December 31, 2021, Paraguay issued an aggregate principal amount of G.1,628.5 billion (approximately US$238.14 million) through the Central Bank, as financial agent of the government, on the BVPASA.

In October 2018, Paraguay made its first issuance of ten-year bonds in Guaraníes in the local market in an amount equal to US$5.0 million, which bonds bear interest at a rate of 7.9%. As of December 31, 2021, an aggregate principal amount of US$98.8 million of these ten-year bonds had been issued in the local market.

In August 2020, Paraguay made its first issuance of fifteen-year bonds in Guaraníes in the local market in an amount equal to US$2.84 million, which bonds bear interest at a rate of 9.5%. As of December 31, 2021, an aggregate principal amount of US$23.24 million of these fifteen-year bonds had been issued in the local market.

Also, in September 2020, Paraguay made its first issuance of twenty-year bonds in Guaraníes in the local market in an amount equal to US$14.2 million, which bonds bear interest at a rate of 9.9%. As of December 31, 2021, an aggregate principal amount of US$90.59 million of these twenty-year bonds had been issued in the local market.

The following table sets forth Paraguay's treasury bond issuances since 2017:

Paraguay's Treasury Bonds
(issued in Guaraníes, but presented in millions of US$, except percentages)

	As of December 31,									
Maturity (years)	**2017**	**Average Interest Rate**	**2018**	**Average Interest Rate**	**2019**	**Average Interest Rate**	**2020**	**Average Interest Rate**	**2021**	**Average Interest Rate**
1-2.7	$0.0	-	$0.0	-	$0.0	-	$0.0	-	$0.0	-
3-3.7	62.6	7.3%	0.0	-	0.0	-	0.0	-	0.0	-
4-4.7	4.3	7.0%	87.2	7.0%	37.3	7.0%	0.0	-	0.0	-
5	60.4	7.6%	0.0	-	0.0	-	0.0	-	0.0	-
6	17.9	7.2%	0.0	-	13.4	7.2%	39.8	7.2%	0.0	-
7	0.0	-	25.4	7.8%	20.5	7.8%	54.4	7.8%	38.1	7.8%
8	0.0	-	0.0	-	0.0	-	0.0	-	0.0	-
9	0.0	-	0.0	-	0.0	-	0.0	-	0.0	-
10	0.0	-	10.1	7.9%	14.3	7.9%	42.3	7.9%	94.2	7.9%
15	0.0	-	0.0	-	0.0	-	22.7	9.5%	43.9	8.8%
20	0.0	-	0.0	-	0.0	-	28.4	9.9%	62.0	9.9%
Total	**$145.2**		**$122.7**		**$85.3**		**$187.7**		**$238.1**	

Source: Ministry of Finance.

Debt Record

History of Debt Restructuring

1871-1872 Bonds. In 1871 and 1872, the government placed bonds in Great Britain (the "1871-1872 Bonds"). The proceeds were used to rebuild the country, finance expenses and pay external debts incurred as a result of the Triple Alliance war (1864-1870) with Uruguay, Argentina and Brazil. The 1871-1872 Bonds were denominated in British pounds. In March 1876, the terms of the 1871-1872 Bonds were renegotiated. According to historical records, payments of principal and interest on the 1871-1872 Bonds were paid in full in 1932. A claim against Paraguay with respect to the 1871-72 Bonds was threatened in 1999 but has not been commenced. The statute of limitations under the Paraguayan civil code has run.

1963 Bonds. In 1935, the government issued domestic bonds to finance expenses related to the 1932-35 Chaco war with Bolivia (the "1963 Bonds"). The 1963 Bonds were scheduled to mature in 1963 and were denominated in sealed gold pesos, the Paraguayan currency in circulation at that time. No administrative or judicial claims against Paraguay have been made requesting such payment, except for an administrative claim against Paraguay made at the end of 1996, which the Ministry of Finance rejected on the basis that the statute of limitations under the civil code had run. No further claim or action has been commenced. Pursuant to Minister of Finance Resolution No. 1521/96, the 1963 Bonds are considered to be without any legal or financial validity by the Ministry of Finance. The 1963 Bonds have no officially registered value.

Brazil Bonds. In 1985, Paraguay fell in arrears with respect to borrowings from Brazil of approximately US$486 million. In 1989, Paraguay restructured amounts owed to Brazil totaling US$435.6 million, including principal and accrued but unpaid interest, by purchasing on the secondary market Brazilian bonds with a face value approximating the principal and interest owed to Brazil. Such Brazilian bonds were purchased by Paraguay at the then-market price of US$128.2 million. Brazil and Paraguay subsequently agreed to cancel their respective debts with each other in full satisfaction of all outstanding amounts.

1998 Debt Restructuring. In 1992, the Central Bank paid US$350 million on behalf of the government to certain commercial banks and foreign governments to cover arrears accumulated with respect to certain external borrowings. In August 1998, under the domestic debt restructuring law enacted in July 1997, the government issued US$425 million in domestic bonds to restructure the principal plus accrued interest and other lines of credit extended by the Central Bank to the government. In 2012, this debt was included in the recapitalization agreement between the Central Bank and the Ministry of Finance.

Recapitalization of the Central Bank

Since 2010, the Treasury is authorized to issue bonds to capitalize the Central Bank and cancel certain debts incurred as a result of the measures taken by the Central Bank and the government to tackle the crisis that affected the Paraguayan financial system in the 1990s, during which the Central Bank provided liquidity and guaranteed most withdrawals of deposits and certain financing arrangements provided to state-owned enterprises under the government of President Stroessner.

The Central Bank was recapitalized most recently in 2012. The Central Bank's negative equity position was the legacy of non-performing claims related to loans to the public and to the financial sector largely incurred prior to 1995, when its charter was amended to prohibit such practices. In 2012, the Ministry of Finance issued a perpetual bond of approximately US$0.9 billion to recapitalize the Central Bank and better position its focus on monetary policy issues rather than on the implication of its actions on the balance sheet.

Paraguay has taken measures to realign the Central Bank's capital requirements and established the financial terms of bonds to be issued as a replacement for the cancelled debt. The debt was cancelled and new debt was issued in December 2012. For more information see "Monetary System—The Central Bank."

Economic Recovery Structural Adjustment Loan

In 2002, further to the effects of the economic downturn, the volatility in South America following Argentina's default, the freeze of deposits and adoption of exchange controls in Argentina led to a run on a Paraguayan subsidiary of an Argentine bank, which held approximately 11% of total deposits in the Paraguayan financial system. This led to a loss of confidence in the banking system as a whole and resulted in a run on several banks, which in combination with the depreciation of the Guaraní against major currencies, resulted in a system-wide financial crisis. Finally, in 2003, the Paraguayan monetary authorities were confronted with an isolated case of fraud in a medium-sized, locally owned bank that did not have systemic repercussions. The Superintendence of Banks responded more appropriately and timely to the 2002 and 2003 crises by closing the failing banks, with a cost to the public sector equivalent to approximately 1% of GDP.

In 2003, Paraguay entered into a stand-by facility with the IMF for special drawing rights equivalent to US$73 million. The economic agreement signed with the IMF included a series of targets that the country agreed to meet during 2004. The US$70 million facility granted by the IMF to strengthen monetary reserves in case of an emergency was not used. In addition, Paraguay received an economic recovery credit-line facility from the World Bank for US$30 million, which allowed Paraguay to resume servicing its debt by the end of the first half of 2004. Moreover, a US$30 million credit-line facility was granted to Paraguay by the IDB, of which US$20 million was drawn and US$10 million was not used.

Contingencies

Mota Engil Arbitration

In 2015, Paraguay, through the MOPC, issued a public tender for the construction of a bus rapid transit system ("Metrobus") along the Avenida Eusebio Ayala in Asunción. The total project was set to span 18.3 km of the road, but the MOPC's initial tender was only for the intermediate portion, spanning 11.3km of the pathway.

Portuguese company Mota Engil bid for the construction, and in March 2016 was awarded the contract for the design and construction of the Metrobus. Construction commenced on November 26, 2016, but was delayed on several occasions over the course of 2017 and 2018. On August 13, 2018, Mota Engil addressed seven complaints to the MOPC, alleging errors in the contract specifications and seeking compensation for additional and/or unforeseen costs. On October 23, 2018, Mota Engil and the MOPC entered into a Memorandum of Understanding, whereby the parties agreed to discontinue work on the Metrobus and undertake efforts to rehabilitate the worksite. Pursuant to the Memorandum of Understanding, Mota Engil and the MOPC also agreed to submit disputes that may arise under the contract to arbitration.

On December 20, 2019, the MOPC technical team rejected all of Mota Engil's claims. On December 23, 2019, Mota Engil initiated an arbitration against the MOPC by filing a Notice of Arbitration under the 2013 Rules of the United Nations Center on International Trade Law ("UNCITRAL"). The Notice of Arbitration alleges that the MOPC violated certain terms of the contract and seeks US$25 million in indemnification for (i) costs Mota Engil alleges it incurred during construction and (ii) compensation for works performed under the contract. Paraguay responded to the arbitration notice on January 23, 2020, rejecting Mota Engil's claim and announcing the filing of a counterclaim. On August 28, 2020, Mota-Engil presented its complaint claiming from Paraguay the total sum of approximately US$32.2 million in damages and on January 11, 2021, Paraguay presented its answer to the claim and counterclaim.

On August 28, 2020, Mota Engil filed its complaint requesting from Paraguay the total sum of approximately US$32.2 million in damages and, on January 11, 2021, Paraguay filed an answer to the claim and counterclaim.

On May 24, 2021, Mota Engil filed an answer against the Republic of Paraguay's counterclaim. Hearings were held in late August 2021 in The Hague, Netherlands. The hearings lasted until November 18, 2021. The court is scheduled to render a final decision by September 2022.

Gramont Berres Litigation

In 1979, Gustavo Gramont Berres was appointed Honorary Consul of Geneva. Furthermore, in 1983 Mr. Gramont Berres was appointed "Ambassador on Special Mission" in Geneva. Mr. Gramont Berres negotiated loans for two industrial projects by private companies owned by him: ROSI S.A. ("Rosi") and Lapachos de San Isidro S.A. ("Lapachos"). Mr. Gramont Berres executed a private loan agreement between Rosi and the Overland Trust Bank for the construction of a processing and canning plant for citrus fruits, and another private loan agreement between Lapachos and the Overland Trust Bank for the construction of and equipment for a pharmaceutical plant. The loans were granted to Mr. Gramont Berres, who invoked the representation of the Paraguayan State as an "Ambassador in Special Mission." Rosi and Lapachos never commenced operations.

After failed negotiations with 10 banks holding the loans, Banque Bruxelles Lambert (Suisse) SA, D.G. Bank (Schweiz) AG, Banque Paribas, Union de BanquesArabes et Françaises, Cassa de Risparmio de Torino, Banca di Roma International, Mecfint (Jersey) Ltd., Sanpaolo-Lariano Bank SA, BancaPopolare di Milano and the Republican National Bank of New York (collectively, the "Swiss Bank Creditors") filed suit against Paraguay in Swiss federal court. The Swiss Bank Creditors demanded that Paraguay, as alleged guarantor, repay the loans made to Rosi and Lapachos in the amount of in the amount of approximately US$85 million.

In its answer to the complaint, Paraguay maintained that the government is not a guarantor and is not liable for these loans because: (i) the loan agreements signed by Mr. Gramont Berres and allegedly guaranteed by Paraguay never received congressional approval prior to their execution, as would be required under the Constitution for a valid sovereign guarantee, (ii) Mr. Gramont Berres executed the loan agreements on behalf of Paraguay with a seal of the "Embassy of Paraguay in Switzerland" when no such Embassy existed, (iii) Mr. Gramont Berres did not have the power to execute the loan agreements because he was appointed "Ambassador on a Special Mission" of Paraguay (appointment that did not entail the creation of a Paraguayan embassy) in Switzerland by President Stroessner without proper congressional approval and (iv) the Swiss Bank Creditors failed to exercise good faith in their due diligence investigation as to whether actual governmental authorization was in place for the purported guarantee.

In May 2005, the Swiss Federal Court issued the 2005 Judgment. Paraguay is exploring the possibility of appealing before the International Court of Justice of the United Nations.

Banque Paribas (now BNP Paribas London Branch) was one of the Swiss Bank Creditors, but it had withdrawn its lawsuit prior to the judgment. After the 2005 Judgment, BNP reinstated its complaint. In September 2010, the complaint was sustained and BNP obtained the 2010 Judgment.

Pursuant to settlement agreements entered into between SACE and each of the ten banks, SACE holds all rights to portions of the Swiss Judgments that granted monetary awards to the ten banks. In July 2015, SACE filed an action in D.C. District Court seeking recognition of the Swiss Judgments against Paraguay and in favor of the banks. On January 21, 2016, Paraguay filed a motion to dismiss for lack of jurisdiction on grounds of sovereign immunity. Consistent with its previous arguments, Paraguay maintains that the government is not liable as an alleged guarantor of the Rosi and Lapachos loan agreements because (i) Mr. Gramont Berres had neither the actual nor apparent authority to waive Paraguay's sovereign immunity and (ii) the alleged guarantees were invalid under the Paraguayan Constitution that was in force at such time because only Congress held the power to authorize the contracting of loans on behalf of the government, which authorization Mr. Gramont Berres did not receive.

On March 21, 2016, SACE filed a motion in opposition of Paraguay's motion to dismiss, wherein SACE reaffirms its arguments that Paraguay is bound by the Swiss Judgments. On September 2, 2016, the D.C. District Court held a hearing on Paraguay's motion to dismiss for lack of jurisdiction, and on March 21, 2017, the D.C. District Court granted such motion to dismiss. As the date of this Offering Memorandum, SACE had not appealed the D.C. District Court's judgment and the deadline for filing such appeal has passed, rendering this judgment final and non-appealable. As of the date of this Offering Memorandum, SACE had not initiated litigation regarding the matter in any other jurisdiction. For more information see "Risk Factors—Risk Factors Relating to Paraguay—Part of the offering proceeds could be attached by creditors to satisfy outstanding judgments against Paraguay" and "Risk Factors—Risk Factors Relating to Paraguay—Payments to holders of the Bonds could be attached by creditors to

satisfy outstanding judgments against Paraguay. As a result, Paraguay may not be able to make payments to holders of the Bonds."

Petropar's Debt to Venezuela's PDVSA

In 2004, the presidents of Paraguay and Venezuela signed the Energy Cooperation Agreement of Caracas (the "Caracas Agreement"). The Caracas Agreement provides that Venezuela will supply Paraguay with 18.6 million barrels per day (or its energy equivalent) of crude oil, refined products and liquid gas processing. The financing arrangements in the agreement provide short-term financing of 90 days for payment of principal at a fixed interest rate of 2% and long-term financing of up to 15 years with a grace period of two years at a fixed interest rate of 2%. During the period 2006-2008, Petróleos Paraguayos ("Petropar"), the state oil company of Paraguay, had a risk of oil shortage because of tight supply in South America and strong demand and Petropar did not make timely payments on its debt to PDVSA.

On September 24, 2009, an agreement was signed between Petropar and PDVSA to renegotiate Petropar's debt. Petropar owed PDVSA US$269 million. Petropar requested a freeze for one year or more at 2% interest for US$162 million, a 15-year refinancing grace period at 2% interest for US$60 million and the elimination of overruns of US$37.3 million.

On July 20, 2016, Petropar was notified that PDVSA had filed a claim against Petropar in an arbitration seated in Paris, France, before the International Chamber of Commerce ("ICC"), for US$290,000,000. The dispute arose over the renegotiation of the Caracas Agreement. PDVSA sent its Notice of Arbitration ("NoA") in July 2016 and Petropar responded to the NoA arguing that the debt has not yet become due because the parties had not yet exhausted the previous negotiations provided for in the Caracas Agreement. In addition, Petropar objected to the jurisdiction of the arbitral tribunal and filed a counterclaim requesting return of all excess payments it believed it had made, due to the alleged unfairness of the agreement's terms throughout its duration, along with its defense statement for the wrongful collection of interest and capitalization of undue interest.

On September 11, 2017, a hearing on jurisdiction, admissibility and applicable law was held within the framework of the arbitration proceedings at the ICC. At this stage, only Petropar's objections regarding the Tribunal's jurisdiction were discussed. In a June 4, 2018 decision, the Tribunal declared its jurisdiction over the case and the application of Venezuelan law to the dispute, thus closing the procedural phase on jurisdiction, admissibility and applicable law. Following this decision, the Tribunal established that the hearings on the merits and any counterclaim to take place in June 2019, after submission by the parties of their statements of claim, defense, counterclaim and reply to counterclaim. In August 2018, PDVSA submitted a statement of claim for US$320,000,000, including interest, followed by Petropar's submission of its statement of defense in October 2018.

On March 7, 2019, Petropar requested the suspension of the arbitration proceedings on the basis that PDVSA, as a company owned by the Venezuelan government, was under the control of the Nicolas Maduro regime, whose authority was not recognized by the Republic of Paraguay. On March 19, 2019, the Arbitral Tribunal issued Procedural Order No. 5, declaring the suspension of the arbitral proceedings, and cancelled the scheduled hearings on the merits and any counterclaim originally scheduled for June 2019. The Tribunal did not schedule a date to lift the stay of arbitration proceedings; however, it reserved that decision to its own motion or upon request of any of the parties.

The arbitral tribunal is composed of Francesca Mazza (Italian, appointed by PDVSA), Horacio Grigera Naón (Argentine, appointed by Petropar) and its President Claus Von Wobeser (Mexican, appointed by the ICC). As of the date of this Offering Memorandum, no decisions on the merits of the case have been rendered, and the order of the Tribunal to stay arbitration proceedings has not been lifted. Because Petropar is a legal entity (*persona jurídica*), it would be solely responsible for satisfying any eventual adverse arbitration award, and there would be no recourse to the Republic of Paraguay to satisfy such an award.

DESCRIPTION OF THE BONDS

The Bonds will be issued under the indenture dated March 31, 2016 (as amended, modified and/or supplemented from time to time, the "indenture") between Paraguay and The Bank of New York Mellon, as trustee.

This section of this Offering Memorandum is intended to be an overview of the material provisions of the Bonds and the indenture. Because this section is only a summary, you should refer to the indenture for a complete description of Paraguay's obligations and your rights as a holder or beneficial owner of the Bonds. Paraguay has filed copies of the indenture at the offices of the trustee, where they will be made available to you free of charge.

The definitions of certain capitalized terms used in this section are set forth under "—Defined Terms."

General

Basic Terms

The Bonds will:

- be initially issued in an aggregate principal amount of US$500,600,000;
- pay principal amounts in three installments on June 28, 2031, June 28, 2032 and at maturity date, to be calculated as follows: the aggregate amount of each principal installment on the Bonds shall equal the principal amount outstanding on the Bonds as of any principal payment date, divided by the number of remaining principal installments from and including such principal payment date to and including the maturity date. To the extent necessary, principal payment may be rounded down to the nearest whole number, with any difference being paid at maturity;
- have a final maturity date of June 28, 2033;
- be issued in denominations of US$200,000 and in integral multiples of US$1,000 in excess thereof;
- be general, direct, unconditional, unsubordinated and unsecured obligations of Paraguay and will be backed by the full faith and credit of Paraguay;
- be subject to optional redemption prior to their scheduled maturity, as set forth in "Redemption and Repurchase—Optional Redemption" below;
- not be entitled to the benefit of a sinking fund;
- be represented by one or more registered bonds in global form, but in certain limited circumstances may be represented by bonds in certificated form. For more information see "Book-Entry, Delivery and Form;" and
- contain "collective action clauses" under which Paraguay may amend certain key terms of the Bonds, including the maturity date, interest rate and other terms, with the consent of less than all of the holders of the Bonds.

Interest

Interest on the Bonds will:

- accrue at the rate of 3.849% per annum;
- accrue from the date of issuance or the most recent interest payment date;

- be payable semi-annually (other than the first interest period) in arrears on June 28 and December 28 of each year, commencing on June 28, 2022 to the holders of record on the June 13 and December 13 immediately preceding the related interest payment date (whether or not a business day); and

- be computed on the basis of a 360-day year comprised of twelve 30-day months.

Payment

Principal of, and premium, if any, and interest on, the Bonds will be payable at the offices or agencies maintained by Paraguay for such purpose (which initially will be the offices of the paying agent specified on the inside back cover page of this Offering Memorandum). Payment of principal of, and premium, if any, and interest on Bonds in global form registered in the name of or held by The Depository Trust Company ("DTC") or its nominee, will be made in U.S. dollars in immediately available funds to DTC or its nominee, as the case may be, as the registered holder of the global bonds, which will receive the funds in trust for, and for distribution to, the beneficial owners. If any of the Bonds are no longer represented by global bonds, payment of principal of and interest on Certificated Securities may, at Paraguay's option, be made by check mailed directly to holders at their registered addresses (except for (i) registered holders of at least US$1,000,000 aggregate principal amount of Bonds, to whom payments will be made by wire transfer if such holder elects so; *provided* that not less than 15 days prior to the payment date, such holders have given the trustee notice of their election to receive payment by wire transfer and provided the trustee with bank account information and wire transfer instructions or (ii) if Paraguay is making such payments at maturity and such person surrenders the Certificated Securities at the corporate trust office).

If Paraguay is not required to pay principal or interest by wire transfer, it will, subject to applicable laws and regulations, mail a check on or before the due date for the payment. The check will be mailed to such holder at their address as it appears on the register as of the applicable record date.

Paraguay will maintain a paying agent, a transfer agent and a registrar in New York City. Paraguay has initially appointed The Bank of New York Mellon SA/NV, Luxembourg Branch to serve as Luxembourg listing agent. Paraguay will give prompt notice to all holders of the Bonds and the trustee of any future appointment or any resignation or removal of any paying agent, transfer agent or registrar or of any change by any paying agent, transfer agent or registrar in any of its specified offices.

If any date for an interest or principal payment is not a business day, Paraguay will make the payment on the next business day. Such payments will be deemed to have been made on the due date, and no interest on the Bonds will accrue as a result of the delay in payment. For the purpose of this section, a "business day" means any day that is not a Saturday or Sunday, or any other day on which commercial banks in New York City (or in the city where the relevant paying or transfer agent is located) are required or authorized by law to close.

To the extent permitted by law, claims against Paraguay for the payment of principal of or interest or other amounts due on, the Bonds (including Additional Amounts (as defined below)) will become void unless made within six years of the date on which that payment first became due.

The registered holder of a Bond will be treated as its owner for all purposes.

Certificated Securities

Paraguay may issue Certificated Securities in certain limited circumstances. For more information see "Book-Entry, Delivery and Form—Certificated Securities."

Transfer, Exchange and Replacement of Bonds

The Bonds may be transferred or exchanged in whole or in part at the offices or agencies maintained by Paraguay for such purpose (which initially will be the offices of the transfer agent specified on the inside back cover page of this Offering Memorandum) together with an executed instrument of transfer or exchange.

No service charge will be made for any registration of transfer or exchange of Bonds, but Paraguay, the trustee or any transfer agent may require payment of an amount sufficient to cover any transfer tax or other similar governmental charge payable in connection therewith.

If a Bond becomes mutilated, defaced, apparently destroyed, lost or stolen, Paraguay may issue, and the trustee will authenticate and deliver, a substitute Bond. In each case, the applicant for a substitute Bond will be required to furnish to Paraguay, the trustee, the paying agent, the transfer agent and the registrar an indemnity under which it will agree to pay Paraguay, the trustee, the paying agent, the transfer agent and the registrar for any losses they may suffer relating to the Bond that was mutilated, defaced, destroyed, lost or stolen. Paraguay and the trustee may also require that the applicant present other documents or proof. The applicant will be required to pay all expenses and reasonable charges associated with the replacement of the mutilated, defaced, destroyed, lost or stolen Bond.

Further Issuances

Paraguay may from time to time, without the consent of holders of the Bonds, create and issue additional debt securities of the same series as the Bonds having the same terms and conditions as the Bonds in all respects, except for issue date, issue price and the first payment on the Bonds; provided, however, that any such additional debt securities subsequently issued shall be issued, for U.S. federal income tax purposes, either (a) as part of the "same issue" as the Bonds or (b) in a "qualified reopening" of the Bonds, unless such additional debt securities have a separate CUSIP, ISIN or other identifying number from the previously outstanding Bonds. Such additional debt securities will be consolidated with and will form a single series with the previously outstanding Bonds.

Ranking

The Bonds will constitute direct, general, unconditional and unsubordinated External Debt of Paraguay for which the full faith and credit of Paraguay is pledged. The Bonds rank and will rank without any preference among themselves and equally with all other unsubordinated External Debt of Paraguay. It is understood that this provision will not be construed so as to require Paraguay to make payments under the Bonds ratably with payments being made under any other External Debt of Paraguay.

Additional Amounts

Payments of principal of, and premium, if any, and interest on the Bonds are not currently subject to withholding or deduction for any taxes, duties, assessments or governmental charges of whatever nature in Paraguay. All payments by Paraguay in respect of the Bonds shall be made without withholding or deduction for or on account of any present or future taxes, duties, assessments or other governmental charges of whatever nature, unless the withholding or deduction is required by law. If any such withholding or deduction is imposed or levied by or on behalf of Paraguay, or any political subdivision or taxing authority or agency therein or thereof having the power to tax (collectively, "relevant tax"), Paraguay shall pay such additional amounts ("Additional Amounts") as may be necessary to ensure that the amounts received by holders or beneficial owners after such withholding or deduction shall equal the respective amounts of principal and interest that would have been receivable in respect of the Bonds in the absence of such withholding or deduction; *provided, however*, that no such Additional Amounts shall be payable in respect of any relevant tax:

- in respect of any Bond held by or on behalf of a holder or a beneficial owner of a Bond that is liable for such taxes, duties, assessments or governmental charges by reason of such holder or beneficial owner having some present or former connection with Paraguay other than any connection arising merely from the holding of such Bond or from receipt, of principal or interest or the enforcement of rights in respect thereof;

- in respect of any Bond held by or on behalf of a holder or a beneficial owner of such Bond that is liable for such taxes, duties, assessments or governmental charges by reason of the failure of such holder or beneficial owner to comply with any certification, identification or other reporting requirement concerning the nationality, residence, identity or connection with Paraguay, or any political

subdivision or taxing authority thereof or therein, of such holder or beneficial owner or of the holder or beneficial owner of any interest in such Bond or any rights in respect thereof, provided that, (A) compliance is required by Paraguay, or any political subdivision or taxing authority thereof or therein, as a precondition to exemption from all or any portion of such withholding or deduction, (B) at least 30 days prior to the first scheduled payment date for which compliance will be required, Paraguay has notified the holders in writing that holders of Bonds must comply with such certification, identification or other reporting requirement in order to receive Additional Amounts; and (C) such requirements are not materially more onerous to such holders or beneficial owners (in form, in procedure or in the substance of information disclosed) than comparable information or other reporting requirements imposed under U.S. federal tax law, regulation and administrative practice (such as U.S. Internal Revenue Service ("IRS") Forms W-8 and W-9); or

- in respect of any Bond presented for payment (where such presentation is required) more than 30 days after the relevant date except to the extent that the holder thereof would have been entitled to Additional Amounts on presenting the same for payment on any date during such 30-day period.

As used herein, "relevant date" in respect of any Bond means the date on which payment in respect thereof first becomes due or, if the full amount of the money payable has not been received by the trustee on or prior to such due date, the date on which notice is duly given to the holders that such monies have been so received and are available for payment. All references in this Offering Memorandum to principal of, and premium, if any, or interest on the Bonds will include any Additional Amounts payable by Paraguay in respect of such principal or interest.

Paraguay will pay any present or future stamp, court or documentary taxes or any excise or property taxes, charges or similar levies which arise in Paraguay or any political subdivision thereof or taxing authority thereof or therein in respect of the creation, issue, execution, delivery or registration of the Bonds or any other document or instrument referred to therein. Paraguay will also indemnify the holders or beneficial owners from and against any stamp, court or documentary taxes or any excise or property taxes, charges or similar levies resulting from, or required to be paid by any of them in any jurisdiction in connection with, the enforcement of the obligations of Paraguay under the Bonds or any other document or instrument referred to therein following the occurrence of any event of default.

Redemption and Repurchase

The Bonds will not be redeemable prior to maturity at the option of Paraguay or repayable prior to maturity at the option of the holders, except as set forth below. Paraguay may at any time purchase Bonds in the open market or otherwise at any price. Any Bond so purchased (including upon any redemption) shall not be re-issued or resold except in compliance with the Securities Act and other applicable law.

Optional Redemption

Prior to March 28, 2033 (the date that is three months prior to the stated maturity date of the Bonds) (the "Par Call Date"), Paraguay may redeem the Bonds at its option, in whole or in part, at any time and from time to time, at a redemption price (expressed as a percentage of principal amount and rounded to three decimal places) equal to the greater of:

(1) (a) the sum of the present values of the remaining scheduled payments of principal and interest thereon discounted to the redemption date (assuming the Bonds matured on the Par Call Date) on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus 35 basis points less (b) interest accrued to the date of redemption, and

(2) 100% of the principal amount of the Bonds to be redeemed,

plus, in either case, accrued and unpaid interest thereon to, but excluding, the redemption date.

On or after the Par Call Date, Paraguay may redeem the Bonds, in whole or in part, at any time and from time to time, at a redemption price equal to 100% of the principal amount of the Bonds being redeemed plus accrued and unpaid interest thereon to, but excluding, the redemption date.

"*Treasury Rate*" for this purpose means, with respect to any redemption date, the yield determined by Paraguay in accordance with the following two paragraphs.

The Treasury Rate shall be determined by Paraguay after 4:15 p.m., New York City time (or after such time as yields on U.S. government securities are posted daily by the Board of Governors of the Federal Reserve System), on the third business day preceding the redemption date based upon the yield or yields for the most recent day that appear after such time on such day in the most recent statistical release published by the Board of Governors of the Federal Reserve System designated as "Selected Interest Rates (Daily)—H.15" (or any successor designation or publication) ("H.15") under the caption "U.S. government securities–Treasury constant maturities–Nominal" (or any successor caption or heading). In determining the Treasury Rate, Paraguay shall select, as applicable: (1) the yield for the Treasury constant maturity on H.15 exactly equal to the period (the "Remaining Life") from the redemption date to the date that reflects the remaining weighted average life of the Bonds (assuming the last amortization payment on the Bonds is made on the Par Call Date) (the "WAL Date"); or (2) if there is no such Treasury constant maturity on H.15 exactly equal to the Remaining Life, the two yields – one yield corresponding to the Treasury constant maturity on H.15 immediately shorter than and one yield corresponding to the Treasury constant maturity on H.15 immediately longer than the Remaining Life – and shall interpolate to the WAL Date on a straight-line basis (using the actual number of days) using such yields and rounding the result to three decimal places; or (3) if there is no such Treasury constant maturity on H.15 shorter than or longer than the Remaining Life, the yield for the single Treasury constant maturity on H.15 closest to the Remaining Life. For purposes of this paragraph, the applicable Treasury constant maturity or maturities on H.15 shall be deemed to have a maturity date equal to the relevant number of months or years, as applicable, of such Treasury constant maturity from the redemption date.

If on the third business day preceding the redemption date H.15 or any successor designation or publication is no longer published, Paraguay shall calculate the Treasury Rate based on the rate per annum equal to the semi-annual equivalent yield to maturity at 11:00 a.m., New York City time, on the second business day preceding such redemption date of the United States Treasury security maturing on, or with a maturity that is closest to, the WAL Date, as applicable. If there is no United States Treasury security maturing on the WAL Date but there are two or more United States Treasury securities with a maturity date equally distant from the WAL Date, one with a maturity date preceding the WAL Date and one with a maturity date following the WAL Date, Paraguay shall select the United States Treasury security with a maturity date preceding the WAL Date. If there are two or more United States Treasury securities maturing on the WAL Date or two or more United States Treasury securities meeting the criteria of the preceding sentence, Paraguay shall select from among these two or more United States Treasury securities the United States Treasury security that is trading closest to par based upon the average of the bid and asked prices for such United States Treasury securities at 11:00 a.m., New York City time. In determining the Treasury Rate in accordance with the terms of this paragraph, the semi-annual yield to maturity of the applicable United States Treasury security shall be based upon the average of the bid and asked prices (expressed as a percentage of principal amount) at 11:00 a.m., New York City time, of such United States Treasury security, and rounded to three decimal places.

Paraguay's actions and determinations in determining the redemption price shall be conclusive and binding for all purposes, absent manifest error.

Notice of any redemption will be mailed or electronically delivered (or otherwise transmitted in accordance with the depositary's procedures) at least 10 days but not more than 60 days before the redemption date to each holder of Bonds to be redeemed.

In the case of a partial redemption, selection of the Bonds held in certificated, non-global form for redemption will be made pro rata, by lot or by such other method as the Trustee in its sole discretion deems appropriate and fair and selection of the Bonds held in global form for redemption will be made in accordance with applicable depositary procedures. No Bonds of a principal amount of $1,000 or less will be redeemed in part. If any Bond is to be redeemed in part only, the notice of redemption that relates to the Bond will state the portion of the principal amount of the Bond to be redeemed. A new Bond in a principal amount equal to the unredeemed portion of

the Bond will be issued in the name of the holder of the Bond upon surrender for cancellation of the original Bond. For so long as the Bonds are held by DTC (or another depositary), the redemption of the Bonds shall be conducted in accordance with the policies and procedures of the depositary.

Unless Paraguay defaults in payment of the redemption price, on and after the redemption date interest will cease to accrue on the Bonds or portions thereof called for redemption.

Negative Pledge Covenant

So long as any Bond remains outstanding, Paraguay may not allow any Lien on its assets or revenues as security for any of its Public External Debt, unless Paraguay's obligations under the Bonds are secured equally and ratably with such Public External Debt. Paraguay may, however, grant or agree to any Permitted Lien (as defined under "—Defined Terms") on its assets or revenues.

Events of Default

Each of the following is an event of default with respect to the Bonds:

(i) *Non-Payment:*

- failure to pay principal of the Bonds when due; or
- failure to pay interest on the Bonds within 30 days following the due date; or

(ii) *Breach of Other Obligations*: failure to observe or perform any of the covenants or agreements provided in the Bonds or the indenture (other than those referred to in paragraph (i) above) for a period of 30 days following written notice to Paraguay by the trustee or holders representing at least 25% in principal amount of the then outstanding Bonds to remedy such failure; or

(iii) *Cross Default*:

- failure by Paraguay, beyond any applicable grace period, to make any payment when due on Public External Debt in an aggregate principal amount greater than or equal to US$25,000,000 (or its equivalent in other currencies); or
- acceleration of any Public External Debt in an aggregate principal amount greater than or equal to US$25,000,000 (or its equivalent in other currencies) due to an event of default, unless such acceleration is rescinded or annulled; or

(iv) *Moratorium*: declaration by Paraguay of a general suspension of, or a moratorium on, payments of Public External Debt; or

(v) *Validity*:

- Paraguay contests any of its obligations under the Bonds or the indenture in a formal administrative, legislative or judicial proceeding; or
- Paraguay denies any of its obligations under the Bonds or the indenture; or
- any constitutional provision, treaty, law, regulation, decree, or other official pronouncement of Paraguay, or any final decision by any court in Paraguay having jurisdiction, renders it unlawful for Paraguay to pay any amount due on the Bonds or to perform any of its obligations under the Bonds or the indenture; or

(vi) *Judgments*: any writ, execution, attachment or similar process is levied against all or any substantial part of the assets of Paraguay in connection with any judgment for the payment of money exceeding US$25,000,000 (or its equivalent in other currencies) and failure by Paraguay either to satisfy or discharge such judgment, or adequately bond, contest in good faith or receive a stay of execution or continuance in respect of such judgment, within a period of 120 days, *provided*, however, that this clause shall not include any action taken to enforce the Gramont Berres judgment; or

(vii) *Membership in International Monetary Fund*: failure by Paraguay to maintain its membership in, and its eligibility to use the general resources of, the IMF.

If any of the events of default described above occurs and is continuing, the holders of not less than 25% of the aggregate principal amount of the then-outstanding Bonds may, by written notice to Paraguay with a copy to the trustee, declare all the Bonds then outstanding to be immediately due and payable. Accordingly, holders of less than 25% of the aggregate principal amount of the outstanding Bonds may not, on their own, declare the Bonds due and payable immediately. The holders of the Bonds may exercise these acceleration rights only by providing such written notice to Paraguay, with a copy to the trustee, at a time when the event of default is continuing.

Paraguay will notify the trustee promptly upon becoming aware of the occurrence of any event of default or potential event of default.

Upon any declaration of acceleration, the principal of, and interest and all other amounts payable on, the Bonds will become immediately due and payable on the date on which Paraguay receives written notice of the declaration, unless Paraguay has remedied the event or events of default prior to receiving the notice. The holders representing in the aggregate more than 50% of the principal amount of the outstanding Bonds may, on behalf of all holders, waive any existing defaults or events of default and their consequences or rescind a declaration of acceleration, if:

- following the declaration of the Bonds to be due and payable immediately, Paraguay deposits forthwith with the trustee a sum sufficient to pay all overdue installments of principal, interest and other amounts in respect of the Bonds as well as the reasonable expenses and indemnities, fees and compensation of the trustee; and

- all other events of default have been remedied.

Meetings, Amendments and Waivers—*Collective Action*

Paraguay may call a meeting of the holders of the Bonds at any time regarding the indenture or the Bonds. Paraguay will determine the time and place of the meeting and will notify the holders and the trustee of the time, place and purpose of the meeting not less than 30 and not more than 60 days before the meeting.

In addition, Paraguay or the trustee will call a meeting of the holders of the Bonds if holders of not less than 10% of the aggregate principal amount of the outstanding Bonds have delivered a written request to Paraguay or the trustee (with a copy to Paraguay) setting forth the purpose of the meeting. Within 10 days of receipt of such written request or copy thereof, Paraguay will notify the trustee and the trustee will notify the holders of the time, place and purpose of the meeting called by the holders, to take place not less than 30 and not more than 60 days after the date on which such notice is given.

Only holders of Bonds and their proxies are entitled to vote at a meeting of holders. Paraguay will set the procedures governing the conduct of the meeting and if additional procedures are required, Paraguay will consult with the trustee to establish such procedures as are customary in the market.

Modifications may also be approved by holders of Bonds pursuant to written action with the consent of the requisite percentage of Bonds. Paraguay will solicit the consent of the relevant holders to the modification not less than 10 and not more than 30 days before the expiration date for the receipt of such consents as specified by Paraguay.

The holders of the Bonds may generally approve any proposal by Paraguay to modify or take action with respect to the indenture or the terms of the Bonds with the affirmative vote (if approved at a meeting of the holders) or consent (if approved by written action) of holders of more than 50% of the outstanding principal amount of the Bonds.

However, holders of any series of debt securities issued under the indenture (including the Bonds) may approve, by vote or consent through one of three modification methods, any modification, amendment, supplement or waiver proposed by Paraguay that would do any of the following (such subjects referred to as "reserve matters"):

- change the date on which any amount is payable on the debt securities;
- reduce the principal amount (other than in accordance with the express terms of the debt securities and the indenture) of the debt securities;
- reduce the interest rate on the debt securities;
- change the method used to calculate any amount payable on the debt securities (other than in accordance with the express terms of the debt securities and the indenture);
- change the currency or place of payment of any amount payable on the debt securities;
- modify Paraguay's obligation to make any payments on the debt securities (including any redemption price therefor);
- change the identity of the obligor under the debt securities;
- change the definition of "outstanding debt securities" or the percentage of affirmative votes or written consents, as the case may be, required to make a "reserve matter modification";
- change the definition of "uniformly applicable" or "reserve matter modification";
- authorize the trustee, on behalf of all holders of the debt securities, to exchange or substitute all the debt securities for, or convert all the debt securities into, other obligations or securities of Paraguay or any other person; or
- change the legal ranking, governing law, submission to jurisdiction or waiver of immunities provisions of the terms of the debt securities.

A change with respect to a reserve matter, including the payment terms of the Bonds, can be made without your consent, as long as the change is approved, pursuant to one of the three following modification methods, by vote or consent by:

- the holders of more than 75% of the aggregate principal amount of the outstanding Bonds insofar as the change affects the Bonds (but does not modify the terms of any other debt securities issued under the indenture);
- where such proposed modification would affect the outstanding debt securities of any two or more series (including the Bonds) issued under the indenture, the holders of more than 75% of the aggregate principal amount of the outstanding debt securities of all the series affected by the proposed modification, taken in the aggregate, if certain "uniformly applicable" requirements are met; or
- where such proposed modification would affect the outstanding debt securities of any two or more series (including the Bonds) issued under the indenture, whether or not the "uniformly applicable" requirements are met, the holders of more than $66^{2}/_{3}$% of the aggregate principal amount of the

outstanding debt securities of all of the series (including the Bonds) affected by the proposed modification, taken in the aggregate, *and* the holders of more than 50% of the aggregate principal amount of the outstanding debt securities of each series (including the Bonds) affected by the modification, taken individually.

Any modification consented to or approved by the holders of debt securities pursuant to the above provisions will be conclusive and binding on all holders of the relevant series of debt securities or all holders of all series of debt securities affected by a cross-series modification, as the case may be, whether or not they have given such consent, and on all future holders of those debt securities whether or not notation of such modification is made upon the debt securities. Any instrument given by or on behalf of any holder of a debt security in connection with any consent to or approval of any such modification will be conclusive and binding on all subsequent holders of that debt security.

For so long as any series of debt securities issued under the indenture dated as of June 2, 2013 between the Republic of Paraguay, as issuer, and Citibank, N.A. as trustee, as amended by the first supplemental indenture dated as of April 29, 2015 (the "2013 indenture") (the "2013 debt securities") are outstanding, if Paraguay certifies to the trustee and to the trustee under the 2013 indenture that a cross-series modification is being sought simultaneously with a "2013 indenture reserve matter modification", the 2013 debt securities affected by such 2013 indenture reserve matter modification shall be treated as "series affected by that proposed modification" as that phrase is used in the indenture with respect to both cross-series modifications with single aggregated voting and cross-series modifications with two-tier voting; *provided*, that if Paraguay seeks a cross-series modification with single aggregated voting, in determining whether such modification will be considered uniformly applicable, the holders of any series of 2013 debt securities affected by the 2013 indenture reserve matter modification shall be deemed "holders of debt securities of all series affected by that modification," for the purpose of the uniformly applicable definition. It is the intention that in the circumstances described in respect of any cross-series modification, the votes of the holders of the affected 2013 debt securities be counted for purposes of the voting thresholds specified in the indenture for the applicable cross-series modification as though those 2013 debt securities had been affected by that cross-series modification although the effectiveness of any modification, as it relates to the 2013 debt securities, shall be governed exclusively by the terms and conditions of those 2013 debt securities and by the 2013 indenture; *provided, however*, that no such modification as to the debt securities will be effective unless such modification shall have also been adopted by and become binding upon the holders of the 2013 debt securities pursuant to the amendment and modification provisions of such 2013 debt securities set forth in the 2013 indenture.

Paraguay may select, in its discretion, any modification method for a reserve matter modification in accordance with the indenture and to designate which series of debt securities will be included for approval in the aggregate of modifications affecting two or more series of debt securities. Any selection of a modification method or designation of series to be included will be final for the purpose of that vote or consent solicitation.

"Uniformly applicable," as referred to above, means a modification by which holders of debt securities of any series affected by that modification are invited to exchange, convert or substitute their debt securities on the same terms for (x) the same new instruments or other consideration or (y) new instruments or other consideration from an identical menu of instruments or other consideration. It is understood that a modification will not be considered to be uniformly applicable if each exchanging, converting or substituting holder of debt securities of any series affected by that modification is not offered the same amount of consideration per amount of principal, the same amount of consideration per amount of interest accrued but unpaid and the same amount of consideration per amount of past due interest, respectively, as that offered to each other exchanging, converting or substituting holder of debt securities of any series affected by that modification (or, where a menu of instruments or other consideration is offered, each exchanging, converting or substituting holder of debt securities of any series affected by that modification is not offered the same amount of consideration per amount of principal, the same amount of consideration per amount of interest accrued but unpaid and the same amount of consideration per amount of past due interest, respectively, as that offered to each other exchanging, converting or substituting holder of debt securities of any series affected by that modification electing the same option under such menu of instruments).

"2013 indenture reserve matter modification" means any modification to a reserve matter affecting the terms and conditions of one or more series of the 2013 debt securities, pursuant to the 2013 indenture.

Before soliciting any consent or vote of any holder of a Bond for any change to a reserve matter, Paraguay will provide the following information to the trustee for onward distribution to the holders of the Bonds:

- a description of Paraguay's economic and financial circumstances that are in Paraguay's opinion, relevant to the request for the proposed modification, a description of Paraguay's existing debts and description of its broad policy reform program and provisional macroeconomic outlook;

- if Paraguay shall at the time have entered into an arrangement for financial assistance with multilateral and/or other major creditors or creditor groups and/or an agreement with any such creditors regarding debt relief, (x) a description of any such arrangement or agreement and (y) where permitted under the information disclosure policies of the multilateral or other creditors, as applicable, a copy of the arrangement or agreement;

- a description of Paraguay's proposed treatment of foreign debt instruments that are not affected by the proposed modification and its intentions with respect to any other major creditor groups; and

- if Paraguay is then seeking any reserve matter modification affecting any other series of debt securities, a description of that proposed modification.

For purposes of determining whether the required percentage of holders of the Bonds or any other series of debt securities has approved any amendment, modification or change to, or waiver of, the Bonds, such other series of debt securities or the indenture, or whether the required percentage of holders has delivered a notice of acceleration of the Bonds, debt securities will be disregarded and deemed not to be outstanding and may not be counted in a vote or consent solicitation for or against a proposed modification if on the record date for the proposed modification or other action or instruction hereunder, the debt security is held by Paraguay or by a public sector instrumentality of Paraguay, except that (x) debt securities held by Paraguay or any public sector instrumentality of Paraguay which have been pledged in good faith may be regarded as outstanding if the pledgee establishes to the satisfaction of the trustee the pledgee's right so to act with respect to such debt securities and that the pledgee is not Paraguay or a public sector instrumentality of Paraguay, and in case of a dispute concerning such right, the advice of counsel shall be full protection in respect of any decision made by the trustee in accordance with such advice and any certificate, statement or opinion of counsel may be based, insofar as it relates to factual matters or information which is in the possession of the trustee, upon the certificate, statement or opinion of or representations by the trustee; and (y) in determining whether the trustee will be protected in relying upon any such action or instructions hereunder, or any notice from holders, only debt securities that a responsible officer of the trustee knows to be so owned or controlled will be so disregarded.

As used in the preceding paragraph, "public sector instrumentality" means any (i) department, secretary, ministry or agency of the central government of Paraguay and (ii) corporation, trust or other legal entity owned or controlled by the central government of Paraguay or by any of the entities identified in the preceding clauses (i) and (ii). The term "control" means, in turn, the power, directly or indirectly, through the ownership of voting securities or other ownership interests, by contract or otherwise, to direct the management of or to elect or to appoint a majority of the board of directors or other persons performing similar functions in lieu of, or in addition to, the board of directors of that legal entity.

Other Amendments

Paraguay and the trustee may, without the vote or consent of any holder of the Bonds, amend the indenture or the Bonds for the purpose of:

- adding to Paraguay's covenants for the benefit of the holders;

- surrendering any of Paraguay's rights or powers with respect to the Bonds;

- securing the Bonds;

- curing any ambiguity or curing, correcting or supplementing any defective provision in the Bonds or the indenture;

- amending the Bonds or the indenture in any manner that Paraguay and the trustee may determine and that does not materially adversely affect the interests of any holders of the Bonds;

- amending the authorized denominations of the debt securities of that series; or

- correcting a manifest error of a formal, minor or technical nature.

Notices

Paraguay will mail notices to holders of Certificated Securities at their registered addresses, as reflected in the register maintained by the registrar. Paraguay will consider any mailed notice to have been given five business days after it has been sent. Paraguay will give notices to the holders of Global Bonds in accordance with the procedures and practices of DTC and such notices shall be deemed given upon actual receipt thereof by DTC.

Paraguay will also publish notices to the holders in leading newspapers having general circulation in New York City and London. Paraguay anticipates that it will make such publications in *The Wall Street Journal* and the *Financial Times*. In addition, so long as the Bonds are listed on the Euro MTF market of the Luxembourg Stock Exchange and the rules of that Exchange so require, Paraguay will publish notices to the holders in a leading newspaper having general circulation in Luxembourg and on the website of the Luxembourg Stock Exchange (www.bourse.lu). Paraguay anticipates that it will initially make its newspaper publication in the *Luxemburger Wort*. If publication in a leading newspaper in Luxembourg is not practical, Paraguay will publish such notices in one other leading English language daily newspaper with general circulation in Europe. Paraguay will consider any published notice to be given on the date of its first publication.

Governing Law

The Bonds will be, and the indenture is, governed by, and construed in accordance with, the laws of the State of New York, except that all matters governing authorization and execution by Paraguay are governed by the laws of Paraguay.

Submission to Jurisdiction

Paraguay is a foreign sovereign state. Consequently, it may be difficult for holders to obtain judgments from courts in the United States or elsewhere against Paraguay. Furthermore, it may be difficult for investors to enforce, in the United States or elsewhere, the judgments of U.S. or foreign courts against Paraguay.

In connection with any legal action or proceeding arising out of or relating to the Bonds (subject to the exceptions described below) or the indenture, Paraguay has agreed:

- to submit to the jurisdiction of any New York State or U.S. federal court sitting in New York City in the Borough of Manhattan and any appellate court of either thereof;

- that all claims in respect of such legal action or proceeding may be heard and determined in such New York state or U.S. federal court and to waive, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such action or proceeding; and

- to appoint as its process agent the Consul General of Paraguay in New York City, having an office on the date hereof at 801 2nd Avenue Suite 600, New York, NY 10017, United States of America.

The process agent will receive on behalf of Paraguay and its property service of copies of any summons and complaint and any other process which may be served in any such legal action or proceeding brought in such

New York State or U.S. federal court sitting in New York City in the Borough of Manhattan. Service may be made by mailing or delivering a copy of such process to Paraguay at the address specified above for the process agent.

A final non-appealable judgment in any of the above legal actions or proceedings will be conclusive and may be enforced by a suit upon such judgment in any other courts that may have jurisdiction over Paraguay.

In addition to the foregoing, the holders may serve legal process in any other manner permitted by applicable law. Nothing in the indenture or the Bonds shall limit the right of any holder to bring any action or proceeding against Paraguay or its property in other courts where jurisdiction is independently established.

To the extent that Paraguay has or hereafter may acquire or have attributed to it any sovereign or other immunity under any law, Paraguay has agreed to waive, to the fullest extent permitted by law, such immunity in respect of any claims or actions regarding its obligations under the Bonds.

Paraguay waives, to the fullest extent permitted by law, any requirement or other provision of law, rule, regulation or practice which requires or otherwise establishes as a condition to the institution, prosecution or completion of any action or proceeding (including appeals) arising out of or relating to the Bonds, the posting of any bond or the furnishing, directly or indirectly, of any other security.

Paraguay reserves the right to plead sovereign immunity under the U.S. Foreign Sovereign Immunities Act of 1976 with respect to actions brought against it under U.S. federal securities laws or any state securities laws, and Paraguay's appointment of the process agent will not extend to such actions. Without a waiver of immunity by Paraguay with respect to such actions, it would be impossible to obtain a U.S. judgment in such an action against Paraguay unless a court were to determine that Paraguay is not entitled under the U.S. Foreign Sovereign Immunities Act of 1976 to sovereign immunity with respect to such action. However, even if a U.S. judgment could be obtained in any such action under the U.S. Foreign Sovereign Immunities Act of 1976, it may not be possible to enforce in Paraguay a judgment based on such a U.S. judgment.

A judgment obtained against Paraguay in a foreign court can be enforced in the courts of Paraguay, if such judgment is ratified by the Paraguayan courts. Based on existing law, Paraguayan courts will ratify such a judgment:

- if a formal request for the payment of the award under the judgment is lodged with the Paraguayan government and not honored (it is not clear how such request must be made, and how and when such request must not have been honored, in order for a party to have the right to seek such ratification); and

- if there exists a treaty with the country where such judgment was issued providing for reciprocal enforcement of foreign judgments (no such treaty exists at the present time between Paraguay and the United States); or if no such treaty exists:

    - such judgment has *res judicata* effects in the jurisdiction where it was rendered;

    - such judgment was issued by a competent court with *in personam* jurisdiction or (if the relevant assets were transferred to Paraguay during or after the complaint was filed) in rem jurisdiction;

    - there is no legal action filed and pending judgment at a Paraguayan court with the same cause of action and among the same parties;

    - any person or entity domiciled in Paraguay against whom such judgment is sought to be enforced must have been duly served with process and represented during the trial or adjudged to have failed to appear in accordance with the laws of the country where the trial was held;

    - the obligation that gave rise to the complaint must be valid under Paraguayan law;

    - such judgment is not contrary to the public policy of Paraguay;

- such judgment must comply with all necessary requirements to be considered as a valid judgment in the foreign jurisdiction; and

- such judgment must not conflict with a judgment rendered previously or simultaneously by a Paraguayan court.

Once a foreign judgment is ratified by the Paraguayan courts, payment of such judgment should be included by Congress as a liability under the budget law for the following fiscal year. Under Paraguayan law, creditors may not be able seek attachment prior to judgment and attachment in aid of execution with respect to property of Paraguay located in Paraguay.

Paraguay agrees to cause an appearance to be filed on its behalf and to defend itself in connection with any legal action or proceeding instituted against it. However, a default judgment obtained in the United States against Paraguay, resulting from Paraguay's failure to appear and defend itself in any suit filed against Paraguay, or from Paraguay's deemed absence at the proceedings, may not be enforceable in the Paraguayan courts unless the requirements mentioned above are fulfilled.

Currency Indemnity

The obligation of Paraguay to any holder under the Bonds will be discharged only to the extent that the holder may purchase U.S. dollars with any other currency paid to that holder in accordance with any judgment or otherwise. If the holder cannot purchase U.S. dollars in the amount originally to be paid, Paraguay agrees, as a separate obligation and notwithstanding any such judgment, to pay the difference. The holder, however, agrees that, if the amount of the U.S. dollars purchased exceeds the amount originally to be paid to such holder, the holder will reimburse the excess to Paraguay. The holder, however, will not be obligated to make this reimbursement if Paraguay is in default of its obligations under the Bonds.

Concerning the Trustee

The indenture contains provisions relating to the obligations and duties of the trustee, to the indemnification of the trustee and to the trustee's rights, protections, exculpations, defenses and relief from responsibility for actions that it takes or fails to take. The trustee is entitled to enter into business transactions with Paraguay or any of its affiliates without accounting for any profit resulting from such transactions.

Defined Terms

The following are certain definitions used in the Bonds:

"External Debt" means obligations of, or guaranteed (whether by contract, statute or otherwise) by, Paraguay for borrowed money or evidenced by bonds, debentures, notes or similar instruments denominated or payable, or which, at the option of the holder thereof, may be payable, in a currency other than the currency of Paraguay or by reference to a currency other than the currency of Paraguay, regardless of whether that obligation is incurred or entered into within or outside Paraguay.

"Lien" means any lien, pledge, mortgage, security interest, deed of trust, charge or other encumbrance or preferential arrangement which has the practical effect of constituting a security interest with respect to the payment of any obligations with or from the proceeds of any assets or revenues of any kind.

"Permitted Liens" means:

- any Lien on property to secure Public External Debt arising in the ordinary course to finance export, import or other trade transactions, which Public External Debt matures (after giving effect to all renewals and refinancing thereof) not more than one year after the date on which such Public External Debt was originally incurred;

- any Lien on property to secure Public External Debt existing on such property at the time of its acquisition or incurred solely for the purpose of financing any acquisition by Paraguay of such property, and any renewal or extension of any such Lien which is limited to the original property covered thereby and which secures any renewal or extension of the original financing without any increase in the amount thereof; and

- any Lien securing Public External Debt incurred for the purpose of financing all or part of the costs of the acquisition, construction or development of a project, provided that:

    - the holders of such Public External Debt agree to limit their recourse to the assets and revenues of such project as the principal source of repayment of such Public External Debt; and

    - the property over which such Lien is granted consists solely of such assets and revenues.

"Public External Debt" means any External Debt that is in the form of, or represented by, bonds, notes or other securities that are or may be quoted, listed or ordinarily purchased or sold on any securities exchange, automated trading system or over-the-counter or other securities market, including securities eligible for resale pursuant to Rule 144A under the Securities Act.

BOOK-ENTRY, DELIVERY AND FORM

Bonds sold to qualified institutional buyers in reliance on Rule 144A (the "Rule 144A Bonds") under the Securities Act will be represented by one or more global bonds in registered form without interest coupons attached (collectively, the "144A Global Bonds"). The 144A Global Bonds representing the Bonds will be deposited with a custodian for DTC, and registered in the name of Cede & Co., as nominee of DTC.

Bonds sold in reliance on Regulation S (the "Reg S Bonds") under the Securities Act will be represented by one or more global bonds in registered form without interest coupons attached (collectively, the "Reg S Global Bonds" and, together with the Rule 144A Global Bonds, the "Global Bonds"). The Reg S Global Bonds representing the Bonds will be registered in the name of Cede & Co., as nominee of DTC and deposited with a custodian for DTC, for credit to Euroclear and Clearstream.

Ownership of interests in the 144A Global Bonds ("Restricted Book-Entry Interests") and in the Reg S Global Bonds (the "Reg S Book-Entry Interests" and, together with the Restricted Book-Entry Interests, the "Book-Entry Interests") will be limited to persons that have accounts with DTC, Euroclear and/or Clearstream, or persons that hold interests through their participants. Prior to the 40th day after the later of the commencement of this offering and the date the Bonds were originally issued (the "Distribution Compliance Period"), interests in the Reg S Global Bonds may only be held by non-U.S. persons. DTC, Euroclear and Clearstream will hold interests in the Global Bonds on behalf of their participants through customers' securities accounts in their respective names on the books of their respective depositaries. Except under the limited circumstances described below, owners of beneficial interests in the Global Bonds will not be entitled to receive Certificated Securities.

Book-Entry Interests will be shown on, and transfers thereof will be done only through, records maintained in book-entry form by DTC, Euroclear and Clearstream and their participants. The foregoing limitations may impair your ability to own, transfer or pledge Book-Entry Interests. In addition, while the bonds are in global form, holders of Book-Entry Interests will not be considered the owners or "holders" of Bonds for any purpose.

So long as the Bonds are held in global form, DTC (or its nominee) will be considered the sole holders of Global Bonds for all purposes under the indenture. In addition, participants in DTC, Euroclear and/or Clearstream must rely on the procedures of DTC, Euroclear and/or Clearstream, as the case may be, and indirect participants must rely on the procedures of DTC, Euroclear, Clearstream and the participants through which they own Book-Entry Interests, to transfer their interests or to exercise any rights of holders under the indenture.

None of Paraguay, the trustee, the paying agent, the transfer agent or the registrar will have any responsibility or be liable for any aspect of the records relating to the Book-Entry Interests.

Redemption of the Global Bonds

In the event any Global Bond (or any portion thereof) is redeemed, DTC (or its nominee) will redeem an equal amount of the Book-Entry Interests in such Global Bond from the amount received by it in respect of the redemption of such Global Bonds. The redemption price payable in connection with the redemption of such Book-Entry Interests will be equal to the amount received by DTC, in connection with the redemption of such Global Bond (or any portion thereof). Paraguay understands that, under existing practices of DTC, if fewer than all of the bonds are to be redeemed at any time, DTC will credit its participants' accounts on a proportionate basis (with adjustments to prevent fractions) or by lot or on such other basis as they deem fair and appropriate; *provided, however,* that no Book-Entry Interest of US$200,000 principal amount or less may be redeemed in part.

Payments on Global Bonds

Under the terms of the indenture, Paraguay, the trustee, the paying agent, the transfer agent and the registrar will treat the registered holders of the Global Bonds (e.g., DTC (or its nominee)) as the owners thereof for the purpose of receiving payments and for all other purposes. Consequently, none of Paraguay, the trustee, the paying agent, the transfer agent, the registrar, the initial purchasers or any of Paraguay's and their respective agents has or will have any responsibility or liability for:

- any aspect of the records of DTC or any participant or indirect participant relating to payments made on account of a Book-Entry Interest or for maintaining, supervising or reviewing the records of DTC or any participant or indirect participant relating to or payments made on account of a Book-Entry Interest; or

- DTC or any participant or indirect participant.

Payments by participants to owners of Book-Entry Interests held through participants are the responsibility of such participants.

Currency of Payment for the Global Bonds

Except as may otherwise be agreed between DTC and any holder, the principal of, premium, if any, and interest on, and all other amounts payable in respect of, the Global Bonds will be paid to holders of interests in such Bonds (the "DTC Holders") through DTC in U.S. dollars. Payments will be subject in all cases to any fiscal or other laws and regulations (including any regulations of the applicable clearing system) applicable thereto. None of Paraguay, the trustee, the paying agent, the transfer agent, the registrar, the initial purchasers or any of Paraguay's and their respective agents will be liable to any holder of a Global Bond or any other person for any commissions, costs, losses or expenses in relation to or resulting from any currency conversion or rounding effected in connection with any such payment.

Action by Owners of Book-Entry Interests

DTC advised us that it will take any action permitted to be taken by a holder of Bonds only at the direction of one or more participants to whose account the Book-Entry Interests in the Global Bonds are credited and only in respect of such portion of the aggregate principal amount of bonds as to which such participant or participants has or have given such direction.

DTC will not exercise any discretion in the granting of consents, waivers or the taking of any other action in respect of the Global Bonds. However, if there is an event of default under the bonds, DTC reserves the right to exchange the Global Bonds for definitive registered bonds in certificated form (the "Certificated Securities"), and to distribute Certificated Securities to its participants.

Transfers

Transfers of beneficial interests in the Global Bonds will be subject to the applicable rules and procedures of DTC and its direct or indirect participants, which rules and procedures may change from time to time.

The Global Bonds will bear a legend to the effect set forth in "Transfer Restrictions." Book-Entry Interests in the Global Bonds will be subject to the restrictions on transfers as discussed in "Transfer Restrictions."

During the Distribution Compliance Period, any sale or transfer of ownership of a Reg S Book-Entry Interest to a U.S. person shall not be permitted unless such resale or transfer is made pursuant to Rule 144A. Subject to the foregoing, a Reg S Book-Entry Interest may be transferred to a person who takes delivery in the form of a Restricted Book-Entry Interest in a Global Bond only upon delivery by the transferor of a written certification (in the form provided in the indenture) to the effect that such transfer is being made to a person who the transferor reasonably believes is a "qualified institutional buyer" within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A or otherwise in accordance with the transfer restrictions described under "Transfer Restrictions," and in accordance with any applicable securities laws of any state of the United States or any other jurisdiction.

Transfers of Restricted Book-Entry Interests to persons wishing to take delivery of Restricted Book-Entry Interests will at all times be subject to the transfer restrictions contained in the legend appearing on the face of the 144A Global Bond, as set forth in "Transfer Restrictions."

Restricted Book-Entry Interests may be transferred to a person who takes delivery in the form of a Reg S Book-Entry Interest in a Global Bond upon delivery by the transferor of a written certification (in the form provided in the indenture) to the effect that such transfer is being made in accordance with Regulation S and that, if such transfer occurs prior to the expiration of the Distribution Compliance Period, the interest transferred will be held immediately thereafter through Euroclear or Clearstream. For more information see "Transfer Restrictions."

Any Book-Entry Interest in one of the Global Bonds that is transferred to a person who takes delivery in the form of a Book-Entry Interest in any other Global Bond of the same series will, upon transfer, cease to be a Book-Entry Interest in the first-mentioned Global Bond and become a Book-Entry Interest in such other Global Bond, and accordingly will thereafter be subject to all transfer restrictions, if any, and other procedures applicable to Book-Entry Interests in such other Global Bond for as long as it remains such a Book-Entry Interest. In connection with such transfer, appropriate adjustments will be made to reflect a decrease in the principal amount of the first-mentioned Global Bond and a corresponding increase in the principal amount of the other Global Bond, as applicable.

Certificated Securities

Under the terms of the indenture, owners of the Book-Entry Interests will receive Certificated Securities:

- if DTC notifies us that it is unwilling or unable to continue as depositary for the Global Note, or DTC ceases to be a clearing agency registered under the Exchange Act and, in either case, a qualified successor depositary is not appointed by us within 120 days;
- if Paraguay determines not to have any Bonds of such series represented by a Global Note;
- if DTC so requests following an event of default under the indenture; or
- if the owners of a Book-Entry Interest request such exchange in writing delivered through DTC following an event of default under the indenture.

In the case of the issuance of Certificated Securities, the holder of a Certificated Security may transfer such note by surrendering it at the offices of the trustee. In the event of a partial transfer or a partial redemption of a holding of Certificated Securities represented by one Certificated Security, a Certificated Security shall be issued to the transferee in respect of the part transferred, and a new Certificated Security in respect of the balance of the holding not transferred or redeemed shall be issued to the transferor or the holder, as applicable; *provided* that no Certificated Security in a denomination less than US$200,000 shall be issued. Paraguay will bear the cost of preparing, printing, packaging and delivering the Certificated Securities.

Paraguay, the trustee, the registrar or the transfer agent shall not be required to register the transfer or exchange of Certificated Securities for a period of 15 calendar days preceding (a) the record date for any payment of interest on the bonds, (b) any date fixed for redemption of the bonds or (c) the date fixed for selection of the Bonds to be redeemed in part. In the event of the transfer of any Certificated Security, the transfer agent may require a holder, among other things, to furnish appropriate endorsements and transfer documents as described in the indenture. Paraguay may require a holder to pay any taxes and fees required by law or permitted by the indenture and the Bonds.

Paraguay will pay interest on the Bonds to persons who are registered holders at the close of business on the record date immediately preceding the interest payment date for such interest. Holders of Certificated Securities must present (or, if the final payment, surrender) the Bonds to a Paying Agent to collect principal payments.

If Certificated Securities are issued and a holder thereof claims that such Certificated Securities have been lost, destroyed or wrongfully taken or if such Certificated Securities are mutilated and are surrendered to the trustee or at the office of the trustee, Paraguay shall issue and the trustee shall authenticate a replacement Certificated Security if the trustee's and Paraguay's requirements are met. The trustee or Paraguay may require a holder requesting replacement of a Certificated Security to furnish indemnity and security sufficient in the judgment of

both the trustee and Paraguay to protect Paraguay, the trustee, and any paying agent or transfer agent appointed pursuant to the indenture from any loss which any of them may suffer if a Certificated Security is replaced. Paraguay may charge for Paraguay's expenses in replacing a Certificated Security. In case any such mutilated, destroyed, lost or stolen Certificated Security has become or is about to become due and payable, or is about to be redeemed or purchased by Paraguay pursuant to the provisions of the indenture, Paraguay in its discretion may, instead of issuing a new Certificated Security, pay, redeem or purchase such Certificated Security, as the case may be. Certificated Securities may be transferred and exchanged for Book-Entry Interests in a Global Bond only in accordance with the indenture and, if required, only after the transferor first delivers to the trustee a written certification (in the form provided in the indenture) to the effect that such transfer will comply with the transfer restrictions applicable to such Bonds and Paraguay may require a holder to pay any taxes and fees required by law or permitted by the indenture and the Bonds. For more information see "Transfer Restrictions."

Information Concerning DTC, Euroclear and Clearstream

The following description of the operations and procedures of DTC, Euroclear and Clearstream are provided solely as a matter of convenience. These operations and procedures are solely within the control of the relevant settlement systems and are subject to changes by them. Paraguay takes no responsibility for these operations and procedures and investors should contact the systems or their participants directly to discuss these matters. Paraguay understands as follows with respect to DTC, Euroclear and Clearstream:

The Depository Trust Company

DTC is:

- a limited purpose trust company organized under the New York Banking Law;
- a "banking organization" under New York Banking Law;
- a member of the Federal Reserve System;
- a "clearing corporation" within the meaning of the New York Uniform Commercial Code; and
- a "clearing agency" registered under Section 17A of the U.S. Securities Exchange Act of 1934, as amended.

DTC was created to hold securities for its participants and to facilitate the clearance and settlement of transactions among its participants. It does this through electronic book-entry changes in the accounts of securities participants, eliminating the need for physical movement of securities certificates. DTC participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a direct participant also have access to the DTC system and are known as indirect participants.

Because DTC can only act on behalf of participants, who in turn act on behalf of indirect participants and certain banks, the ability of an owner of a beneficial interest to pledge such interest to persons or entities that do not participate in the DTC system, or otherwise take actions in respect of such interest, may be limited by the lack of a definitive certificate for that interest. To the extent that certain persons require delivery in definitive form, the ability to transfer beneficial interests to such persons may be limited. In addition, owners of beneficial interests through the DTC system will receive distributions attributable to the Global Bonds only through DTC participants.

Euroclear and Clearstream

Like DTC, Euroclear and Clearstream hold securities for participating organizations. They also facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in the accounts of such participants. Euroclear and Clearstream provide various services to their participants, including the safekeeping, administration, clearance, settlement, lending and borrowing of internationally traded securities. Euroclear and Clearstream interface with domestic securities markets. Euroclear and Clearstream participants are financial institutions such as underwriters, securities brokers and dealers, banks, trust companies and certain other organizations. Indirect access to Euroclear or Clearstream is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Global Clearance and Settlement Under the Book-Entry System

The Bonds are expected to trade in DTC's Same-Day Funds Settlement System, and any permitted secondary market trading activity in such Bonds will, therefore, be required by DTC to be settled in immediately available funds. Paraguay expects that secondary trading in any Certificated Securities will also be settled in immediately available funds. Subject to compliance with the transfer restrictions applicable to the Global Bonds, cross-market transfers of Book-Entry Interests in the Bonds between the participants in DTC, on the one hand, and Euroclear or Clearstream participants, on the other hand, will be done through DTC in accordance with DTC's rules on behalf of each of Euroclear or Clearstream by its common depositary; however, such cross-market transactions will require delivery of instructions to Euroclear or Clearstream by the counterparty in such system in accordance with the rules and procedures and within the established deadlines (Brussels time) of such system. Euroclear or Clearstream will, if the transaction meets its settlement requirements, deliver instructions to the common depositary to take action to effect final settlement on its behalf by delivering or receiving interests in the Global Bonds in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Euroclear and Clearstream participants may not deliver instructions directly to the common depositary.

Because of time zone differences, the securities account of a Euroclear or Clearstream participant purchasing an interest in a Global Bond from a participant in DTC will be credited, and any such crediting will be reported to the relevant Euroclear or Clearstream participant, during the securities settlement processing day (which must be a business day for Euroclear and Clearstream) immediately following the settlement date of DTC. Cash received in Euroclear and Clearstream as a result of a sale of an interest in a Global Bond by or through a Euroclear or Clearstream participant to a participant in DTC will be received with value on the settlement date of DTC but will be available in the relevant Euroclear or Clearstream cash account only as at the business day for Euroclear or Clearstream following DTC's settlement date.

Although DTC, Euroclear and Clearstream are expected to follow the foregoing procedures in order to facilitate transfers of interests in the Global Bonds among participants in DTC, Euroclear or Clearstream, as the case may be, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of Paraguay, the trustee, the paying agent, the transfer agent, the registrar or the initial purchasers will have any responsibility for the performance by DTC, Euroclear or Clearstream, or their respective participants or indirect participants, of their respective obligations under the rules and procedures governing their operations.

TAX CONSIDERATIONS

Paraguayan Tax Considerations

The discussion in this Offering Memorandum was written to support the promotion or marketing of this Offering Memorandum. Each investor should seek advice based on their particular circumstances from an independent tax advisor, to determine the tax consequences relevant to his particular situation.

The following is a general summary of certain Paraguayan tax considerations that may be relevant in connection with the Bonds. This summary is based on Paraguayan tax laws in effect on the date hereof, including Law No. 6,638/20, Law No. 6,380/19 and Law No. 125/91, as applicable. Paraguayan tax laws are subject to change, or to be interpreted in a new or different manner than that set forth herein, which could affect the continued validity of this general summary.

This summary does not address all of the Paraguayan tax consequences that may be relevant to the holders of the Bonds and does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase the Bonds. This summary does not constitute tax advice, nor does it purport to furnish information in the level of detail or with attention to an investor's specific tax circumstances that would be provided by an investor's own tax advisor. Prospective investors of the Bonds are urged to consult their own tax advisors as to the precise Paraguayan and other tax consequences that may be applicable to specific holders of the Bonds. This summary does not describe any tax consequences in relation to (i) any taxing jurisdiction other than Paraguay or (ii) Holders that are Paraguayan Residents.

Under Paraguayan law, as in effect as of the date of this Offering Memorandum, if you are a Non-Resident Holder of bonds, interest and principal payments on the bonds will not be subject to Paraguayan income or withholding tax. For the purposes of this summary, a "Non-Resident Holder" means a holder of bonds who is an individual that is a non-resident of Paraguay, or a legal entity that is neither organized in, nor maintains a permanent office in, Paraguay, as defined below:

For purposes of Paraguayan taxation, a resident is:

- a foreign individual (i) if such individual is present in Paraguay for more than 120 days in a calendar year; (ii) alternatively, if such individual carries out civil or commercial activities in Paraguay; or (iii) if such individual has a proxy or legal representative in Paraguay, which normally execute contracts on its behalf in Paraguay (other than the sale and purchase of goods);

- a company (i) if it is a legal entity incorporated in Paraguay; or (ii) if it is a foreign entity registered in Paraguay before the Public Registries (*Direccion General de los Registros Publicos*);

- a foreign company if (i) its permanent establishment is located in Paraguay, or (ii) it has no permanent establishment in Paraguay but it has a proxy or legal representative in Paraguay, which normally execute contracts on its behalf in Paraguay (other than the sale and purchase of goods); and

- permanent establishments are (i) branches or agencies; (ii) factories, industrial or assembly plants, and agricultural establishments; (iii) mines, quarries, or other natural resources extraction places; or (iv) carrying out construction works that exceed 12 months.

Under Paraguayan law, as in effect as of the date of this Offering Memorandum, if you are a Non-Resident Holder of bonds, interest and principal payments on the bonds will not be subject to Non-resident Income tax (*Impuesto a la Renta de No Residentes*) or other Paraguayan taxes.

Article 79 of Paraguayan Law No. 6380/19 of the Modernization and Simplification of the National Tax System Law and Article 4 of Paraguayan Law No. 6638/20 of the Liability Management Law provide that capital gains, increases, interests and any income derived from the possession or transfer of public debt securities issued by

Paraguay are exempt from Paraguayan taxes. Investors are not obligated to provide certification of non-residency status under Paraguayan law.

United States Federal Income Tax Considerations

This section describes certain United States federal income tax consequences of owning the Bonds we are offering. It applies to you only if you acquire Bonds in the offering at the offering price and you hold your Bonds as capital assets for tax purposes. This section does not apply to you if you are a member of a class of holders subject to special rules, such as:

- a broker or dealer in securities,
- a trader in securities that elects to use a mark-to-market method of accounting for your securities holdings,
- a bank,
- a life insurance company,
- a tax-exempt organization,
- a person that owns Bonds that are a hedge or that are hedged against interest rate risks,
- a person that owns Bonds as part of a straddle or conversion transaction for tax purposes,
- a person that purchases or sells Bonds as part of a wash sale for tax purposes, or
- a United States holder (as defined below) whose functional currency for tax purposes is not the U.S. dollar.

If you purchase Bonds at a price other than the offering price, the amortizable bond premium or market discount rules may also apply to you. You should consult your tax advisor regarding this possibility.

This section is based on the United States Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations under the Internal Revenue Code, published rulings and court decisions, all as in effect as of the date of this Offering Memorandum. These laws are subject to change and differing interpretations, possibly on a retroactive basis.

If a partnership (or other entity treated as a partnership for U.S. federal income tax purposes) holds the Bonds, the United States federal income tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. A partner in a partnership (or other entity treated as a partnership for U.S. federal income tax purposes) holding the Bonds should consult its tax advisor with regard to the United States federal income tax treatment of an investment in the Bonds.

Please consult your own tax advisor concerning the consequences of owning these Bonds in your particular circumstances under the Internal Revenue Code, as well as the application of U.S. federal estate, gift, and alternative minimum tax laws, U.S. state and local tax laws, and the laws of any other taxing jurisdiction.

United States Holders

This subsection describes the tax consequences to a United States holder. You are a United States holder if you are a beneficial owner of a Bond and you are:

- an individual citizen or resident of the United States,

- a corporation or other entity treated as a corporation for U.S. federal income tax purposes created or organized in or under the laws of the United States or any political subdivision of the U.S.,

- an estate whose income is subject to United States federal income tax regardless of its source, or

- a trust if (1) a United States court can exercise primary supervision over the trust's administration and one or more United States persons are authorized to control all substantial decisions of the trust or (2) it was in existence on August 20, 1996 and treated as a U.S. person and has a valid election in effect under applicable U.S. Treasury regulations to continue to be treated as a U.S. person.

If you are not a United States holder, this subsection does not apply to you and you should refer to "Non-U.S. Holders" below.

This section also does not address consequences arising under special timing rules prescribed under section 451(b) of the Internal Revenue Code. You should consult with your tax advisors regarding the potential applicability of the special timing rules to your particular situation.

Payments of Interest and Additional Amounts. You will be taxed on interest on your Bonds, and Additional Amounts, if any, as ordinary income at the time you receive the interest or when it accrues, depending on your method of accounting for tax purposes. Interest paid by Paraguay on the Bonds is income from sources outside the United States for purposes of the rules regarding the foreign tax credit allowable to a United States holder and will, depending on your circumstances, be either "passive," "general" or "foreign branch" income for purposes of computing the foreign tax credit. The rules governing the foreign tax credit are complex. United States holders should consult their own tax advisors regarding the availability of the foreign tax credit under their particular circumstances.

Original Issue Discount. If the Bonds are issued with a discount equal to or more than a de minimis amount of original issue discount, or "OID", a United States holder generally will be required to include the OID in income (as ordinary income) for U.S. federal income tax purposes as it accrues (regardless of the holder's accounting method for U.S. federal income tax purposes), in accordance with a constant yield method based on a compounding of interest, before the receipt of cash payments attributable to this income. Under this method, a United States holder of the Bonds generally will be required to include in income increasingly greater amounts of OID in successive accrual periods. The Bonds may be treated as issued with OID if the stated principal amount of the Bonds equals or exceeds their issue price by a statutorily defined de minimis amount. The issue price of the Bonds is the first price at which a substantial amount of the Bonds is sold for cash, other than to bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers. The amount of such OID is the excess of the stated principal amount of the Bonds over their issue price. The Bonds are not expected to be treated as issued with OID and the following discussion assumes this to be the case.

Sale, Retirement, and Other Disposition of the Bonds. Your adjusted tax basis in a Bond generally will be its cost increased by any accrued OID and reduced by any payments other than payments of qualified stated interest made on such Bond. You will generally recognize capital gain or loss on the sale, retirement or other disposition of your Bond equal to the difference between the amount you realize on the sale, retirement or other disposition, excluding any amounts attributable to accrued but unpaid interest (which will be treated as interest payments and taxable as such), and your adjusted tax basis in your Bond. Capital gain of a noncorporate United States holder is generally taxed at preferential rates where the United States holder has held the property for more than one year at the time of disposition. The deductibility of capital losses is subject to limitations.

Medicare Tax. A United States holder that is an individual or estate, or a trust that does not fall into a special class of trusts that is exempt from such tax, will be subject to a 3.8% tax on the lesser of (1) the United States holder's "net investment income" (or "undistributed net investment income" in the case of an estate or trust) for the relevant taxable year and (2) the excess of the United States holder's modified adjusted gross income (or adjusted gross income in the case of an estate or trust) for the taxable year over a certain threshold (which in the case of individuals will be between US$125,000 and US$250,000, depending on the individual's circumstances). A holder's net investment income will generally include its interest income and any gains from the disposition of Bonds, unless

such interest income or gain is derived in the ordinary course of the conduct of a trade or business (other than a trade or business that consists of certain passive or trading activities). If you are a United States holder that is an individual, estate or trust, you are urged to consult your tax advisor regarding the applicability of the Medicare tax to your income and gains in respect of your investment in the Bonds.

Information With Respect to Foreign Financial Assets. Certain United States holders that own "specified foreign financial assets" with an aggregate value in excess of US$50,000 on the last day of the taxable year or US$75,000 at any time during the taxable year are generally required to file an information report, currently on IRS Form 8938, with respect to such assets with their tax returns. "Specified foreign financial assets" include financial accounts maintained by foreign financial institutions, as well as the following, but only if they are held for investment and not held in accounts maintained by financial institutions: (i) stocks and securities issued by non-United States persons, (ii) financial instruments and contracts that have non-United States issuers or counterparties, and (iii) interests in foreign entities. United States holders who fail to report the required information could be subject to substantial penalties. In addition, the statute of limitations for assessment of tax would be suspended, in whole or in part. Holders are urged to consult their tax advisors regarding the application of this reporting requirement to their ownership of the Bonds.

Non-U.S. Holders

This subsection describes the tax consequences to a Non-U.S. holder. You are a Non-U.S. holder if you are a beneficial owner of a Bond and you are, for U.S. federal income tax purposes:

- a nonresident alien individual,
- a non-U.S. corporation, or
- an estate or trust the income of which in either case is not subject to U.S. federal income tax regardless of its source.

If you are a United States holder, this subsection does not apply to you.

Payments of Interest. Under U.S. federal income tax law, and subject to the discussion of backup withholding below, if you are a Non-U.S. holder of a Bond, interest on a Bond paid to you is exempt from U.S. federal income tax, including withholding tax, whether or not you are engaged in a trade or business in the United States, unless:

- you are an insurance company carrying on a United States insurance business to which the interest is attributable, within the meaning of the Internal Revenue Code, or
- you both
  - have an office or other fixed place of business in the United States to which the interest is attributable and
  - derive the interest in the active conduct of a banking, financing or similar business within the United States, or are a corporation with a principal business of trading in stocks and securities for your own account.

Sale, Retirement and Other Disposition of the Bonds. If you are a Non-U.S. holder of a Bond, you generally will not be subject to U.S. federal income tax on gain realized on the sale, exchange, retirement or other disposition of a Bond unless:

- the gain is effectively connected with your conduct of a trade or business in the United States or

- you are an individual, you are present in the United States for 183 or more days during the taxable year in which the gain is realized and certain other conditions are met.

An individual Non-U.S. holder described in the first bullet point above will be subject to U.S. federal income tax on the gain derived from the sale on a net income basis. An individual Non-U.S. alien holder described in the second bullet point above will be subject to a flat 30% U.S. federal income tax on the gain derived from the sale, which may be offset by U.S. source capital losses, even though the holder is not considered a resident of the United States. A Non-U.S. holder that is a foreign corporation and is described in the first bullet point above will be subject to tax on gain at regular U.S. federal income tax rates and, in addition, may be subject to a branch profits tax at a 30% rate or a lower rate if so specified by an applicable income tax treaty.

Estate Tax. For purposes of U.S. federal estate tax, the Bonds will be treated as situated outside the United States and will not be includible in the gross estate of a holder who is neither a citizen nor a resident of the United States at the time of death.

Backup Withholding and Information Reporting

If you are a noncorporate United States holder, information reporting requirements, on IRS Form 1099, generally will apply to payments of principal and interest on a Bond within the United States, and the payment of proceeds to you from the sale of a Bond effected at a United States office of a broker.

Additionally, backup withholding may apply to such payments if you fail to comply with applicable certification requirements or are notified by the IRS that you have failed to report all interest and dividends required to be shown on your federal income tax returns.

If you are a Non-U.S. holder, you are generally exempt from backup withholding and information reporting requirements with respect to payments of principal and interest made to you outside the United States by us or another non-United States payor. You are also generally exempt from backup withholding and information reporting requirements in respect of payments of principal and interest made within the United States and the payment of the proceeds from the sale of a Bond effected at a United States office of a broker, as long as either (i) the payor or broker does not have actual knowledge or reason to know that you are a United States person and you have furnished a valid IRS Form W-8 or other documentation upon which the payor or broker may rely to treat the payments as made to a Non-U.S. holder, or (ii) you otherwise establish an exemption.

Payment of the proceeds from the sale of a Bond effected at a foreign office of a broker generally will not be subject to information reporting or backup withholding. However, a sale effected at a foreign office of a broker could be subject to information reporting in the same manner as a sale within the United States (and in certain cases may be subject to backup withholding as well) if (i) the broker has certain connections to the United States, (ii) the proceeds or confirmation is sent to the United States or (iii) the sale has certain other specified connections with the United States.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against your U.S. federal income tax liability provided the required information is timely furnished to the IRS.

PLAN OF DISTRIBUTION

Citigroup Global Markets Inc. and Goldman Sachs & Co. LLC are acting as joint book-running managers of the offering, and as representatives of the initial purchasers named below. Subject to the terms and conditions stated in the purchase agreement dated as of the date of this Offering Memorandum, each initial purchaser named below has severally and not jointly agreed to purchase, and Paraguay has agreed to sell to that initial purchaser, the principal amount of the Bonds set forth opposite the initial purchaser's name.

Initial Purchasers	**Principal Amount of Bonds**
Citigroup Global Markets Inc.	US$250,300,000
Goldman Sachs & Co. LLC	US$250,300,000
Total	**US$500,600,000**

The purchase agreement provides that the obligations of the initial purchasers to purchase the Bonds are subject to approval of legal matters by counsel and to other conditions. The initial purchasers must purchase all the bonds if they purchase any of the bonds. The offering of the Bonds by the initial purchasers is subject to receipt and acceptance and subject to the initial purchasers' right to reject any order in whole or in part. If an initial purchaser defaults, the purchase agreement provides that the purchase commitments of the non-defaulting initial purchasers may be increased or the purchase agreement may be terminated. The initial purchasers may offer and sell the Bonds through certain of their affiliates.

Paraguay has been advised that the initial purchasers propose to resell the Bonds at the offering price set forth on the cover page of this Offering Memorandum to qualified institutional buyers (as defined in Rule 144A) in reliance on Rule 144A or outside the United States in reliance on Regulation S. For more information see "Transfer Restrictions." The price at which the Bonds are offered may be changed at any time without notice.

The Bonds have not been and will not be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except in transactions exempt from, or not subject to, the registration requirements of the Securities Act. For more information see "Transfer Restrictions." Each purchaser of the Bonds will be deemed to have made acknowledgments, representations and agreements as described under "Transfer Restrictions."

In addition, until 40 days after the commencement of this offering, an offer or sale of Bonds within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if that offer or sale is made otherwise than in accordance with Rule 144A or another exemption from registration under the Securities Act.

Application will be made to list the Bonds on the Official List of the Luxembourg Stock Exchange and to trade them on the Euro MTF market of the Luxembourg Stock Exchange. However, Paraguay cannot assure you that the prices at which the Bonds will sell in the market after this offering will not be lower than the initial offering price or that an active trading market for the Bonds will continue after this offering. The initial purchasers have advised us that they currently intend to make a market in the Bonds. However, they are not obligated to do so and they may discontinue any market-making activities with respect to the Bonds at any time without notice. In addition, market-making activity may be subject to the limits imposed by applicable securities laws. Accordingly, Paraguay cannot assure you as to the liquidity of, or the trading market for, the Bonds.

In connection with the offering, the initial purchasers may purchase and sell Bonds in the open market. Purchases and sales in the open market may include short sales, purchases to cover short positions and stabilizing purchases.

Short sales involve secondary market sales by the initial purchasers of a greater number of Bonds than they are required to purchase in the offering.

Covering transactions involve purchases of Bonds in the open market after the distribution has been completed in order to cover short positions.

Stabilizing transactions involve bids to purchase Bonds so long as the stabilizing bids do not exceed a specified maximum.

Purchases to cover short positions and stabilizing purchases, as well as other purchases by the initial purchasers for their own accounts, may have the effect of preventing or retarding a decline in the market price of the Bonds. They may also cause the price of the Bonds to be higher than the price that would otherwise exist in the open market in the absence of these transactions. The initial purchasers may conduct these transactions in the over-the-counter market or otherwise. If the initial purchasers commence any of these transactions, they may discontinue them at any time.

Paraguay expects that delivery of the Bonds will be made to investors on or about January 28, 2022, which will be the sixth business day following the date of this Offering Memorandum (such settlement being referred to as "T+6"). Under Rule 15c6-1 under the U.S. Securities Exchange Act of 1934, as amended, trades in the secondary market are required to settle in two business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Bonds prior to the delivery of the Bonds hereunder may be required, by virtue of the fact that the Bonds initially settle in T+6, to specify an alternate settlement arrangement at the time of any such trade to prevent a failed settlement. Purchasers of the Bonds who wish to trade the Bonds prior to their date of delivery hereunder should consult their advisors.

The initial purchasers and their affiliates have performed commercial banking, investment banking and advisory services for Paraguay from time to time for which they have received customary fees and reimbursement of expenses. The initial purchasers and their affiliates may, from time to time, engage in transactions with and perform services for Paraguay in the ordinary course of their business for which they may receive customary fees and reimbursement of expenses. The initial purchasers are acting as dealer managers for the Offer to Purchase. In addition, the initial purchasers may tender Old Bonds they hold in the Offer to Purchase and receive the proceeds from this offering in payment therefore.

In the ordinary course of their various business activities, the initial purchasers and their respective affiliates, officers, directors and employees may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments (including bank loans) for their own account and for the accounts of their customers, and such investment and trading activities may involve or relate to assets, securities and/or instruments of Paraguay (directly, as collateral securing other obligations or otherwise) and/or persons and entities with relationships with Paraguay. If any of the initial purchasers or their affiliates has a lending relationship with Paraguay, certain of those initial purchasers or their affiliates may hedge their credit exposure to Paraguay consistent with their customary risk management policies. Typically, such initial purchasers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in Paraguay's securities, including potentially the Bonds offered hereby. Any such credit default swaps or short positions could adversely affect future trading prices of the Bonds offered hereby. The initial purchasers and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities or instruments.

Investors who purchase the Bonds from the initial purchasers may be required to pay stamp taxes and other charges in accordance with the laws and practice of the country of purchase in addition to the offering price set forth on the cover page of this Offering Memorandum.

Paraguay has agreed to indemnify the initial purchasers and their controlling persons against certain liabilities, including liabilities under the Securities Act, or to contribute to payments that the initial purchasers may be required to make because of any of those liabilities.

Paraguay has agreed that it will not, for 60 days from the date of this Offering Memorandum, without first obtaining the prior written consent of Citigroup Global Markets Inc. and Goldman Sachs & Co. LLC offer, sell, contract to sell or otherwise dispose of any debt securities of Paraguay or warrants to purchase debt securities of Paraguay substantially similar to the Bonds.

Notice to Prospective Investors in the European Economic Area

The Bonds have not been and will not be registered under the laws of any member state of the EEA. The offering of the Bonds is being made, and the Bonds are being offered and issued, only to persons other than retail investors in the EEA. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of Directive (EU) 2016/97 (the "Insurance Distribution Directive"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the "PRIIPs Regulation") for offering or selling the Bonds or otherwise making them available to retail investors in the EEA has been prepared. Offering or selling the Bonds or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

Notice to Prospective Investors in the United Kingdom

The Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the UK. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 ("EUWA"); or (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA. Consequently, no key information document required by Regulation (EU) No 1286/2014 as it forms part of domestic law by virtue of the EUWA (the "UK PRIIPs Regulation") for offering or selling the Bonds or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Bonds or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

This Offering Memorandum has not been approved by an authorised person for the purposes of section 21 of the FSMA. Accordingly, this Offering Memorandum is for distribution only to, and is directed solely at, persons who are: (i) outside the UK; (ii) are investment professionals, as such term is defined in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "Financial Promotion Order"); (iii) persons falling within Articles 49(2)(a) to (d) of the Financial Promotion Order; or (iv) persons to whom an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) in connection with the issue or sale of any Bonds may otherwise lawfully be communicated or caused to be communicated (all such persons together being referred to as "relevant persons"). This Offering Memorandum is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this Offering Memorandum relates is available only to relevant persons and will be engaged in only with relevant persons. Any person who is not a relevant person should not act or rely on this Offering Memorandum or any of its contents.

Notice to Prospective Investors in France

Neither this Offering Memorandum nor any other offering material relating to the Bonds described in this Offering Memorandum has been submitted to the clearance procedures of the *Autorité des Marchés Financiers* or of the competent authority of another member state of the European Economic Area and notified to the *Autorité des Marchés Financiers*. The Bonds have not been offered or sold and will not be offered or sold, directly or indirectly, to the public in France. Neither this Offering Memorandum nor any other offering material relating to the Bonds has been or will be:

(a) released, issued, distributed or caused to be released, issued or distributed to the public in France; or

(b) used in connection with any offer for subscription or sale of the Bonds to the public in France. Such offers, sales and distributions will be made in France only:

(i) to qualified investors (*investisseurs qualifiés*) and/or to a restricted circle of investors (*cercle restraint d'investisseurs*), in each case investing for their own account, all as defined in, and in accordance with, articles L.411-2, D.411-1, D.411-2, D.734-1, D.744-1, D.754-1 and D.764-1 of the French Code monétaire et financier;

(ii) to investment services providers authorized to engage in portfolio management on behalf of third parties; or

(iii) in a transaction that, in accordance with article L.411-2-II-1°-or-2°-or 3° of the French Code *monétaire et financier* and article 211-2 of the General Regulations (*Règlement Général*) of the Autorité des Marchés Financiers, does not constitute a public offer (*appel public à l'épargne*).

The Bonds may be resold directly or indirectly only in compliance with articles L.411-1, L.411-2, L.412-1 and L.621-8 through L.621-8-3 of the French Code *monétaire et financier*.

Notice to Prospective Investors in the Kingdom of Spain

The Bonds may not be offered, sold or distributed, nor may any subsequent resale of Bonds be carried out in Spain, except in circumstances which do not constitute a public offer of securities in Spain within the meaning of the Spanish Securities Market Law (*Ley 24/1988, de 28 julio del Mercado de Valores*) and related legislation or without complying with all legal and regulatory requirements under Spanish securities laws. No publicity or marketing of any kind shall be made in Spain in relation to the Bonds.

Neither the Bonds nor the Offering Memorandum have been registered with the Spanish Securities Market Commission (*Comisión Nacional del Mercado de Valores*) and therefore the Offering Memorandum is not intended for any public offer of the Bonds in Spain.

Notice to Prospective Investors in Italy

The offering of the Bonds has not been cleared by the Italian Securities Exchange Commission (*Commissione Nazionale per le Società e la Borsa* or the "CONSOB") pursuant to Italian securities legislation. Accordingly, the Bonds may not be offered, sold or delivered, directly or indirectly, nor may copies of this Offering Memorandum or any other document relating to the Bonds be distributed in the Republic of Italy, except:

(i) to qualified investors (*investitori qualificati*), as defined under Article 100 of the Legislative Decree No. 58 of February 24, 1998, as amended (the "Italian Securities Act"), as implemented by Article 26, paragraph 1, letter (d) of CONSOB Regulation No. 16190 of October 27, 2007, as amended ("Regulation 16190"), pursuant to Article 34-ter, paragraph 1, letter (b), of CONSOB Regulation No. 11971 of May 14, 1999, as amended ("Regulation 11971"); or

(ii) in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Italian Securities Act and its implementing CONSOB regulations, including Regulation No. 11971.

Any such offer, sale or delivery of the Bonds or distribution of copies of this Offering Memorandum or any other document relating to the Bonds in the Republic of Italy must be in compliance with the selling restriction under (i) and (ii) above and:

(a) made by investment firms, banks or financial intermediaries permitted to conduct such activities in the Republic of Italy in accordance with the relevant provisions of the Italian Securities Act, Regulation No. 16190 and Legislative Decree No. 385 of September 1, 1993, as amended (the "Italian Banking Act");

(b) in compliance with Article 129 of the Italian Banking Act and the implementing guidelines of the Bank of Italy, as amended, pursuant to which the Bank of Italy may request information on the offering or issue of securities in Italy; and

(c) in compliance with any other applicable laws and regulations or requirement imposed by CONSOB or the Bank of Italy or any other Italian authority.

Any investor purchasing the Bonds is solely responsible for ensuring that any offer or resale of the Bonds by such investor occurs in compliance with the applicable Italian laws and regulations.

Please note that in accordance with Article 100-bis of the Italian Securities Act, either the subsequent resale on the secondary market in Italy of the Bonds (which were part of a public offer made pursuant to an exemption from the obligation to publish a prospectus) or the subsequent systematic resale on the secondary market in Italy to investors that are not qualified investors within 12 months of completion of the offer reserved to qualified investors only, constitutes a distinct and autonomous offer that must be made in compliance with the public offer and the prospectus requirement rules provided under the Italian Securities Act and Regulation No. 11971, unless an exemption applies. Failure to comply with such rules may result in the subsequent resale of such Bonds being declared null and void and in the liability of the intermediary transferring the Bonds for any damages suffered by the investors.

Notice to Prospective Investors in Hong Kong

The Bonds may not be offered or sold in Hong Kong by means of any document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32 of the Laws of Hong Kong) ("Companies (Winding Up and Miscellaneous Provisions) Ordinance") or which do not constitute an invitation to the public within the meaning of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) ("Securities and Futures Ordinance"), or (ii) to "professional investors" as defined in the Securities and Futures Ordinance and any rules made thereunder, or (iii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance, and no advertisement, invitation or document relating to the Bonds may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Bonds which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" in Hong Kong as defined in the Securities and Futures Ordinance and any rules made thereunder.

Notice to Prospective Investors in Japan

The Bonds have not been and will not be registered pursuant to Article 4, Paragraph 1 of the Financial Instruments and Exchange Act of Japan. Accordingly, neither the Bonds nor any interest therein may be offered or sold, directly or indirectly, in Japan or to, or for the benefit of, any "resident" of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to or for the benefit of a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and any other applicable laws, regulations and ministerial guidelines of Japan in effect at the relevant time.

Notice to Prospective Investors in Singapore

This Offering Memorandum has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this Offering Memorandum and any other document or material in connection with the offering of the Bonds may not be circulated or distributed, nor may the Bonds be offered, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act (Chapter 289) (the "SFA"), (ii) to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions specified in

Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Bonds are subscribed for under Section 275 by a relevant person which is: (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor, then securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferable for six months after that corporation or that trust has acquired the Bonds under Section 275 of the SFA except: (i) to an institutional investor under Section 274 of the SFA or to a relevant person (as defined in Section 275(2) of the SFA), or to any person arising from an offer referred to in Section 275(1A), or Section 276(4)(i)(B) of the SFA; (ii) where no consideration is or will be given for the transfer; (iii) where the transfer is by operation of law; (iv) as specified in Section 276(7) of the SFA; or (v) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

Singapore Securities and Futures Act Product Classification – Solely for the purposes of its obligations pursuant to sections 309B(1)(a) and 309B(1)(c) of the SFA (Chapter 289 of Singapore), the Republic has determined, and hereby notifies all relevant persons (as defined in Section 309A of the SFA) that the Bonds are "prescribed capital markets products" (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

Notice to Prospective Investors in Switzerland

The Bonds may not be publicly offered, directly or indirectly, in Switzerland within the meaning of the Swiss Financial Services Act ("FinSA") and no application has or will be made to admit the Bonds to trading on any trading venue (exchange or multilateral trading facility) in Switzerland. Neither this document nor any other offering or marketing material relating to the Bonds, constitutes or will constitute a prospectus pursuant to the FinSA, and neither this document nor any other offering or marketing material relating to the Bonds may be publicly distributed or otherwise made publicly available in Switzerland.

Notice to Prospective Investors in the Dubai International Financial Centre ("DFIC")

This Offering Memorandum relates to an Exempt Offer in accordance with the Markets Rules 2012 of the Dubai Financial Services Authority ("DFSA"). This Offering Memorandum is intended for distribution only to persons of a type specified in the Markets Rules 2012 of the DFSA. It must not be delivered to, or relied on by, any other person. The DFSA has no responsibility for reviewing or verifying any documents in connection with Exempt Offers. The DFSA has not approved this Offering Memorandum nor taken steps to verify the information set forth herein and has no responsibility for the Offering Memorandum. The securities to which this Offering Memorandum relates may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the securities offered should conduct their own due diligence on the securities. If you do not understand the contents of this Offering Memorandum you should consult an authorized financial advisor.

In relation to its use in the DIFC, this Offering Memorandum is strictly private and confidential and is being distributed to a limited number of investors and must not be provided to any person other than the original recipient, and may not be reproduced or used for any other purpose. The interests in the Bonds may not be offered or sold directly or indirectly to the public in the DIFC.

Notice to Prospective Investors in Canada

The Bonds may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions or subsection 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. Any resale of the Bonds must be made in

accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this Offering Memorandum (including any amendment hereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 (or, in the case of securities issued or guaranteed by the government of a non-Canadian jurisdiction, section 3A.4) of National Instrument 33-105 Underwriting Conflicts (NI 33-105), the Initial Purchasers are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this offering.

Notice to Prospective Investors in Chile

The offer of the Bonds will begin on January 20, 2022 and is subject to General Rule No. 336 of the Chilean Securities Commission (*Superintendencia de Valores y Seguros de Chile*, or the "SVS"). The Bonds being offered are not registered in the Securities Registry (*Registro de Valores*) or in the Foreign Securities Registry (*Registro de Valores Extranjeros*) of the SVS and, therefore, the Bonds are not subject to the supervision of the SVS. As unregistered securities, Paraguay is not required to disclose public information about the Bonds in Chile. The Bonds may not be publicly offered in Chile unless they are registered in the corresponding securities registry.

La oferta de los valores comienza el 20 de enero de 2022 y está acogida a la NCG 336 de fecha 27 de junio de 2012 de la Superintendencia de Valores y Seguros de Chile (la "SVS"). La oferta versa sobre valores no inscritos en el Registro de Valores o en el Registro de Valores Extranjeros que lleva la SVS, por lo que los valores no están sujetos a la fiscalización de dicho organismo. Por tratarse de valores no inscritos, no existe obligación por parte del emisor de entregar en Chile información pública respecto de los valores. Estos valores no pueden ser objeto de oferta publica a menos que sean inscritos en el registro de valores correspondiente.

Notice to Prospective Investors in Colombia

The Bonds have not been, and will not be, registered in the National Securities and Issuers Registry (*Registro Nacional de Valores y Emisores*) of Colombia or traded on the Colombian Stock Exchange (*Bolsa de Valores de Colombia*). Therefore, the Bonds may not be publicly offered in Colombia or traded on the Colombian Stock Exchange except in circumstances which do not result in a public offering under Colombian law.

This Offering Memorandum is for the sole and exclusive use of the addressee as an offeree in Colombia, and this Offering Memorandum shall not be interpreted as being addressed to any third party in Colombia or for the use of any third party in Colombia, including any shareholders, administrators or employees of the addressee.

The recipient of the Bonds acknowledges that certain Colombian laws and regulations (specifically foreign exchange and tax regulations) are applicable to any transaction or investment made in connection with the Bonds being offered and represents that it is the sole party liable for full compliance with any such laws and regulations.

Notice to Prospective Investors in Peru

The Bonds will not be subject to a public offering in Peru. This Offering Memorandum and the Bonds have not been, and will not be, registered with or approved by the Peruvian Superintendency of Capital Markets (*Superintendencia del Mercado de Valores*, or "SMV") or the Lima Stock Exchange (*Bolsa de Valores de Lima S.A.A.*). Accordingly, the Bonds cannot be offered or sold in Peru, except if (i) the Bonds are previously registered with the SMV or (ii) such offering is considered to be a private offering under the securities laws and regulations of Peru. The Peruvian securities laws establish, among other things, that an offer directed exclusively to institutional investors (as defined under Peruvian law) qualifies as a private offering. In making an investment decision,

institutional investors (as defined under Peruvian law) must rely on their own examination of the terms of the offering of the Bonds to determine their ability to invest in the Bonds. No offer or invitation to subscribe for or sell the Bonds or beneficial interests therein can be made in Peru except in compliance with the securities laws thereof.

Notice to Prospective Investors in Uruguay

In Uruguay, the Bonds are being placed relying on a private placement ("*oferta privada*") pursuant to section 2 of law 16,749. The Bonds are not and will not be registered with the Central Bank of Uruguay to be publicly offered in Uruguay. The Bonds do not qualify as an investment fund regulated by Uruguayan law 16,774, as amended.

Notice to Prospective Investors in Paraguay

The Bonds have not been and will not be registered with the Paraguayan National Securities Commission (*Comisión Nacional de Valores*) or on the Paraguayan Stock Exchange. Therefore, the Bonds may not be publicly offered in Paraguay.

TRANSFER RESTRICTIONS

Because of the following restrictions, purchasers are advised to consult legal counsel prior to making any offer, resale, pledge or other transfer of the Bonds offered hereby.

The Bonds have not been registered under the Securities Act or the laws of any jurisdiction and they are being offered and sold only:

- to "Qualified Institutional Buyers," in accordance with Rule l44A ("Rule 144A") under the Securities Act; or

- to non U.S. persons ("foreign purchasers") in accordance with Regulation S under the Securities Act ("Regulation S").

As used in this section, the terms "United States" and "U.S. person" have the meaning given to them in Regulation S, and terms that are defined in Rule 144A have the respective meanings given to them in Rule 144A.

By purchasing the Bonds, each purchaser will be deemed to have represented and agreed with us and the initial purchasers as follows:

(i) You are either (a)(i) a qualified institutional buyer, (ii) aware that the sale of the Bonds to you is being made in reliance on Rule 144A and (iii) acquiring the Bonds for your own account or the account of one or more other qualified institutional buyers or (b)(i) a foreign purchaser and outside the United States and (ii) aware that the sale of the Bonds to you is being made in reliance on Regulation S.

(ii) You understand and acknowledge that the Bonds have not been registered under the Securities Act and may not be offered, sold or otherwise transferred except in compliance with the registration requirements of the Securities Act and any other applicable securities law, pursuant to an exemption therefrom, or in a transaction not subject thereto, and in each case in compliance with the conditions for transfer set forth in these Transfer Restrictions.

(iii) You understand and agree that the Bonds are being offered only in a transaction not involving any public offering within the meaning of the Securities Act, and that any future resale, pledge or transfer by you of the Bonds on which the legend set forth in (viii) below appears may be made only (i) to Paraguay, (ii) for so long as the Bonds are eligible for resale pursuant to Rule 144A, to a person that you reasonably believe is a qualified institutional buyer acquiring the Bonds for its own account or for the account of one or more other qualified institutional buyers in a transaction meeting the requirements of Rule 144A, (iii) in an offshore transaction meeting the requirements of Rule 903 or Rule 904 of Regulation S under the Securities Act or (iv) pursuant to an exemption from registration under the Securities Act, in each case of clauses (i) – (iv) in accordance with any applicable securities laws of any state of the United States and any other jurisdiction.

(iv) You are purchasing the Bonds for your own account, or for one or more accounts for which you are acting as a fiduciary, in each case for investment, and not with a view to, or for offer or sale in connection with, any resale or distribution in violation of the Securities Act, subject to any requirement of law that the disposition of your property (or the property of such investor account or accounts) be at all times within your control.

(v) You will, and each subsequent holder is required to, notify any purchaser of Bonds from you or the applicable subsequent holder of the resale restrictions referred to in (2) and (3) above, if then applicable.

(vi) You understand and agree that the Bonds initially offered to qualified institutional buyers in reliance on Rule 144A will be represented by 144A Global Bonds, and with respect to any transfer of any interest in a Rule 144A Bond, (i) if to a transferee that takes delivery in the form of interests in the 144A Global Bond, written certification from the transferor or the transferee will not be required and (ii) if to a transferee that takes delivery in the form of interests in the Reg S Global Bond, a written certification from the transferor to the effect that the transfer complies with Rule 903 or 904 of Regulation S will be required.

(vii) You understand and agree that the Bonds initially offered to foreign purchasers outside the United States in reliance on Regulation S will be represented by Reg S Global Bonds and with respect to any transfer of any interest in a Reg S Global Bond on or prior to the applicable Distribution Compliance Period, to a transferee who takes delivery in the form of an interest in the 144A Global Bond, the transferor will be required by the terms of the indenture to provide a written certification to the effect that the Bonds are being transferred to a person that the transferor and any person acting on its behalf reasonably believe to be a qualified institutional buyer within the meaning of Rule 144A, acquiring for its own account or for the account of a qualified institutional buyer, and the transferor and any person acting on its behalf has taken reasonable steps to ensure that the transferee is aware that the transferor may be relying on Rule 144A in connection with the transfer.

(viii) You understand that the 144A Global Bonds will bear a legend to the following effect unless otherwise agreed by us:

THIS BOND HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND MAY NOT BE SOLD OR OTHERWISE TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN APPLICABLE EXEMPTION THEREFROM. EACH PURCHASER OF THIS BOND IS HEREBY NOTIFIED THAT THE SELLER OF THIS BOND MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A THEREUNDER.

THIS BOND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (A)(1) TO A PERSON WHO THE TRANSFEROR REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT ACQUIRING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QUALIFIED INSTITUTIONAL BUYERS IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (2) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OR (3) OUTSIDE THE UNITED STATES TO PERSONS OTHER THAN U.S. PERSONS, PURSUANT TO THE TERMS AND CONDITIONS OF REGULATION S UNDER THE SECURITIES ACT AND (B) IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND OTHER JURISDICTIONS.

THIS BOND AND ANY RELATED DOCUMENTATION MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME TO MODIFY THE RESTRICTIONS ON RESALES AND OTHER TRANSFERS OF THIS BOND TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO THE RESALE OR TRANSFER OF RESTRICTED SECURITIES GENERALLY. THE HOLDER OF THIS BOND SHALL BE DEEMED BY THE ACCEPTANCE OF THIS NOTE TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT.

THIS LEGEND CAN ONLY BE REMOVED AT THE OPTION OF THE ISSUER.

You understand that the Reg S Global Bond will bear a legend to the following effect, unless Paraguay determines otherwise in accordance with applicable law:

THIS BOND HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND, PRIOR TO THE EXPIRATION OF FORTY DAYS

FROM THE LATER OF (1) THE DATE ON WHICH THIS BOND WAS FIRST OFFERED AND (2) THE DATE OF ISSUANCE OF THIS BOND, MAY NOT BE OFFERED, SOLD OR DELIVERED IN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, ANY U.S. PERSON EXCEPT (A) TO A PERSON WHO THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) PURCHASING FOR ITS OWN ACCOUNT OR THE ACCOUNT OF ONE OR MORE OTHER QUALIFIED INSTITUTIONAL BUYERS IN ACCORDANCE WITH RULE 144A, OR (B) IN AN OFFSHORE TRANSACTION COMPLYING WITH RULE 903 OR 904 OF REGULATION S. THE HOLDER HEREOF, BY PURCHASING THIS SECURITY, REPRESENTS AND AGREES FOR THE BENEFIT OF THE ISSUER THAT IT WILL NOTIFY ANY PURCHASER OF THIS SECURITY FROM IT OF THE RESALE RESTRICTIONS REFERRED TO ABOVE.

THIS BOND AND ANY RELATED DOCUMENTATION MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME TO MODIFY THE RESTRICTIONS ON RESALES AND OTHER TRANSFERS OF THIS BOND TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO THE RESALE OR TRANSFER OF RESTRICTED SECURITIES GENERALLY. THE HOLDER OF THIS BOND SHALL BE DEEMED BY THE ACCEPTANCE OF THIS BOND TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT.

SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

The Republic of Paraguay is a foreign sovereign state. Consequently, it may be difficult for investors to obtain or realize upon judgments of courts in the United States or elsewhere against Paraguay, and enforcement of such judgments may be subject to limitations with respect to attachment of certain classes of assets. Paraguay will irrevocably submit to the jurisdiction of any New York state or federal court sitting in New York City in relation to judicial proceedings arising out of the issuance or sale of the Bonds. In addition, Paraguay will irrevocably waive, to the fullest extent permitted by law, any immunity, including foreign sovereign immunity, from the jurisdiction of such courts in connection with any action based upon the Bonds brought by any holder of Bonds. Paraguay will agree that any process or other legal summons in connection with actions arising or relating to the Bonds may be served upon it by delivery to the Consul General of Paraguay in New York City, having an office on the date hereof on 801 2nd Avenue, Suite 600, New York, New York 10017, United States of America, as its agent, or by any other means permissible under the laws of the State of New York and Paraguay. Nevertheless, Paraguay reserves the right to plead sovereign immunity under the U.S. Foreign Sovereign Immunities Act of 1976, as amended (the "Immunities Act"), in actions brought against it under the United States federal securities laws or any state securities laws. Paraguay's appointment of its process agent will not extend to these actions. Without Paraguay's waiver of immunity, you will not be able to obtain a United States judgment against Paraguay unless the court determines that Paraguay is not entitled under the Immunities Act to sovereign immunity in such action. In addition, execution upon property of Paraguay located in the United States to enforce a judgment obtained under the Immunities Act may not be possible except in the limited circumstances specified in the Immunities Act.

A judgment obtained against Paraguay in a foreign court can be enforced in the courts of Paraguay, if such judgment is ratified by the Paraguayan courts. Based on existing law, Paraguayan courts will ratify such a judgment if (i) a formal request for the payment of the award under the judgment is lodged with the Paraguayan government and not honored (it is not clear how such request must be made, and how and when such request must not have been honored, in order for a party to have the right to seek such ratification) and (ii) there exists a treaty with the country where such judgment was issued providing for reciprocal enforcement of foreign judgments (no such treaty exists at the present time between Paraguay and the United States); or if no such treaty exists (A) such judgment has *res judicata* effects in the jurisdiction where it was rendered; (B) such judgment was issued by a competent court with *in personam* jurisdiction or (if the relevant assets were transferred to Paraguay during or after the complaint was filed) in rem jurisdiction; (C) there is no legal action filed and pending judgment at a Paraguayan court with the same cause of action and among the same parties; (D) any person or entity domiciled in Paraguay against whom such judgment is sought to be enforced must have been duly served with process and represented during the trial or adjudged to have failed to appear in accordance with the laws of the country where the trial was held; (E) the obligation that gave rise to the complaint must be valid under Paraguayan law; (F) such judgment is not contrary to the public policy of Paraguay; (G) such judgment must comply with all necessary requirements to be considered as a valid judgment in the foreign jurisdiction; and (H) such judgment must not conflict with a judgment rendered previously or simultaneously by a Paraguayan court.

Once a foreign judgment is ratified by the Paraguayan courts, payment of such judgment should be included by Congress as a liability under the budget law for the following fiscal year. Under Paraguayan law, creditors may not be able seek attachment prior to judgment and attachment in aid of execution with respect to property of Paraguay located in Paraguay.

OFFICIAL STATEMENTS AND DOCUMENTS

Information included herein that is identified as being derived from information published by the Ministry of Finance, the Central Bank or other publications of Paraguay's agencies or instrumentalities is included herein on the authority of such publication as an official public document of Paraguay. All other information herein is included as an official public statement made on the authority of Oscar Llamosas, Minister of Finance of Paraguay.

VALIDITY OF THE BONDS

The validity of the Bonds will be passed upon for Paraguay by the Attorney General of Paraguay and Parquet & Asociados, each serving as Paraguayan counsel to the Republic of Paraguay, and by Hughes Hubbard & Reed LLP, United States counsel to Paraguay, and for the initial purchasers, by Cleary Gottlieb Steen & Hamilton LLP, United States counsel to the initial purchasers, and by Gross Brown, Paraguayan counsel to the initial purchasers.

AUTHORIZED AGENT

The authorized agent of Paraguay in the United States of America is the Consul General of Paraguay in New York City, whose address is 801 2nd Avenue, Suite 600, New York, New York 10017.

GENERAL INFORMATION

1. The issuance of the Bonds was authorized by the Annual Budget Law No. 6873/22, Liability Management Law No. 6638/20, Presidential Decree No. 6567/22, which implements the Annual Budget Law, Resolutions of the Ministry of Finance Nos. 21, 22 and 23 dated January 11, 2022 and Central Bank Resolution No. No. 17/22, Act No. 3, dated January 13, 2022.

All consents, approvals, authorizations and other orders of all regulatory authorities under the laws of Paraguay have been given for the issuance of the Bonds; the execution and issue of the indenture and are in full force and effect.

2. Paraguay is not involved in any litigation or arbitration proceedings that are material in the context of the issuance of the Bonds nor, so far as Paraguay is aware, are any such litigation or arbitration proceedings pending or threatened, other than as described in this Offering Memorandum.

3. The Bonds will be accepted for clearance through DTC and its direct and indirect participants including Euroclear and Clearstream. The CUSIP number and ISIN number for the Bonds offered pursuant to 144A and Regulation S are as follows:

Bonds Offered	CUSIP Number	ISIN
Rule 144A.....	699149 AL4	US699149AL48
Regulation S.....	P75744 AL9	USP75744AL92

4. As long as the Bonds are listed on the Official List of the Luxembourg Stock Exchange and traded on the Euro MTF market of the Luxembourg Stock Exchange, if and as long as it is required for maintaining a listing on the Official List of the Luxembourg Stock Exchange or trading on the Euro MTF market of the Luxembourg Stock Exchange, you may receive copies, free of charge, of the following documents on any business day at the offices of the Luxembourg listing agent:

- the Constitution;
- the most recent annual reports of the Ministry of Finance and the Central Bank (of which English translations will be made available); and
- this Offering Memorandum.

5. There has been no material adverse change in the financial condition of Paraguay which is material in the context of the issuance of the Bonds since December 31, 2021.

APPENDIX

Paraguay: Gross Public Sector External Debt as of November 30, 2021.

Creditor	Currency	Maturity (years)	Maturity Date	Type of Interest Rate	Outstanding Amount as of November 30, 2021 (in millions of USD)
A I F	USD	50	July-22	Fixed	0.1
A I F	USD	50	September-24	Fixed	1.0
A I F	USD	50	May-25	Fixed	0.4
A I F	USD	50	August-26	Fixed	0.6
B I D	USD	40	March-22	Fixed	0.1
B I D	USD	40	November-22	Fixed	0.6
B I D	GBP	40	February-23	Fixed	0.1
B I D	JPY	40	February-23	Fixed	0.1
B I D	USD	40	February-23	Fixed	0.3
B I D	USD	41	January-23	Fixed	0.3
B I D	USD	40	January-23	Fixed	0.5
B I D	USD	40	November-23	Fixed	0.7
B I D	USD	40	November-23	Fixed	0.4
B I D	USD	40	September-24	Fixed	0.3
B I D	USD	40	September-24	Fixed	0.1
B I D	USD	40	May-28	Fixed	2.5
B I D	USD	40	September-28	Fixed	10.8
B I D	CAD	40	September-28	Fixed	0.3
B I D	USD	41	April-30	Fixed	5.2
B I D	USD	40	May-30	Fixed	8.3
B I D	USD	40	September-32	Fixed	10.9
B I D	USD	40	March-32	Fixed	14.9
B I D	JPY	40	March-32	Fixed	0.2
B I D	USD	40	September-33	Fixed	18.9
J I C A	JPY	30	February-24	Fixed	3.5
K F W	EUR	30	June-23	Variable	2.9
K F W	EUR	30	December-23	Fixed	0.3
B I D	USD	40	December-33	Fixed	0.7
K F W	EUR	30	June-25	Fixed	0.5
J I C A	JPY	30	November-24	Fixed	6.9
I C O	USD	30	May-28	Fixed	0.1
I C O	USD	30	May-28	Fixed	0.3
I C O	USD	30	July-28	Fixed	3.0
I C O	USD	30	July-28	Fixed	1.4
I C O	USD	30	July-28	Fixed	1.0
I C O	USD	30	October-31	Fixed	3.1
J I C A	JPY	18	August-23	Fixed	13.5
J I C A	JPY	18	August-23	Fixed	3.8
J I C A	JPY	18	August-23	Fixed	9.8
J I C A	JPY	18	August-23	Fixed	2.5
B I D	USD	20	September-28	Fixed	6.7
B I D	USD	20	September-28	Fixed	3.0
B I D	USD	20	August-25	Fixed	8.1
B I D	USD	20	August-25	Fixed	1.1
B I D	USD	20	August-25	Fixed	1.2
B I D	USD	25	September-26	Variable	3.1
B I D	USD	20	March-22	Fixed	0.6
B I D	USD	25	January-28	Fixed	8.4
EXIMBANK CHINA	USD	20	December-22	Variable	1.4
EXIMBANK CHINA	USD	20	December-22	Variable	0.3
B I D	USD	20	October-22	Variable	0.8
B I D	USD	20	October-22	Variable	8.2
B I R F	USD	23	May-26	Variable	5.7
B I R F	USD	23	October-26	Variable	8.3
O P E P	USD	15	December-24	Fixed	2.4
B I R F	USD	23	October-27	Variable	5.0
B I D	USD	25	November-25	Variable	8.0
B I D	USD	20	October-25	Variable	1.7
B I D	USD	25	October-30	Variable	1.1
F I D A	SDR	38	December-44	Fixed	8.4
B I R F	USD	23	April-29	Variable	34.0
B I D	USD	25	October-31	Variable	70.4

Creditor	Currency	Maturity (years)	Maturity Date	Type of Interest Rate	Outstanding Amount as of November 30, 2021 (in millions of USD)
B I D	USD	25	October-31	Variable	34.7
B I D	USD	25	October-31	Variable	18.0
B I D	USD	25	October-31	Variable	2.1
B I D	USD	25	October-31	Variable	1.3
B I D	USD	30	March-38	Fixed	15.1
B I D	USD	40	March-48	Fixed	5.3
B I D	USD	25	March-38	Fixed	5.7
B I D	USD	40	March-48	Fixed	2.0
B I D	USD	30	March-38	Fixed	3.6
B I D	USD	40	March-48	Fixed	1.2
B I D	USD	30	February-38	Fixed	28.1
B I D	USD	40	February-48	Fixed	10.0
B I R F	USD	23	September-30	Variable	19.9
B I R F	USD	27	October-35	Variable	2.4
B I R F	USD	27	October-35	Variable	32.3
B I R F	USD	27	October-35	Variable	7.0
B I R F	USD	27	March-36	Variable	76.3
B I D	USD	20	May-29	Fixed	48.4
B I D	USD	30	April-39	Fixed	29.8
B I D	USD	40	April-49	Fixed	10.0
C A F	USD	11	June-22	Variable	1.2
C A F	USD	11	June-22	Variable	0.7
C A F	USD	11	June-22	Variable	0.1
K F W	EUR	30	June-38	Fixed	4.8
B I D	USD	30	March-39	Variable	4.1
B I D	USD	40	March-49	Fixed	1.3
FONPLATA	USD	20	August-30	Variable	0.6
B I D	USD	25	April-34	Fixed	25.6
B I D	USD	30	April-39	Variable	16.5
B I D	USD	40	September-49	Fixed	5.2
O P E P	USD	20	April-29	Fixed	11.9
B I D	USD	25	April-35	Fixed	8.8
F I D A	SDR	20	November-29	Variable	1.5
J I C A	JPY	20	April-30	Fixed	16.2
B I D	USD	30	May-40	Fixed	29.8
B I D	USD	40	May-50	Fixed	8.2
B I D	USD	25	May-35	Fixed	18.6
B I D	USD	25	November-35	Variable	7.3
B I R F	USD	25	November-37	Variable	75.8
B I D	USD	30	May-41	Variable	7.4
C A F	USD	15	April-27	Variable	35.7
B I D	USD	25	November-36	Fixed	3.2
B I D	USD	20	October-31	Variable	1.1
B I D	USD	23	November-36	Variable	23.4
B I D	USD	16	May-28	Variable	35.5
B I D	USD	30	May-41	Variable	12.9
B I D	USD	25	September-38	Variable	40.6
B I R F	USD	25	November-36	Variable	100.0
O P E P	USD	20	October-30	Fixed	3.3
B I D	USD	23	April-36	Fixed	49.5
B I D	USD	30	April-43	Variable	45.6
B I D	USD	40	July-53	Fixed	12.0
FONPLATA	USD	20	May-32	Variable	70.9
B I D	USD	20	November-31	Variable	12.8
O P E P	USD	18	February-28	Fixed	6.0
C A F	USD	11	June-22	Variable	0.1
C A F	USD	11	June-22	Variable	0.6
B E I	EUR	26	November-27	Fixed	76.9
F I D A	SDR	18	November-30	Variable	6.4
B I D	USD	40	September-51	Fixed	2.2
B I D	USD	30	November-41	Variable	21.8
B I D	USD	40	October-51	Fixed	3.6
B I D	USD	40	February-52	Fixed	6.4
B I D	USD	30	May-42	Variable	45.0
B I D	USD	40	May-52	Fixed	12.9
CITIBANK N.A.	USD	10	January-23	Fixed	170.5

Creditor	Currency	Maturity (years)	Maturity Date	Type of Interest Rate	Outstanding Amount as of November 30, 2021 (in millions of USD)
JP Morgan	USD	30	August-44	Fixed	1,000.0
B I R F	USD	30	October-43	Variable	100.0
C A F	USD	12	July-26	Variable	33.0
C A F	USD	15	October-29	Variable	139.6
C A F	USD	15	October-29	Variable	32.7
J I C A	JPY	20	April-30	Fixed	6.7
JP Morgan	USD	10	January-23	Fixed	280.0
B I D	USD	25	November-38	Variable	6.5
J I C A	JPY	20	April-34	Fixed	106.2
C A F	USD	15	June-29	Variable	35.8
B I D	USD	24	September-39	Variable	81.8
B I D	USD	25	November-39	Variable	25.5
B I D	USD	30	December-44	Variable	49.1
B I D	USD	40	December-54	Fixed	12.3
B I D	USD	20	October-39	Variable	1.4
B I D	USD	23	March-38	Variable	44.9
B I D	USD	23	March-38	Variable	37.6
B I R F	USD	28	October-43	Variable	100.0
I C O	USD	27	December-41	Fixed	23.9
FONPLATA	USD	15	September-31	Variable	86.9
B I D	USD	25	May-40	Variable	18.9
B I D	USD	24	November-39	Variable	7.2
B I D	USD	23	May-38	Variable	0.9
O P E P	USD	20	April-35	Fixed	20.3
J I C A	JPY	20	April-34	Fixed	6.3
BOFA	USD	10	April-26	Fixed	600.0
B I D	USD	25	October-40	Variable	8.6
B I D	USD	20	March-36	Variable	196.0
CITIBANK N.A.	USD	10	March-27	Fixed	500.0
FONPLATA	USD	12	September-28	Variable	12.3
B I D	USD	24	October-40	Variable	20.0
B I D	USD	25	March-41	Variable	20.4
B I D	USD	24	November-40	Variable	2.0
B I D	USD	20	March-41	Variable	6.2
B I R F	USD	35	May-51	Variable	28.0
FONPLATA	USD	16	September-32	Variable	19.4
C A F	USD	16	January-33	Variable	63.1
CITIBANK N.A.	USD	30	March-48	Fixed	530.0
C A F	USD	15	September-32	Variable	113.3
O P E P	USD	15	September-36	Fixed	11.0
O P E P	USD	14	March-34	Fixed	1.2
B I D	USD	15	September-40	Variable	26.0
F I D A	EUR	18	December-36	Variable	3.5
B I D	USD	30	March-38	Variable	13.4
B I D	USD	40	March-38	Fixed	3.6
B I D	USD	20	September-37	Fixed	200.0
F I D A	USD	18	November-36	Variable	3.9
B I D	USD	18	November-40	Variable	20.0
B I D	USD	25	May-42	Variable	2.6
B I D	USD	19	March-42	Variable	11.4
B I D	USD	25	May-40	Variable	23.1
C A F	USD	16	December-33	Variable	44.5
FONPLATA	USD	16	September-33	Variable	21.6
I C O	USD	20	April-43	Fixed	6.3
C A F	USD	16	June-33	Variable	65.3
B E I	USD	26	December-44	Fixed	30.8
B I D	USD	16	March-41	Variable	137.8
C A F	USD	10	September-33	Variable	171.7
CITIBANK N.A.					
GOLDMAN SACHS	USD	31		Fixed	500.0
MORGAN STANLEY			March-50		
FONPLATA	USD	16	March-34	Variable	16.8
C A F	USD	16	November-33	Variable	37.5
B I D	USD	24	September-42	Variable	8.5
C A F	USD	16	September-34	Variable	92.0

Creditor	Currency	Maturity (years)	Maturity Date	Type of Interest Rate	Outstanding Amount as of November 30, 2021 (in millions of USD)
Consorcio Corredor Vial Bioceánico	USD	15	May-34	Fixed	39.3
Consorcio Corredor Vial Bioceánico	USD	15	May-34	Fixed	37.4
B I D	USD	24	September-41	Variable	2.5
Consorcio Corredor Vial Bioceánico	USD	15	May-34	Fixed	20.4
GOLDMAN SACHS MORGAN STANLEY ITAU	USD	31	March-50	Fixed	450.0
B I D	USD	20	September-38	Variable	300.0
B I D	USD	23	March-42	Variable	0.8
FONPLATA	USD	16	March-35	Variable	44.3
B I D	USD	24	September-42	Variable	0.7
Consorcio Corredor Vial Bioceánico	USD	15	May-34	Fixed	27.3
Consorcio Corredor Vial Bioceánico	USD	15	May-34	Fixed	23.9
B I D	USD	19	September-39	Variable	90.0
GOLDMAN SACHS MORGAN STANLEY ITAU	USD	31	April-31	Fixed	1,000.0
B I R F	USD	30	November-50	Variable	200.0
B I R F	USD	30	November-50	Variable	20.0
Consorcio Corredor Vial Bioceánico	USD	15	May-34	Fixed	23.5
Consorcio Corredor Vial Bioceánico	USD	15	May-34	Fixed	20.0
B I D	USD	24	November-44	Fixed	50.0
B I R F	USD	32	October-50	Variable	32.1
B I R F	USD	32	May-51	Variable	33.0
Consorcio Corredor Vial Bioceánico	USD	15	May-34	Fixed	17.1
B I D	USD	20	November-39	Variable	160.0
B I D	USD	24	November-42	Variable	2.5
C A F	USD	20	November-40	Variable	250.0
C A F	USD	20	December-38	Variable	20.0
B I D	USD	25	October-44	Variable	21.7
C A F	USD	20	December-40	Variable	100.0
Consorcio Corredor Vial Bioceánico	USD	15	May-34	Fixed	23.7
Consorcio Corredor Vial Bioceánico	USD	15	May-34	Fixed	18.7
ITAU CITI SANTANDER	USD	12	January-33	Fixed	600.0
ITAU CITI SANTANDER	USD	31	March-50	Fixed	225.9
Consorcio Corredor Vial Bioceánico	USD	15	May-34	Fixed	15.6
B I D	USD	22	March-42	Variable	0.8
Consorcio Corredor Vial Bioceánico	USD	15	May-34	Fixed	18.0
Consorcio Corredor Vial Bioceánico	USD	15	May-34	Fixed	22.1
Consorcio Corredor Vial Bioceánico	USD	15	May-34	Fixed	17.6
Consorcio Corredor Vial Bioceánico	USD	15	May-34	Fixed	19.9
C A F	USD	20	November-41	Variable	150.0
Total					**11,645.2**

Source: Ministry of Finance.

ISSUER

República del Paraguay
Ministerio de Hacienda
Chile 128 e/ Palma y Pdte. Franco
Asunción, Paraguay

TRUSTEE, REGISTRAR, PAYING AGENT AND TRANSFER AGENT

The Bank of New York Mellon
Attention: Corporate Trust
240 Greenwich Street, 7th Floor East
New York, New York 10286
United States of America

LUXEMBOURG LISTING AGENT

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REPUBLIC OF PARAGUAY
US$500,600,000 3.849% Bonds due 2033

OFFERING MEMORANDUM

Joint Book-Running Managers

Citigroup **Goldman Sachs & Co. LLC**

January 20, 2022