GOBIERNO DEL PARAGUAY | MINISTERIO DE ECONOMÍA Y FINANZAS

Public Finance Report of the Republic of Paraguay

Preface

Paraguay's investment grade recognition marks a historic milestone that underscores the international community's confidence in the country's stability and economic performance. This achievement, resulting from decades of commitment to responsible macroeconomic management, underscores the soundness of the policies adopted and the impact of the structural reforms implemented. In this context, the purpose of this report is to detail the most significant advances in fiscal policy, the updating of medium-term fiscal projections, and the strategies that have strengthened Paraguay's economic position on the international scene, laying the foundations for sustainable development in the medium and long term, while preserving prudent management of public finances.

This document, prepared under the leadership of the Ministry of Economy and Finance, is intended to serve as a reference for fiscal analysts, policymakers, and economic actors, both nationally and internationally. It provides an overview of the actions taken to strengthen public finances, optimize public spending and improve tax efficiency through a comprehensive approach. It also seeks to highlight the lessons learned and the challenges that remain on the road to a more modern and efficient fiscal management.

One of the fundamental pillars of this strategy is the fiscal convergence plan, presented in 2023, which establishes a clear roadmap that guarantees the sustainability of public debt. This plan aims to improve the fiscal balance and, in turn, strengthen the country's credibility in the eyes of markets and citizens. It also includes a set of measures aimed at prioritizing strategic sectors, such as health, education, security, and social protection, ensuring that public resources are allocated to areas that directly impact the population's quality of life.

On the revenue side, the creation and strengthening of the National Tax Revenue Directorate has been a determining factor in the sustained increase in the tax burden, which this year exceeded 11% of GDP for the first time. This unprecedented achievement has been accomplished through strategies focused on reducing tax evasion, expanding the taxpayer base, and promoting economic formalization. These actions, supported by a favorable economic environment, have improved the tax system's efficiency, resulting in a significant increase in tax revenues and laying the groundwork for more inclusive growth.

On the other hand, public spending has been restructured to maximize its social and economic impact. The government has implemented measures prioritizing key sectors while effectively containing administrative expenses. A clear example of this strategy is the implementation of the Integrated Goods and Services Management System, which has improved control and transparency in the use of allocated resources, thus avoiding delays. Likewise, the draft General Budget of the Nation 2025 reflects this approach, allocating 77% of the budget increase to strategic areas, guaranteeing the financing of essential initiatives such as providing oncology drugs, surgical materials, school kits, and credit assistance programs.

In terms of public investment, progress has been made in diversifying its composition and financing. Priority has been given to infrastructure projects in non-traditional sectors such as education, health, water, and sanitation, reflecting a more inclusive and sustainable approach. In addition, funds from Itaipu, equivalent to 1.6% of GDP, will complement these investments. At the same time, the Ministry actively promotes Public-Private Partnerships (PPPs) as an alternative model to finance large infrastructure projects. In addition, a more efficient management of payments has been achieved, distributing them evenly throughout the year and avoiding the usual accumulation towards the end of the year.

In managing public debt, the Ministry has adopted strategic measures to improve its profile, promoting the de-dollarization of the debt by issuing bonds in guaraníes in international markets, an unprecedented step. At the same time, the total share of domestic debt has increased through an increase in the volume of local issues, which in turn has contributed to the deepening and development of the domestic market. Together with the extension of average debt maturities and the diversification of financing sources, these measures have strengthened the public debt profile. Furthermore, the country is well-positioned to take advantage of a more favorable international financial environment in the near future.

Paraguay has also demonstrated outstanding leadership in implementing structural reforms that have profoundly transformed its institutions and governance. The government is currently pushing forward an ambitious reform package designed to increase the efficiency and effectiveness of public management. In addition, the government's reform agenda includes a Comprehensive National Anti-Corruption Strategy, which seeks to strengthen the institutional framework and ensure a more efficient and transparent public administration. This year, the Ministry has led important reforms, including the Law of Administrative Organization of the State, already enacted, the creation of the Single National Registry and the Civil Service Law, both with half sanction, and the update of the PPP Law, already submitted to Congress. These actions are key to maintaining the confidence of citizens and markets and ensuring economic management is aligned with the principles of good governance.

This report details the achievements made and puts into perspective the remaining challenges and opportunities on the road to a more resilient and sustainable economy. In a global environment marked by increasing complexities, Paraguay positions itself as a benchmark in the region, demonstrating that prudent and predictable fiscal management, accompanied by structural reforms and a strategic vision, can generate tangible benefits for society as a whole. This document, therefore, offers a comprehensive diagnosis of the current situation, as well as a strategic vision to consolidate progress and face the challenges of the future while maintaining fiscal sustainability and the welfare of the population as a priority.

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Acknowledgments

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Acronyms

AFD	Development Finance Agency
ALC	Latin America and the Caribbean
ANDE	National Electricity Administration
ANNP	National Administration of Navigation and Ports
BCP	Central Bank of Paraguay
BECAL	Don Carlos Antonio López Scholarships
BEPS	Base Erosion and Profit Shifting
BID	Inter-American Development Bank
BM	World Bank
BNF	National Development Bank
CAH	Agricultural Allotment Credit
CO_2	Carbon dioxide
CREMA	Rehabilitation and Maintenance Contracts
DGEE-GE	General Directorate of Economic Studies - Executive Management
DEG	Special Drawing Rights
DGP	General Directorate of Budgets
DGPE	General Directorate of Debt Policy
DGPMF	General Directorate of Macro Fiscal Policy
DGIP	General Directorate of Public Investment
DIBEN	Directorate of Charity and Social Assistance
DINAC	National Directorate of Civil Aeronautics
DNA	National Customs Directorate
DNIT	National Directorate of Tax Revenues
EAS	Simplified Joint Stock Company
EEN	National Economic Team
EMBI	Emerging Markets Bonds Index
ENCC	National Strategy to Combat Corruption
FBKF	Gross Fixed Capital Formation
FED	Federal Reserve
FF	Financing Sources
FF10	Public Treasury Resources
FF20	Public Credit Resources
FF30	Institutional Resources
FMI	International Monetary Fund
FOCEM	Fund for the Structural Convergence of Mercosur
FONAVIS	National Social Housing Fund
FATF	Financial Action Task Force
GAFISUD	Financial Action Task Force of South America
GaR	Growth at Risk
OGFE	State Financial Management Office
YoY.	year-on-year
INC	National Cement Industry
INDERT	National Institute for Rural and Land Development
INDI	Paraguayan Indigenous Institute
INE	National Institute of Statistics
INFONA	National Forestry Institute
IDU	Tax on Dividends and Profits
IMAEP	Monthly Index of Economic Activity of Paraguay
IVA	Consumer Price Index
IPS	Social Security Institute
IRAGRO	Tax on Income from Agricultural and Livestock Activities
IRE	Corporate Income Tax
IRP	Personal Income Tax
ISC	Selective Consumption Tax
IVA	Value Added Tax
LIBOR	London Interbank Offered Rate
RLF	Fiscal Responsibility Law No. 5098/2013
MADES	Ministry of Environment and Sustainable Development
MDS	Ministry of Social Development
MAG	Ministry of Agriculture and Livestock
MDN	Ministry of National Defense
MEC	Ministry of Education and Science
MEF	Ministry of Economy and Finance

MERCOSUR	Common Market of the South
MI	Ministry of the Interior
MIC	Ministry of Industry and Commerce
MINNA	Ministry of Children and Adolescents
MSMEs	Micro, Small and Medium Enterprises
MJ	Ministry of Justice
Mm	Billions
MOPC	Ministry of Public Works and Communications
MSPBS	Ministry of Public Health and Social Welfare
MUVH	Ministry of Urbanism, Housing and Habitat
OCDE	Organization for Economic Cooperation and Development
OEE	State Agencies and Entities
OPEC	Organization of the Petroleum Exporting Countries
PETROPAR	Petroleos Paraguayos
FP	Financial Plan
GBN	General Budget of the Nation
GDP	Gross Domestic Product
NDP	National Development Plan
p.p.	percentage points
PPP	Public-Private Participation
PTF	Total Factor Productivity
PYG	Paraguayan Guarani = Guarani
QR	Quantile Regression
NIR	Net International Reserves
MR	Reform Measure
ESCB	European System of Central Banks
SENAD	National Anti-Drug Secretariat
SENADIS	National Secretariat for the Human Rights of Persons with Disabilities
SEPRELAD	Secretariat for the Prevention of Money Laundering and Asset Laundering

SET	Undersecretary of State for Taxation
SFP	Ministry of Public Administration
SIAF	Integrated Financial Administration System
SICO	Integrated Accounting System
SIGEBYS	Integrated Goods and Services Management System
SIPAP	Payment System of Paraguay
SIPP	Integrated Budget Programming System
SIRO	Integrated Operations Reporting System
SND	National Sports Secretariat
SOFR	Secured Overnight Financing Rate
SPC	Consolidated Public Sector
SRS	Resilience and Sustainability Service
SS.PP.	Personal Services
SPEI	Standardized Precipitation Evapotranspiration Index
STP	Technical Secretariat for Economic and Social Development Planning
S&P	Standard & Poor's
TCN	Nominal exchange rate
TPM	Monetary Policy Rate
UNA	National University of Asuncion
USD	United States Dollars = Dólares estadounidense
VAF	Vice-Ministry of Financial Administration
VEP	Vice-Ministry of Economy and Planning
VMME	Vice Ministry of Mines and Energy
VMT	Vice Ministry of Transportation
WEO	World Economic Outlook

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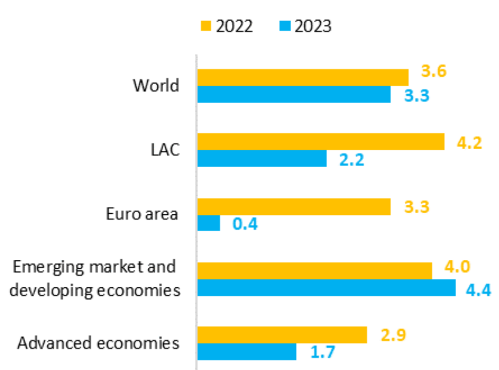
Chapter 1. Economic and Fiscal Situation in 2023 - Reorganization and Transparency in Fiscal Management

1.1 Global situation

1.1.1 Economic dynamics

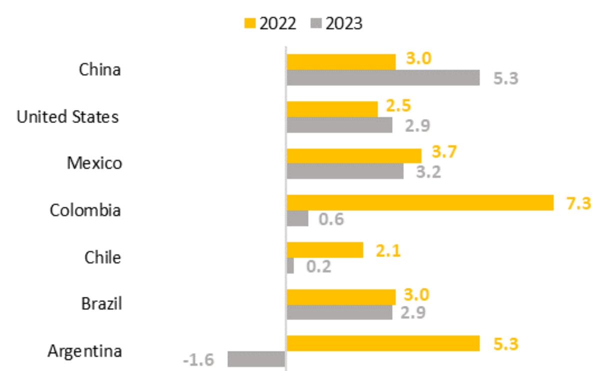
In 2023, the growth of the world economy slowed down, although there were differences in the performance of different groups of countries. Global growth stood at 3.3%, slightly below the 3.6% observed in 2022, evidencing differences between and within regions (Figure 1). The Eurozone experienced modest growth of 0.4% compared to 3.3% in the previous year, while Latin America and the Caribbean (LAC) recorded an economic slowdown from 4.2% to 2.2%. China and the United States, the world's largest economies, grew at rates of 5.3% and 2.9%, respectively (Figure 2).

Figure 1. Annual GDP growth by region 2022-2023 (%)



Source: IMF.

Figure 2. Annual GDP growth by country 2022-2023 (%)



Source: IMF.

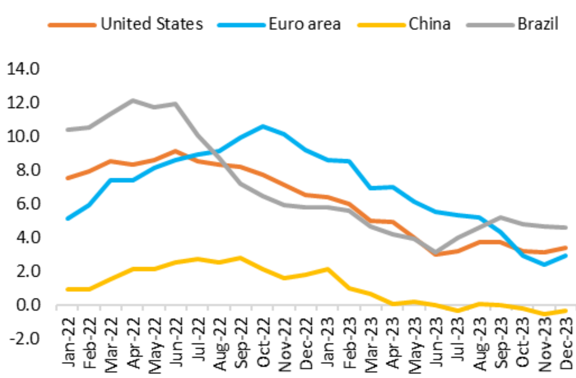
Despite the drop in trade in goods due to low global demand, trade in services grew, partially offsetting this decline. Supply chains also improved compared to 2022 despite persistent geopolitical tensions. In 2023, key markets such as the United States, Europe, and China weakened. In particular, trade between the United States and China was affected by geopolitical conflicts and continued protectionist policies, while the Eurozone faced the aftermath of high energy prices and inflation. Geopolitical tensions, especially between Russia and Ukraine, and trade disputes between China and the United States generated uncertainty regarding trade prospects.

In the region, performance was mixed. Mexico and Brazil led growth, although below Paraguay, while Argentina, Chile, and Colombia faced difficulties that affected their performance. After Paraguay, Mexico led regional growth, with a 3.2% increase in its Gross Domestic Product (GDP), benefiting from its complementarity with the U.S. economy and the dynamism of its manufacturing sector. Brazil experienced positive growth of 2.9%, driven by the agricultural sector and an increase in household and government consumption, as well as exports. In contrast, Argentina experienced a 1.6% decline in a macroeconomic context marked by high inflation, fiscal imbalances, and limited access to financing. Chile recorded moderate growth of 0.2%, affected by the fall in copper prices due to a decline in demand and domestic political uncertainty resulting from polarization and social fragmentation. Colombia experienced modest growth of 0.6%, influenced by lower investment and reduced domestic consumption.

1.1.2 Inflation and international interest rates

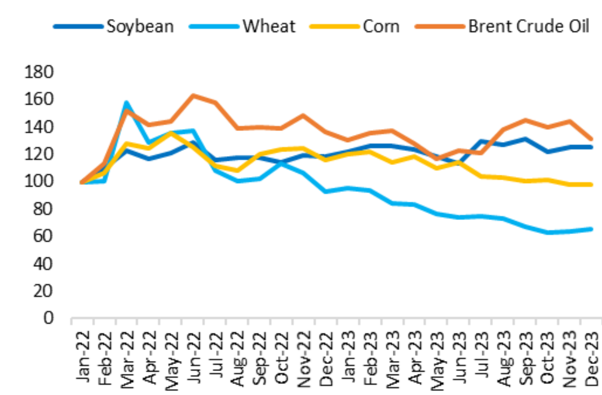
Global inflation slowed down due to tighter monetary policies and the stabilization of commodity prices. The restrictive monetary policy implemented in the United States and the European Union (Figure 3) and improvements in supply chains allowed inflation rates to ease. The price of a barrel of Brent oil, affected by the uncertainty of supply due to the war in Ukraine and production cuts by the Organization of the Petroleum Exporting Countries (OPEC), managed to stabilize towards the end of the year. Thus, it went from USD 80.92 in December 2022 to USD 77.63 per barrel in December 2023. The prices of foodstuffs such as soybeans, corn, and wheat fluctuated due to economic and geopolitical factors, with corn and wheat falling below the levels recorded in December 2023.

Figure 3. Year-on-year inflation 2022-2023 (%)



Source: Bloomberg.

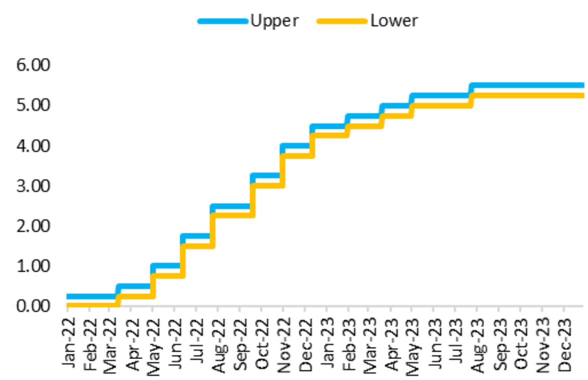
Figure 4. Commodity Price Index 2022-2023 (Base 100=2022)



Source: Bloomberg.

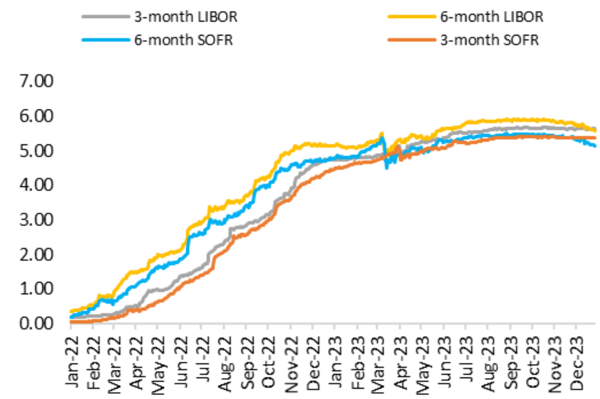
The cost of international financing remained elevated due to increased monetary policy rates to contain inflationary pressures. During the first half of 2023, the U.S. monetary policy rate (MPR) continued to rise in response to inflationary pressures. While inflation began to decelerate, it was slower than expected. As a result, the Federal Reserve (FED) decided to keep the TPM unchanged during the second half of the year, at a range of 5.25% to 5.5% (Figure 5). The London Interbank Offered Rate (LIBOR) and Secured Overnight Financing Rate (SOFR) followed the trend of the U.S. TPM, keeping the cost of international financing high (Figure 6).

Figure 5. U.S. MPR 2022-2023 (%)



Source: Bloomberg.

Figure 6. International interest rates 2022-2023 (%)



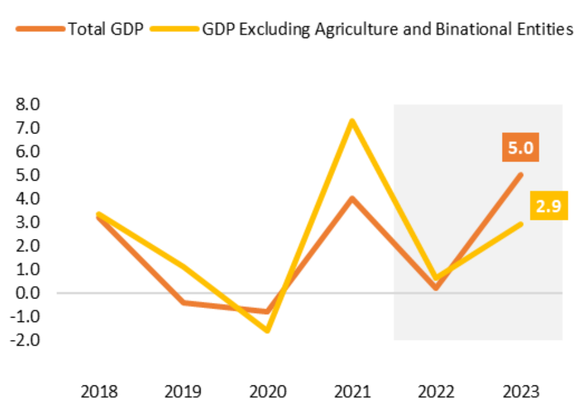
Source: Bloomberg.

1.2 Local situation

1.2.1 Economic activity

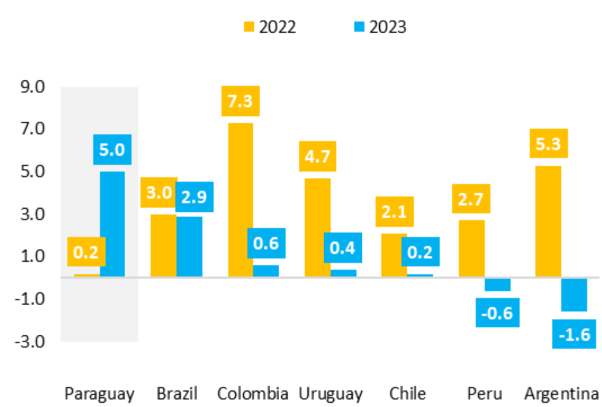
Paraguay experienced economic growth of 5.0%, making it the fastest-growing economy in the region. This recovery followed the 0.2% slowdown observed in 2022, impacted by the adverse effects of the drought (Figure 7). In 2023, the weighted average growth in the region was 1.4%, a difference of 3.6 p.p. below Paraguay's growth (Figure 8).

Figure 7. GDP Growth 2018-2023 (%)



Source: BCP.

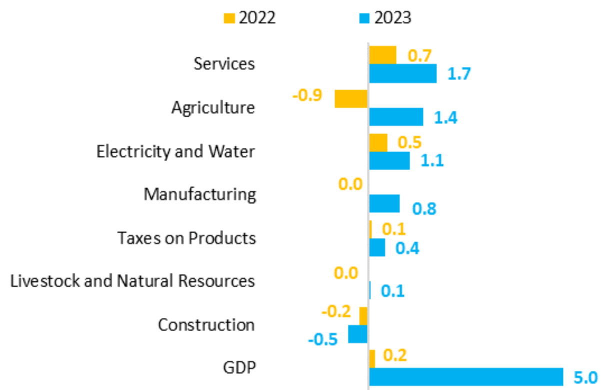
Figure 8. GDP Growth in the region 2022-2023 (%)



Source: BCP and IMF.

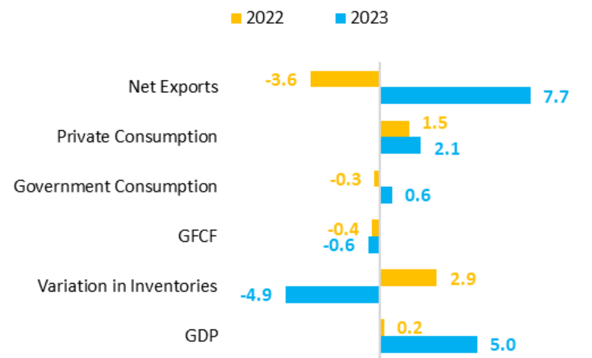
On the supply side, growth was driven by the dynamism of services, agricultural, hydroelectric, and manufacturing activities. With a cumulative growth of 3.5%, the services sector contributed 1.7% to GDP, an increase of 1.0 p.p. compared to 2022. This performance was driven by trade, linked to imports under the Tourism Regime. Agriculture and hydroelectric power generation experienced growth of 23.4% and 15.5%, respectively, contributing 1.4% and 1.1% to GDP. These increases of 0.5 and 0.6 p.p., compared to 2022, were due to better weather conditions and increased flow of the Paraná River. Manufacturing grew by 4.2%, contributing 0.8% to GDP, driven by milling, oil production, meat, auto parts, and clothing. In contrast, construction contracted by 7.1% due to lower investment in this sector compared to 2022, when public and private works were strongly boosted (Figure 9).

Figure 9. Contribution to annual GDP growth on the supply side 2022-2023 (%)



Source: BCP.

Figure 10. Contribution to annual GDP growth on the demand side 2022-2023 (%)



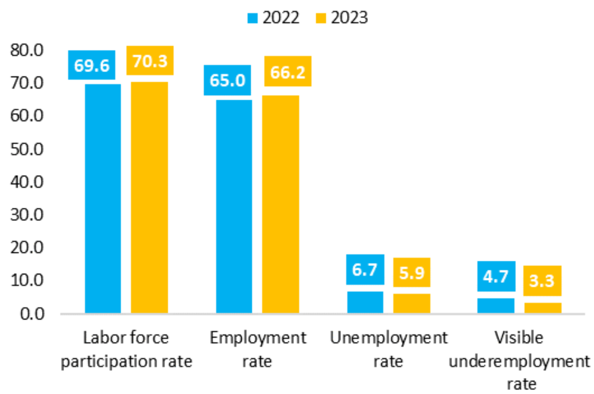
Source: BCP.

On the demand side, economic growth was driven by increased exports, while private and public consumption grew gradually, and investment, especially in the construction sector, faced a contraction. Exports grew by 35%, driven by agriculture and hydroelectric power production, while imports increased by 9.4%, mainly in machinery and equipment. Net exports contributed 7.7% to GDP, 4.1 p.p. higher than in 2022. Private consumption grew by 3.2%, contributing 2.1% to GDP, and public consumption increased by 5.1%, with a contribution of 0.6%, explained by the acquisition of goods and services, followed by interest payments and remuneration. In contrast, investment (Gross Fixed Capital Formation, GFCG) fell by 2.8%, affected by the decline in construction, which generated a negative contribution of 0.6% to GDP, 0.2 p.p. less than in 2022. In addition, inventories fell by 86.1%, negatively impacting GDP with a negative contribution of 4.9%, 2.0 p.p. below the previous period (Figure 10).

1.2.2 Employment

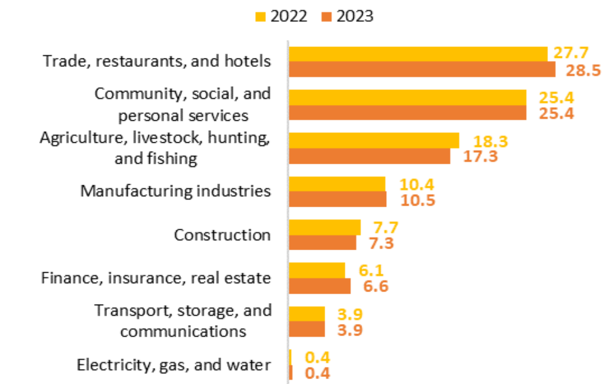
The labor market experienced a notable improvement, in line with the recovery of economic activity, reflected in the increase in the labor force and the employment and underemployment rates. The employment rate rose from 65.0% to 66.2%, while unemployment fell by 0.8 p.p. from 6.7% to 5.9%. Visible underemployment decreased from 4.7% to 3.3% (Figure 11). This advance is mainly due to employment growth in sectors such as commerce, restaurants, and hotels, as well as finance, insurance, and real estate (Figure 12).

Figure 11. Main labor market indicators 2022-2023 (%)



Source: INE.

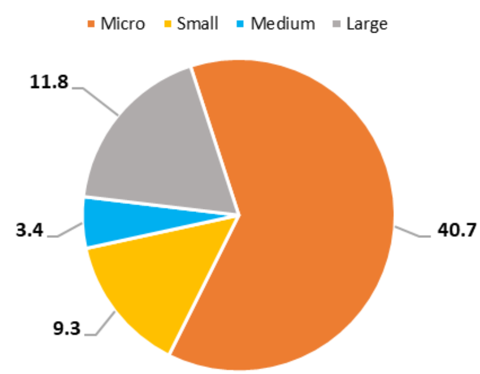
Figure 12. Employment by economic sector 2022-2023 (%)



Source: INE.

Micro, Small, and Medium-Sized Enterprises (MSMEs) were the main generators of employment in the country, accounting for more than 50% of the labor force. Micro-enterprises alone employed 40.7% of the workers. In second place, and with a significant difference, were the large companies, which employed 11.8% of the employed population (Figure 13). These figures underscore the importance of MSMEs in the local labor market.

Figure 13. Employed population by company size 2023 (% of total)

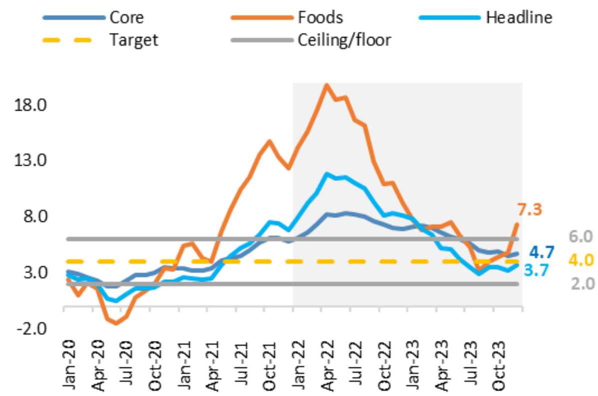


Source: INE.

1.2.3 Inflation and Interest Rates

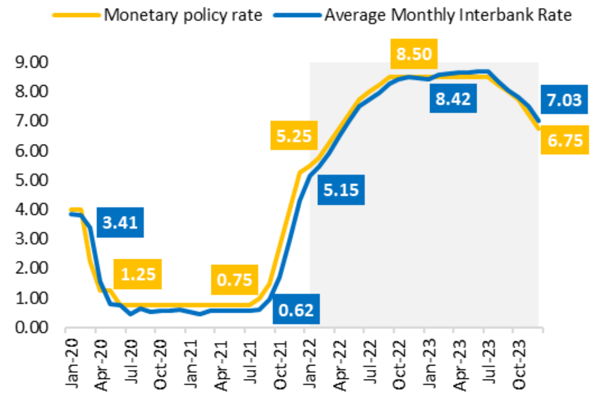
Inflation slowed, converging toward the target range, driven by lower *commodity* prices and tighter monetary policy. Following the inflationary pressures observed in 2022, largely driven by fluctuations in food prices, prices began to decline. Both headline and core inflation began to converge toward the target range, even though food remained slightly above the 6.0% upper bound (Figure 14). In response to this situation and in line with the global disinflation trend, the Central Bank of Paraguay (BCP) began in August 2023 the process of normalizing monetary policy. The benchmark rate was gradually reduced from 8.5% in August to 6.75% in December, while the interbank rate closed the year at 7.03% (Figure 15).

Figure 14. Year-on-year inflation 2020-2023 (%)



Source: BCP .

Figure 15. Monetary policy rate and interbank rate 2020-2023 (%)



Source: BCP .

1.3 Fiscal Performance of the Central Administration

1.3.1 Revenue

Total revenue grew in line with the economy, driven by tax revenue growth and supported by strong economic performance, reaching an annual increase of 6.9%. Tax revenues contributed 4.3 p.p. to this growth, expanding slower than in 2022, mainly due to lower taxes on income, profits, and capital gains as a result of the economic slowdown recorded in that year. As a result, the tax-to-GDP ratio was reduced from 10.2% to 10.1% of nominal GDP in 2023 (Table 1).

Non-tax revenues grew more than in 2022, driven mainly by binationals. These revenues contributed 2.5 p.p. to total revenue growth, of which 1.7 p.p. came from binationals, favored by conditions that favored the growth of the weather conditions that made it possible to generate a higher level of electricity. This revenue segment grew by 20.9% year-on-year. In contrast, social contributions contributed only 0.2 p.p., with a growth of 2.2% compared to the 30.7% recorded in 2022, explained by the start of that same year of transfers for vacant positions to the tax fund[1]. On the other hand, grants grew by 12.8% annually, contributing 0.5 p.p., with contributions from Saudi Arabia and multilateral organizations such as the Fund for the Structural Convergence of Mercosur (FOCEM-MERCOSUR) standing out.

[1] The Law that approved the GBN for fiscal year 2022 no longer exempted numeral 5 of Article 246 of Law No. 1629/1909 "On the Administrative and Financial Organization of the State".

Table 1. Total Central Government Revenues[2] 2022-2023

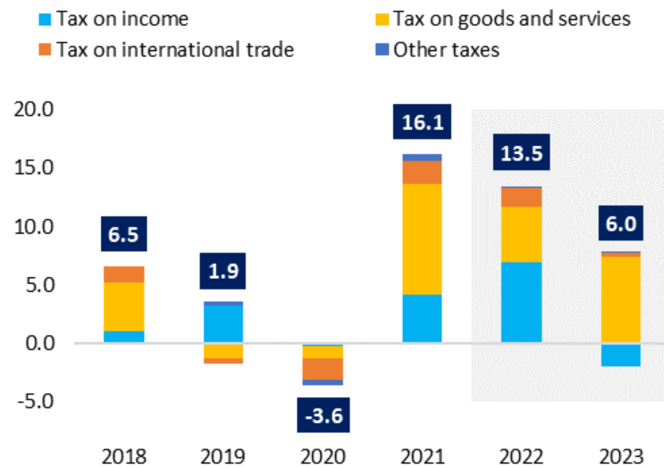
	Bn of PYG		% Variation		Incidence on the % Variation of the Total		% of GDP	
	2022	2023	2022	2023	2022	2023	2022	2023
Total revenue (collected)	**41,122**	**43,942**	**10.8**	**6.9**	**10.8**	**6.9**	**14.0**	**14.0**
Tax revenues	**29,962**	**31,750**	**13.5**	**6.0**	**9.6**	**4.3**	**10.2**	**10.1**
Taxes on income, profits, and capital gains	8,753	8,165	26.2	-6.7	4.9	-1.4	3.0	2.6
Taxes on goods and services	17,887	20,103	7.7	12.4	3.4	5.4	6.1	6.4
Value-added taxes	15,151	16,963	11.1	12.0	4.1	4.4	5.2	5.4
Excise	2,736	3,139	-8.3	14.7	-0.7	1.0	0.9	1.0
Other taxes on goods and services	-	-	-	-	-	-	-	-
Taxes on international trade and transactions	2,858	2,980	18.0	4.3	1.2	0.3	1.0	0.9
Other taxes	463	502	6.0	8.4	0.1	0.1	0.2	0.2
Non-tax revenues	**11,160**	**12,192**	**4.4**	**9.2**	**1.3**	**2.5**	**3.8**	**3.9**
Social contributions	3,630	3,710	30.7	2.2	2.3	0.2	1.2	1.2
Grants	1,605	1,810	-12.4	12.8	-0.6	0.5	0.5	0.6
Binationals	3,255	3,936	5.8	20.9	0.5	1.7	1.1	1.3
Other revenues	2.670	2,736	-11.2	2.5	-0.9	0.2	0.9	0.9

Source: DGMFP, MEF.

The growth in tax revenues was mainly due to higher tax collections on goods and services driven by private consumption. In contrast, taxes on income, profits, and capital gains fell due to the economic slowdown in 2022. In 2023, taxes on goods and services had a year-on-year growth of 12.4%, driven by the sound dynamics of private consumption, representing the largest contribution to tax revenue growth (Table 1 and Figure 16). Value-Added Tax (VAT) increased by 12.0%, contributing 4.4 percentage points to total revenue growth. Selective consumption taxes grew 14.7%, contributing 1.0 p.p. to the expansion of total revenues, driven mainly by fuel taxes. Taxes on international trade increased by 4.3% due to the growth in imports. On the other hand, the slowdown in activity in 2022 affected the collection of income, profit, and capital gains taxes, which fell by 6.7%, subtracting 1.4 p.p. from tax revenues. Consequently, direct taxes suffered a 6.9% contraction (Table 2).

[2] The Annex A includes tables of revenues, expenditures, investment and fiscal results corresponding to the financial situation of the different levels of government.

Figure 16. Contribution to the growth of tax revenues by type of tax 2018-2023 (%)



Source: DGPMF, MEF.
Note: Income tax includes profits and capital gains.

The contraction in direct taxes was mainly due to the drop in Corporate Income Tax (IRE) collections. In contrast, indirect taxes grew, driven by the good performance of VAT and Selective Consumption Taxes (ISC). The decrease in direct taxes subtracted 2.0 p.p. from the total tax growth, highlighting the 10.8% annual decrease in the IRE. Meanwhile, taxes on dividends and profits (IDU) and personal income (IRP) grew 13.2% and 5.1%, respectively. The collection of indirect taxes increased by 11.1% annually, contributing 7.8 p.p. to the total growth of taxes collected. In this category, VAT contributed 6.3 p.p. and ISC 0.9 p.p., driven by the sound dynamics of private consumption (Table 2).

Table 2. Direct and indirect tax revenues according to the classification of the National Directorate of Tax Revenues (DNIT) 2022-2023

Description	Bn of PYG		% Variation		Incidence on variation % of total		% of GDP	
	2022	2023	2022	2023	2022	2023	2022	2023
Total taxes collected	**29,976**	**31,723**	**13.7**	**5.8**	**13.7**	**5.8**	**10.2**	**10.1**
Direct taxes	**8,778**	**8,176**	**26.8**	**-6.9**	**7.0**	**-2.0**	**3.0**	**2.6**
Corporate income tax	7,125	6,356	29.1	-10.8	6.1	-2.6	2.4	2.0
Taxation of dividends and profits	1,161	1,314	16.4	13.2	0.6	0.5	0.4	0.4
Personal income tax	433	455	23.5	5.1	0.3	0.1	0.1	0.1
Maquila single tax	60	51	11.8	-15.0	0.0	0.0	0.0	0.0
Indirect taxes	**21,198**	**23,547**	**9.0**	**11.1**	**6.6**	**7.8**	**7.2**	**7.5**
Value-added tax	15,178	17,077	10.7	12.5	5.6	6.3	5.2	5.4
Selective consumption tax	2,800	3,078	-5.5	9.9	-0.6	0.9	1.0	1.0
ISC on fuels	2,015	2,080	-12.3	3.2	-1.1	0.2	0.7	0.7
ISC other	786	998	18.2	27.0	0.5	0.7	0.3	0.3
Tax on foreign trade	2,840	2,984	17.9	5.1	1.6	0.5	1.0	0.9
Law 808/96 Senacsa - FF30	32	30	37.1	-5.8	0.0	0.0	0.0	0.0
Fines and surcharges	335	368	-1.1	9.7	0.0	0.1	0.1	0.1
Others	12	10	2.3	-13.6	0.0	0.0	0.0	0.0

Source: DNIT
Note: The data in the table differs slightly from the public finance statistics due to differences in the sources of information. DNIT data come from taxpayer affidavits, while SITUFIN data are obtained from the Integrated Accounting System (SICO).

1.3.2 Expenses

The increase in total spending was driven by higher interest payments, goods and services, salaries and social benefits. The 17.3% increase in total spending is mainly attributed to the increase in public debt stock, high international interest rates, and the government's commitments to strategic sectors (Figure 19). Specifically, interest payments grew by 44.4%, contributing 3.9 p.p. to the increase in total spending (Table 3). This growth is due, in part, to the increase in the stock of debt in response to the economic shocks experienced since 2019, as well as the rise in international interest rates.

Expense on the use of goods and services grew 35.9% annually, mainly explained by the recognition of overdue debts. The Ministry of Public Health and Social Welfare (MSPBS) incurred these debts with suppliers in previous years[3]. Specifically, debts were recognized for PYG 1.598 billion (0.5% of GDP), equivalent to USD 219 million, representing 3.3% of total obligated expense. The main components of spending on goods and services correspond to medicines (51%), non-personal services (30%), and consumer goods (excluding medicines, 15%), as can be seen in Figure 18.

Compensations increased 8.1% annually, reflecting the government's commitment to key sectors such as health and education. They contributed 3.7 percentage points to the increase in total spending. This growth is mainly due to the commitment made by the government in 2022 to increase teachers' salaries by 8% in two stages: March and July 2023. For health personnel, a medical hierarchy and a new salary

[3] For more information, see Table 1. Reorganization of fiscal accounts.

floor were implemented in the MSPBS, in addition to leveling the salaries of the Hospital de Clínicas staff and establishing a professional career for nurses. Also, in compliance with Law No. 4493/2011, which establishes the scale of the basic monthly salary and other remunerations for members of the public forces indexed to the minimum legal salary, a salary readjustment was made in the security sector in two stages: in January and July 2023. It should be noted that 90% of the salary increase is destined for the strategic sectors of education (36%), health (35%), and public forces (19%) as shown in Figure 17.

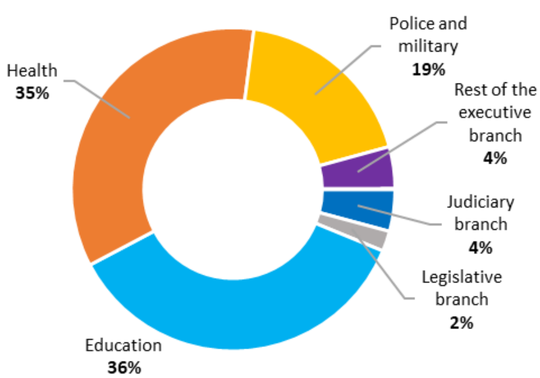
Social benefits increased by 18.2%, driven by strengthening social programs. This increase contributed 3.4 percentage points to total expense growth. In particular, the 25% increase in monetary transfers for beneficiaries of the *Tekoporã Mbarete* program stands out, being the first update since 2015 of 12%. In addition, the OEEs responsible for the execution of social programs have reported an increase in the number of beneficiaries, such as the food pension program for older adults. Likewise, there was an increase in the number of public sector retirees, together with the adjustment of pensions, linked to the minimum wage and inflation, guaranteeing the preservation of their purchasing power.

Table 3. Total Central Administration Expense 2022-2023

	Bn of PYG		% Variation		Incidents in the Variation % of Total		% of GDP	
	2022	2023	2022	2023	2022	2023	2022	2023
TOTAL OBLIGATED EXPENSE	**41,336**	**48,506**	**5.9**	**17.3**	**5.9**	**17.3**	**14.1**	**15.4**
Compensation of employees	18,993	20,524	6.5	8.1	2.9	3.7	6.5	6.5
Use of goods and services	4,496	6,111	-17.0	35.9	-2.4	3.9	1.5	1.9
Interest	3,614	5,217	22.0	44.4	1.7	3.9	1.2	17
Grants	4,738	5,172	-0.7	9.1	-0.1	1.0	1.6	1.6
Social benefits	7,749	9,162	19.3	18.2	3.2	3.4	2.6	2.9
Other expenses	1,746	2,321	11.3	32.9	0.5	1.4	0.6	0.7
Current primary expenditure	**35,075**	**40,234**	**4.4**	**14.7**	**3.8**	**12.5**	**12.0**	**12.8**

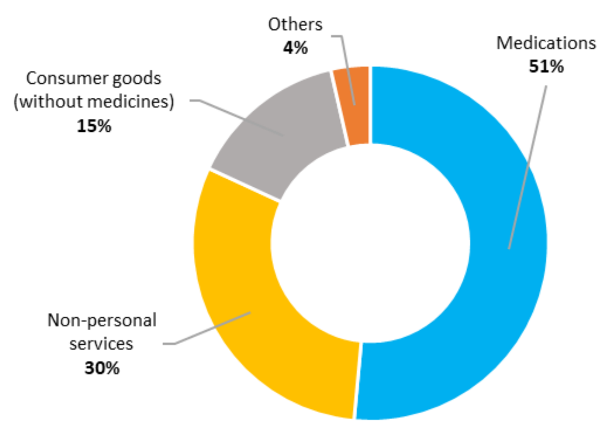
Source: DGPMF, MEF.

Figure 17. Composition of the increase in compensation of employees 2023 (%)



Source: DGPMF, MEF.

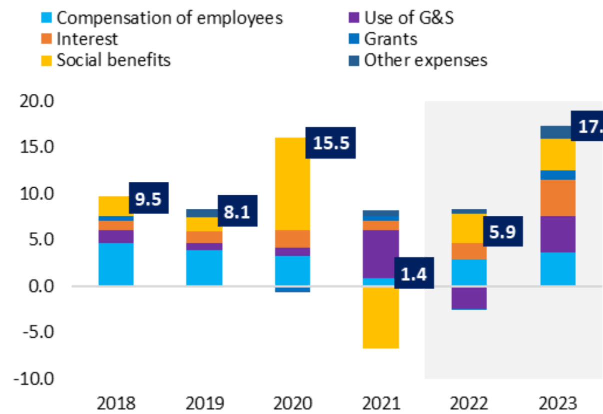
Figure 18. Main components of spending on goods and services 2023 (%)



Source: DGPMF, MEF.

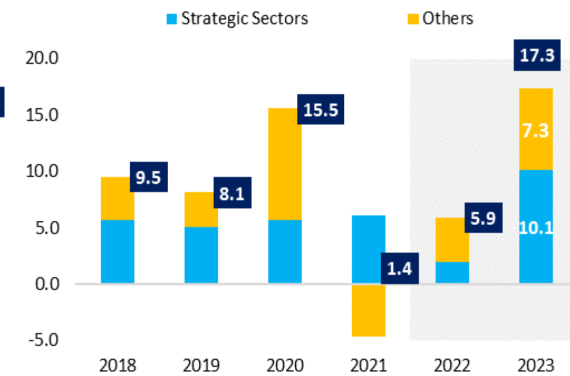
Most of the increase in total spending was allocated to the strategic sectors of education, health, security, and social protection. Spending in the health sector contributed 4.7 p.p. to the growth in total spending, while the education and social security sectors contributed 2.5 and 1.1 p.p., respectively. Finally, spending on retirement and pensions contributed 1.7 p.p., thus totaling 10.1 p.p. for the strategic sectors (Figure 20).

Figure 19. Contribution to total expense growth 2018-2023 (%)



Source: DGPMF, MEF.

Figure 20. Contribution of strategic sectors to the growth of total expense 2018-2023 (%)

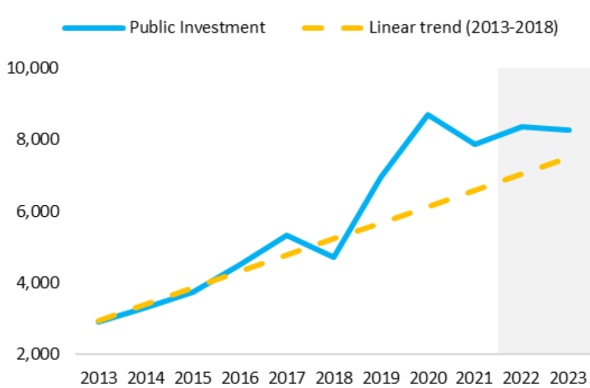


Source: DGPMF, MEF.

1.3.3 Investment

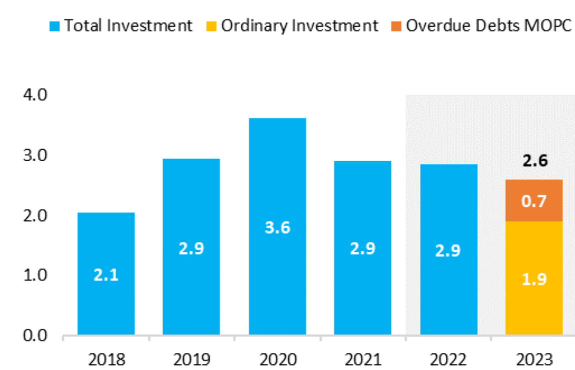
Public investment gradually returns to its historical levels, reaching 1.9% of GDP when excluding overdue debts. This level is around the trend observed between 2013 and 2018 (Figure 21). When considering overdue debts with suppliers of the Ministry of Public Works and Communications (MOPC), which represent 0.7% of GDP, investment totals 2.6% of GDP (Figure 22). This is equivalent to a payment of approximately USD 300 million in previously contracted debts .[4]

Figure 21. Public investment 2013-2023 (Bn PYG)



Source: DGPMF, MEF.

Figure 22. Public investment 2018-2023 (% of GDP)



Source: DGPMF, MEF.

Public investment played a key role in driving economic and social development, prioritizing sectors such as road infrastructure, health, and education. Seventy percent of total spending went to road projects, while health and education were the second and third most important areas, respectively (Table 4). The main road works included the Pedro J. Caballero - Capitán Bado - Ypejhú section, the widening and duplication of Route 2, the improvement of the Ruta de la Leche, and other road

[4] For more information, see Table 1. Reorganization of fiscal accounts.

construction and paving projects, which together accounted for 1.7% of GDP. In the area of health, priority was given to strengthening primary care and the construction of hospitals in Encarnación and Coronel Oviedo. At the same time, improvements in infrastructure, equipment, and learning conditions were promoted in education. In addition, projects were implemented to optimize water and sewage systems, build penitentiaries and social reinsertion centers, and expand coastal defenses, achieving significant progress in different strategic sectors (Table 5).

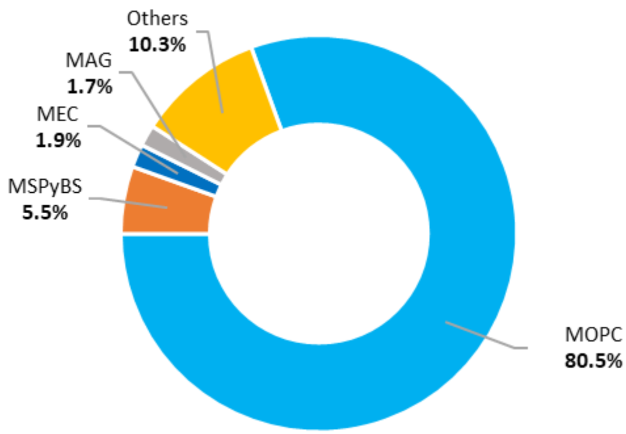
Table 4. Central Government Investment by Sector 2018-2023 (% of GDP and % of total)

	Central Administration											
	% of GDP						% of Total					
	2018	2019	2020	2021	2022	2023	2018	2019	2020	2021	2022	2023
Water and sanitation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2
Education	0.2	0.2	0.2	0.2	0.2	0.1	10.2	6.5	5.0	7.5	7.7	5.0
Energy	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Aerial infrastructure	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Railway infrastructure	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
River infrastructure	0.0	0.0	0.0	0.0	0.0	0.0	0.5	0.3	0.2	0.6	0.8	1.7
Road infrastructure	1.1	1.8	2.5	1.9	1.7	1.7	51.2	60.8	70.1	66.5	61.1	66.3
Others	0.5	0.6	0.5	0.4	0.5	0.4	23.3	19.5	14.2	13.9	17.4	14.3
Social protection	0.0	0.0	0.0	0.0	0.0	0.0	1.3	0.7	0.3	0.3	0.4	0.3
Health	0.2	0.3	0.3	0.3	0.3	0.2	10.8	8.8	7.7	9.2	10.5	9.1
Telecommunications	0.0	0.0	0.0	0.0	0.0	0.0	0.3	0.0	0.0	0.0	0.0	0.0
Transportation	0.0	0.1	0.0	0.0	0.0	0.1	2.2	2.4	1.1	0.3	0.9	2.0
Housing and communities	0.0	0.0	0.0	0.1	0.0	0.0	0.0	1.1	1.3	1.8	1.2	1.0
Total	**2.1**	**2.9**	**3.6**	**2.9**	**2.9**	**2.6**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Own elaboration with data from DGPMF, MEF.
Note: Others include analysis and improvement of project formulation, improvement of domain strips, and projects in the culture and environment sectors, among others.

The MOPC was the main executor of public investment and was responsible for the largest projects. Eighty-one percent of public investment in 2023 was executed by the MOPC (Figure 23). The largest projects initiated during that year reached a total amount of USD 1,168 million, while the main works completed totaled USD 336 million (Table 5). These projects, corresponding to the MOPC, are mostly concentrated in the road sector, highlighting the focus of public investment in road infrastructure development.

Figure 23. Main State Agencies and Entities (OEE) executors of public investment 2023 (%)



Source: DGPMF, MEF.

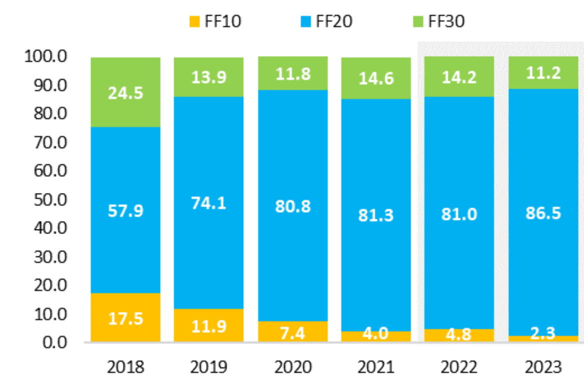
Table 5. Major investment projects in 2023

Name	Goal	OEE	Cost in Bn of PYG	Cost in M USD	Direct beneficiaries
Projects initiated					
Improvement of the Pedro J. Caballero - Capitán Bado - Ypejhu section.	Adequate trafficability conditions with 193.44 km of improved sections.	MOPC	1.638	225	143.954
Construction of Paraguay Route 12, Chaco'i - Gral. Bruguez Section	Construction of 162 km of pavement.	MOPC	1.486	204	56.054
Improvement project of the Centinela - Mariscal Estigarribia - Pozo Hondo Crossing.	Improve the 320 km route of the section and improve 8.1 km of the access to Mcal. Estigarribia.	MOPC	2.918	400	45.617
Improvement of the water and sanitary sewage system of the Lambaré watershed.	Improve access to potable water and sanitary sewer services by 2027.	MOPC	1.193	164	347.795
Improve the water and sanitary sewer system in Ciudad del Este and Presidente Franco.	By 2026, drinking water treatment coverage will cover 43.37% of the district population and 94.48% of the project area. Wastewater treatment coverage of 36.20% of the district population and 78.86% of the project area.	MOPC	1.276	175	188.965
Completed projects					
Construction of the regional penitentiary in Ciudad del Este	To house a maximum of 1,342 inmates.	MOPC	73	10	1.342
Construction of the Emboscada Comprehensive Social Reinsertion Center (CIRS)	Housing 2,865 inmates.	MOPC	279	38	2.865
Expansion of coastal defense - City of Pilar	Coastal defense; water channeling, retention and pumping; storm drainage network; sanitation system; sewage system; sewage treatment plants.	MOPC	760	104	32.995
Enabling the paved road network in the Department of San Pedro	94 kilometers of overhaul, improvement, and maintenance of paved roads through Rehabilitation and Maintenance Contracts (CREMA).	MOPC	252	35	26.839
Improvement of the Alberdi - Pilar section.	Reduce transportation times and costs, reduce the risk of accidents, increase internal and external mobility, and reduce the cost of transporting products to the ports of Caacupemí and ANNP.	MOPC	1.088	149	50.496

Source: DGIP, MEF.

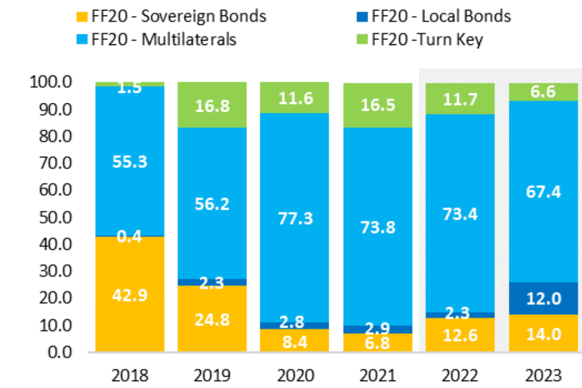
The largest source of financing for public investment comes from multilateral organizations. This group represents 67.4% of public credit resources (Figures 24 and 25). The share of bonds issued in the local market remained stable during most of the period, except in 2023, when there was a notable increase from 2.3% to 12%. For their part, sovereign bonds in international markets decreased from 42.9% in 2018 to 14% in 2023. Turnkey investment projects reached a significant share of 16.8% in 2019 but decreased to 6.6% in 2023.

Figure 24. Sources of financing for public investment 2018-2023 (% of total)



Source: DGPMF, MEF.

Figure 25. FF20 by financing group 2018-2023 (% of total)



Source: DGPMF, MEF.

1.3.4 Fiscal balance

The 2023 operating result was affected by moderate revenue growth compared to the increase in total expense. In this context, the operating deficit increased from 0.1% of GDP in 2022 to 1.5% in 2023 (Figure 26). Expenditure exceeded recorded revenues by 1.4 p.p. (Table 6). This increase was financed by public credit, which covered transfers to the National Social Housing Fund (FONAVIS), the transport subsidy, and increased health spending on medicines and medical supplies.

Table 6. Summary of the financial situation of the Central Administration 2022-2023

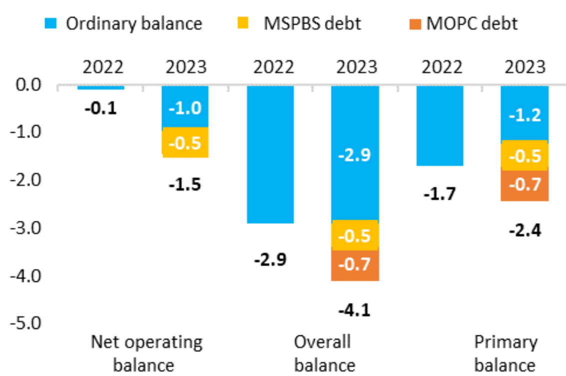
	Central Administration					
	Bn of PYG		% of GDP		Variation in p.p.	
	2022	2023	2022	2023	2022	2023
Total revenues	41,122	43,942	14.0	14.0	0.3	0.0
Total expenses	41,336	48,506	14.1	15.4	-0.3	1.4
Interests	3,614	5,217	1.2	1.7	0.1	0.4
Net operating balance	**-215**	**-4,564**	**-0.1**	**-1.5**	**0.6**	**-1.4**
Public investment	8,379	8,264	2.9	2.6	-0.1	-0.2
Overall balance	**-8,594**	**-12,828**	**-2.9**	**-4.1**	**0.7**	**-1.2**
Primary balance	**-4,980**	**-7,611**	**-1.7**	**-2.4**	**0.8**	**-0.7**

Source: DGPMF, MEF.

The overall ordinary result, which was -2.9% of GDP in 2022, increased to -4.1% of GDP, mainly due to the recognition of overdue debts. First, as previously mentioned, the overall balance was impacted by the payment of overdue debts equivalent to 1.2% of GDP. This also generated a deterioration in the primary balance, which excludes interest payments, from -1.7% to -2.4% of GDP. Secondly, the increase in interest payments, which rose from 1.2% to 1.7% of GDP, also had a negative impact on the overall deficit.

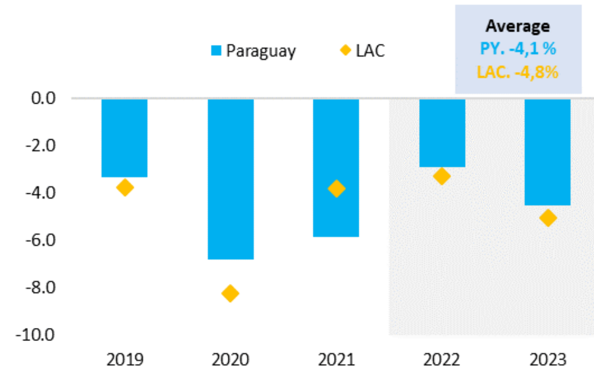
Paraguay stands out in the region for its fiscal prudence, maintaining one of the lowest fiscal deficits. With the exception of 2021, the overall balance of the General Government has been consistently lower than the average recorded by countries in the region, highlighting the country's ability to manage public finances, even in challenging times. This performance reflects responsible fiscal management, prioritizing fiscal sustainability and macroeconomic stability.

Figure 26. Fiscal balance 2022-2023 (% of GDP)



Source: DGPMF, MEF.

Figure 27. Overall balance of the General Government 2019-2023 (% of GDP)



Source: DGPMF, MEF, and IMF.

Box 1. Reorganization of fiscal accounts

Since 2019, Paraguay has faced several shocks that have negatively impacted the economy and fiscal accounts. To mitigate the adverse effects on economic activity, fiscal policy implemented countercyclical measures, such as increasing public investment, increasing current spending, and temporarily suspending some tax payments. These actions caused a significant fiscal deterioration that required activating the Fiscal Responsibility Law (FRL) escape clause. This regulation establishes a limit on the annual growth of current spending and a maximum fiscal deficit of 1.5% of GDP per year. However, in 2020, the deficit reached a maximum peak of 6.1% of GDP. That same year, a fiscal convergence plan was defined to return to compliance with the fiscal rule by 2024 gradually.

In 2023, the incoming government acknowledged overdue debts equivalent to 1.2% of GDP, significantly affecting that year's fiscal balance. The government that took office in August 2023 disclosed accumulated debts with health and road infrastructure providers. These arrears totaled approximately USD 517 million (1.2% of GDP), of which 0.7% corresponds to the MOPC and 0.5% of GDP to the MSPBS (Table 7). As a result, the government started from a deficit of 4.1% of GDP approved by Law No. 7218/2023 of extraordinary measures (Figure 28). It should be noted that the debts were paid in full during 2024.

The government took concrete steps to prevent future arrears, ensuring a more efficient and transparent public financial management. As part of this effort, Decree 9537/2023 was enacted, strengthening the control of the National Economic Team (EEN) over debt assignment operations and improving the management of public resources, ensuring proper recording of expenditure commitments without compromising the contractual relationship. Also, the Integrated Goods and Services Management System (SIGEBYS) is being implemented to ensure efficient control in contracting, avoiding unregistered claims such as those that occurred during the pandemic.

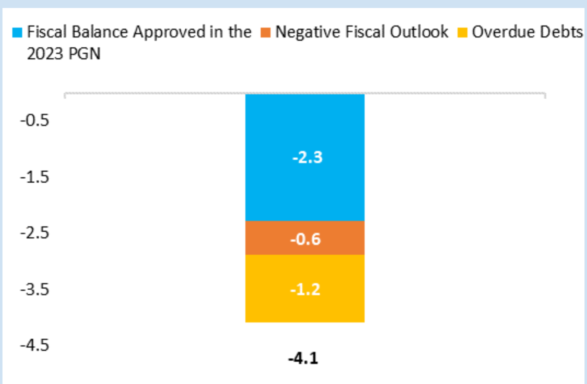
In addition, it announced a new credible and transparent fiscal convergence plan, supported by strategic measures to improve collection efficiency and the quality of public spending. Due to the increase in the deficit from 2.3% to 4.1% of GDP, the government was forced to present a new fiscal convergence plan. This plan establishes a new convergence path to return to compliance with the FRL by 2026. A deficit limit of 2.6% of GDP was established for 2024 to direct resources towards priority areas and strengthen the economic recovery that began in 2023. This new path is based on the projections of improved tax collection, driven by the creation of the DNIT and the implementation of measures aimed at optimizing the quality of public spending, as detailed in the GBN 2024.

Table 7. Debt reported by MOPC and MSPBS 2023

	2023		
	USD	Bn of PYG	% of GDP
MOPC	**297,910,756**	**2,170**	**0.7%**
Bonds	236,963,605	1,726	0.5%
CAF	60,947,152	444	0.1%
MSPBS	**219,317,475**	**1,598**	**0.5%**
TOTAL	**517,228,232**	**3,768**	**1.2%**

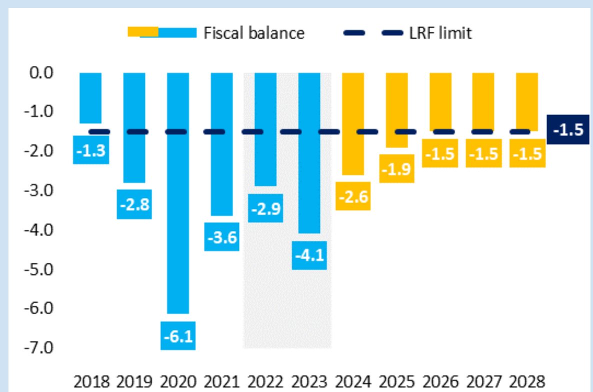
Source: DGPMF, MEF.

Figure 28: Breakdown of the overall balance of the Central Administration 2023 (% of GDP)



Source: DGPMF, MEF.

Figure 29: New Fiscal Convergence Plan 2018-2028 (% of GDP)



Source: DGPMF, MEF.

1.3.5 Fiscal position

1.3.5.1 Structural Balance Sheet

Public expenditures and revenues do not depend exclusively on the decisions of the incumbent fiscal authority. Much of public spending, such as salaries and public debt service, is linked to previously assumed legal or contractual commitments. In turn, certain components, such as tax collection, are influenced by fluctuations in economic variables. Therefore, public expenditures and revenues reflect current fiscal policies and the evolution of the economic situation, affecting both tax collection and public spending.

The effective fiscal balance is influenced by temporary and permanent factors[5]. Temporary factors refer to cyclical deviations of output from its medium and long-term trend**.** In contrast, permanent factors correspond to the lasting components of public expenditures and revenues under normal conditions, without external shocks, with the economy operating at its medium and long-term sustainable level, with low and stable inflation.

Failure to distinguish correctly between temporary and permanent factors can lead to fiscal policy reacting inappropriately. Over-responding or underestimating events that naturally adjust to the economic cycle can generate uncertainty among economic agents. In addition, the prolonged accumulation of fiscal deficits associated with permanent factors can lead to unsustainable debt levels in the medium term, putting the country's fiscal and economic stability at risk.

The structural balance allows an accurate assessment of the fiscal authority's stance. This methodology adjusts public revenues and expenditures, eliminating the impact of the economic cycle and one-off measures. Examples of such measures may include privatizations or extraordinary expenditures for natural disasters .[6]

There are several ways of calculating the structural balance. For example[7], the European System of Central Banks (ESCB) applies a disaggregated method where the different components of revenues and expenditures are cyclically adjusted, allowing for greater precision in estimating the structural balance. Meanwhile, the European Commission derives the cyclical component directly from the aggregate output gap.

The method used to calculate the structural balance in this report is based on estimating the level of structural revenues, eliminating the impact of cyclical factors on fiscal revenues. In the case of Paraguay, no adjustments are made to expenditures and public investment since there are no automatic stabilizers on the expenditure side, such as unemployment insurance. Once structural revenues are estimated, expenditures and public investment are subtracted to obtain the structural balance.

The structural balance equation is presented below:

$$SB_t = Rev_t^E - G_t$$

Where:

SB_t is the structural balance,

Rev_t^E are structural income and

G_t is the aggregate public expenditure, including current and capital expenditures.

Other differences that may arise in estimating the structural balance come from how potential output is estimated. Potential output is unobservable and is estimated based on models and assumptions. The most commonly used methods to estimate potential output are the production function method (or growth accounting) and statistical techniques, where the application of the Hodrick-Prescott filter to the output series is one of the best-known methods. In this paper, the second method is used (Figure 30).

[5] Working Paper 99/95, "The Structural Balance, the IMF's Methodology", of the International Monetary Fund, prepared by R. Hagemann

[6] Navarini, L., A. Zoppé, (2020). "Potential output estimates and their role in the EU fiscal policy surveillance". Briefing. Economic Governance Support Unit (EGOV). PE 574.407. European Parliament.

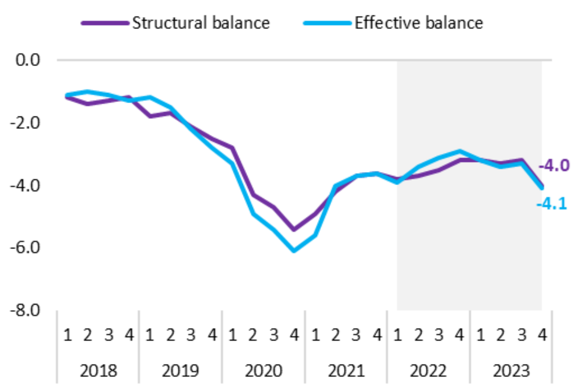
[7] European Central Bank, (2014). "The Structural Balance as an indicator of the underlying fiscal position" in Box 6. Monthly Bulletin

Finally, the fiscal impulse reflects the fiscal policy stance and is calculated as a function of the change in the structural balance. A positive fiscal impulse indicates an expansionary fiscal stance with respect to the previous year, a negative fiscal impulse indicates a contractionary fiscal stance, and a zero fiscal impulse indicates a neutral fiscal policy.

Fiscal impulse (FI) is mathematically defined as:

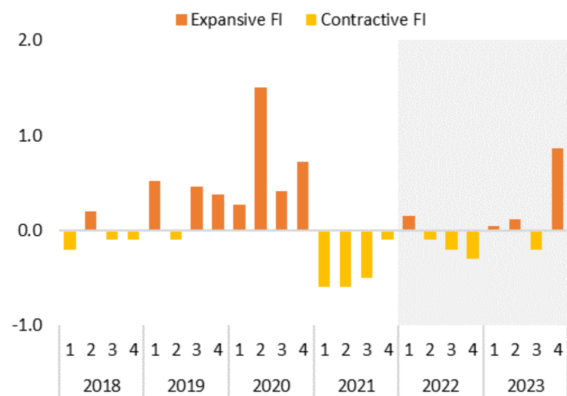
$$FI_t = -(SB_t - SB_{t-1})$$

Figure 30: Effective fiscal balance and structural balance 2018-2023 (% of GDP)



Source: DGPMF, MEF.

Figure 31: Fiscal impulse 2018-2023 (% of GDP)



Source: DGPMF, MEF.

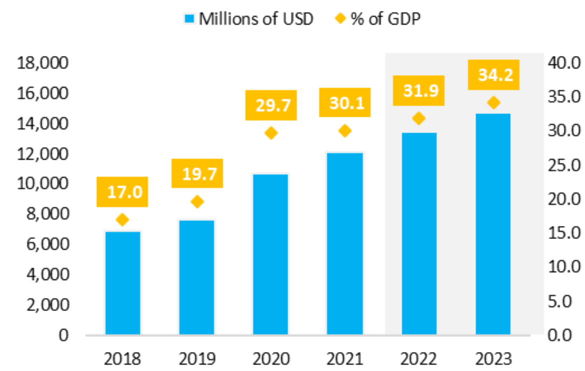
The strategy of returning to a neutral fiscal position and withdrawing the stimulus in 2019-2020 is coherent and consistent with the objective of fiscal convergence. During 2019 and 2020, fiscal policy was expansionary due to the exceptional circumstances of the drought and pandemic, respectively, which can be seen in Figure 31. This trend continued in 2022, albeit on a smaller scale, and a more neutral position was observed in the first three quarters of 2023. In the last quarter of the year, an expansionary fiscal impulse of 0.9% of GDP was observed, mainly due to the recognition of overdue debts (see Table 1).

1.4 Central Government Public Debt

1.4.1 Debt level and profile

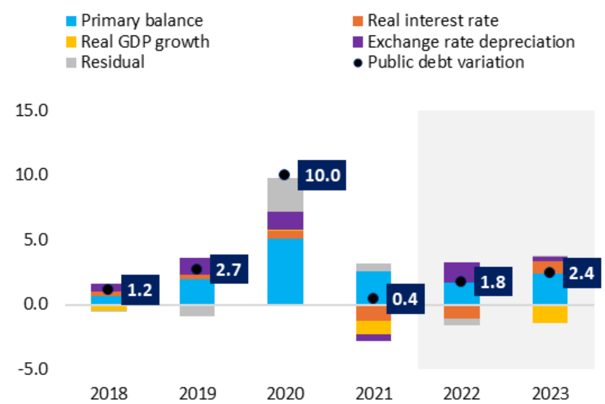
The increase in public debt is mainly attributed to the negative primary balance and the increase in the real interest rate. Between 2022 and 2023, public debt increased by 2.4 p.p. of GDP (Figure 33). This growth is explained, first, by the primary balance recorded in 2023, which was affected by the recognition of overdue debts to reorder fiscal accounts. Secondly, the increase in real interest rates is driven by the rise in international interest rates. However, the economic growth recorded during this period partially mitigated the increase in debt, which closed at 34.2% of GDP at the end of 2023 (Figure 32), highlighting the stabilizing effect of the economic upturn on public finances.

Figure 32. Public debt balance 2018-2023 (Millions of USD and % of GDP)



Source: DGPE, MEF.

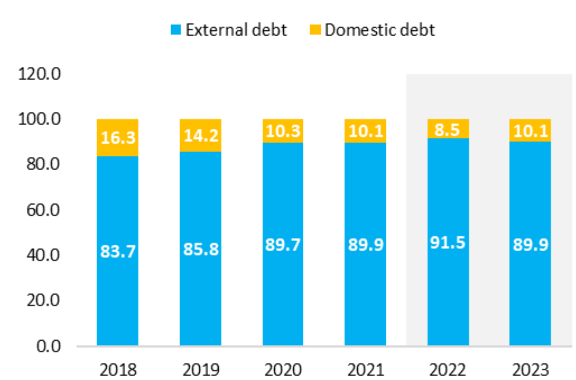
Figure 33. Contribution to the variation of the public debt balance 2018-2023 (p.p.)



Source: DGPE, MEF.

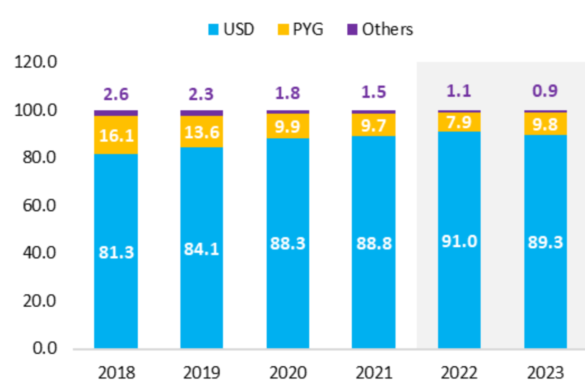
In this context, the government implemented strategies focused on improving the composition of public debt, prioritizing the development of the domestic market, and promoting the gradual de-dollarization of its liabilities. In 2023, the proportion of domestic debt increased by 1.6 p.p. with respect to the previous year (Figure 34). Similarly, local currency debt grew by 1.9 percentage points, driven by a higher volume of guarani issuance in the domestic market and the first conversion of an IDB loan into local currency (Figure 35). The increase in the share of local financing has been mostly allocated to public infrastructure investments.

Figure 34. Domestic and external debt stock 2018-2023 (% of total)



Source: DGPE, MEF.

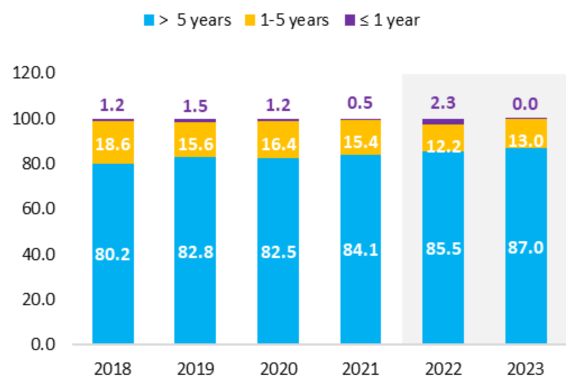
Figure 35. Debt stock by currency 2018-2023 (% of total)



Source: DGPE, MEF.

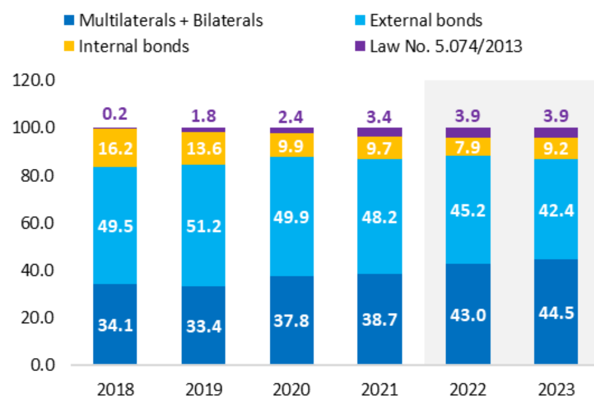
In addition, the average debt maturity has been extended, accompanied by a greater diversification of financing sources. Proactive debt management, through liability management operations such as bond repurchases and international issues, has been fundamental to optimizing the maturity profile. As a result, long-term debt increased by 1.5 percentage points, providing greater financial flexibility by reducing short-term pressure and allowing for better budget planning (Figure 36). As for the share by type of instrument, domestic bonds increased by 1.3 p.p., while external bonds decreased by 2.8 p.p. (Figure 37). This adjustment is explained by the increase in issues in the domestic market and the access to credits from Multilateral and Bilateral Organizations, thus contributing to a greater diversification of the country's debt portfolio.

Figure 36. Composition of public debt by maturity 2018-2023 (% of total)



Source: DGPE, MEF.

Figure 37. Composition of public debt by instrument 2018-2023 (% of total)

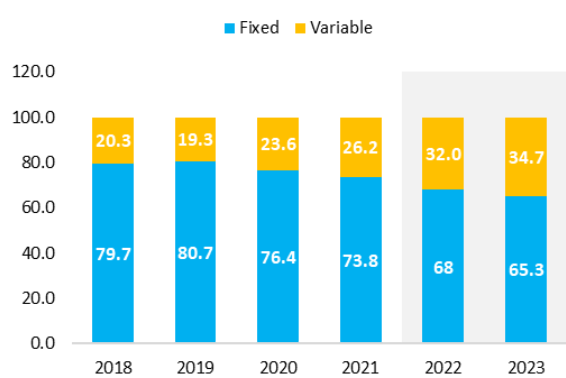


Source: DGPE, MEF.

The proportion of fixed-rate debt remains predominant, reducing exposure to possible increases in international interest rates. As of December 2023, 65.3% of public debt corresponded to fixed rates, while the remaining 34.7% was linked to variable rates, maintaining the trend of recent years (Figure 38). Although the predominance of fixed-rate debt provides greater predictability in debt service, the combination with variable-rate debt provides flexibility to face fluctuations in the cost of financing. This is especially relevant in the current global context in which a gradual reduction in international interest rates is anticipated.

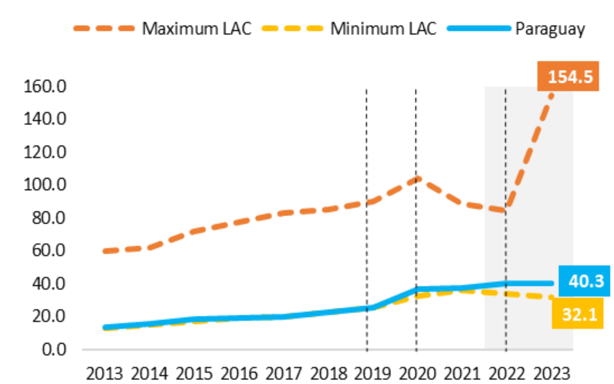
Paraguay's public debt is among the lowest in the region. Although, in recent years, the debt level increased due to the multiple shocks the country has faced, public debt has remained consistently among the lowest in Latin America and the Caribbean over the last decade (Figure 39). This achievement reflects responsible fiscal management and efficient debt administration, consistently executed by the fiscal authorities over time.

Figure 38. Debt balance according to interest rate 2018-2023 (% of total)



Source: DGPE, MEF.

Figure 39. Public debt balance of the General Government of Paraguay and LAC 2013-2023 (% of GDP)

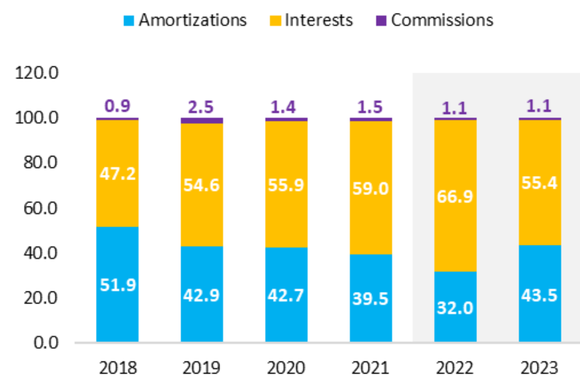


Source: WEO, IMF and DGPE, MEF.

1.4.2 Debt service

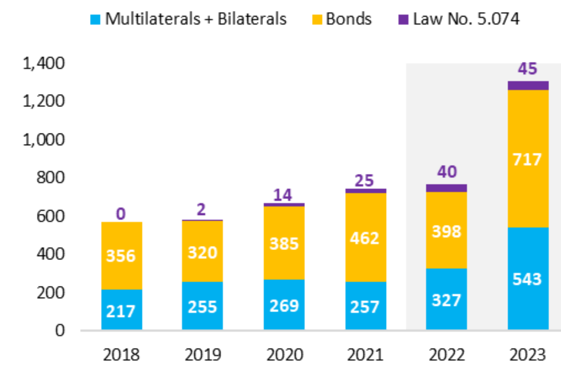
Between 2022 and 2023, the proportion of interest paid with respect to total debt service decreased, representing 55.4% of the total. This was mainly due to the increase in amortizations, especially the cancellation of the remaining balance of the 2023 sovereign bond (Figure 40). On the other hand, most of the debt service was concentrated in bonds and loans granted by multilateral and bilateral organizations. At the end of 2023, bonds amounted to USD 717 million, equivalent to 54.9% of the total, while multilateral and bilateral loans amounted to USD 543 million, representing 41.6% of the total (Figure 41).

Figure 40. Public debt service 2018-2023 (% of total)



Source: DGPE, MEF.

Figure 41. Public debt service according to creditors 2018-2023 (Millions of USD)



Source: DGPE, MEF.

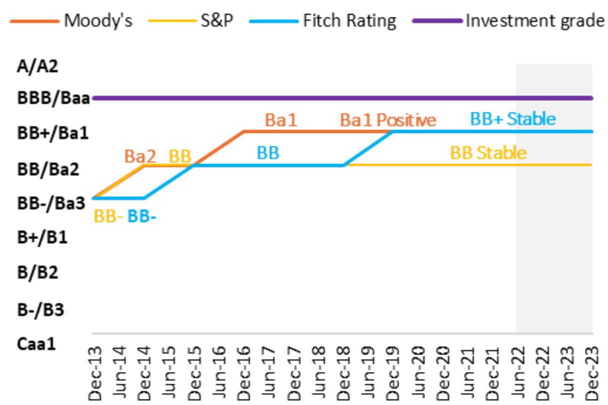
1.4.3 Sovereign rating

Paraguay managed to maintain its sovereign rating in a challenging global environment. In 2023, Standard & Poor's (S&P), Fitch, and Moody's decided to maintain the country's sovereign rating and outlook based on the country's macroeconomic strength and fiscal prudence, characterized by a solid rebound in growth, a low public debt burden relative to its peers, as well as the government's efforts to strengthen the institutional structure with an ambitious reform agenda (Figure 42).

In addition, the rating agency Fitch Ratings raised Paraguay's country ceiling to investment grade from BB+ to BBB-. This decision enables Paraguayan companies with solid financial performance to achieve an investment grade rating, improving their access to international markets under more favorable financial conditions and enhancing opportunities to attract foreign investment.

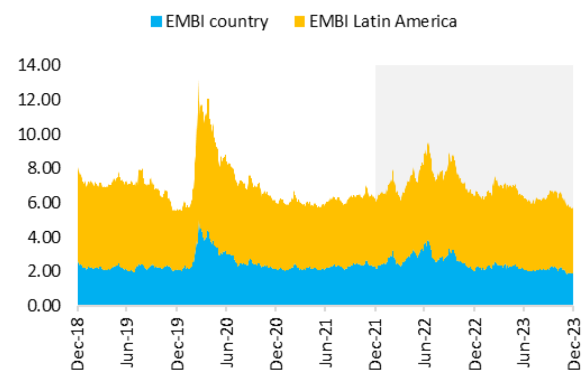
Additionally, the country managed to reduce its risk premium, reflecting a favorable international perception. In 2023, Paraguay's Emerging Markets Bonds Index (EMBI) decreased to an average of 218 basis points, compared to an average of 277 basis points the previous year, representing an improvement of approximately 59 basis points. Paraguay has maintained a significantly lower level than the Latin American regional average, highlighting its macroeconomic soundness and stability, reinforcing investor confidence (Figure 43).

Figure 42. Evolution of sovereign credit rating 2013-2023.



Source: Standard & Poor's, Moody's and Fitch Rating.

Figure 43. Country Risk Evolution 2018-2023 (%)



Source: Bloomberg.

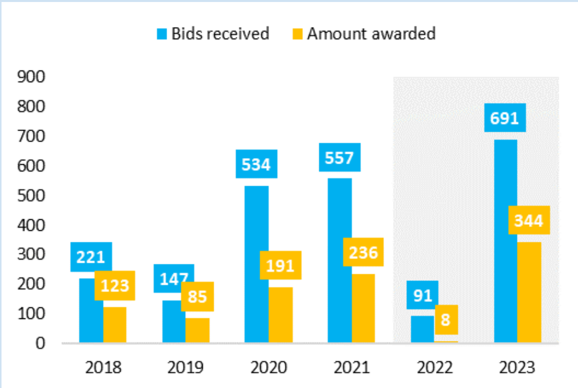
Box 2. Initiatives to deepen the domestic capital market

The deepening of the domestic capital market is crucial for developing the public debt market. A developed domestic market guarantees access to local currency funding sources at competitive costs**.** It also facilitates the creation of liquid benchmarks for the market, improves the structure of the local currency yield curve, contributes to reducing exchange rate risk in the fiscal accounts, and broadens the investor base, promoting greater diversification of public debt.

The update of the regulatory framework in June 2023 allowed non-resident investors to purchase Public Treasury bonds in the local capital market. The Ministry of Finance, currently MEF, issued Decree No. 9301/2023, establishing the regulatory framework for the issuance process of Public Treasury Debt Securities and public debt management operations. With this regulation's approval, non-resident investors' participation in the local market was allowed (Figure 45), who can now acquire securities issued in guaraníes through notes structured through Local Custodian Banks. During the last two issues in the domestic market, demand for guarani-denominated bonds reached new records, significantly exceeding the initial supply, reflecting increased investor confidence in the country and, therefore, in treasury bonds.

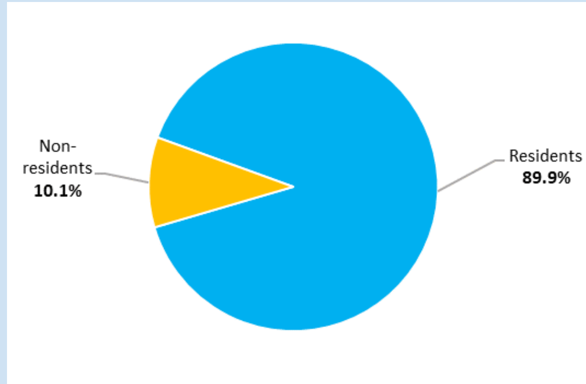
In December, the largest bond issuance in the local market was carried out, reaching an amount equivalent to four times the maximum of previous placements. This was accompanied by a reduction in interest rates, reflecting the market's confidence in government bonds. With a volume equivalent to approximately USD 223 million in local currency, the securities were reopened with 5 and 7-year terms and yielded 7.64% and 7.80%, respectively. This operation allowed the issuance volume in the domestic market to reach a record of approximately USD 344 million at the end of 2023 (Figure 44).

Figure 44. Emissions in the domestic market 2018-2023 (Millions of USD)



Source: DGPE, MEF.

Figure 45. Treasury bondholders by residency as of December 2023 (%)



Source: DGPE, MEF.

Box 3. Beginning of the public debt de-dollarization process

In November 2023, the public debt de-dollarization process began with the first currency conversion operation, taking advantage of favorable market conditions. The MEF carried out the first currency conversion operation from dollars to guaraníes on November 24, 2023 (Table 8.1), corresponding to IDB loan No. 3628/OC-PR, which had an outstanding balance of USD 192,000,000. This initiative is part of the MEF's debt management strategy, which seeks to optimize the public debt structure. The operation reinforces the government's actions to improve the debt composition, which, in turn, favors investors and rating agencies' perception of country risk.

In February 2024, Paraguay achieved a milestone by successfully issuing its first guarani-denominated bond in the international financial markets. Demand for local currency bonds, equivalent to a total of US$1.056 billion, far exceeded the initial offer of US$500 million. This strong demand helped secure a favorable interest rate of 7.9% (Table 8.2).

These measures complement the MEF's efforts to deepen the domestic capital market. Together, these measures will diversify the sources of financing and the investor base of the public debt, as well as strengthen the weight of the local currency in its composition, thus creating conditions that provide greater stability and resilience in the face of possible fluctuations in international markets.

Table 8. Conversion of USD-denominated debt into PYG

Table 8.1. IDB loan conversion operation

De-dollarization of Paraguay's debt	
Conversion date	November 24, 2023
Amount in PYG converted	USD 100 million
Outstanding loan balance in PYG	74,375,300,000,000
PYG Interest Rate	6.3%
Expiration	March 15, 2036

Source: DGPE, MEF.

Table 8.2. First issue of global bonds in guaraníes

Sovereign Bond in Guaraníes	
Amount in PYG	3,643,235,000,000
Equivalent amount in USD	500,000,000
Nominal rate	7.90%
Payment of interest	Semiannual
Maturity (year)	2031
Deadline	7 years

Source: DGPE, MEF.

Chapter 2. Medium-Term Economic and Fiscal Prospects 2024-2029 - Convergence-oriented fiscal discipline

2.1 Global macroeconomic outlook

2.1.1 Economic dynamics

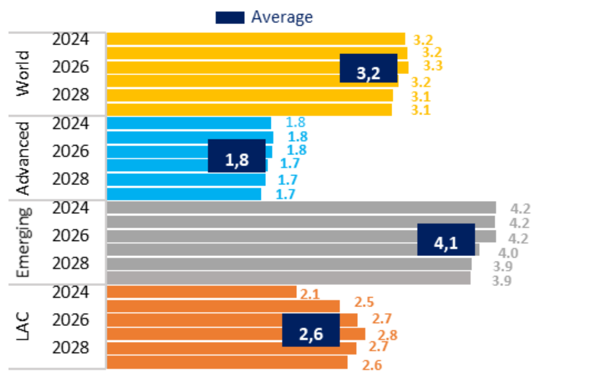
In the medium term, global economic growth is projected to average 3.2%, remaining at levels similar to the last decade's average. According to World Economic Outlook (WEO) projections, growth rates are heterogeneous between and within regions. On the one hand, Asia's increase in technological exports and China's recovery in consumption are expected to drive global growth. On the other hand, a slowdown is anticipated in advanced economies such as the United States and Japan, which are facing weakened consumption and supply problems. In this sense, growth in the medium term is expected to be led by emerging economies, with an average annual growth rate of 4.1% (Figure 46).

LAC is expected to grow slower than the global economy, with an estimated average growth of 2.6% from 2024 to 2029. In 2024, the region would grow by 2.1%, 0.6 p.p. below the global average, and then stabilize at around 2.7% between 2025 and 2029, driven by lower inflation and the consequent normalization of interest rates. Within the region, countries are expected to follow a similar trend with positive growth rates, except for Argentina and Haiti.

In the medium term, Paraguay's main trading partners are expected to grow by an average of 2.2%. For Brazil, average growth of 2.5% is projected, driven by lower inflation, cuts in the monetary policy rate, increased private investment, and a recovery in consumption. In contrast, Argentina is expected to contract by 3.5% due to the stabilization plan implemented by the new government. However, it is projected to recover with an average growth of 3.7% between 2025 and 2029 as macroeconomic imbalances are addressed and inflation decreases. For Chile, average growth is estimated at 2.4%, supported by strong external demand for commodities, green energy, and monetary policy normalization. Finally, for Russia, average growth of 1.5% is anticipated, influenced by increased military activity, a rebound in trade, the financial sector, and construction (Figure 47).[8]

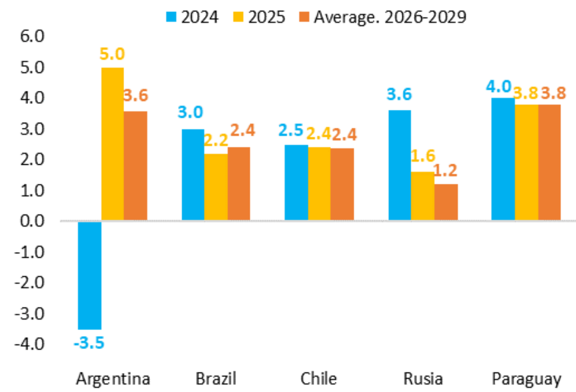
[8] World Bank, WEO and Banco Central do Brasil estimates.

Figure 46. Economic growth prospects 2024-2029 (%)



Source: IMF.

Figure 47. Economic growth of trading partners 2024-2029 (%)

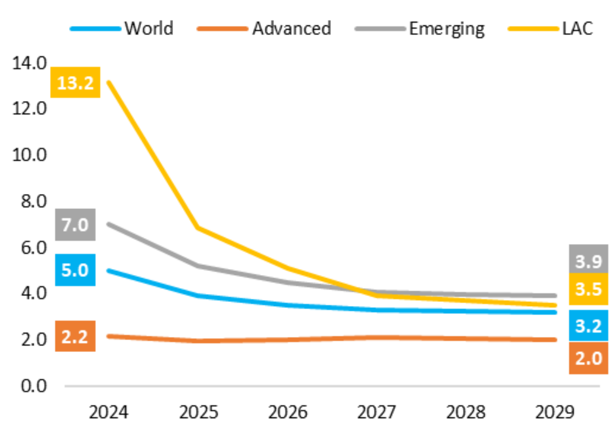


Source: BCP and IMF.

2.1.2 Inflation and international interest rates

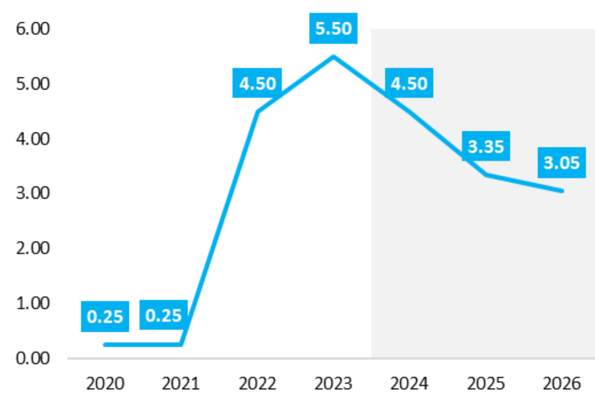
A gradual deceleration of headline inflation is projected to occur in the medium term, as well as the normalization of the TPM. The decline in headline inflation (Figure 48) could be partially explained by the contractionary monetary policy profile adopted in recent years to ensure price stability. This approach has dampened global demand due to tighter financial conditions in the context of limited fiscal space. Furthermore, the normalization of supply chains has eased global supply pressures and has contributed to this inflationary moderation. In this scenario, as inflation continues to decline, advanced economies are expected to implement a cycle of downward adjustments in their reference rates towards more neutral positions (Figure 49).

Figure 48. Inflation Projections 2024-2029 (%)



Source: IMF.

Figure 49. Projections of the U.S. TPM 2020-2026 (%)



Source: Bloomberg.

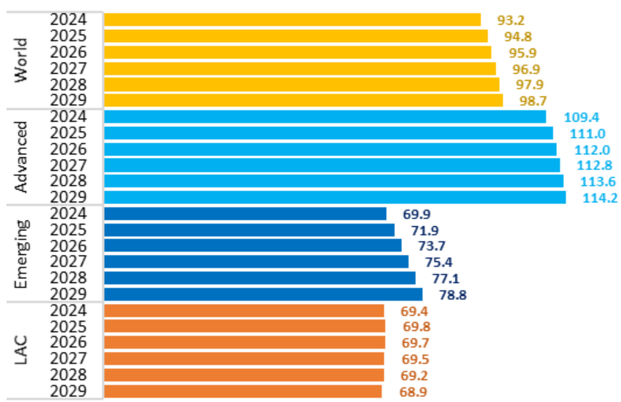
2.1.3 Fiscal perspective

The high level of global public debt, which would amount to 99% of global GDP in 2029, generates pressures to implement contractionary fiscal policies in the medium term. This context arises after the high deficits accumulated due to the adverse effects of COVID-19, which were subsequently amplified by geopolitical tensions in Ukraine and the Middle East. The highest level of indebtedness would be in advanced economies (Figure 50). Therefore, in order to preserve the sustainability of public finances, it is necessary to implement consolidation plans that reduce the fiscal deficit and public indebtedness to prudent levels, even in a challenging scenario with moderate growth expectations in the medium term.

In LAC, a progressive fiscal deficit reduction is expected, reaching 2.8% of regional GDP in 2029, to stabilize debt levels. In line with the global context, the region has experienced increased debt levels in recent years, accompanied by high interest rates. In response to this situation, most countries in the region are implementing or planning contractionary fiscal adjustment measures to ensure the sustainability of public finances. This would allow for reducing the fiscal deficit (Figure 51) and stabilizing the level of public debt in the medium term.

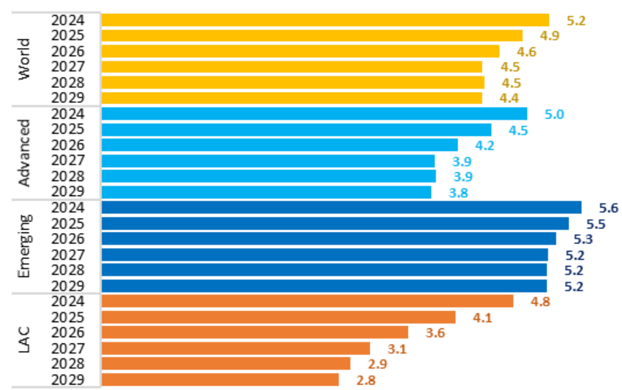
Although a fiscal adjustment is also anticipated at the global level, debt levels would remain high or continue to increase. This reflects that, in the context of moderate economic growth, the expected fiscal effort is insufficient to achieve a significant reduction in the public debt-to-GDP ratio. The fiscal adjustment in LAC represents 2% of GDP. In contrast, at the global level, the fiscal deficit reduction is limited to 0.8% of GDP between 2024 and 2029, indicating a stronger commitment by the region to ensure the sustainability of its public finances.

Figure 50. General Government Public Debt 2024-2029 (% of GDP)



Source: IMF.

Figure 51. Fiscal deficit of the General Government 2024-2029 (% of GDP)



Source: IMF.

2.2 Macroeconomic outlook at the domestic level

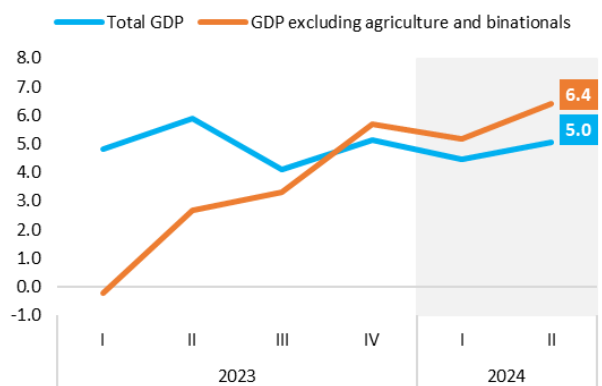
2.2.1 Economic growth

The Paraguayan economy is expected to grow 4.0% in 2024[9]. Subsequently, it would grow around its trend, reaching an annual average of 3.8% between 2025 and 2029, a higher rate than its main trading partners. At the end of the second quarter of 2024, total GDP registered a year-on-year variation of 5.0%, while GDP excluding the agriculture and livestock sectors showed an even greater increase (6.4%), signaling a growing diversification of the economy (Figure 52). In line with these figures, at the end of the second quarter of 2024, Paraguay's Monthly Index of Economic Activity (IMAEP) recorded an average growth of 4.6% (Figure 53).

[9] Projection prepared by the Central Bank of Paraguay.

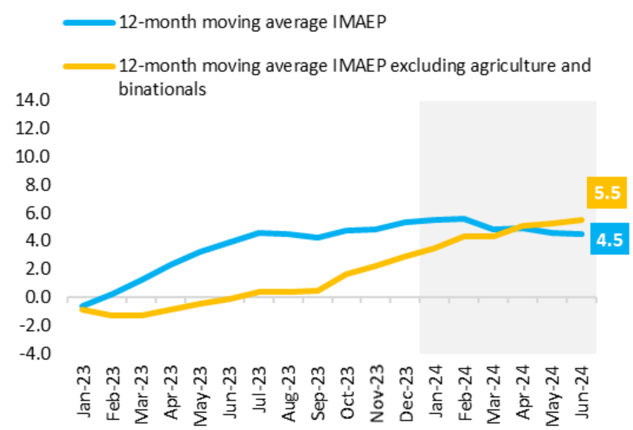
In the medium term, an annual growth of 3.8% is consistent with the sources of economic growth. The medium-term, or trend, GDP growth rate allows for estimating the economy's productive capacity under a stable use of productive factors and in the absence of external shocks. Following the methodology and parameterization presented by the BCP in its Monetary Policy Report (June 2021)[10], a simulation of the trend GDP growth rate for 2024-2029 was conducted. In this conservative scenario, it is assumed that the annual growth rate of physical capital is 2.6%, corresponding to the historical average observed during the 1997-2023 period. As for employment, a growth rate of 4.6% is projected, corresponding to its historical average. This employment growth is adjusted for a quality factor, measured by the average number of years of education of working-age people. This quality indicator is projected to maintain its historical improvement trend that has been observed in recent years. Finally, Total Factor Productivity (TFP) is expected to remain constant in the medium term. Under these assumptions, the simulation result yields a GDP growth rate of 3.8%.

Figure 52. Quarterly GDP 2023-2024 (% YoY var.)



Source: BCP.

Figure 53. IMAEP with and without agriculture and binationals 2023-2024 (% YoY var.)



Source: BCP.

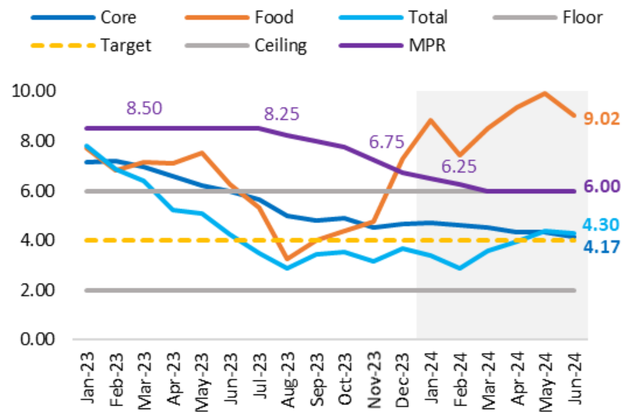
2.2.2 Inflation

In the medium term, inflation is expected to be around the new 3.5% target announced by the BCP in December 2024. At the end of June 2024, year-on-year inflation was 4.3%, slightly higher than the 4.2% for the same period in 2023. Monthly inflation was -0.4%, driven by lower prices in foods such as beef, fruits, and vegetables due to higher supply and lower demand. However, the prices of services and durable goods such as rent, repairs, and automobiles increased, which moderated the overall decrease. Likewise, at the end of June 2024, core inflation (X1) had a year-on-year variation of 4.2%, lower than the 6.0% recorded in the same month of the previous year. As for monetary policy, the TPM has remained at 6.0% since March (Figure 54), remaining at levels close to the neutral range, consistent with inflation and economic activity dynamics.

Since early 2023, the nominal exchange rate (NER) has been within expected ranges, with a 12-month average variation of 3% as of June 2024. This dynamic was driven by external factors, such as uncertainty about the US tariff policy and the FED's decisions on monetary policy. Meanwhile, Net International Reserves (NIR) recorded a year-on-year growth of 5.5% at the end of the same period (Figure 55).

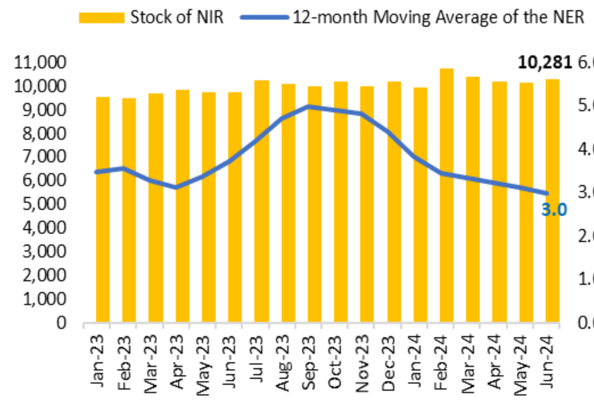
[10] BCP (June 2021), Monetary Policy Report.

Figure 54. Year-on-year inflation 2023-2024 (%)



Source: BCP .

Figure 55. NIR and NER 2023-2024 (Millions of USD and % YoY var.)

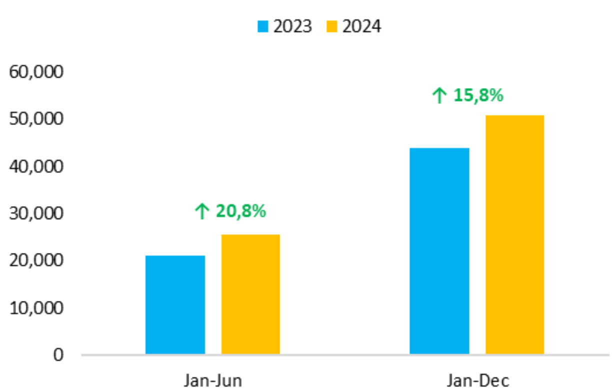


Source: BCP .

2.2.3 Fiscal performance as of the first half of the year and outlook for the end of 2024

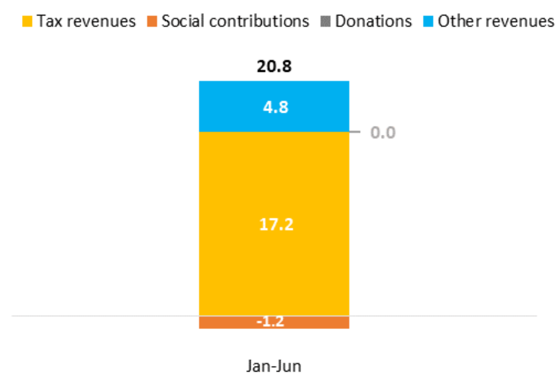
At the end of June, tax collection registered a record 10.9% of GDP, standing out as the key factor driving the robust growth in total revenues. Total revenues increased 20.8% at the end of the first semester of 2024, compared to the same period in 2023, and are expected to accumulate 15.8% growth by the end of the year (Figure 56), which would be equivalent to 15.3% of GDP. Tax revenues contributed most to the cumulative growth at mid-year (Figure 57), driven by greater efficiency in tax collection by the DNIT (Figure 58) in both internal and external taxes (Figure 59). Additionally, the payment of Yacyretá's arrears accounted for a large part of the growth in non-tax revenues at the end of the first semester of the year.

Figure 56. Cumulative total revenue 2023-2024 (Bn of PYG and % YoY var.)



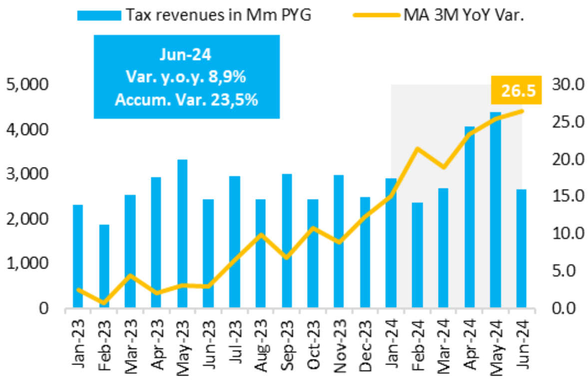
Source: DGPMF, MEF.
Note: Data reported for year-end 2024 reflect projections prepared with information as of October.

Figure 57. Contribution to total revenue variation 2024 (%)



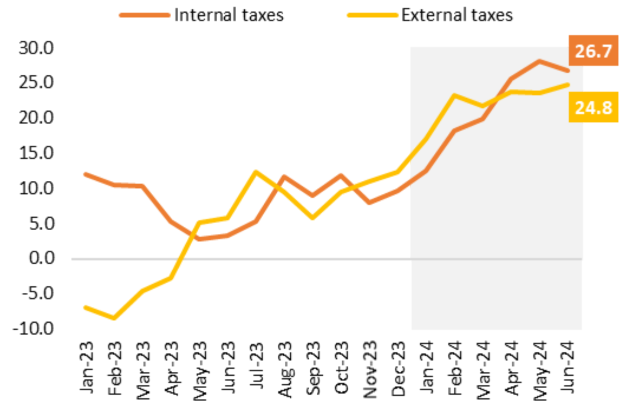
Source: DGPMF, MEF.

Figure 58. Tax Revenues 2023-2024 (Bn of PYG and % 3m Moving Avg. % YoY var.)



Source: DGPMF, MEF.

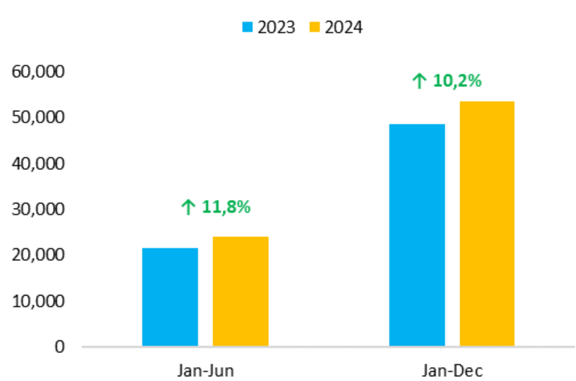
Figure 59. Internal and external tax collections 2023-2024 (% 3m. moving avg. % YoY var.)



Source: DGPMF, MEF.

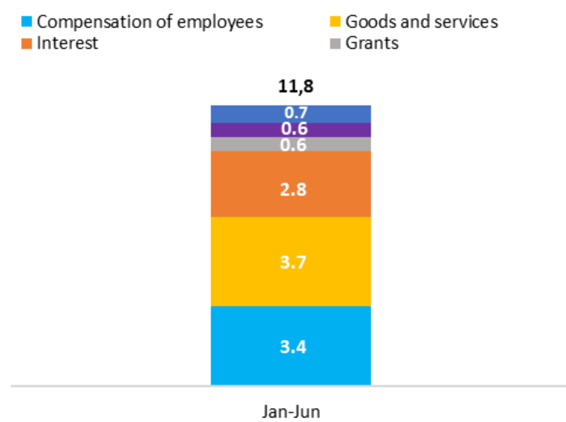
As of the first semester of 2024, total spending growth was driven mainly by goods and services, compensation, and interest on public debt. However, this growth is expected to slow down by the end of the year. Total accumulated expenditures as of June increased by 11.8%, and a decrease is expected for the second half of the year, closing the year with a growth of 10.2% (Figure 60), equivalent to 16.1% of GDP (Table 9). At the end of the semester, spending on goods and services contributed the most to the increase in total spending (Figure 61), mainly due to the purchases of medicines. By the end of the year, this expenditure is projected to increase by 10.6%, reaching 2.0% of GDP. Remunerations would grow by 7.3% by the end of the year due to salary increases in education, security, health, and other adjustments indexed to the minimum wage, representing 6.6% of GDP. Interest payments would increase by 33.1% at year-end, mainly due to tighter international financial conditions that increased financing costs.

Figure 60. Total Expenses 2023-2024 (Bn of PYG and % YoY var.)



Source: DGPMF, MEF.
Note: Data reported for year-end 2024 reflect projections prepared with information as of October.

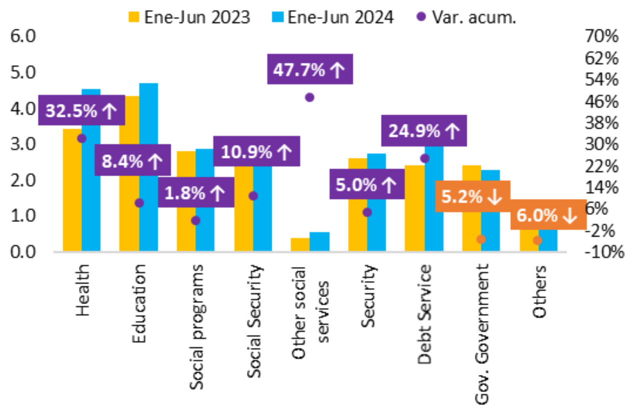
Figure 61. Contribution to total expenses variation 2024 (%)



Source: DGPMF, MEF

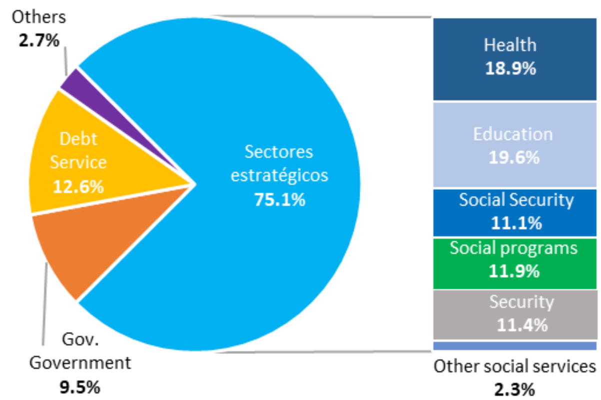
The higher execution recorded in strategic sectors and the reduced expenditures for government administration reflect the Government's firm commitment to the population's well-being. The strategic sectors of health, education, security, social security, social promotion and action, and security, among other social services, accounted for 75.1% of cumulative execution as of June (Figure 63). Expenditures oriented to government administration decreased by 5.2% and were prioritized to strategic areas that showed significant growth (Figure 62). In particular, the increase in spending on health (32.5%), education (8.4%), and social security (10.9%) stands out.

Figure 62. Total expenses by function cumulative 2023-2024 (Tn of PYG and % variation)



Source: DGPMF, MEF

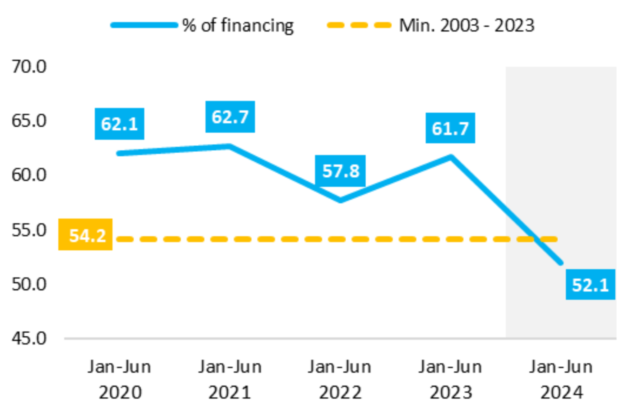
Figure 63. Composition of total cumulative expenses Jan-Jun 2024 (%)



Source: DGPMF, MEF.

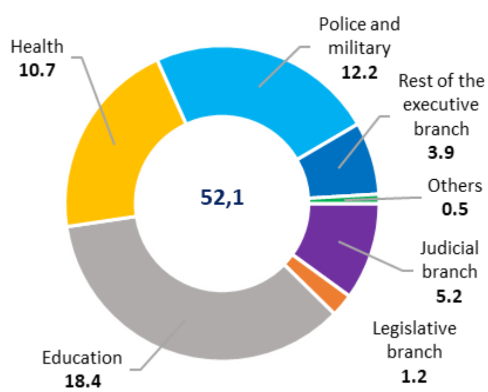
At the end of the year's first half, the ratio of personal services financed with tax revenues was the lowest in the last 20 years. This percentage was below the historical minimum of the 2003-2023 period, reaching 52.1% (Figure 64), mainly financing the education, public forces, and health sectors (Figure 65). The improvement in this indicator of the spending quality is due to the containment of growth in personnel spending and the increase in tax collection compared to previous years.

Figure 64. Personal services financed with accumulated tax revenues 2020-2024 (%)



Source: DGPMF, MEF.

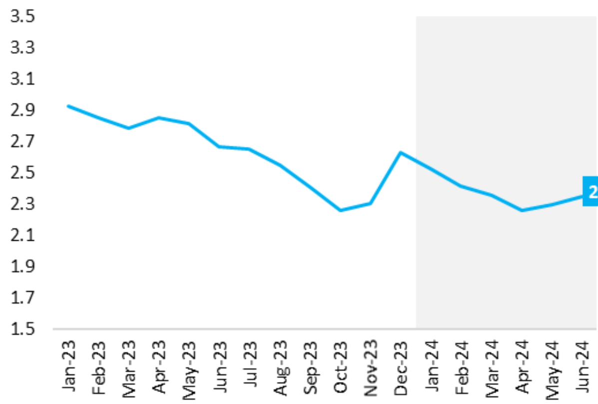
Figure 65. Distribution of Central Administration salaries accumulated Jan-Jun 2024 (%)



Source: DGPMF, MEF.

Public investment with traditional financing continues to return to its long-term dynamics. After a period of strong expansion, public investment reached 2.3% of GDP in annualized terms as of June 2024 (Figure 66), reflecting its gradual return to long-term levels, in line with the fiscal convergence plan. The MOPC, as the main executing entity, has allocated 99.7% of its financial plan (Figure 67), guaranteeing the availability of resources to move forward with project execution and giving continuity to planned public investments.

Figure 66. Annualized public investment 2023-2024 (% of GDP)



Source: DGPMF, MEF.

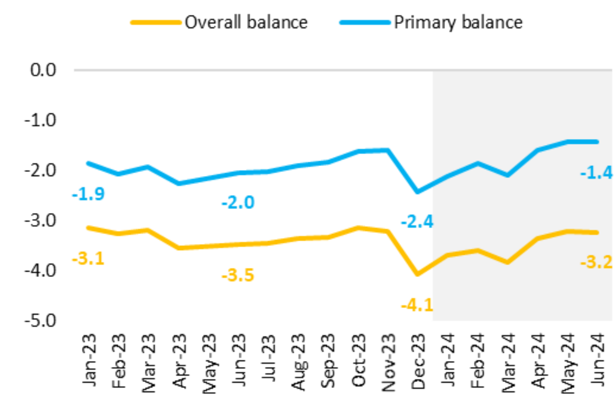
Figure 67. Current Financial Plan (FP) for public investment 2024 (% of Current GBN)

Source: DGPMF, MEF.

In this context, by the end of 2024, an overall balance of -2.6% of GDP is projected, in compliance with the goal of the fiscal convergence plan, as established in the GBN 2024. Likewise, an operating balance of -0.8% of GDP is expected (Figure 69). The estimated growth of total revenues over expenditures would improve this indicator by 0.7 p.p. of GDP compared to 2023. The overall annualized result as of June stood at -3.2% of GDP (Figure 68). However, excluding overdue debts, equivalent to 1.2% of GDP, is reduced to -2.0%. This result is expected to continue improving until reaching -2.6% of GDP authorized in the GBN 2024, which aligns with the projected evolution of expenditures and revenues.

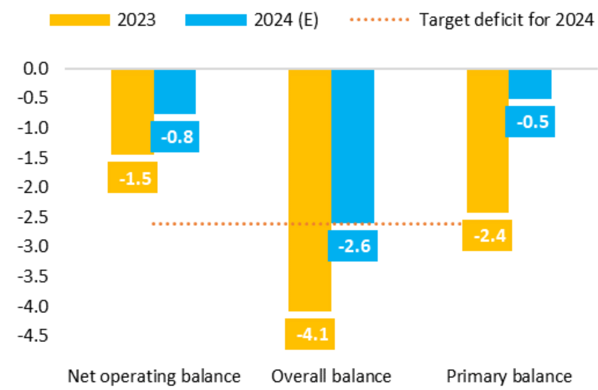
The primary balance is projected to improve by the end of 2024. The primary deficit would reach 0.5% of GDP, a 1.9 p.p. reduction compared to 2023. The significant increase in total revenues, driven by the measures implemented by DNIT, would proportionally exceed the estimated growth in total expenditures, favoring the projected improvement in the primary balance by year-end.

Figure 68. Annualized fiscal balance 2023-2024 (% of GDP)



Source: DGPMF, MEF.

Figure 69. Fiscal accounts results at the end of 2023-2024 (% of GDP)



Source: DGPMF, MEF.

Table 9. Projection of the main fiscal aggregates at the end of 2024

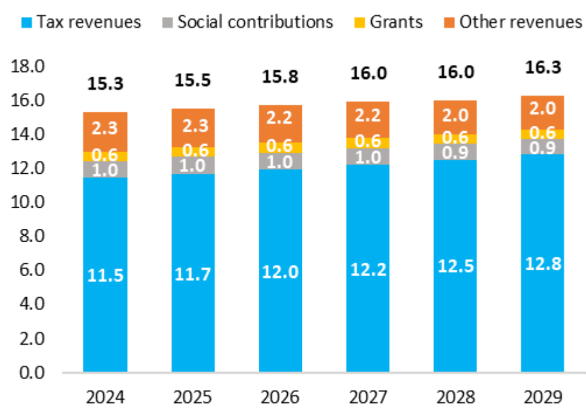
	Bn of PYG		% Variation		% of GDP	
	2023	2024 E	2023	2024 E	2023	2024 E
Total income	**43,942**	**50,894**	**6.9**	**15.8**	**14.0**	**15.3**
Tax revenues	31,750	38,100	6.0	20.0	10.1	11.5
Social contributions	3,710	3,243	2.2	-12.6	1.2	1.0
Donations	1,810	1,929	12.8	6.6	0.6	0.6
Other income	6,673	7,623	12.6	14.2	2.1	2.3
Total expense	**48,506**	**53,447**	**17.3**	**10.2**	**15.4**	**16.1**
Compensation of employees	20,524	22,019	8.1	7.3	6.5	6.6
Goods and services	6,111	6,755	35.9	10.6	1.9	2.0
Interest	5,217	6,943	44.4	33.1	1.7	2.1
Grants	5,172	5,972	9.1	15.5	1.6	1.8
Social benefits	9,162	9,710	18.2	6.0	2.9	2.9
Other expenses	2,321	2,048	32.9	-11.7	0.7	0.6
Net operating balance	**-4,564**	**-2,553**	**-2026.7**	**44.1**	**-1.5**	**-0.8**
Public investment	**8,264**	6,094	**-1.4**	**-26.3**	**2.6**	**1.8**
Overall balance	**-12,828**	**-8,647**	**-49.3**	**32.6**	**-4.1**	**-2.6**
Primary balance	**-7,611**	-1,704	**-52.8**	**77.6**	**-2.4**	**-0.5**

Source: DGPMF, MEF.

2.2.4 Medium-term Fiscal Projections 2025-2029

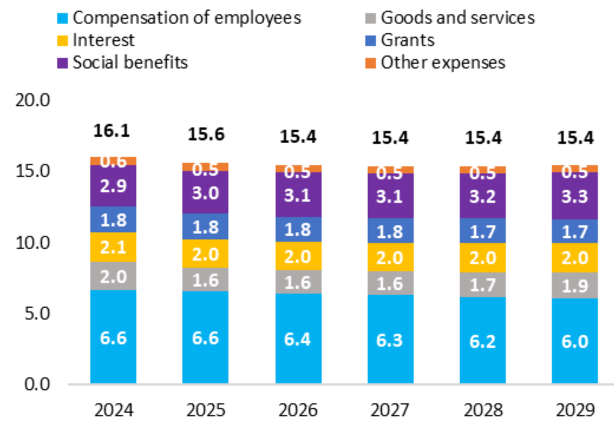
In the medium term, tax revenues are expected to consolidate as the key component of fiscal revenues, representing -on average- 12.3% of GDP. This performance will be supported by a stable macroeconomic environment characterized by annual real GDP growth of 3.8%, controlled inflation of around 3.5% per year, and an average depreciation of the NER of 1.5% per year, conditions that favor the continued strengthening of revenue collection (Figure 70). This growth also reflects the impact of structural reforms designed to improve collection efficiency, such as the creation of the DNIT. Since its establishment, this institution has implemented a series of strategic measures that have made it possible to continuously increase tax collection without increasing taxes and to broaden the taxpayer base.

Figure 70. Projection of total revenue 2024-2029 (% of GDP)



Source: DGPMF, MEF.

Figure 71. Projection of total expenses 2024-2029 (% of GDP)



Source: DGPMF, MEF.

Expected revenues in the medium term will allow the government to strengthen spending in priority areas, guaranteeing its sustainability. Compensation of employees, projected at around 6.3% of GDP, will guarantee the strengthening of personnel-intensive areas such as education, health, and security, mainly allowing the incorporation of health professionals and members of the public forces. Likewise, social benefits will continue to be sustained, mainly covering pensions and social assistance programs such as *Adultos Mayores, Tekoporã*, and *Hambre Cero,* which will remain at around 3.1% of GDP. Spending on goods and services, mainly medicines and medical supplies, would be around 1.7% of GDP (Figure 71).

Public investment is expected to increase in the medium term, complemented by alternative financing modalities. Between 2025 and 2029, public investment is projected to represent, on average, 2.1% of GDP (Table 10), driven mainly by strengthening tax revenues. In addition, traditional investment will be complemented by financing projects through alternative modalities, such as Public-Private Partnerships and extraordinary resources from renegotiating Itaipu's energy cession tariff for the 2024-2026 period. These initiatives will make it possible to diversify the sources of financing and maintain the dynamism of public investments.

Committed to responsible and prudent management of public finances, we anticipate a return to compliance with the FRL by 2026, with expectations of primary surpluses in the medium term. Fiscal convergence will be achieved through sustained improvement in the net operating balance, driven by greater collection efficiency and strategic public expenditure management. In addition to converging to the fiscal deficit limit authorized by the FRL, an improvement in the primary balance is projected, which is expected to be positive starting in 2025.

Table 10: Medium-term fiscal framework 2024-2029[11] (% of GDP)

	2024	2025	2026	2027	2028	2029
Total revenues	15.3	15.5	15.8	16.0	16.0	16.3
Total expenses	16.1	15.6	15.4	15.4	15.4	15.4
Interest	2.1	2.0	2.0	2.0	2.0	2.0
Net operating balance	**-0.8**	**-0.1**	**0.3**	**0.6**	**0.7**	**0.9**
Public investment	1.8	1.8	1.8	2.1	2.2	2.4
Overall balance	**-2.6**	**-1.9**	**-1.5**	**-1.5**	**-1.5**	**-1.5**
Primary balance	**-0.5**	**0.1**	**0.5**	**0.5**	**0.5**	**0.5**

Source: DGPMF, MEF.

2.2.4.1 Economic growth and public investment

About the model

In a tighter fiscal scenario in which strategic sectors must be prioritized, we analyze how public investment can boost economic growth using a deterministic model that reveals the expected evolution of the economy, given the current state of technology. In a more austere but prudent fiscal context, where the government has decided to return to the historical path of public investment and, at the same time, explore financing alternatives, we perform an exercise based on a growth model to answer some questions about the trajectory of economic growth and public investment. We use a growth model that allows us to understand deterministically how the economy evolves given the current level of technology.

Achieving sustainable economic growth requires answering key questions about public investment and its medium-term impact. The two questions posed are: what is the medium-term economic growth given a public investment target of 4.6% of GDP, and what is the public investment requirement given an economic growth target of 4.5%? The first question explores the medium-term growth trajectory due to maintaining a total public investment target of 4.6% of GDP. The second question asks about the need for public investment to reach the target annual economic growth of 4.5%.

The main equations of the model are presented below. The model starts from a Cobb-Douglas function with increasing factors of labor, private, and public capital.

$$Y_t = K_t^{\alpha} \cdot G_t^{\beta} \cdot (A_t \cdot L_t)^{1-\alpha-\beta}$$

Where:

- Y_t is the total product at time t
- K_t is private capital at time t
- G_t is the public capital at time t
- A_t is the productivity at time t
- L_t is the labor force at time t.
- α and β are the elasticity parameters of private and public capital, respectively, where we assume $\alpha + \beta < 1$

[11] Annex B includes the medium-term fiscal framework for the General Government and the Public Sector.

In addition, the following equations are used to determine the dynamics of private and public capital:

- $K_{t+1} = (1 - \delta) K_t + I_K$
- $G_{t+1} = (1 - \delta) G_t + I_G$

Where I_K and I_G represent private and public investment. In both cases, we assume the same depreciation rate.

From the solution of the model, we obtain the equations that allow us to answer the two questions posed:

1. **The trajectory of the economic growth rate given a public investment target.**

$$\Delta \hat{y}_t = \alpha \cdot [\phi + \theta \cdot \frac{s_k \cdot Y_t}{k_t}] + \beta \cdot [\phi + \theta \frac{s_g \cdot Y_t}{G_t}]$$

   - $\Delta \hat{y}_t$ is the growth rate of output at time t
   - ϕ and θ are constants of the model
   - $s_k = i_k$ is the proportion of output devoted to private investment
   - $s_g = i_G$ is the proportion of output devoted to public investment

   This equation allows us to calculate the output growth path given a target private and public capital investment rate.

2. **The trajectory of the public investment rate given a target economic growth rate.**

$$\hat{s}_g = [\frac{(\frac{(1+\delta) \cdot \dot{Y}_{t+1}}{\Gamma}) - 1) - \alpha \cdot [\phi + \theta \cdot \frac{s_k Y_t}{K_t}]}{\beta} - \phi] \cdot \frac{G_t}{\theta \cdot Y_t}$$

   - $\hat{s}_g$ is the proportion of public investment required
   - Γ is equal to the product of labor force growth and productivity growth.

   The second equation calculates the public investment rate required to achieve a target output growth rate.

Results

Comparing scenarios allows us to understand how the complementarity between public and private investment can contribute to economic growth. Two scenarios are analyzed: the base scenario and the optimistic scenario; the base scenario is based on historical data for the last 20 years, and the optimistic scenario seeks to highlight how public investment requirements and economic growth change in the face of improved productivity and increased private investment. Public investment that is complementary to private investment has multiple benefits, including increased productivity of private productive factors, higher economic growth, and lower public investment requirements.

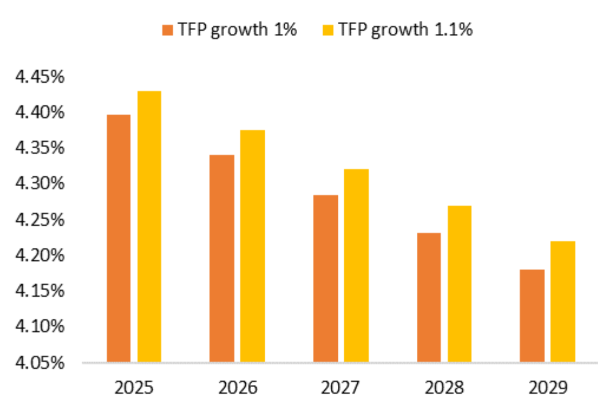
The base scenario defines a sustained growth trajectory based on clear public and private investment targets. In the base scenario, the economic growth target for the next five years is set at 4.5% per year. Likewise, the target rate for public investment is 4.6% of annual GDP, which is given by annual public sector investment of around 3.1% of GDP plus additional resources from Itaipu of around 1.5% of GDP. On the other hand, productivity is growing at a constant rate of 1% per year, which is the average TFP growth rate over the last 20 years. Finally, private investment is set at 16% of GDP, corresponding to the average of the difference between gross capital formation and public investment over the last decade.

The results reveal the close relationship between public investment and economic growth, highlighting the need to adjust investment targets to achieve ambitious growth objectives. As a result, an average economic growth of 4.3% is obtained for a five-year period, considering a public investment target of 4.6% of GDP. On the other hand, to achieve an economic growth target of 4.5%, an average public investment of 5.6% of GDP is required. While 4.6% of GDP in investment yields 4.3% growth, a 4.5% growth target requires a higher investment rate as a percentage of GDP. These public investment requirements are reduced in the face of higher private investment or under higher factor growth rates.

In the optimistic scenario, two key adjustments are introduced that could catalyze more robust economic growth. The first considers a shift in productivity growth from 1% to 1.1% per year. The second sees an increase in private investment from 16% to 17% of GDP. Productivity growth implies greater efficiency in resource use. Likewise, greater private participation implies a higher total capital stock and greater productivity of public investment.

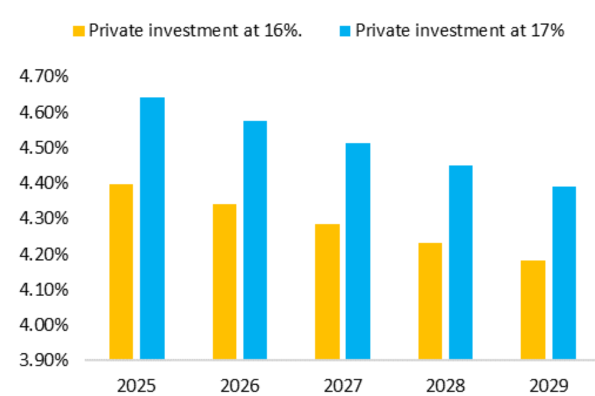
A 0.1 p.p. increase in productive factors reduces the average annual public investment requirement by 0.16 p.p. while increasing average economic growth by 0.036 p.p. per year. Thus, a 0.1 p.p. increase in productive factors decreases the average annual public investment requirement and increases economic growth. However, the growth rate change or investment requirements are not economically large (Figures 72 and 74).

Figure 72: Economic growth by factor growth and 4.6% of public investment 2025-2029 (% of GDP)



Source: MEF.

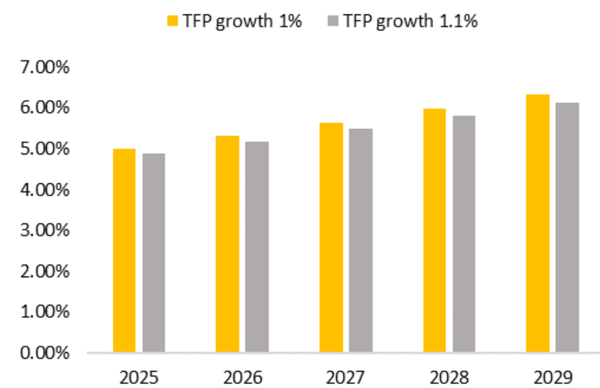
Figure 73: Economic growth by an increase in private capital and 4.6% public investment 2025-2029 (% of GDP)



Source: MEF.

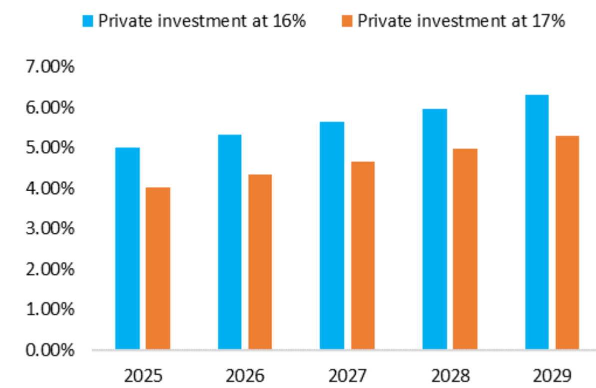
An increase in private investment by 1 p.p. increases average economic growth by 0.23 p.p. while reducing the requirement for public investment by almost 1 p.p. per year. Thus, benefits from an increase in private investment, which, over a five-year horizon, provides a considerable boost to the economy. The increase in private investment reduces the need for public investment, indicating that encouraging private investment can be key to optimizing resources and stimulating economic growth (Figures 73 and 75).

Figure 74: Public investment caused by a change in factor growth and 4.5% annual growth 2025-2029 (% of GDP)



Source: MEF.

Figure 75: Public investment caused by a change in private investment and 4.5% annual growth 2025-2029 (% of GDP)



Source: MEF.

2.2.4.2 Productive and Unproductive Spending

To achieve target economic growth, it is necessary to identify the most effective type of public spending. The previous section analyzed the public investment requirements for GDP to sustain a target economic growth. The question that remains to be answered is the following: What type of public investment is sufficient to sustain a target economic growth? To answer this question, the scope of fiscal policy must be understood. Fiscal policy acts in two ways within public spending: through transfers or through acquiring physical capital, which we know as investment. Transfers can be in kind (goods and services) or monetary. In this case, it is assumed that transfers in goods and services or monetary transfers are the same.

Public investment has a greater impact on economic growth than spending on goods and services. To address this issue, a fairly simple general equilibrium model is used to denote the importance of investment in goods and services and economic growth in the medium term.

The impact of public investment on the economy is more profound and lasting than that of spending on goods and services. While increasing government consumption of goods and services increases GDP and employment, this effect is usually short-term, albeit immediate. On the other hand, an increase in public investment increases the amount of capital and employment in an economy and promotes growth in the medium term. This result is because an increase in public capital increases the amount of capital per worker and improves labor and private capital productivity. In contrast, spending on goods and services only affects aggregate demand but does not affect private capital and, therefore, does not affect productivity.

Public investment is a determining factor in driving sustained economic growth, although its effects are not immediate. In short, public investment improves growth prospects in the medium term. However, its effect is less immediate than spending on goods and services. Finally, it can be deduced that public investment is sufficient to maintain sustained economic growth as long as all other factors remain constant.

Box 4. Itaipu: a new source of strategic financing for Paraguay

Paraguay receives significant resources from Itaipu Binacional annually through royalties, energy transfers, and payments to the National Electricity Administration (ANDE). These revenues come from the shared use of the energy generated by the hydroelectric power plant by virtue of the treaty establishing that each country, Paraguay and Brazil, has the right to 50% of the production.

On May 9, 2024, after a series of negotiations, an increase of 15.4% in the energy cession tariff was made official, amounting to USD 19.28 per kilowatt/month (kW-month) for the years 2024, 2025, and 2026. Until then, Paraguay had received USD 16.71 per kW-month in 2023 to sell surplus energy to Brazil. According to the current treaty, when one of the parties does not consume all of its allocated quota, the surplus must be transferred to the other partner at preferential prices.

With this tariff adjustment, Paraguay will receive around USD 1.25 billion annually over the next three years. This amount is broken down into USD 281 million in royalties, USD 266 million for energy compensation, USD 651 million for social investments, and USD 53 million in profits for ANDE. These resources represent a unique opportunity for the country's development.

The agreement also enables important investments in electricity infrastructure, allowing Paraguay to take full advantage of its energy quota. In addition, it opens the possibility of moving towards the direct sale of energy in the Brazilian market, consolidating the country's energy sovereignty.

The Government has identified six strategic areas to channel additional resources from Itaipu. These areas include health, education, security, road infrastructure in the country's interior, public transportation, and improvements in the energy infrastructure aimed at achieving the long-awaited energy sovereignty.

In the health sector, three new hospitals will be built in the country's interior in addition to the four already under construction. A total of seven fully equipped healthcare centers will be built. This represents a significant advance in access to health services for isolated communities.

It also seeks to invest in both security and education, recognizing that both areas are fundamental for the country's progress. The improvement of citizen security will include the institutional strengthening of the National Police in infrastructure, supplies, tactical equipment, the implementation of new technologies, and the increase of police presence in vulnerable communities. This strategy seeks to reduce crime rates, generating a safe environment among citizens. At the same time, significant resources will be allocated to education, focusing on improving school infrastructure, teacher training, and developing programs that promote inclusion and equity.

The government also seeks to settle historical debts by modernizing public transportation and road infrastructure. All-weather roads will be developed to eliminate the isolation of several localities and improve national connectivity while facilitating economic development.

Finally, priority will be given to strengthening the energy infrastructure to promote the country's industrialization. This will make it possible to increase domestic energy consumption and consolidate energy sovereignty, making maximum use of available resources to promote sustainable economic growth in Paraguay.

Table 11. Negotiation Results

	Previous Agreement Millions of USD	Current Agreement Millions of USD	% Var.
Rate (USD kw/month)	16.71	**19.28**	15.4
Social investments	395	**651**	64.8
Royalties	251	**281**	11.8
Energy compensation	233	**266**	14.1
Utilities for ANDE	50	**53**	4.8
Annual income	**929**	**1,250**	**34.5**

Source: Executive Branch of the Republic of Paraguay.

Box 5. Strategic Measures to Promote Private Investment in Public Infrastructure

The bill amending Law No. 5102/13[12] incorporates a number of key improvements aimed at promoting the development of public investment projects in infrastructure through private financing under the Public-Private Partnership (PPP) modality in Paraguay.

These reforms are being developed in the context of the merger of the Technical Secretariat for Economic and Social Development Planning (STP) with the Ministry of Finance. This merger has made it possible to unify and optimize administrative procedures related to the management of public investment projects, improving their efficiency and coordination.

These reforms modernize the regulatory framework, promoting greater transparency, competitiveness, and attractiveness for investors, with the purpose of boosting the country's development and economic growth. Among the main benefits are:

Greater clarity: By updating concepts and incorporating new definitions, the bill eliminates ambiguities, providing greater clarity, transparency, and understanding at all stages of the project life cycle, from initial investment to operation and maintenance.

Greater financial flexibility: Through the National Economic Team (EEN), the government can reduce the minimum value required for the initial investment in PPP projects from 12,500 minimum wages. This measure expands opportunities, including smaller projects that are equally relevant to the State and attractive to the private sector.

Increased aggregate fiscal exposure: With the authorization of the EEN, the aggregate fiscal exposure is doubled to 4% of GDP for the cumulative exposure and 0.8% of GDP for the annual exposure. This measure widens the margin for incorporating new projects under the PPP modality, promoting the development of more infrastructure works in the country with private investment.

Increased government contribution: The government's contribution to private initiatives will increase significantly from 10% to 25% of the present value of the project's total cost. In addition, this percentage may be increased exceptionally with the approval of the EEN, always aligned with the medium-term fiscal framework and the Government's priorities, providing additional support to

[12] Law for the Promotion of Investment in Public Infrastructure and the Expansion and Improvement of State Goods and Services.

projects that require it.

Greater agility: The duration of the evaluation process for projects submitted as private initiatives was reduced by half, from 180 days to only 90, allowing greater agility in the initial stage of the project life cycle. In addition, the "lock-in" period for submitting similar projects is reduced from three to two years, allowing less waiting time for the proposal of new projects.

Greater benefits for private initiatives: Private bidders will have greater benefits, including the right of first refusal, which allows them to match the best offer under specific conditions. This incentive strengthens their competitiveness and stimulates the private sector's interest in presenting initiatives.

New typologies and environmental sustainability: The draft law incorporates renewable energy generation projects within the typologies, encouraging investment in sustainable solutions for the future and evaluating climate change issues. In addition, the bill includes dredging and maintenance of navigability of rivers, lakes, and other water resources. It includes all airports, not only international airports, as potential recipients of PPP projects.

Source: DGIP, MEF.

2.2.5 Debt sustainability

Paraguay maintains a sustainable debt level, supported by its solid macroeconomic fundamentals and the institutional fiscal policy framework. Despite the global shocks of recent years, Paraguay has overcome various obstacles thanks to the implementation of appropriate and timely economic policies over the last decades, which have strengthened the country's macroeconomic fundamentals. This has been key to ensuring debt sustainability.

The base scenario -considered the most likely- is based on the assumptions of the medium-term fiscal framework, supported by the country's solid macroeconomic fundamentals. In this scenario, public debt is estimated to reach 35.9% of GDP by the end of 2024. In addition, economic growth of 4.0% is expected for 2024 and 3.8% for the 2025-2029 period. Inflation is expected to reach 3.6% by 2024, converging towards the BCP's new target of 3.5% as of 2026. The nominal exchange rate of the guaraní against the US dollar is expected to depreciate by 3.8% and 2.4% at the end of 2024 and 2025, respectively, remaining at around 1.5% in the following years. On the other hand, both the overall and primary results derive from the fiscal convergence plan, projecting a positive primary result as of 2025.

The convergence plan guarantees the reduction of public debt in the medium term. In the baseline scenario, the trajectory of public debt as a percentage of GDP shows a transitory increase in 2025, followed by a progressive decline that is projected at 35.1% of GDP by 2029[13] (Table 12). This evolution is supported by the firm commitment of the fiscal authority to return, in 2026, to compliance with the limit established for the fiscal balance in the FRL.

[13] This downward trajectory is in line with the IMF's most recent projections made under its official framework for public debt sustainability analysis for a higher level of government, as detailed in the latest Article IV report.

Table 12: Central Government Debt Trajectory 2024-2029 in the Base Scenario

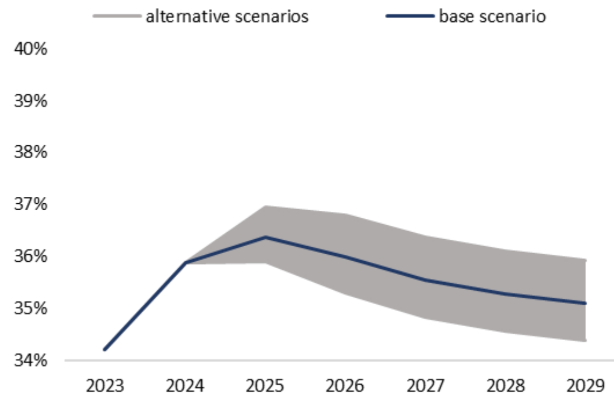
Base scenario	2023	2024E	2025E	2026E	2027E	2028E	2029E
Real GDP growth (%)	5,0	4,0	3,8	3,8	3,8	3,8	3,8
Nominal exchange rate depreciation (%)	4,4	3,8	2,4	1,5	1,5	1,5	1,5
Overall balance(% of GDP)	-4,1	-2,6	-1,9	-1,5	-1,5	-1,5	-1,5
Primary balance (% of GDP)	-2,4	-0,5	0,1	0,5	0,5	0,5	0,5
Inflation (%)	3,7	3,6	3,7	3,5	3,5	3,5	3,5
Debt (% of GDP)	**34,2**	**35,9**	**36,4**	**36,0**	**35,5**	**35,3**	**35,1**

Source: DGPMF and DGPE, MEF.
Note: The results presented are estimates based on the previously described assumptions and, therefore, are subject to possible variations depending on changes in macroeconomic conditions.

As part of the public debt sustainability analysis, several alternative scenarios for the medium term were evaluated. First, different trajectories of the real GDP growth rate and their possible impact on the evolution of the public debt stock were considered. Likewise, different scenarios of nominal exchange rate depreciation and their possible effects on the trajectory of public debt were considered. For each of these variables, upside and downside risks are considered, which could increase or decrease the stock of public debt as a percentage of GDP in the medium term.

Under the different alternative scenarios, the public debt balance as a percentage of GDP remains at prudent and sustainable levels. On the one hand, a higher level of private investment is expected to reduce the debt trajectory with respect to the base scenario, driven by more dynamic growth, with projected rates of 4.6% at the beginning and 3.8% at the end of the analysis period. These expectations are supported by the announcements of significant private investments and by the recent investment grade rating, which reinforces Paraguay's position as a reliable and attractive investment destination. In addition, a drought scenario is considered, which would raise the trajectory of public debt above the base scenario, due to more moderate growth, with rates of 3.5% at the beginning and 3.8% at the end of the analysis period. However, even under this water stress scenario, the public debt balance would remain substantially below 40% of GDP in the medium term. On the other hand, with respect to the nominal exchange rate, a more favorable scenario is envisaged compared to the baseline scenario, with depreciation rates ranging from 1.8% to 1.5% in the medium term, which would result in a trajectory of the public debt balance lower than the baseline scenario. In contrast, in a less favorable scenario, with a depreciation of 3.8% at the beginning and 1.5% at the end of the analysis period, the trajectory of the debt stock would be above the baseline scenario in the medium term. However, even in the most adverse depreciation scenario considered, the public debt stock would remain considerably below 40% of GDP in the medium term (Graph 76).

Figure 76. Evolution of public debt in alternative scenarios (%)



Source: MEF.

Box 6. Paraguay makes history with the first global bond issue in guaraníes.

In February 2024, Paraguay issued the first guarani bond in the international markets. On February 5, 2024, the country reached a milestone in its economic history by issuing its first guarani-denominated bond on the New York Stock Exchange. This achievement, which positions the country among a select group of economies in the region, consolidates the confidence of international investors in both the country and its currency.

The issue received a demand that doubled the amount allotted, contributing to closing the operation at a lower rate than that prevailing in the domestic market. The issue totaled PYG 3,643,235,000,000, equivalent to USD 500 million, with a demand that doubled the amount allotted, reaching USD 1,056 million. This interest level contributed to consolidating the success of this first operation, which was carried out at an interest rate of 7.90% and a term of 7 years, maturing in 2031 (Table 8.2).

The success of this operation reflects the strong confidence of international investors in the country and the Guarani. Paraguay's economic and institutional transformation track record has been instrumental in reaching this important milestone. After decades of effort, the country has managed to consolidate a stable macroeconomic environment characterized by robust and resilient growth, supported by continued economic diversification, low and stable inflation, and a nominal exchange rate with low volatility, as detailed in Chapter 5.

This initiative is a fundamental step in the gradual de-dollarization of the country's public debt. The operation is part of the MEF's debt management strategy, aimed at optimizing the composition of public debt. These actions reinforce the perception of country risk by investors and rating agencies, strengthening confidence in the country's fiscal sustainability.

Source: DGPE, MEF.

Box 7. Diversification of financing sources

Paraguay is moving towards a more resilient future, where financial innovation becomes the engine of sustainable development. Investment financing through non-traditional instruments has become increasingly important as a solution to address environmental and social challenges that impact both globally and in our country. In this sense, Paraguay has made progress in adopting innovative financing alternatives that mobilize resources for initiatives with a positive economic, social, and environmental impact.

Paraguay was the first country in South America to gain access to the Resilience and Sustainability Facility (SRS), an innovative financial instrument that promotes sustainable development, in November 2023. The Board of the International Monetary Fund (IMF) approved Paraguay's access to the SRS, which offers concessional financing for countries that promote structural reforms focused on sustainable development and climate change mitigation. Paraguay stands out as one of the few countries that have obtained maximum access to financing, equivalent to 150% of its quota (USD 302.1 million Special Drawing Rights, SDRs).

In December 2023, the Inter-American Development Bank (IDB) selected Paraguay as one of the countries participating in the IDB CLIMA pilot program. This innovative financial instrument rewards participants for meeting climate and nature-related objectives. As a benefit, participants receive a grant equivalent to 5% of the principal amount of the IDB loan.

Paraguay is currently in the process of designing its first Green, Social, and Sustainable Sovereign Bond Framework. The framework establishes guidelines for financing public investment projects that promote sustainable development. It defines the categories, selection, and evaluation criteria for green, social, and sustainable projects eligible for financing. It should be noted that the sustainable category includes projects that simultaneously generate a positive environmental and social impact.

Table 13. Eligible expenses categories

Green bonds	Social vouchers	Sustainable bonds
Clean and sustainable transportation	Food safety	Mixed portfolios of activities with positive environmental and social impact
Non-conventional energy sources and energy efficiency	Access to affordable housing	
Sustainable buildings	Access to education	
Biodiversity	Women's empowerment	
Organic agricultural production	Support for low-income families	

Source: DGPE, MEF.

Source: DGPE, MEF.

Chapter 3. Structural Reforms for Macroeconomic Stability and Sustainable Development - Achievements and Challenges Ahead

3.1 Background of structural reforms

The reforms implemented reflect a strong commitment to institutionalism in our country. This approach underscores an effort to improve public management and ensure that government structures are more efficient and effective. By focusing on institutionality, these reforms seek to strengthen the foundations of public administration and ensure that practices and processes are more transparent, accountable, and capable of adequately responding to emerging challenges.

In the 1990s, Paraguay went through economic instability. The country was affected by a series of financial turbulences that destabilized its economy. These were accompanied by currency depreciation and high inflation, which led to a loss of the guarani's purchasing power. This combination of factors led to a significant increase in poverty levels, directly impacting the population's consumption capacity and, therefore, the domestic market dynamics, as households were forced to adjust their spending to cope with the economic uncertainty.

At the beginning of the new millennium, the difficulties intensified. At this juncture, the public sector found itself in a critical situation, with insufficient tax collection and a high level of indebtedness, facing serious difficulties in meeting its financial obligations. This scenario was further aggravated by the increase in the population living in poverty, which exacerbated social and economic tensions in the country. Faced with this situation, it became evident that profound reforms were needed tocorrect existing structural weaknesses and to lay the foundations for more robust and equitable economic growth.

In 2003, within the framework of a *stand-by* agreement with the IMF, Paraguay undertook a process of profound reforms to transform the country's main economic institutions. This agreement marked a turning point in the country's economic management by promoting the transformation of the Ministry of Finance and the BCP by implementing a series of reforms. These reforms comprehensively addressed the structural weaknesses that had undermined stability and limited growth for decades.

With the implementation of these reforms, the country began to lay the foundations for a stable and predictable macroeconomic framework. Measures were introduced to improve the management of monetary and fiscal policy, such as strengthening the autonomy and technical capacity of the BCP, increasing the tax burden and formalization of the economy, reducing the deficit of the Fiscal Fund, and optimizing the efficiency of public spending through better resource management by the Ministry of Finance. These changes were backed by initiatives aimed at restoring stability to the country's financial institutions and strengthening transparency in public management.

The transformation process initiated in 2003 brought with it a period of remarkable macroeconomic stability. It was characterized by greater control of inflation, more prudent management of public finances, and a reduction in the country's vulnerability to external shocks. This stable environment laid the foundations for more sustained, inclusive, and resilient economic growth. It also contributed to regaining the confidence of both domestic and international investors.

Table 14. Main structural reforms implemented 1989-2009

1989 and 1990s	2000s
1989 ● Adoption of free and fluctuating exchange rate ● Liberalization of financial markets and reduction of reserve requirements **1990** ● Law 60/90 on Tax Incentives for Foreign Investments **1991** ● MERCOSUR Foundation ● Privatization of public companies ● Organic Charter of the Ministry of Finance ● Tax Reform **1992** ● Promulgation of the new National Constitution, which establishes the creation of the Office of the Comptroller General of the Republic and the independence of the BCP. ● Tax reform and the creation of VAT ● The law that establishes the unified retirement and pension system **1994** ● Promulgation of the Law on Cooperatives **1995** ● BCP Charter **1996** ● General Law on banks, finance companies, and other credit institutions ● Trust Business Act ● Insurance Law **1997** ● Creation of the Secretariat for the Prevention of Money or Asset Laundering (SEPRELAD) ● Law allowing the establishment of maquiladora industrial enterprises ● Law that creates and regulates the Risk Rating Agencies. ● Creation of securitization companies **1998** ● Strengthening of the Securities Market regulatory framework and creation of the National Securities Commission (Comisión Nacional de Valores). **1999** ● State Financial Administration Law	**2000** ● Civil Service Law **2003** ● Creation of the Deposit Guarantee Fund ● Reform of the Tax Fund ● Public Procurement Law ● Restructuring of Banco Nacional de Fomento **2004** ● Tax Reform ● New customs code **2005** ● Creation of the Development Finance Agency (AFD) and FOCEM ● Exchange Houses Law. **2007** ● Reform of the Livestock Fund charter

Source: Own elaboration based on information obtained from BCP and the Presidency portal.

Table 15. Main structural reforms implemented 2010-2024

2010s	2020s
2011 ● Adoption of the inflation targeting scheme **2012** ● IRP Approval ● MSME regulatory framework ● Securities Payment and Settlement System Law **2013** ● Fiscal Responsibility Law ● Public-Private Participation Law ● Creation of the Tax on Income from Agricultural Activities (IRAGRO). ● Law on tax incentives for industrial parks ● Law for the reorganization of the financial administration of the State. ● Regulation of electronic means of payment **2015** ● Law on free access to public information ● Creation of the Don Carlos Antonio López Scholarships (BECAL) ● Regulatory framework for equity investment funds ● Law that establishes rules for transparency and user protection in the use of credit and debit cards. **2016** ● Law approving the amendment to the GAFISUD memorandum of understanding.[14] ● Law to strengthen the regulatory framework of the Paraguayan financial system ● Guarantee fund for MSMEs **2017** ● Reform of the charter of the Banco Nacional de Fomento (BNF) ● Strengthening the regulatory framework of the Securities Market and the National Securities Commission. ● Law establishing transparency rules in the regime of companies incorporated by shares. **2018** ● Modification and expansion of the BCP's organic charter **2019** ● Tax Reform that establishes the creation of IRE and IDU	**2020** ● Liability Management Act ● Public Investment Law ● Law creating Simplified Joint Stock Companies (EAS) **2021** ● New AFD charter ● Incorporation of cooperatives into the Paraguayan Payment System (SIPAP). **2022** ● New Public Procurement Law **2023** ● Law for the prevention, correction and sanctioning of conflicts of interest in the public service. ● Creation of the MEF, the DNIT, the Superintendency of Securities and the Superintendency of Retirement and Pensions. ● New Public Procurement Law ● Strengthening of SEPRELAD through the implementation of SIRO ● Carbon Credit Market Act **2024** ● New Law on the Administrative Organization of the State ● Reform of the National Police ● Regulation of the law on non-conventional renewable energies ● Creation of the General Directorate of the National Forest Monitoring System. ● Certification, control and promotion schemes for biomass use

Source: Own elaboration based on Casco (2023), II Paraguayan Congress of Researchers, Producers and Makers of Economic Policies.

3.2 New structural reforms in the economic and fiscal area

3.2.1 Approved

Recently, the government has decided to undertake a series of far-reaching economic and fiscal structural reforms. These reforms are designed to strengthen the institutional framework and improve public management's efficiency and effectiveness. By focusing on these objectives, the government seeks to stabilize and strengthen the economy in the short term and to lay the foundations for more resilient, sustainable, and equitable growth.

[14] Currently, GAFILAT.

In this context, the creation of the MEF, which was made official on August 23, 2023, marks a significant milestone in the modernization of the Paraguayan State. The new ministry is the result of the integration of the Ministry of Finance, the Civil Service Secretariat (SFP), and the STP with the aim of promoting a more cohesive and efficient approach in the design and implementation of economic strategies in the short, medium, and long term. This reform marks the beginning of the Paraguayan State's reengineering process, aiming to consolidate a more agile and efficient public administration to improve the population's welfare and strengthen the country's capacity to face future economic challenges.

The MEF is responsible for the formulation and coordination of the national economic policy, as well as for the elaboration and execution of the fiscal policy. It regulates the State's budgetary process, manages the public sector's debt policy, and monitors public spending, guaranteeing an efficient and transparent administration of the State's resources. In addition, it exercises sectoral and territorial stewardship by establishing guidelines for planning the country's sustainable development. The MEF also coordinates international technical cooperation, formulates the public sector's human resources management policy, and is one of the bodies in charge of economic analysis to support decision-making.

The DNIT is in charge of implementing the tax policies established by the MEF with respect to the taxes under its jurisdiction. It was created with the purpose of improving efficiency in the collection of internal and external taxes, optimizing administrative processes, strengthening the institutional capacity for the supervision and control of tax obligations, as well as the control of merchandise traffic at the country's borders and airports. In this way, it seeks to consolidate a more robust and efficient tax system.

Another key reform in the modernization of the Paraguayan institutional framework is the creation of the Superintendency of Pensions. This new specialized technical body has been established with the objective of providing rigorous supervision and effective oversight of pension entities. The Superintendence of Pensions will be responsible for guaranteeing compliance with regulations, ensuring the pension system's stability, protecting members' rights, and efficiently managing funds destined for retirement and other social benefits.

The Law on the Administrative Organization of the State aims to ensure a more efficient and transparent public administration in Paraguay. This legislation is fundamental for modernizing the state apparatus, as it establishes a regulatory framework that promotes optimizing public resource use and improving public service provision to citizens.

The purpose of the Civil Service Bill is to define the general provisions governing the civil service and, specifically, to regulate the civil service career. This law seeks to improve the efficiency and quality of the services offered to citizens, promote more transparent and professional public management, and guarantee that the performance of public servants is in accordance with the principles of merit, equality, and equity. Thus, it promotes a civil service committed to the development of the country.

The update of the PPP Law seeks to encourage the presentation of private initiatives that contribute to the country's development, providing greater legal certainty and establishing a more agile and transparent process. The new Law adapts the regulatory framework to international best practices and incorporates the recommendations of the IMF in the framework of the evaluation of the management of the public investment policy, as well as the lessons learned in the first contract executed under this modality in our country. The proposed amendments seek to provide greater clarity and efficiency in the processes and to speed up the evaluation terms during the life cycle of investment projects, both in the case of public and private initiatives.

3.2.2 In process

In addition to the reforms that have already been enacted, the government is engaged in developing and implementing a number of additional reforms that are in different stages of the legislative process. These initiatives reflect the country's strong commitment to strengthening institutions and promoting more sustainable and equitable development. These legislative projects seek to improve efficiency in government management, strengthen regulatory frameworks, and promote greater transparency in the use of public resources.

Within them, the reform of the Fiscal Fund aims to guarantee the sustainability of the Public Sector Retirement and Pension System in the long term. This initiative seeks to update and strengthen the legal framework, promoting a more equitable approach to access to retirement benefits. It is planned to amend and expand the provisions of Law No. 2345/2003, "On Reform and Sustainability of the Fiscal Fund. Public Sector Retirement and Pension System", in order to safeguard the payment of present and future benefits in a fair, balanced and sustainable manner, in line with the principles of equity and fiscal responsibility.

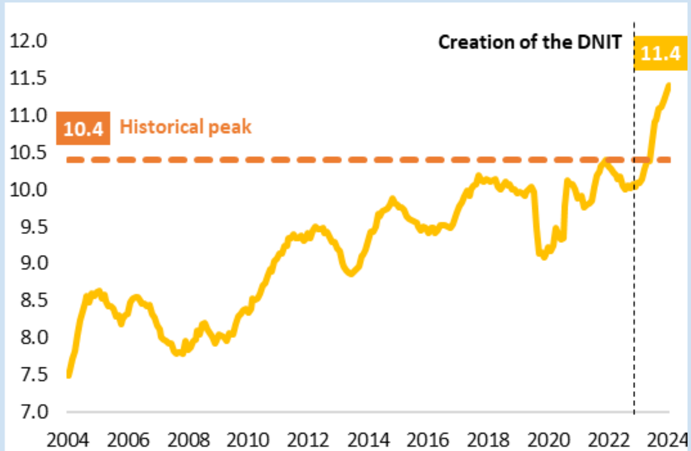
Box 8: In July 2024, DNIT reached a record tax burden of 11.1%.

The creation of the DNIT unifies efforts, taking a decisive step toward tax modernization. The merger of the State Secretariat of Taxation (SET) and the National Customs Directorate (DNA) through the creation of the DNIT optimized efficiency in managing resources and significantly strengthened the tax and customs collection capacity.

Tax collection experienced historic growth, reaching a record tax pressure of 11.1% in August. Between August 2023 and August 2024, DNIT achieved an increase in tax collection of PYG 5,434,605 million, equivalent to USD 732 million, registering a growth of 18.3% in internal taxes and 16.6% in customs. This solid dynamic is projected to continue in the second half of the year and allow the closing fiscal year of 2024 with a tax pressure of nearly 11.5% of GDP. In addition, DNIT reports a significant growth in the taxpayer base, adding 111,538 new contributors during the same period.

The results achieved by the DNIT reflect that modernization is essential for efficient tax management. Since its creation, it has achieved a notable increase in the collection of both internal taxes and customs duties, in addition to a significant growth in the net number of taxpayers. These advances result from important improvements in institutional management, including the modernization of processes and the incorporation of new technologies. Particularly noteworthy are the implementation of the Electronic Invoicing System and the use of surveillance drones, which are used to monitor the movement of vehicles and people in clandestine ports and patrol areas that are difficult to access.

Figure 77. Tax collection (% of GDP)



Source: Own elaboration with data from DGEE-GE, DNIT.

Source: DGMF, MEF.

Box 9: Firm steps for the regulation of the Superintendency of Pensions

A clear roadmap towards the regulation of the Superintendency. Law No. 7235/2023, which regulates the supervisory role of the State in retirement and pension entities, has an implementation schedule of 36 months from its enactment on December 15, 2023. The first 24 months will be devoted to designing the organizational and functional structure, establishing the institutional strategic plan, training human resources, and developing key administrative regulations.

Training and supervision: the final step towards operability. With these foundations laid during the first two years, the schedule foresees that, in the last 12 months, the Superintendency will implement a comprehensive training and induction plan for the supervised institutions, thus guaranteeing the correct application of the law. At the end of this period, the entities must present their first adaptation plan, with a maximum term of 5 years.

The MEF leads the regulatory milestones. This process is not advancing in isolation; rather, the MEF plays a fundamental role in the regulation of the law, meeting key milestones, such as the election process for representatives and the Superintendent (July 2024), the definition of obligations and attributions of the Social Security Council (August 2024) and the organic structure of the Superintendency (October 2024). In addition to these advances, the regulatory development to regulate retirement and pension entities is expected for July 2025.

Dialogue and strategic planning as the cornerstones of progress. At the same time, consultations are being held on the human, technological, and physical capital requirements for the Superintendency, in addition to meetings led by the MTESS with key stakeholders, such as labor unions and retiree associations, to ensure inclusive and effective representation mechanisms.

Source: DGEES, MEF.

3.3 Reforms for a more sustainable Paraguay

The government is implementing several reforms to strengthen the economy's resilience to climate change's impact. These initiatives aim to strengthen the economy's resilience through a combination of reforms in multiple areas, such as incorporating climate criteria in public investments, strengthening the financial system's resilience, expanding the clean and renewable energy matrix, and protecting forest resources.

In this context, the MEF has developed a climate change roadmap with the purpose of coordinating public policies and guiding the ministry's actions for the fulfillment of the country's climate commitments. This instrument aims to align the Ministry's policies with the country's climate commitments, strengthening the national climate action strategy. The roadmap is based on the Helsinki Principles adopted by the Coalition of Finance Ministries for Climate Action. It also seeks to guide discussions and decisions within the scope of the MEF's competence, promoting economic management aligned with environmental sustainability.

The SRS signed with the IMF makes Paraguay the first country in South America to access this fund with maximum access to financing. The main objective of this financial instrument is to implement climate-focused reforms aimed at reducing vulnerability to climate change and achieving more sustainable growth. Access to the SRS signals the government's firm commitment to implementing structural reforms that promote sustainable economic growth, protect the environment, and preserve the country's natural capital.

The SRS acts as a catalyst for implementing 13 reform measures to reduce vulnerability to climate change and achieve more sustainable growth. Among these measures are those focused on increasing the resilience of public investments and the financial system, aiming to mitigate climate risks and preserve their stability. In addition, the program contemplates the expansion of Paraguay's energy matrix, characterized by 100% clean and renewable production; the development of a green taxonomy aligned with NDC commitments to mobilize additional green finance in the productive sectors; and strengthening the monitoring system for forest protection.

In addition, Paraguay was one of the first countries selected to join the IDB CLIMA program in recognition of its efforts to set ambitious environmental targets. This program is a results-based financing mechanism that rewards countries for increased action on biodiversity and climate by promoting the achievement of nature and climate change objectives through capital grants. Countries that meet key performance indicators will be able to access increased resources to support green projects, making a significant contribution to climate change mitigation and environmental protection.

The IDB's CLIMA project focuses on recovering Lake Ypacaraí, the country's natural heritage. The program will support the restoration project of Lake Ypacaraí and its wetlands through investments in water and sanitation infrastructure, with the aim of revitalizing the watershed and preserving its valuable natural resources. This initiative aims to improve the environmental conditions of the lake basin, promoting climate-resilient and low-carbon development. Under this scheme, the program seeks to increase the coverage of sanitary sewerage and wastewater treatment in the basin's priority areas, thus contributing to meeting the country's climate goals. It also seeks to recover degraded environmental areas and strengthen the management of water and sanitation services, improving efficiency and sustainability in the identified areas.

Table 16. SRS reform measures

Key challenges	N°	Reform measures	Deadline
Public investments not resilient to climate shocks	**1**	MEF will revise and publish Decree 4436/20 to incorporate climate aspects at each stage of the development of public investment projects (appraisal, selection, external audit, etc.) following the recommendations of the IMF technical assistance.	**November 15, 2024 - Completed**
Lack of financial resources to support adaptation and mitigation efforts	**2**	MEF and BCP will publish a green taxonomy aligned with Paraguay's NDCs.	**November 15, 2024 - Completed**
Vulnerability of the financial sector to climate shocks	**3**	BCP: (i) establish reporting requirements and a repository of data on banks' significant climate-related financial risks;	**May 23, 2025 - In progress**
		(ii) adopt a framework for monitoring and assessing climate-related financial risks for banking;	
		(iii) issue supervisory guidance for banks to incorporate climate-related risks into their risk management frameworks, along with timelines for adopting the guidance.	
Preservation and expansion of the clean electricity matrix	**4**	The Vice-Ministry of Mines and Energy (VMME) of the MOPC will establish the regulation of Law 6977/2023 for non-conventional renewable energies, including (1) the specification / rationalization of economic incentives; (2) technical aspects (examples, requirements to connect to the national interconnection system, detailed criteria for licenses, and conditions that would allow the effective development of non-conventional renewable energies through all defined actors (generator, co-generator, self-generators, and exporters).	**June 3, 2024 - Completed**
	5	The National Electricity Administration (ANDE) will publish an external audit and study of international reference values for its costs in different segments of its operations and efficiency parameters through an international firm of recognized trajectory in this field.	**November 15, 2024 - In progress**
	6	ANDE will develop, publish and adopt transparent and specific methodologies to adjust electricity tariffs in line with Law 966/64, considering operating costs, financial costs of expected capital needs to preserve and expand the clean electricity matrix, and efficiency gains based on the results of the external audit and study in RM5[15] , and the evolution of losses in the RM8 plan.	**May 23, 2025 - In progress**
	7	MOPC/VMME and the Ministry of Industry and Commerce (MIC) will establish by decree the energy efficiency standards for the three household appliances that represent the highest percentages of domestic electricity consumption in line with international *benchmarks* of the International Organization for Standardization.	**June 3, 2024 - Completed**
	8	8.a ANDE and MOPC/VMME will develop, publish, and gradually adopt a plan for ANDE's loss reduction with quantitative targets, install 20,000 smart meters to reduce non-technical electricity losses.	**November 15, 2024 - Completed**
		8b ANDE will progressively implement hourly/dynamic tariffs.	
		8c ANDE will increase its audits against energy theft by 10 percent compared to the same period in 2023.	
CO_2 emissions from the transportation sector.	**9**	MEF, in coordination with DNIT, will adopt an explicit carbon tax to replace the current selective taxes on fuel consumption.	**May 23, 2025 - In progress**
	10	10.a The Vice Ministry of Transportation (VMT) of the MOPC, the VMME, MIC and MEF will regulate the Electromobility Law 6925/2023, and adjust fiscal incentives in favor of electric vehicles.	**November 15, 2024 - In progress**

[15] Reform Measure (RM).

		10.b MIC, MOPC/VMT and ANDE will install additional public infrastructure for electric charging. VMT will lead the selection of the operational model and develop regulations for electric public transport in the Asunción metropolitan area and set targets to increase the percentage of electric buses in this area.	
Forest preservation	**11**	The National Forestry Institute (INFONA), the Ministry of Environment and Sustainable Development (MADES), MOPC/VMME, and the Ministry of Agriculture and Livestock (MAG) will replace Decree 4056 of 2015 to create the registry of industrial biomass users and establish prerequisites for biomass use. INFONA, MADES, National Police and the National Anti-Drug Secretariat (SENAD) will regulate and implement a decree with joint intervention protocols for land use change using the National Forest Monitoring System. The institutions in charge of the protocol will coordinate with other state institutions, including the Public Prosecutor's Office, to ensure the interventions foreseen in the protocol.	**June 3, 2024 - Completed**
	12	INFONA will modify its regulatory framework aimed at strengthening its institutional and financial capacities to protect native forests and respond to deforestation alerts. This includes the creation of a National Directorate for the National Forest Monitoring System.	**June 3, 2024 - Completed**
Contain methane emissions	**13**	MIC will enact regulation of law 7014/2022 that promotes the reuse, recycling and use of plastic containers (polyethylene terephthalate).	**May 23, 2025 - Completed**

Source: Own elaboration.

3.3.1 Approved

Paraguay enacted the Carbon Credits Law with the aim of guaranteeing legal certainty in the ownership and trading of carbon credits generated in Paraguay, as well as ensuring transparency in transactions. Law No. 7190, enacted in October 2023, establishes the ownership regime for credits generated by the reduction, avoidance, and/or capture of carbon in order to encourage and facilitate the participation of the public and private sectors in the mitigation of greenhouse gas emissions and in the carbon markets. This regulation will allow the country to attract funds from international companies and nations with environmental commitments, adding economic value to its natural resources.

Law No. 6977/23, which promotes the generation, production, development, and use of electric energy from non-conventional renewable energy sources, was also regulated. This regulation represents an important step towards the country's energy diversification, which will reduce dependence on traditional sources and promote a more sustainable environment. By encouraging the use of clean energy, the law will contribute to energy security and boost economic development and job creation in the renewable energy sector.

Decree No. 1788/24 establishes the creation of a registry of industrial biomass users to promote the certification and use of bioenergy from forest plantations or native forests. This registry facilitates the identification and certification of actors that sustainably use bioenergy. Its objective is to ensure that the practices implemented are efficient and, at the same time, preserve and protect the country's native forests. By promoting the responsible and conscientious use of forest resources, the registry has the potential to contribute significantly to biodiversity conservation and ecological balance in the region.

The Executive Branch, through Decree No. 1746/24, reformed INFONA's regulatory framework with the aim of strengthening its institutional and financial capacities. This reform seeks to address the challenges facing the management of forest resources in the country by creating the General Directorate of the National Forest Monitoring System, responsible for providing updated and verifiable information on the state of forests in Paraguay, thus establishing a more efficient and transparent monitoring system. The availability of accurate data will allow for more informed decision-making, promoting the conservation and sustainable use of these resources, and encouraging responsible management that will benefit both biodiversity and the communities that depend on these ecosystems.

The MEF concluded the revision process of Decree No. 4436/2020 with the objective of integrating climate aspects into the different phases of the development and management of public investment projects. This initiative seeks to ensure that environmental considerations are a key element in the planning and execution of these projects. Implementing this measure is expected to promote a more coherent and efficient approach to public management, aligning climate change policies with the country's economic development.

The MEF, in collaboration with the BCP, presented Paraguay's Green Taxonomy, a voluntary instrument that will make it possible to mobilize additional financial resources for the productive sector. This Green Taxonomy ensures that activities meet certain eligibility criteria, such as contributing significantly to at least one of the seven environmental objectives of the taxonomy, not causing significant harm to others, and complying with the Minimum Social Safeguards. In this way, it provides a transparent and standardized framework, providing investors with confidence and promoting the visibility of green investment opportunities in Paraguay.

In addition, the government implemented a series of measures aimed at strengthening its green energy matrix. In this context, the MEF, in collaboration with the MOPC, the ANDE, and the MIC, promoted the implementation of various measures, such as establishing energy efficiency standards, plans to reduce electricity losses, and installing smart meters.

3.3.2 Estimation of the impact of climate shocks on GDP

About the model

Growth-at-risk (GaR) is used to anticipate extreme economic risks and to adjust pre-emptive policies that can mitigate adverse impacts. This methodology, developed by Adrian et al. (2019), uses predictive quantile regressions (QR) to estimate how future economic activity is linked to current economic conditions. The quantile regression approach is flexible and allows for capturing nonlinear relationships.

This methodology anticipates future values and captures the dynamics of risk in a constantly changing economic landscape. The advantage of using this methodology lies in the ability to forecast the full distribution of macroeconomic variables into the future. Unlike point estimates, this methodology allows us to measure how risk changes over time.

It has become a key resource for understanding and mitigating the impact of climate variations on the economy. Several institutions, such as the IMF, have adopted this methodology to monitor macroeconomic risks in different countries. In this report, we present how the methodology is applied to assess the impact of drought shocks on GDP agriculture, electricity, and water. The results show the negative effect that extreme weather events would have on GDP.

Methodology

GaR ensures a robust representation at the extremes of the distribution, providing a more complete view of the uncertainty and improving accuracy in analyzing outlier events. Following Prasad et al. (2019), the estimation was performed in two steps. First, different conditional quantiles were estimated using *quantile spacing*. This methodology allows for maintaining the monotonicity of the probability functions, making the quantiles not cross. Then, density estimation techniques are used to obtain a distribution that fits the conditional quantiles estimated in the previous step. In this exercise, the t-student distribution was used, which allows a higher density of extreme events and avoids the risk of underestimating uncertainty.

The forecasts capture the effect of drought on sectoral volatility in detail, facilitating a more accurate risk analysis to anticipate and mitigate economic impacts. Finally, a distribution is obtained for each forecast of agricultural GDP and post-shock electricity and water of one standard deviation of drought measured through SPEI[16] . The exercise employs two horizons, one and four quarters after the drought shock. Through these forecasts of densities, one can observe the behavior of agricultural GDP and electricity and water, and calculate how the risk of extreme events moves after the drought shock.

Equations:

Following Adrian et al. (2019), the Growth-at-Risk (GaR) model requires estimating the following equation using quantile regression (QR):

$$Y_{t+h} = X'_{i,t}\beta + \epsilon_{t+h}$$

Where:

- Y_{t+h} is the economic output (in this case, GDP growth) over time.$t + h$
- $X_{i,t}$ is a vector of predictor variables (e.g., financial indicators) at time.t
- β is a vector of coefficients to be estimated.
- ϵ_{t+h} is the error term, which captures unobserved influences.

The objective of Quantile Regression:

In the context of QR, the objective is to minimize the following loss function for a quantile :q

$$\widehat{\beta_q} = \arg\min_{\beta} \sum_{t=1}^{T-h} \rho_q(Y_{t+h} - X'_{i,t}\beta)$$

Where:

- $\rho_q(u) = u(q - 1\{u < 0\})$ is the loss function for the quantile.q
- T is the total number of observations.

QR is an effective tool for analyzing the effects of extreme shocks and variations on economic growth. This model allows estimating how a weather shock impacts the future conditional distribution of GDP growth, with a particular focus on the lower quantiles. By focusing on these quantiles, QR helps to

[16] The Standardized Precipitation and Evapotranspiration Index (SPEI) is a multiscale drought index based on climate data.

identify and quantify downside risks to growth, thus providing a more complete perspective on economic vulnerability to adverse events.

Results

While the agricultural sector faces vulnerabilities in the face of drought, the resilience of the electricity sector stands out, highlighting the importance of efficient and sustainable management to ensure a stable energy supply. The results show that a drought shock negatively impacts agricultural GDP projections (Figure 78), while electricity and water GDP projections remain stable (Figure 79). Despite the decrease in water inflow, hydropower plants have managed to maintain consistent production thanks to efficient management and careful coordination between power generation and preventive maintenance, which has allowed them to avoid waste. In addition, their environmental conservation strategy ensures long-term water availability, allowing them to operate with high efficiency over time. Data show that while production in some sectors has declined, electricity distribution has experienced growth, driven by energy-intensive activities.

Diversification in production and proactive resource management are key to building a more resilient economic system in the face of the threat of climate shocks. Regarding water management, entities such as the Empresa de Servicios Sanitarios del Paraguay (ESSAP) ensure that their operation is not severely affected by drought. Overall, these heterogeneous results observed in different sectors of economic activity underscore the need to implement effective mechanisms to mitigate the impact of future extreme weather events.

Figure 78. Projection of the distribution of agricultural GDP growth

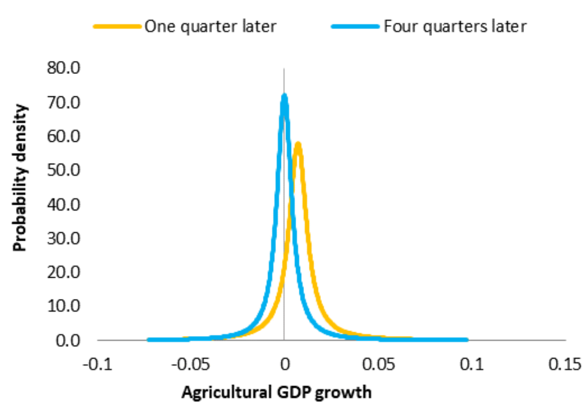
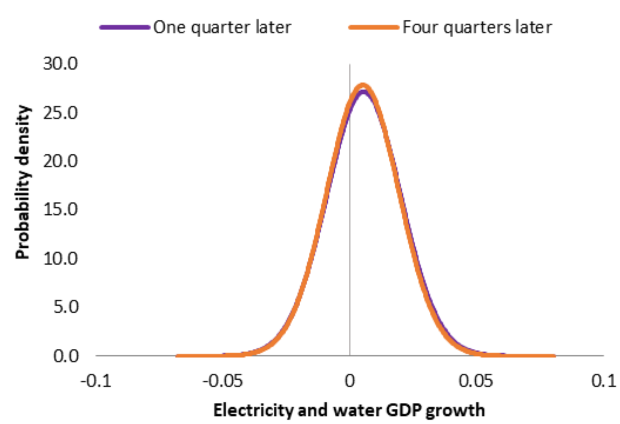


Figure 79. Projected distribution of electricity and water GDP growth



Source: MEF.
Note: *Projections were made at two horizons: one and four quarters after a climate shock.

Box 10. NDP 2050: strategic framework for long-term public policies

The Government of Paraguay has decided to promote the projection of the National Development Plan (NDP) to the year 2050. This process is led by the MEF, through its Vice-Ministry of Economy and Planning, in order to consolidate the development of long-term public policies and in response to the need to review the progress of the current NDP 2030.

The NDP 2050 is a long-term strategic roadmap designed to guide public policies towards sustainable development. Its objective is to consolidate a model that will enable Paraguay to face future challenges, with a State vision that transcends government terms and promotes the well-being of future generations.

The NDP 2050 is being built through a participatory process. It involves key actors such as civil society, academia, the private sector and the public sector. Through workshops, digital platforms and consultations in the country's main cities, perspectives from diverse social and economic sectors are gathered, ensuring an inclusive and collective vision of national aspirations. This inclusive approach reinforces the commitment to achieve equitable and sustainable development, responding to the needs of all citizens.

The strategy will be supported by in-depth technical studies. Technical studies are underway that include gap analyses of the current NDP 2030, specialized diagnostics and in-depth studies with the participation of national and international experts. These inputs will ensure that the new plan is robust and aligned with national and international socioeconomic dynamics. In addition, they will be reviewed periodically to ensure the plan's adaptability to new challenges, which will allow it to adjust to a changing reality.

The NDP 2050 will seek to guide public investment and optimize resources. The NDP 2050 is expected to have a significant impact on public finances in the long term, providing a roadmap to guide public investment in strategic areas. It will contribute to the optimization of available resources and promote a balance between public investment and fiscal consolidation, allowing the country to move forward in an orderly and sustainable manner without compromising the stability of its finances.

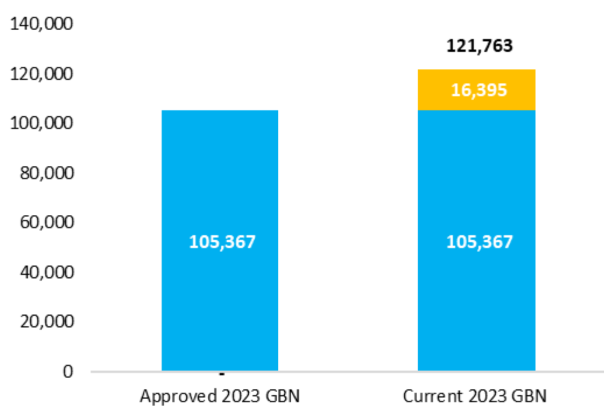
Source: DGEES, MEF.

Chapter 4. Project of the GBN 2025 - Reallocation of Spending to National Priorities

4.1 Evaluation of the GBN 2023

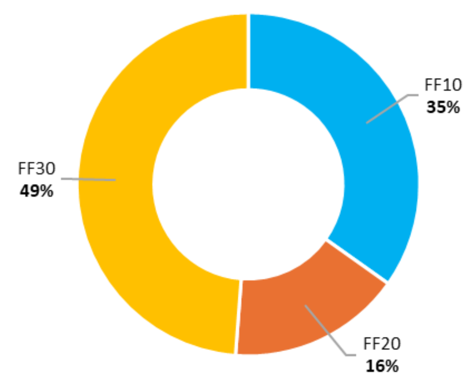
In 2023, the public sector budget recorded an increase of 15.6% concerning the approved GBN, mainly explained by overdue debts. The GBN 2023 presented significant modifications compared to the approved budget, amounting to PYG 16,395 billion (Figure 80), equivalent to 5.2% of GDP. The increases made in 2023 were mainly allocated to the MSPBS and MOPC within the Central Administration and within the Decentralized Entities to the BNF, the ANDE, and the Social Security Institute (IPS). The increases were granted within the Extraordinary Measures Law No. 7218/23 framework, which authorized an increase in the fiscal deficit from 2.3% to 4.1% of GDP (Table 1).

Figure 80: 2023 Budget (Bn of PYG)



Source: SICO, MEF.
Note: Excluding consolidable transfers.

Figure 81: Obligated expenditure by source of financing 2023 (% of total)



Source: SICO, MEF.
Note: Excluding consolidable transfers.

The public sector reached a level of execution equivalent to 32.9% of GDP, financed mainly with institutional and Treasury resources. The public sector's financial plan amounted to 99.8% of the current GBN, totaling PYG 121,523 billion. On the other hand, the obligated expenses totaled PYG 103,312 billion, registering a growth of 12.8% compared to 2022. Execution comprised 85.0% of the current financial plan (Table 17). Institutional resources represented the primary source of financing, contributing 49% of the obligated expenses, followed by the Public Treasury with 35% and public credit resources with the remaining 16% (Figure 81).

Table 17: Budgeted and obligated spending by level of government 2022-2023[17]

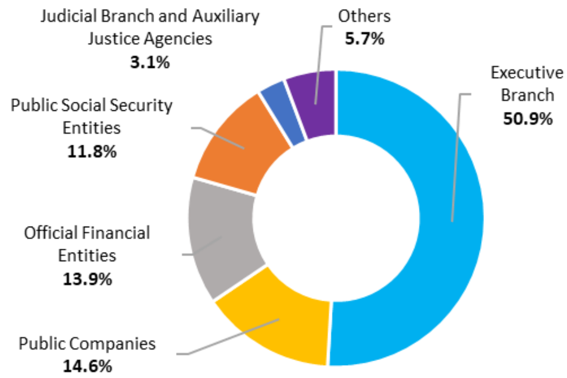
Public Sector Levels	Approved GBN		GBN in force		Current FP		Obligated		Var. of Obligated expenditures	Obligated / Current FP		Obligated (% of GDP)	
	Bn of PYG		Bn of PYG		Bn of PYG		Bn of PYG		Var %	%		% of GDP	
	2022	2023	2022	2023	2022	2023	2022	2023		2022	2023	2022	2023
Executive Power	50,463	52,347	55,382	59,083	55,020	58,866	47,491	52,569	10.7	86.3	89.3	16.2	16.7
Public Companies	15,645	19,418	17,168	21,674	17,168	21,674	14,079	15,107	7.3	82.0	69.7	4.8	4.8
Official Financial Institutions	10,931	12,728	13,499	17,513	13,499	17,513	10,613	14,350	35.2	78.6	81.9	3.6	4.6
Public Social Security Entities	10,784	11,221	11,533	13,311	11,533	13,311	10,727	12,175	13.5	93.0	91.5	3.7	3.9
Judicial Branch and Auxiliary Justice Bodies	3,038	3,186	3,120	3,338	3,120	3,338	3,029	3,181	5.0	97.1	95.3	1.0	1.0
National Universities	1,961	2,126	1,992	2,145	1,992	2,136	1,783	1,918	7.5	89.5	89.8	0.6	0.6
Autonomous and Autarchic Entities	1,598	1,914	2,024	2,145	2,024	2,142	1,708	1,733	1.4	84.4	80.9	0.6	0.6
Departmental Governments	1,200	1,170	1,282	1,268	1,282	1,257	1,135	1,160	2.2	88.5	92.3	0.4	0.4
Legislative Power	502	557	523	585	523	585	501	555	10.7	95.8	94.8	0.2	0.2
State Central Banking	487	514	487	514	487	514	375	386	2.9	77.0	75.1	0.1	0.1
Office of the Comptroller General of the Republic	152	163	163	163	160	163	158	160	1.4	98.7	98.2	0.1	0.1
Other government agencies	20	24	20	24	20	24	18	19	5.5	91.2	79.5	0.0	0.0
Total	**96,781**	**105,367**	**107,194**	**121,763**	**106,829**	**121,523**	**91,618**	**103,312**	**12.8**	**85.8**	**85.0**	**31.3**	**32.9**

Source: SICO, MEF.
Note: Excluding consolidable transfers.

The Executive Branch, Public Enterprises, Official Financial Entities, and Public Social Security Entities accumulate 91.2% of the obligated expenses. Considering the execution according to the level of government, the Executive Branch, which includes the Presidency, Vice-Presidency, and 21 ministries, concentrates 50.9% of the obligated expenses (Figure 82), equivalent to PYG 52,569 billion. Public enterprises comprising ANDE, the National Administration of Navigation and Ports (ANNP), the National Directorate of Civil Aeronautics (DINAC), Petróleos Paraguayos (PETROPAR), and the National Cement Industry (INC) accounted for 14.6% of spending, with an execution of PYG 15,107 billion. The official financial entities, made up of the BNF, the AFD, the Crédito Agrícola de Habilitación (CAH), and the Loan Fund of the Ministry of National Defense (MDN), accounted for 13.9% of the obligated expenses, with PYG 14,350 billion. Public social security entities' spending, including the IPS and specific retirement funds, reached 11.8% of the total, equivalent to PYG 12,175 billion (Figure 82 and Table 17).

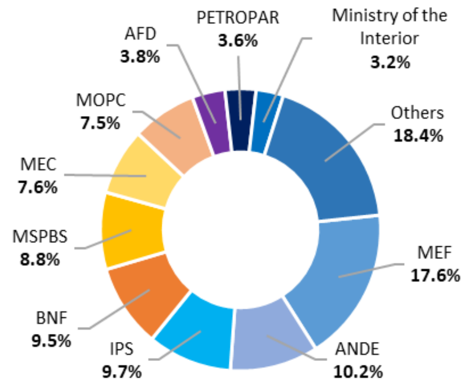
[17] Annex C includes data on the budgeted and obligated expenditures of the Central Administration in 2023.

Figure 82: Obligated expenditure by level of government 2023 (% of total)



Source: SICO, MEF.
Note: Excluding consolidable transfers.

Figure 83: Obligated expenditure by OEE 2023 (% of total)



Source: SICO, MEF.
Note: Excluding consolidable transfers.

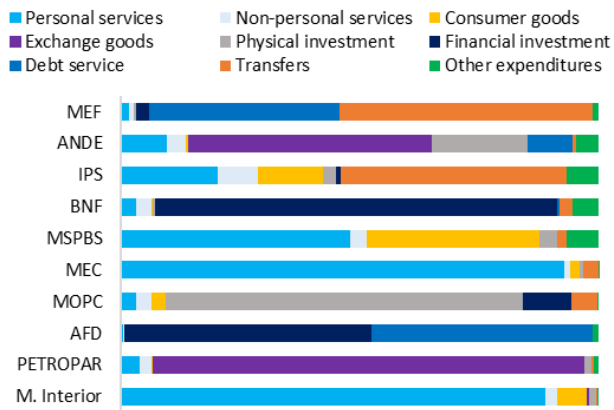
The ten central executing agencies accounted for 81.6% of obligated expenditure, equivalent to 26.9% of GDP, highlighting the concentration of public spending in a few agencies. The MEF is the leading executing agency, with a 17.6% share (Figure 83) due to its role in managing public debt service payments and budgetary transfers to subnational governments, pension payments, and social programs (Figure 84). ANDE, the second largest executor, with a share of 10.2%, allocated most of its spending to purchasing energy and physical investments. However, its execution level was the second lowest among the OEEs mentioned, reaching 79.2% of its current financial plan (Table 18). The third largest executor, IPS, with a share of 9.7%, mainly used its resources to pay for pensions, personal services, and the purchase of medical instruments and medicines.

Table 18: Budgeted and obligated expenditures by OEE 2023

OEE	Approved GBN	Current GBN	Current FP	Obligated	Obligated / Current FP	Obligated	Participation in the execution
	Bn of PYG	Bn of PYG	Bn of PYG	Bn of PYG	%	% of GDP	%
MEF	18,825	19,615	19,615	18,217	92.9	5.8	17.6
ANDE	10,862	13,312	13,312	10,537	79.2	3.4	10.2
IPS	8,725	10,812	10,812	10,070	93.1	3.2	9.7
BNF	7,730	12,157	12,157	9,866	81.2	3.1	9.5
MSPBS	8,078	11,052	11,050	9,140	82.7	2.9	8.8
MEC	8,213	8,249	8,249	7,880	95.5	2.5	7.6
MOPC	6,844	9,307	9,122	7,724	84.7	2.5	7.5
AFD	4,343	4,691	4,691	3,936	83.9	1.3	3.8
PETROPAR	7,217	7,028	7,028	3,686	52.5	1.2	3.6
MI	3,371	3,372	3,370	3,273	97.1	1.0	3.2
Others	21,160	22,167	22,116	18,982	85.8	6.0	18.4
Grand total	**105,367**	**121,763**	**121,523**	**103,312**	**85.0**	**32.9**	**100.0**

Source: SICO, MEF.
Note: Excluding consolidable transfers.

Figure 84: Obligated expenditure of the top ten executors by expenditure group 2023 (% of total)



Source: SICO, MEF.
Note: Excluding consolidable transfers.

Obligated expenditure on personal services, transfers, and financial investments were the most important, accounting for 58.7% of the total. Personal services, which include the salaries of hired and permanent civil servants, accounted for 27.7% of total spending (Table 19), registering an increase of 7.7%. Transfers intended to finance current and capital expenditures accounted for 18.2% of the total, with an increase of 15.6%. In turn, 12.8% was allocated to financial investment, which includes acquiring shares, granting loans to the public and private sector, and investment in securities and time deposits, registering a variation of 21.4%.

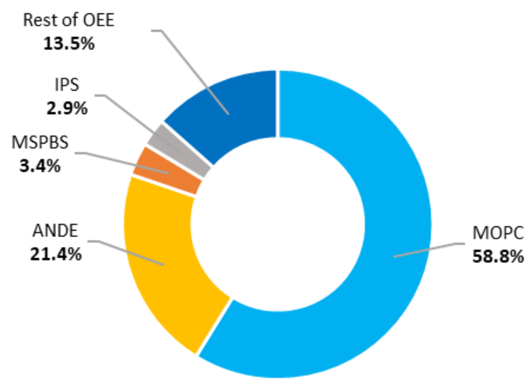
Table 19. Budgeted and obligated expenditure by expenditure group 2022-2023

Expenditure Group	Approved GBN Bn PYG		Current GBN Bn PYG		Current FP Bn PYG		Obligated Bn PYG		Obligated % of total		Obligated / Current FP %	
	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023
Personal Services	27,814	29,790	28,101	29,980	28,097	29,976	26,627	28,665	29.1	27.7	94.8	95.6
Transfers	16,096	18,419	17,805	20,754	17,776	20,744	16,283	18,821	17.8	18.2	91.6	90.7
Financial investment	10,839	11,695	13,780	16,257	13,780	16,257	10,921	13,261	11.9	12.8	79.3	81.6
Public debt service	9,169	10,451	10,617	10,686	10,617	10,677	9,149	10,172	10.0	9.8	86.2	95.3
Physical investment	12,741	11,660	14,765	14,847	14,488	14,671	9,677	9,811	10.6	9.5	66.8	66.9
Exchange goods	8,510	11,254	8,995	12,380	8,995	12,380	8,189	9,057	8.9	8.8	91.0	73.2
Consumer goods and supplies	4,958	4,693	5,341	7,627	5,314	7,624	4,438	6,020	4.8	5.8	83.5	79.0
Non-personal services	4,832	5,240	5,562	6,140	5,539	6,110	4,322	4,649	4.7	4.5	78.0	76.1
Other expenditures	1,824	2,165	2,229	3,091	2,224	3,084	2,012	2,857	2.2	2.8	90.5	92.6
Total	**96,781**	**105,367**	**107,194**	**121,763**	**106,829**	**121,523**	**91,618**	**103,312**	**100.0**	**100.0**	**85.8**	**85.0**

Source: SICO, MEF.
Note: Excluding consolidable transfers.

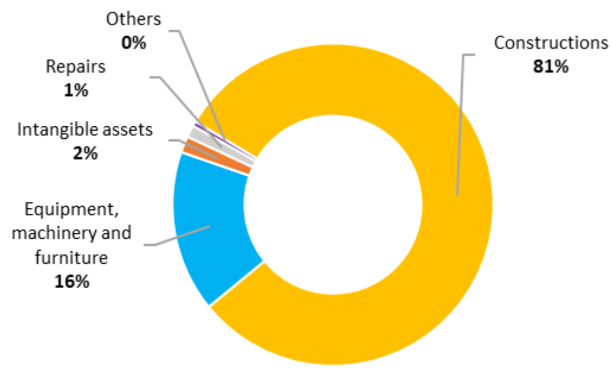
The MOPC and ANDE are the largest executors of physical investment, concentrating 80% of the total, due to their leading role in implementing public investment policy. Spending on physical investment, including constructing and maintaining institutional infrastructure works and public use, amounted to PYG 9,811 billion. The MOPC is the primary executor of public investment policy, with a 58.8% share of the total, followed by ANDE with 21.4%, MSPBS, and IPS with a much lower share of 3.4% and 2.9%, respectively (Figure 85). Most of the expenditure went to finance construction, equipment, machinery, and furniture, 81% and 16%, respectively (Figure 86).

Figure 85. Obligated expenditures on physical investment by OEE 2023 (% of total)



Source: SICO, MEF.

Figure 86. Composition of obligated expenditures on physical investment 2023 (% of total)



Source: Own elaboration with data from SICO, MEF.

Spending on social services accounted for 44.2% of obligated expenditure, equivalent to 14.5% of GDP. This component experienced an increase of 11.4%, driven mainly by increased spending in the health sector. These resources, equivalent to 4.7% of GDP, were allocated to the purchase of inputs and medicines for the MSPBS, and the payment of arrears (Table 20). Retirement and pensions represented the second most significant component of social services spending, reaching 3.9% of GDP. Spending on education accounted for 3.5% of GDP, incorporating a salary increase for teachers in the Ministry of Education and Science (MEC). Spending on social promotion and action reached 2.1% of GDP, with an increase of 14.2%, explained mainly by the payment of the food pension to senior citizens, which benefited more than 310,000 people at the end of 2023.

Table 20. Budgeted and obligated expenditures by function 2022-2023

Expenditure by function	Approved GBN Bn PYG		Current GBN Bn PYG		Current FP Bn PYG		Obligated Bn PYG		Variation of the Obligated	Obligated / Current FP %		Obligated % of GDP	
	2022	2023	2022	2023	2022	2023	2022	2023	Var %	2022	2023	2022	2023
Government administration	5,418	5,785	5,665	6,145	5,657	6,143	5,274	5,585	5.9	93.2	90.9	1.8	1.8
Security Services	5,336	5,887	5,477	5,963	5,477	5,963	5,292	5,736	8.4	96.6	96.2	1.8	1.8
Social Services	42,205	45,020	45,569	51,209	45,509	51,176	40,991	45,647	11.4	90.1	89.2	14.0	14.5
Health	13,205	13,066	14,044	16,932	14,022	16,929	12,184	14,627	20.1	86.9	86.4	4.2	4.7
Promotion and social action	5,817	6,546	6,363	7,055	6,349	7,047	5,676	6,483	14.2	89.4	92.0	1.9	2.1
Social security	11,180	12,104	12,012	13,567	12,012	13,567	11,180	12,167	8.8	93.1	89.7	3.8	3.9
Education	10,591	11,416	11,196	11,608	11,172	11,585	10,448	10,881	4.1	93.5	93.9	3.6	3.5
Science, technology and diffusion	602	775	862	851	862	851	554	439	-20.8	64.3	51.6	0.2	0.1
Labor relations	307	322	362	356	362	356	315	302	-4.2	87.0	84.8	0.1	0.1
Housing, urban planning and commun. services.	475	764	704	816	704	816	628	742	18.1	89.2	90.9	0.2	0.2
Other social services	27	27	26	25	26	25	7	7	-3.5	26.2	26.7	0.0	0.0
Economic services	34,177	37,665	39,225	46,956	38,928	46,754	30,330	35,445	16.9	77.9	75.8	10.4	11.3
Public debt service	9,164	10,442	10,591	10,664	10,591	10,664	9,124	10,169	11.5	86.1	95.4	3.1	3.2
Regulation and control services	481	570	667	826	667	823	608	730	20.0	91.1	88.7	0.2	0.2
Total	**96,781**	**105,367**	**107,194**	**121,763**	**106,829**	**121,523**	**91,618**	**103,312**	**12.8**	**85.8**	**85.0**	**31.3**	**32.9**

Source: SICO, MEF.
Note: No consolidable transfers.

4.2 Follow-up of GBN 2024 at the end of the first semester

At the end of the first half of 2024, the current GBN recorded an increase of 3.1% over the initially approved budget. The increases amounted to PYG 3,651 billion, representing 1.1% of the GDP. Of these, 91.5% were allocated to the Executive Branch, public enterprises, and official financial entities (Table 21). The Executive Branch received 52.4% of these additional budgetary resources, destined to a greater extent to the MSPBS for acquiring medical supplies and medicines. The Public Enterprises received 27.2% of the increases, mainly for financing investment projects related to the construction of electric power transmission lines by ANDE. 11.9% of the increases were allocated to the Official Financial Entities, prioritizing the financing program managed by the AFD.

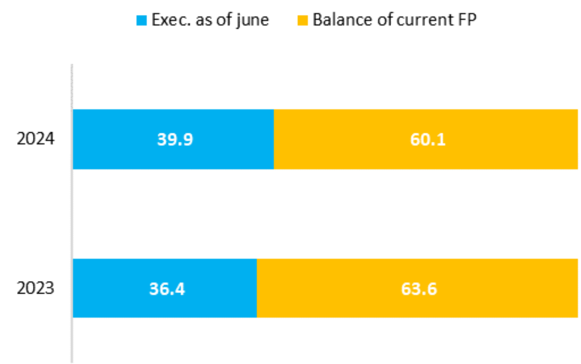
Table 21: Budgeted and obligated spending by level of government 2023-2024

Public sector levels	Approved GBN		Current GBN		Current FP		Accumulated		Variation of Obligated expenditures	Accumulated obligated expenses / Current FP		Accumulated Obligated Exp.	
	Bn PYG		Bn PYG		Bn PYG		Bn PYG		Var %	%		% of GDP	
	2023	2024	2023	2024	2023	2024	Jun-23	Jun-24		2023	2024	Jun-23	Jun-24
Executive power	52,347	58,628	59,083	60,542	58,866	57,559	22,018	24,387	10.8	37.4	42.4	7.0	7.3
Public companies	19,418	21,010	21,674	22,001	21,674	21,803	5,617	6,692	19.1	25.9	30.7	1.8	2.0
Official financial institutions	12,728	15,097	17,513	15,532	17,513	15,532	6,507	6,613	1.6	37.2	42.6	2.1	2.0
Public social security entities	11,221	11,681	13,311	11,681	13,311	11,681	6,131	5,060	-17.5	46.1	43.3	2.0	1.5
Judiciary and auxiliary justice agencies	3,186	3,126	3,338	3,212	3,338	3,212	1,467	1,391	-5.2	44.0	43.3	0.5	0.4
Autonomous and autarkic entities	1,914	2,338	2,145	2,408	2,142	2,408	774	789	1.9	36.1	32.7	0.2	0.2
National universities	2,126	2,171	2,145	2,280	2,136	2,280	826	891	7.9	38.6	39.1	0.3	0.3
Departmental governments	1,170	1,230	1,268	1,263	1,257	1,263	426	334	-21.6	33.9	26.4	0.1	0.1
Legislative power	557	614	585	614	585	614	253	266	5.3	43.2	43.3	0.1	0.1
State Central Banking	514	503	514	515	514	515	147	156	6.7	28.5	30.4	0.0	0.0
Office of the Comptroller General of the Republic	163	165	163	165	163	165	74	73	-1.1	45.5	44.4	0.0	0.0
Other government agencies	24	24	24	24	24	24	8	9	5.4	33.3	35.5	0.0	0.0
Total	**105,367**	**116,589**	**121,763**	**120,240**	**121,523**	**117,057**	**44,248**	**46,662**	**5.5**	**36.4**	**39.9**	**14.1**	**14.0**

Source: SICO, MEF.
Note: Excluding consolidable transfers.

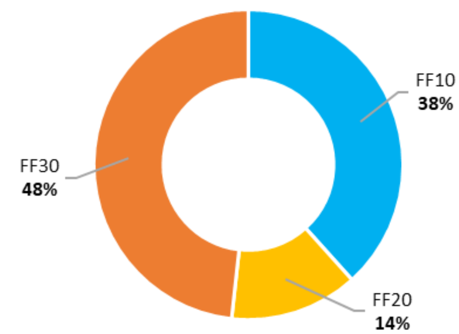
The execution level reached 39.9% of the current financial plan, equivalent to 14% of GDP, financed mainly with resources from the Public Treasury and institutional resources. As of June, the Consolidated Public Sector (CPS) obligated expenses amounted to PYG 46,662 billion, representing an increase of 5.5% over the same period of the previous year (Table 21). The available budget balance represents 60.1% of the current financial plan, registering an execution of 39.9%, higher than in 2023 (Figure 87). Regarding funding sources, institutional resources accounted for 48% of the total, followed by Public Treasury resources with 38%, while public credit contributed the remaining 14% (Figure 88).

Figure 87: Cumulative Obligated Expenditure and Budget Balance as of June 2024 (% of total)



Source: SICO, MEF.
Note: Excluding consolidable transfers.

Figure 88: Obligated expenditure by source of financing accumulated to June 2024 (% of total)



Source: SICO, MEF.
Note: Excluding consolidable transfers.

The ten main executing OEEs accounted for 82.3% of obligated expenses, with the MEF, the BNF, and the MSPBS standing out as the largest executors. Considering spending at the government level, the Executive Branch, Public Enterprises, Official Financial Entities, and Public Social Security Entities accounted for 91.6% of the total (Table 21). Due to its functions and competencies, the MEF leads the participation with 19.2% of the total, followed by the BNF, which concentrates 10.3% mainly on credit assistance, and the MSPBS, with 9.9% focused on the provision of medicines and supplies (Table 22).

Table 22: Budgeted and obligated expenditure by OEE as of June 2024

OEE	Approved GBN	Current GBN	Current FP	Accumulated obligated expenditures	Accumulated obligated / Current FP	Accumulated obligated expenditures	Share of obligated expenditures
	Bn PYG	Bn PYG	Bn PYG	Bn PYG	%	% of GDP	% of total
MEF	22,449	22,667	22,593	8,938	39.6	2.7	19.2
BNF	9,305	9,421	9,421	4,797	50.9	1.4	10.3
MSPBS	8,809	10,000	10,000	4,638	46.4	1.4	9.9
IPS	9,077	9,077	9,077	4,377	48.2	1.3	9.4
MEC	9,069	9,080	9,079	3,802	41.9	1.1	8.1
ANDE	11,902	12,893	12,694	3,736	29.4	1.1	8.0
PETROPAR	7,671	7,671	7,671	2,638	34.4	0.8	5.7
MOPC	7,210	7,210	4,760	2,298	48.3	0.7	4.9
MY	3,450	3,556	3,556	1,628	45.8	0.5	3.5
AFD	5,151	5,474	5,474	1,557	28.4	0.5	3.3
Others	22,497	23,191	22,731	8,251	36.3	2.5	17.7
Total	**116,589**	**120,240**	**117,057**	**46,662**	**39.9**	**14.0**	**100.0**

Source: SICO, MEF.
Note: Excluding consolidable transfers.

61.5% of obligated expenditure were allocated to the payment of personal services, transfers, and public debt service. Personal services were the group with the most significant weight within the execution in the first semester, with 29.4% of the total, registering a growth of 3.6% concerning 2023, mainly due to the salary adjustments granted to the MEC, the MSPBS, and the Ministry of the Interior (MI). The second most relevant expenditure group corresponded to transfers, with a 19.9% share and a 9.0% growth, mainly driven by pensions and food pensions for the elderly. Public debt service accounted for 12.2% of spending, with an increase of 30.3% attributed to the international situation that increased the cost of financing (Table 23).

Table 23: Budgeted and obligated spending by expenditure group 2023-2024

Expenditure Group	Approved GBN Bn PYG		Current GBN Bn PYG		Current FP Bn PYG		Accumulated obligated expenditures Bn PYG		Accumulated obligated expenditures % of total		Accumulated obligated expenditures / Current FP %	
	2023	2024	2023	2024	2023	2024	Jun-23	Jun-24	Jun-23	Jun-24	2023	2024
Personal Services	29,790	31,144	29,980	31,507	29,976	31,506	13,226	13,700	29.9	29.4	44.1	43.5
Transfers	18,419	20,527	20,754	20,859	20,744	20,785	8,511	9,275	19.2	19.9	41.0	44.6
Public debt service	10,451	13,525	10,686	13,534	10,677	13,534	4,377	5,703	9.9	12.2	41.0	42.1
Financial investment	11,695	13,287	16,257	13,641	16,257	13,641	5,674	5,504	12.8	11.8	34.9	40.4
Exchange goods	11,254	11,613	12,380	11,625	12,380	11,625	3,173	4,032	7.2	8.6	25.6	34.7
Consumer goods and supplies	4,693	6,140	7,627	7,099	7,624	7,080	2,494	2,821	5.6	6.0	32.7	39.8
Physical investment	11,660	12,324	14,847	13,429	14,671	10,370	3,454	2,388	7.8	5.1	23.5	23.0
Non-personal services	5,240	5,650	6,140	5,722	6,110	5,694	2,156	1,864	4.9	4.0	35.3	32.7
Other expenses	2,165	2,377	3,091	2,824	3,084	2,824	1,182	1,375	2.7	2.9	38.3	48.7
Total	**105,367**	**116,589**	**121,763**	**120,240**	**121,523**	**117,057**	**44,248**	**46,662**	**100.0**	**100.0**	**36.4**	**39.9**

Source: SICO, MEF.
Note: Excluding consolidable transfers.

The execution of physical investment expenditure amounted to 23% of the current financial plan, 80% of which was executed by the MOPC and ANDE. The obligated expenditure in physical investment reached PYG 2,388 billion, maintaining a similar execution percentage to 2023. The central executing entity was the MOPC, with a 61% share and PYG 1,464 billion, achieving an execution of 49% (Figure 89). ANDE accounted for 19% of physical investment, executing PYG 441 billion, while MSPBS and IPS contributed 4% and 3%, respectively, both with an execution of 20% of their current financial plan. As for the composition of physical investment, 83% of the obligated expenditure went to the construction of infrastructure works, 13% to the acquisition of equipment, machinery, and furniture, and the remaining 4% to the purchase of intangible assets and repairs (Figure 90).

Figure 89. Obligated expenditures on physical investment by OEE accumulated to June 2024 (% of total)

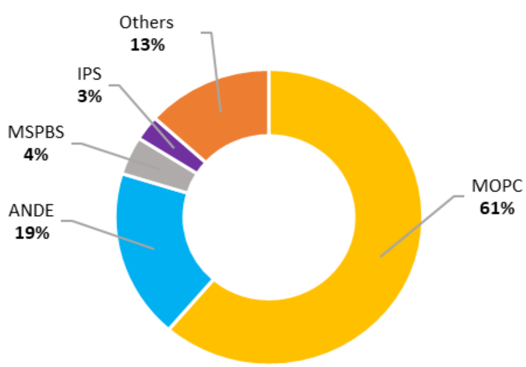
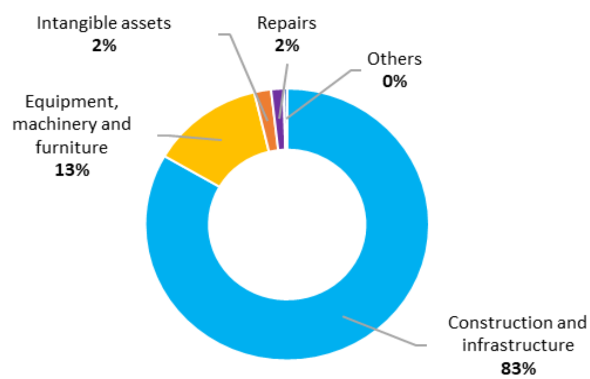


Figure 90. Composition of obligated spending on physical investment accumulated to June 2024 (% of total)



Source: SICO, MEF.

Source: Own elaboration with data from SICO, MEF.

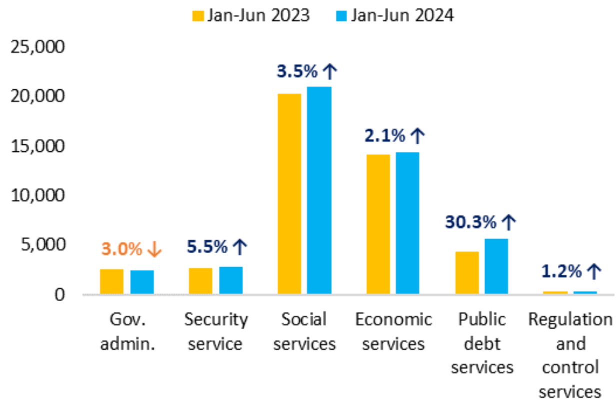
Spending in strategic sectors registered an increase, while those for government administration experienced a decrease. Efforts to contain spending in government administration resulted in a 3.0% reduction in obligated spending as of June. In contrast, obligated spending in strategic sectors showed a notable increase, highlighting that for housing, urban planning, and community services, with an increase of 88% (Figure 92). In addition, the level of execution in this sector also experienced significant growth, rising from 30.5% to 58.6% compared to the same period in 2023 (Table 24). This increase is mainly due to the boost from the Ministry of Urbanism, Housing and Habitat (MUVH) for housing subsidies through the National Social Housing Fund (FONAVIS). There was also a 16.4% increase in spending on science, technology, and dissemination, along with a 7.7% increase in education (Table 24).

Table 24: Budgeted and obligated spending by function accumulated as of June 2023-2024

Expense by function	Approved GBN		Current GBN		Current FP		Accumulated Obligated		Variation of Obligated expenditures	Accumulated obligated expenditures / Current FP		Accumulated obligated expenditures	
	Bn PYG		Bn PYG		Bn PYG		Bn PYG		Var %	%		% of GDP	
	2023	2024	2023	2024	2023	2024	Jun-23	Jun-24		2023	2024	Jun-23	Jun-24
Government administration	5,785	6,106	6,145	6,280	6,143	6,207	2,532	2,457	-3.0	41.2	39.6	0.8	0.7
Security Services	5,887	6,156	5,963	6,236	5,963	6,236	2,691	2,838	5.5	45.1	45.5	0.9	0.9
Social Services	45,020	49,196	51,209	51,204	51,176	50,738	20,258	20,976	3.5	39.6	41.3	6.4	6.3
Health	13,066	14,246	16,932	15,530	16,929	15,523	6,638	6,641	0.0	39.2	42.8	2.1	2.0
Promotion and social action	6,546	7,130	7,055	7,426	7,047	7,426	2,827	2,838	0.4	40.1	38.2	0.9	0.9
Social security	12,104	13,078	13,567	13,078	13,567	13,078	5,500	5,619	2.2	40.5	43.0	1.8	1.7
Education	11,416	12,427	11,608	12,773	11,585	12,771	4,725	5,090	7.7	40.8	39.9	1.5	1.5
Science, technology and diffusion	775	1,108	851	1,136	851	744	183	213	16.4	21.5	28.7	0.1	0.1
Labor relations	322	329	356	374	356	374	132	105	-20.7	37.2	28.0	0.0	0.0
Housing, urban planning and community services	764	856	816	865	816	799	249	468	88.0	30.5	58.6	0.1	0.1
Other social services	27	22	25	22	25	22	3	1	-54.2	12.3	6.4	0.0	0.0
Economic services	37,665	40,872	46,956	42,246	46,754	39,604	14,077	14,374	2.1	30.1	36.3	4.5	4.3
Public debt service	10,442	13,521	10,664	13,521	10,664	13,521	4,376	5,701	30.3	41.0	42.2	1.4	1.7
Regulation and control services	570	738	826	753	823	753	313	316	1.2	38.0	42.0	0.1	0.1
Total	**150,387**	**116,589**	**121,763**	**120,240**	**121,523**	**117,057**	**44,248**	**46,662**	**5.5**	**36.4**	**39.9**	**14.1**	**14.0**

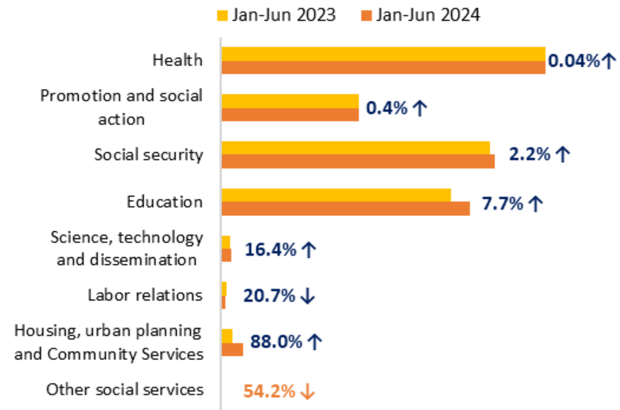
Source: SICO, MEF.
Note: Excluding consolidable transfers.

Figure 91. Cumulative obligated spending by function as of June 2023-2024 (Bn of PYG)



Source: SICO, MEF.

Figure 92. Cumulative obligated expenditure on social services as of June 2023-2024 (Bn of PYG)



Source: SICO, MEF.

4.3 Draft GBN 2025

The draft GBN 2025 is aligned with the NDP 2030 by orienting budgetary resources toward sustainable and inclusive development, prioritizing strategic sectors within the fiscal sustainability framework. 88% of the project is allocated to axes 1 and 2, which correspond to "Poverty Reduction and Social Development" and "Inclusive Economic Growth", respectively (Table 25). Under the first axis, resources are allocated to finance programs and strategies to provide quality social services, equitable social development, and promote adequate and sustainable habitat. In the second axis, priority is given to actions aimed at promoting employment and social security, improving competitiveness and innovation, and fostering regionalization and productive diversification.

Table 25: GBN 2025 Project by strategic axes and objectives of the NDP 2030

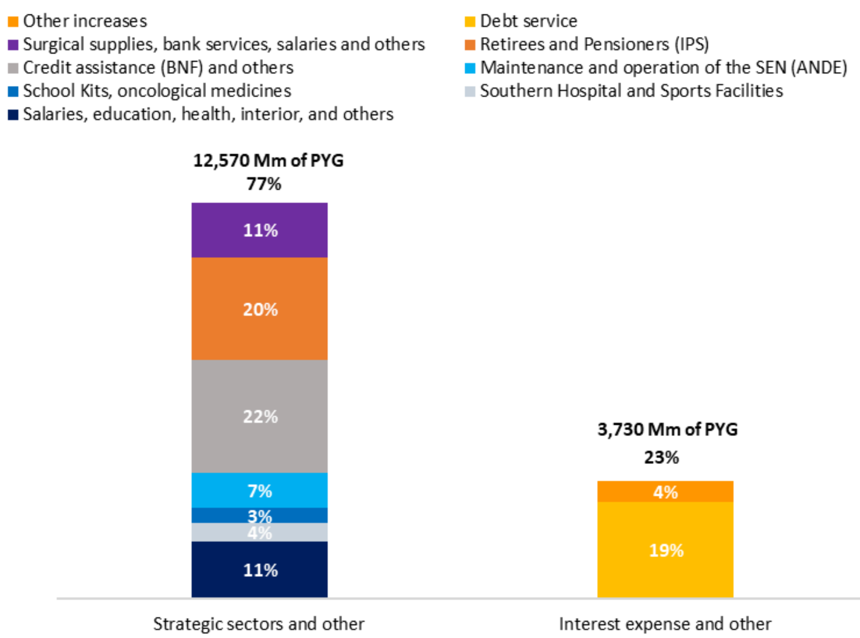
N°	Axis	N°	Target	GBN 2025 Project Bn of PYG	Participation %
1	**Poverty alleviation and social development**	1	Achieving equitable social development	17,311	
		2	Providing quality social services	13,506	
		3	Achieving participatory local development	91	
		4	Develop a suitable and sustainable habitat	15,957	
				46,866	**35**
2	**Inclusive economic growth**	5	Promoting employment and social security	18,771	
		6	Promoting competitiveness and innovation	32,488	
		7	Expanding regionalization and productive diversification	11,524	
		8	Valuing environmental capital	7,403	
				70,186	**53**
3	**Projection of Paraguay in the world**	9	Ensuring equal opportunities in a globalized world	1,150	
		10	Promote investment attraction, foreign trade, tourism, and country image.	734	
		11	Strengthening regional economic integration	279	
		12	Contribute to the sustainability of the global habitat	3	
				2,165	**2**

		13	Ensuring access to human rights, improving justice and security	8,998	
4	**Political-institutional strengthening**	14	Modernizing public administration	2,397	
		15	Moving toward effective decentralization	1,805	
		16	Protect and defend the environment and natural resources.	472	
				13,672	**10**
Total				**132,889**	**100**

Source: VAF/GGFE/DGP/SIAF, MEF.

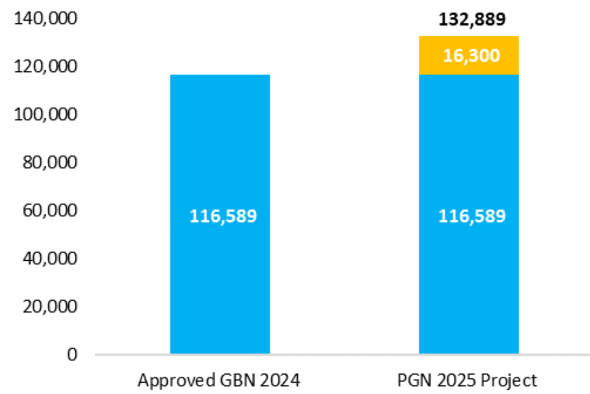
The draft GBN 2025 contemplates an increase of 14.0% compared to 2024, allocating 77% of this increase to strategic sectors. The project amounts to PYG 132,889 billion, an increase of PYG 16,300 billion compared to 2024 (Figure 95). Seventy-seven percent of this increase is allocated to strategic sectors, ensuring the financing of essential initiatives such as providing oncology drugs, surgical materials, school kits, and credit assistance programs. The remaining 23% of the increase is mainly for servicing public debt, in line with the government's commitments for interest and amortization payments (Figure 93).

Figure 93: Distribution of the increase in the GBN 2025 Project (%)



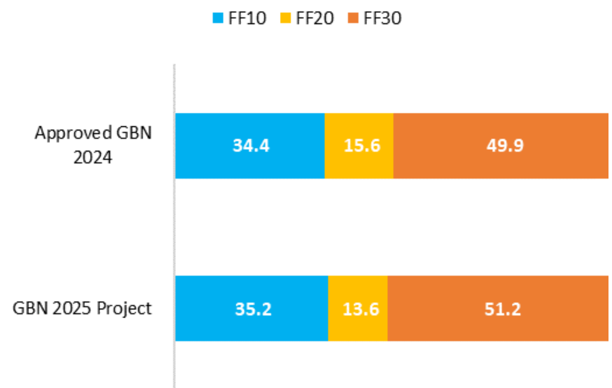
Source: DGP/VAF, MEF.

Figure 94: Budget 2024-2025 (Bn of PYG)



Source: SIPP, MEF.
Note: Excluding consolidable transfers.

Figure 95: Budget by source of financing 2024-2025 (% of total)



Source: SIPP, MEF.
Note: Excluding consolidable transfers.

The Executive Branch, Public Enterprises, Official Financial Entities, and Public Social Security Entities account for 90.8% of the project. Due to the governmental structure, almost half of the budget corresponds to the Executive Branch (48.7%), whose budget covers the strategic sectors of health, education, security, and social protection, as well as the payment of debt service. Public Enterprises occupy second place with 17.9% of the total budget, followed by Financial Entities with 13.4%, while Public Social Security Entities are in fourth place, with a share of 10.8% (Table 26).

Table 26. Budget by level of government 2024-2025

Public Sector Levels	Approved GBN 2024 Bn PYG	Draft GBN 2025 Bn PYG	% Var	Participation 2024 % of total	Participation 2025 % of total
Executive power	58,628	64,780	10.5	50.3	48.7
Public companies	21,010	23,757	13.1	18.0	17.9
Official financial institutions	15,097	17,784	17.8	12.9	13.4
Public social security entities	11,681	14,346	22.8	10.0	10.8
Judiciary and auxiliary justice agencies	3,126	3,524	12.7	2.7	2.7
Autonomous and autarkic entities	2,338	2,785	19.1	2.0	2.1
National universities	2,171	2,357	8.5	1.9	1.8
Departmental governments	1,230	2,133	73.4	1.1	1.6
Legislative power	614	653	6.4	0.5	0.5
State Central Banking	503	561	11.7	0.4	0.4
Office of the Comptroller General of the Republic	165	184	11.5	0.1	0.1
Other government agencies	24	24	1.8	0.0	0.0
Total	**116,589**	**132,889**	**14.0**	**100.0**	**100.0**

Source: SIPP, MEF.
Note: Excluding consolidable transfers.

The ten OEEs with the most significant budget allocations account for 78.1% of the total, with the MEF, ANDE, and BNF standing among the top three. Particularly noteworthy is the budget increase of the Ministry of Social Development (MDS), which, in the draft GBN 2025, receives a historic allocation of PYG

4,566 billion due to the incorporation of the *Adultos Mayores* and *Hambre Cero* programs under its administration. This increase of PYG 3,870 billion represents a 556% growth. On the other hand, the MEF budget decreased from PYG 22,449 billion in 2024 to PYG 22,034 billion in 2025 due to the transfer of resources from the *Adultos Mayores* program to the MDS (Table 27).

Table 27: Budget of the ten largest executors 2024-2025

OEE	Approved GBN 2024	Draft GBN 2025	% Var	Participation 2024	Participation 2025
	Bn PYG	Bn PYG		% of total	% of total
MEF	22,449	22,034	-1.8	19.3	16.6
ANDE	11,902	14,823	24.5	10.2	11.2
BNF	9,305	12,625	35.7	8.0	9.5
IPS	9,077	11,343	25.0	7.8	8.5
MEC	9,069	9,757	7.6	7.8	7.3
MSPBS	8,809	9,582	8.8	7.6	7.2
PETROPAR	7,671	7,308	-4.7	6.6	5.5
MOPC	7,210	7,223	0.2	6.2	5.4
MDS	696	4,566	556.3	0.6	3.4
AFD	5,151	4,561	-11.4	4.4	3.4
Others	25,251	29,067	15.1	21.7	21.9
Total	**116,589**	**132,889**	**14.0**	**100.0**	**100.0**

Source: SIPP, MEF.
Note: Excluding consolidable transfers.

68% of the proposed GBN 2025 is allocated to personal services, transfers, financial investment, and public debt service. Spending on personal services shows a variation of 6.9%, reflecting the salary adjustments granted mainly to the MEC, MSPBS, Public Forces, and the National University of Asuncion (UNA). The second largest component was transfers, which grew by 17.5%, driven by increased resources allocated to the *Hambre Cero* School Feeding program. Financial investment spending increased its share to 13.1%, mainly due to the BNF's increased credit assistance. On the other hand, public debt service recorded an increase of 15.7%, although it maintains a similar share in total spending (Table 28).

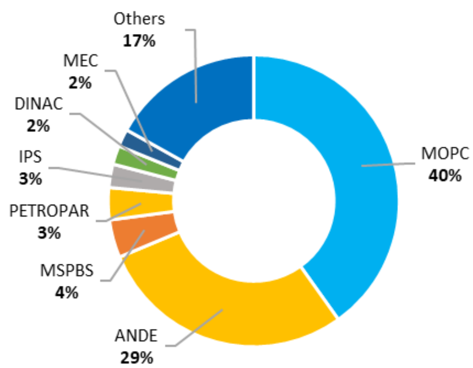
Table 28. Budget by Expenditures Group 2024-2025

Expense Group	Approved GBN 2024	GBN 2025 Project	% Var	Participation 2024	Participation 2025
	Bn PYG	Bn PYG		% of total	% of total
Personal Services	31,144	33,292	6.9	26.7	25.1
Transfers	20,527	24,118	17.5	17.6	18.1
Financial investment	13,287	17,368	30.7	11.4	13.1
Public debt service	13,525	15,643	15.7	11.6	11.8
Physical investment	12,324	13,179	6.9	10.6	9.9
Exchange goods	11,613	12,724	9.6	10.0	9.6
Consumer goods and supplies	6,140	6,882	12.1	5.3	5.2
Non-personal services	5,650	6,589	16.6	4.8	5.0
Other expenses	2,377	3,094	30.2	2.0	2.3
Total	**116,589**	**132,889**	**14.0**	**100.0**	**100.0**

Source: SIPP, MEF.
Note: Excluding consolidable transfers.

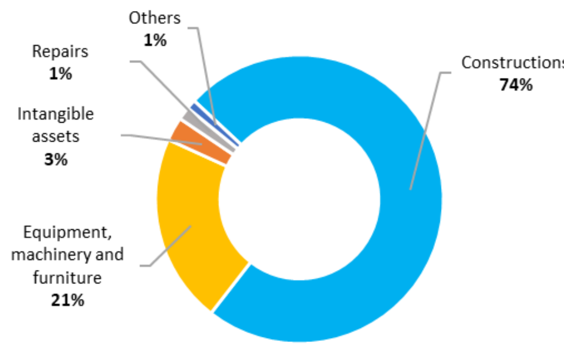
Spending on physical investment increased by 6.9%, led mainly by the MOPC and ANDE. The 2025 GBN Project allocates PYG 13,179 billion to physical investment, of which 69% is allocated to the MOPC and ANDE (Figure 96). The MOPC has PYG 5,288 billion, mostly allocated to road infrastructure construction, improvement, habilitation, and maintenance. For its part, ANDE has PYG 3,767 billion for the electrical system's maintenance, rehabilitation, expansion, and improvement. Ninety-five percent of the total physical investment was allocated to financing construction and acquiring equipment, machinery, and furniture (Figure 97).

Figure 96. Budget for physical investment by OEE 2025 (% of total)



Source: SIPP, MEF.

Figure 97. Composition of the public investment budget 2025 (% of total)



Source: Own elaboration with data from SIPP, MEF.

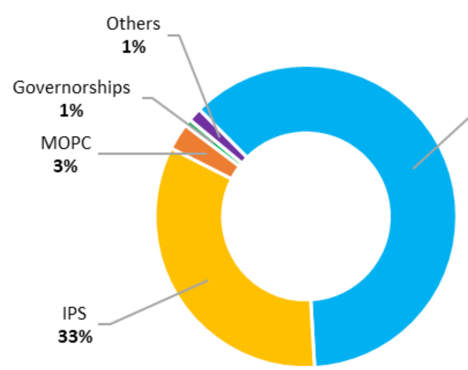
Table 29. Budget by function 2024-2025

Expenditure by function	Approved GBN 2024	Draft GBN 2025	% Var	Participation 2024	Participation 2025
	Bn PYG	Bn PYG		% of total	% of total
Government administration	6,106	6,800	11.4	5.2	5.1
Security Services	6,156	7,046	14.4	5.3	5.3
Social Services	49,196	55,585	13.0	42.2	41.8
Health	14,246	15,557	9.2	12.2	11.7
Promotion and social action	7,130	7,159	0.4	6.1	5.4
Social security	13,078	15,262	16.7	11.2	11.5
Education	12,427	15,482	24.6	10.7	11.7
Science, technology and diffusion	1,108	720	-35.0	1.0	0.5
Labor relations	329	392	19.2	0.3	0.3
Housing, urban planning and community services	856	1,011	18.2	0.7	0.8
Other social services	22	0	-100.0	0.0	0.0
Economic services	40,872	47,014	15.0	35.1	35.4
Public debt service	13,521	15,636	15.6	11.6	11.8
Regulation and control services	738	808	9.4	0.6	0.6
Total	**116,589**	**132,889**	**14.0**	**100.0**	**100.0**

Source: SIPP, MEF.
Note: Excluding consolidable transfers.

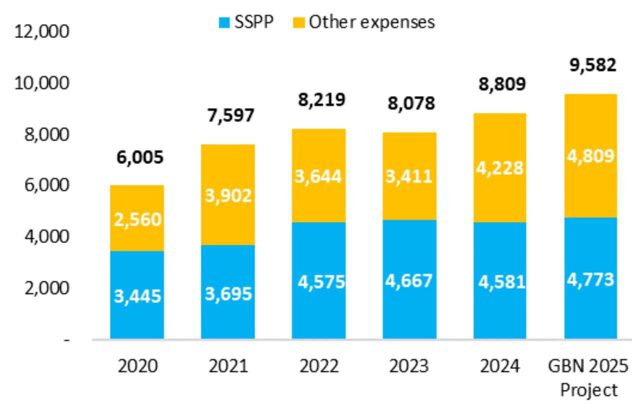
The draft GBN 2025 aims to further strengthen the public health system, with increased allocations for purchasing medical instruments and medicines, health care providers, and giving primary care and hospital services to the population. The GBN 2025 Project allocates PYG 15.557 billion to the health sector, representing an increase of 9.2%, and reaffirms the government's commitment to the continuous improvement of the public health system. The MSPBS is positioned as the primary executor of this budget, managing 62% of the resources allocated to the sector (Figure 99). This ministry has experienced sustained budget growth in recent years, and for the 2025 GBN, it is allocated PYG 9,582 billion, an increase of 8.8% compared to 2024 (Figure 99). The additional resources will focus on three key areas: drug procurement, health personnel strengthening, and nutritional assistance programs. In addition, PYG 660 billion will be allocated for hospital services and PYG 94 billion for primary health care, guaranteeing comprehensive and quality care for the population.

Figure 98: Health budget by OEE 2025 (% of total)



Source: SIPP, MEF.

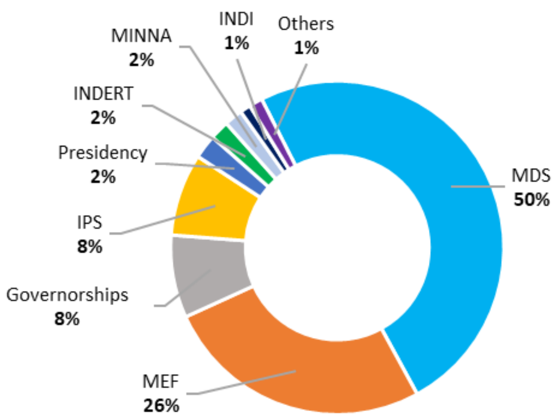
Figure 99: Evolution of the MSPBS budget 2020-2025 (Bn of PYG)



Source: VAF/GGFE/DGP/SIAF, MEF.

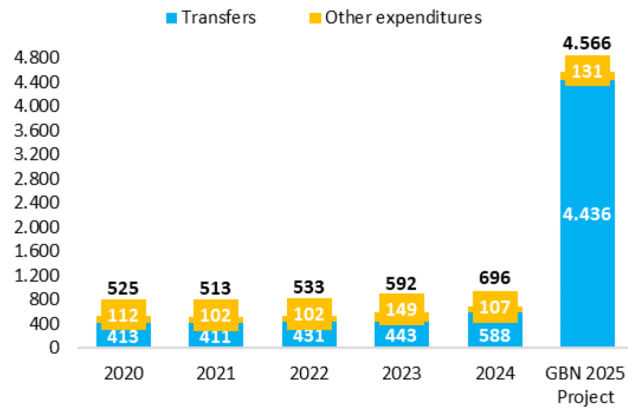
To support the most vulnerable sectors, the continuity and expansion of the coverage of the Government's flagship social programs are guaranteed while improving their efficiency through the consolidation of programs under the administration of the MDS. The GBN 2025 Project ensures the continuity of social promotion and action programs with a budget of PYG 7,159 billion (Table 29). The MDS budget will be strengthened with increases aimed mainly at social program transfers, amounting to PYG 4,436 billion in 2025, consolidating as a priority in public spending (Figure 101). The goals defined by the entities in charge of social protection aim to improve the quality of life of the most vulnerable populations, which aligns with the government's strategic objectives. The funds allocated to the sector will support 200,000 families through the *Tekoporã* program, benefit 340,000 older adults, assist 11,000 vulnerable children, carry out 430 interventions in Indigenous communities, and grant 4,725 property titles. In addition, 8,101 social housing units will be built, 7,381 housing subsidies will be granted, and 104,905 people with disabilities will receive better care through SENADIS. Finally, 3,700 people are expected to receive assistance from DIBEN, providing highly complex hospital supplies (Table 30).

Figure 100: Promotion and social action budget by OEE 2025 (% of total)



Source: SIPP, MEF.

Figure 101: Evolution of the MDS 2020-2025 budget (Bn of PYG)



Source: VAF/GGFE/DGP/SIAF, MEF.

Table 30: Flagship government programs

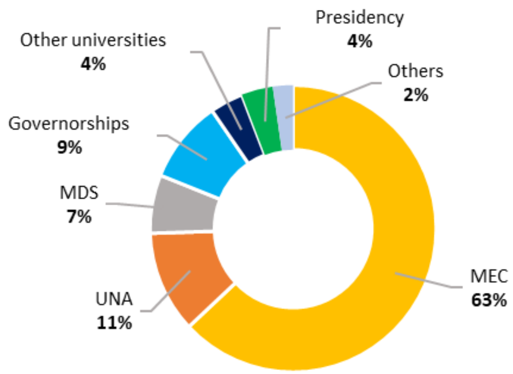
Program	Goal
Tekoporã	200,000 families
Adultos Mayores	340,000 people aged 65 and over
Children and adolescents in a situation of poverty of hazardous child labor and vulnerability	11,000 receive cash transfers
Social assistance (INDI and INDERT)	430 assistance to indigenous communities and 4,725 property deeds
Social housing	8,101 housing units and 7,381 housing subsidies
SENADIS	104,905 people with disabilities access to comprehensive care
DIBEN	3,700 people assisted with high-complexity hospital supplies

Source: VAF/GGFE/DGP/SIAF, MEF.

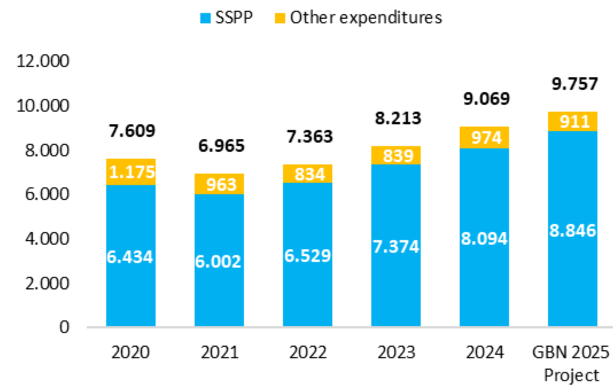
To promote quality education, efforts are focused on strengthening infrastructure expanding the coverage of scholarships and school feeding programs, as well as school supplies and didactic materials. The budget allocated to the education sector in the GBN 2025 draft is PYG 15,482 billion, an increase of 24.6% compared to GBN 2024 (Table 29). The MEC leads the education function budget, managing 63% of the total (Figure 102), with an increase of 7.7% in GBN 2025 compared to 2024, reaching PYG 9,757 billion (Figure 103). GBN 2025 allocates significant resources to key areas of education, among which PYG 231 billion for the distribution of school supplies kits to 1,370,150 students, PYG 35 billion for the acquisition of textbooks and teaching materials, and PYG 2,277 billion for the provision of school meals, benefiting 921,296 students. In addition, PYG 44 billion has been allocated for 17,213 scholarships and PYG 767 million for school transportation in specific locations. Finally, PYG 563 billion will be invested in educational infrastructure, improving facilities throughout the country.

Figure 102: Education budget by OEE 2025 (% of total)

Figure 103: Evolution of the MEC 2020-2025 budget (Bn of PYG)



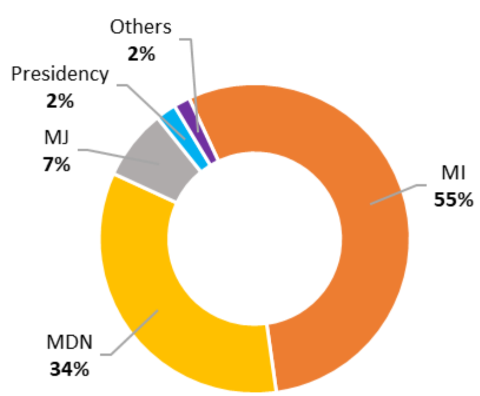
Source: SIPP, MEF.



Source: VAF/GGFE/DGP/SIAF, MEF.

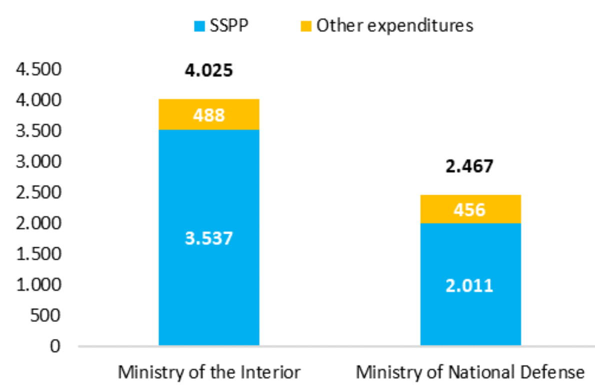
National security will be reinforced with strategic investments in key institutions to fight crime and protect citizens. The GBN 2025 Project proposes to allocate PYG 7,046 billion to the security sector, representing an increase of 14.4% over 2024 (Table 29). This allocation seeks to strengthen strategies against organized crime, terrorism, and arms and drug trafficking through investments in key institutions. The MI is the primary recipient of the funds allocated to the security sector, with 55% of the total budget, followed by the MDN with 34% and the Ministry of Justice (MJ) with 7% (Figure 104), prioritizing the strengthening of internal security, national defense and the penitentiary system. As the primary executor of the security budget, the MI will significantly increase its allocation by 2025, reaching PYG 4,025 billion, while the MDN will have funding of PYG 2,467 billion (Figure 105). The incorporation of 5,000 new police officers and 600 additional personnel to the Lince Group is foreseen, bringing their total number to 1,800 by 2025.

Figure 104: Security budget by OEE 2025 (% of total)



Source: SIPP, MEF.

Figure 105: GBN 2025 Project in public forces (Bn of PYG)



Source: VAF/GGFE/DGP/SIAF, MEF.

Chapter 5. Investment grade - Paraguay's economic milestone

5.1 Context

Paraguay recently achieved a historic milestone by being recognized as an investment-grade country. This recognition reflects the confidence the international community has placed in Paraguay, highlighting its remarkable track record of economic stability in recent decades. At the same time, it is the result of a firm commitment to responsible macroeconomic management, characterized by the implementation of prudent policies and strategic structural reforms that have laid a solid foundation for sustained growth and development. This achievement places Paraguay in a select group of nations in the region, together with Chile, Colombia, Mexico, Peru, and Uruguay.

Paraguay excelled in the midst of a challenging international context. The country faced an environment characterized by global economic uncertainty, inflationary pressures, restrictive financial conditions, a slowdown in growth compared to previous decades, and instability derived from military conflicts and geopolitical tensions. In this context, it distinguished itself for its prudent macroeconomic management and for its economic diversification strategy and the maintenance of adequate levels of reserves to mitigate potential external shocks.

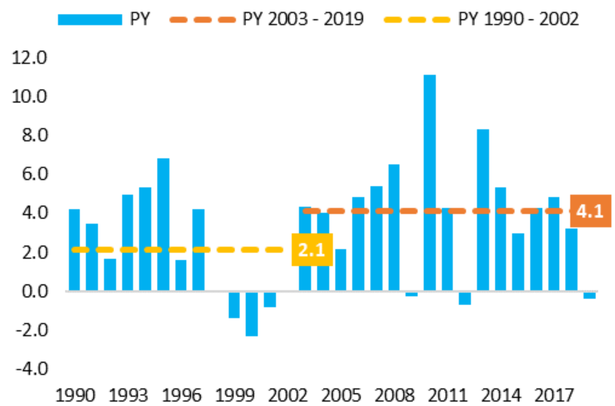
This section explores in detail the path that led Paraguay to achieve investment-grade status through a detailed chronology of the challenges overcome, the reforms implemented, and the progress made in the process. The analysis covers the potential benefits of this international recognition, including opening new development opportunities, strengthening the country's image, and positioning as an increasingly attractive destination for foreign direct investment. In addition, it examines the strategy for consolidating these achievements, maintaining the reform momentum, and facing future challenges with determination.

5.2 A model of transformation and economic progress

The 1990s marked one of the most fragile periods in Paraguay's economic history. The economy barely grew at a modest 2.1% annually (Figure 107) while facing a succession of financial shocks that left deep and lasting scars. This period witnessed significant losses for both companies and workers, whose savings were rapidly eroded by the dollar's appreciation. The persistent inflation, which averaged 14.5% (Figure 106), acted as a corrosive force in the economy, weakening the population's purchasing power and deepening poverty levels.

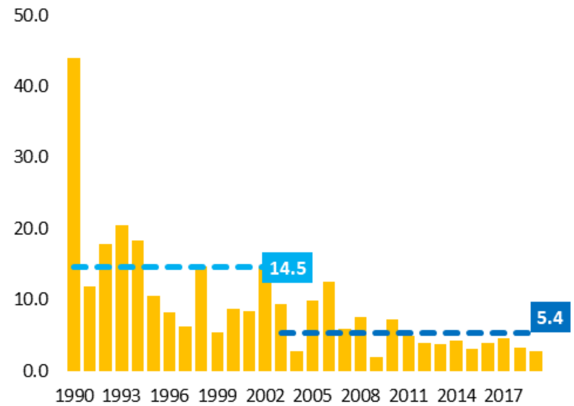
At the beginning of the 2000s, almost half of Paraguayans were living in poverty. The crisis extended to the public sector, which faced a growing inability to meet its financial obligations, evidenced by a persistent fiscal deficit that averaged -0.6% of GDP (Figure 109). This generalized deterioration of the economy became the catalyst for a profound transformation: Paraguay urgently needed to reorient its economic management towards a more efficient and resilient model. The challenges inherited from the 1990s acted as a turning point, driving the implementation of structural reforms that would strengthen economic institutions and lay the foundations for greater stability and prosperity.

Figure 106. Economic growth 1990-2019 (%)



Source: BCP .

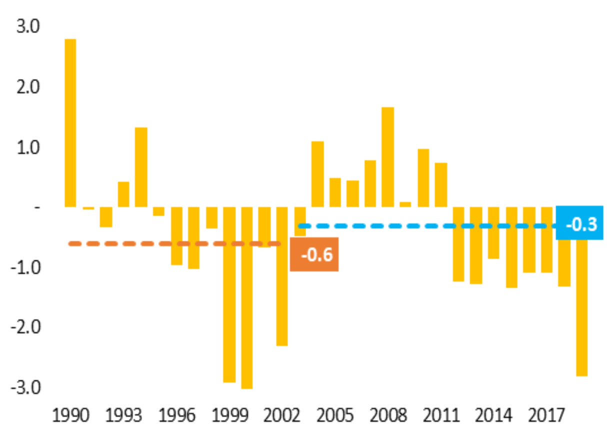
Figure 107. Annual Inflation 1990-2019 (%)



Source: BCP .

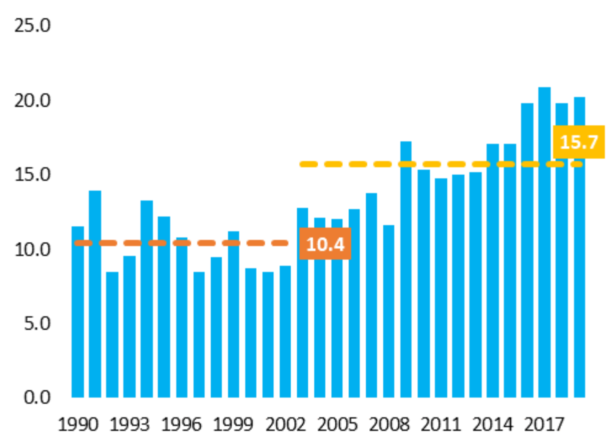
In 2003, Paraguay undertook a historic transformation focused on macroeconomic stability to overcome its structural weaknesses. This reform process strengthened the institutional foundations necessary for sustainable economic development. The construction of a robust institutional architecture became the fundamental pillar of this transformation, facilitating the coordination and efficient implementation of economic policies. The modernization of public entities optimized the country's fiscal and monetary management (Figure 108)and established a culture of transparency and efficiency in public administration. This new direction generated more than a decade of sustained economic growth with price stability, laying the foundations for inclusive and sustainable development policies.

Figure 108. Central Government Fiscal Outturn 1990-2019 (% of GDP)



Source: MEF.

Figure 109. Net International Reserves 1990-2019 (% of GDP)



Source: BCP .

The Ministry of Finance led a historic transformation in Paraguay's public finances. The most compelling evidence of this change was the achievement of eight consecutive years of fiscal surplus, an unprecedented milestone in the country's economic history. This new management paradigm was consolidated with the approval of the FRL and the Access to Public Information laws, which instituted more rigorous standards of transparency and fiscal responsibility. The innovative decision to invest the surpluses of the fiscal fund marked another significant milestone, generating returns for public sector pension funds for the first time and demonstrating a tangible commitment to fiscal sustainability and institutional strengthening.

In 2011, the BCP marked a milestone by adopting an inflation-targeting scheme, establishing a systematic framework for maintaining price stability in the economy. This transformation of the monetary regime was complemented by the strengthening of its regulatory and supervisory role, resulting in a more robust and resilient financial system. The comprehensive modernization of monetary policy and financial supervision consolidated an institutional infrastructure critical for long-term economic stability.

The period 2013-2018 marked a new era of financial modernization in Paraguay. The transformation began with fundamental reforms to the organic charters of the CAH, BNF and BCP, laying stronger institutional foundations. This process was deepened with the creation of the MSME Guarantee Fund and an innovative legal framework that included laws on Financial Rehabilitation for Small Producers, Financial Education, and Protection against Abusive Credit Practices. These initiatives shaped a more inclusive, robust, and accessible financial system for all Paraguayans.

Paraguay strengthened its global position in 2018 by joining the Global Forum on Exchange of Information and Transparency for Tax Purposes. This accession was complemented by active participation in the Organization for Economic Co-operation and Development's (OECD) Inclusive Framework Actions on *Base Erosion and Profit Shifting* (BEPS). These initiatives demonstrated the country's commitment to international standards of tax transparency andvalidated the maturity of its institutions in the field of global tax cooperation.

Paraguay reached an international milestone by passing the demanding Financial Action Task Force (FATF) examination, validating its commitment to transparency and the fight against corruption. This achievement evidenced the maturity of Paraguay's institutional system, reflected in the effective inter-institutional coordination and the implementation of a robust regulatory framework against money laundering and corruption. FATF approval certified the country's progress in terms of financial integrity and positioned it as a regional benchmark in the application of international standards.

The reforms of recent decades fundamentally transformed Paraguay's macroeconomic trajectory. The impact of this institutional modernization materialized in tangible and lasting results for the economy. The most striking evidence was the acceleration of economic growth, which reached an annual average of 4.1% of GDP (Figure 108), driven by greater stability and by a significant diversification of the productive structure.

Paraguay managed to tame inflation, keeping it stable and aligned with its target, generating an economic environment of greater certainty and predictability. This price stability strengthened investor and citizen confidence and established a more solid framework for economic decision-making, catalyzing a virtuous circle of investment and development.

Fiscal consolidation emerged as one of the most outstanding achievements of Paraguay's economic transformation. Discipline in the management of public finances was reflected in consecutive years of fiscal surplus, reducing the average deficit to only -0.3% of GDP (Figure 109). This fiscal soundness optimized the management of public resources and boosted investment in infrastructure and essential services, it also strengthened the country's external position. International reserves increased substantially from 10% to 16% of GDP (Figure 110), enhancing Paraguay's capacity to face external shocks and maintain its stability in global volatility.

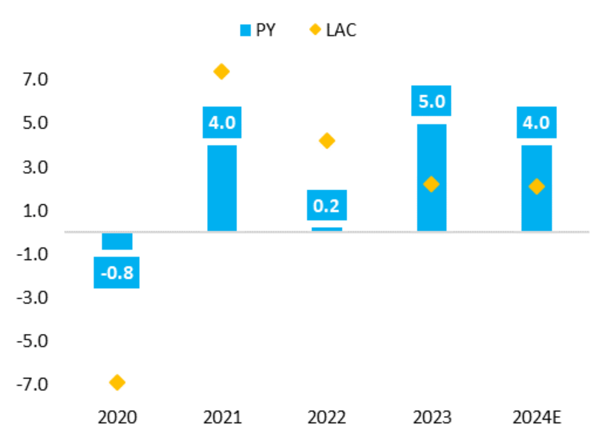
5.3 A Resilient Economy in a New Complex Global Context

The Paraguayan economy faced a perfect storm of unprecedented external and internal shocks. This confluence of crises included the global pandemic, severe disruptions in supply chains, and war conflicts that disrupted international markets. Locally, the droughts in 2019 and 2022 severely impacted the country, which hit the agricultural sector and food exports hard. Macroeconomic indicators reflected the magnitude of these challenges: GDP growth in 2020 was -0.8% (Figure 112), inflation escalated to 8.1% at the close of 2022 (Figure 114), and the fiscal deficit peaked at -6.1% during the pandemic crisis in 2020 (Figure 115).

Paraguay emerged as an exceptional case of economic resilience among emerging economies. This strength is evidenced by a performance superior to its regional peers and a notable reduction in economic volatility. With a volatility of 2.2%, the country shows significantly greater stability than Panama (8.8%) and Colombia (4.6%), while GDP performance reflects a more predictable and controlled economic environment (Figure 111).

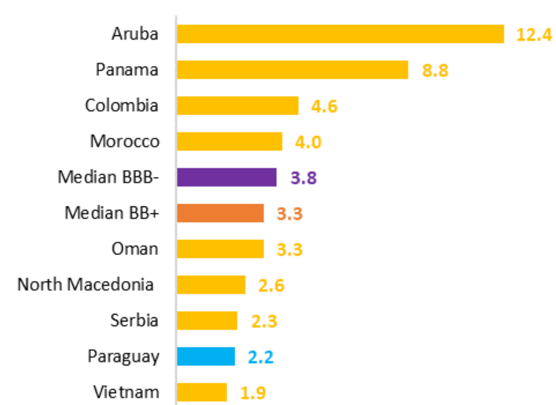
Paraguay withstood the crisis, leading the regional recovery. The economy showed a vigorous rebound in 2023, reaching 5.0% growth, the highest in the region. Projections for 2024 maintain this favorable dynamic with an estimated increase of 4.0% (Figure 110), consolidating a sustained growth trajectory that validates the effectiveness of the policies implemented during the crisis.

Figure 110. Economic growth 2020-2024 (%)



Sources: BCP and WEO, IMF.

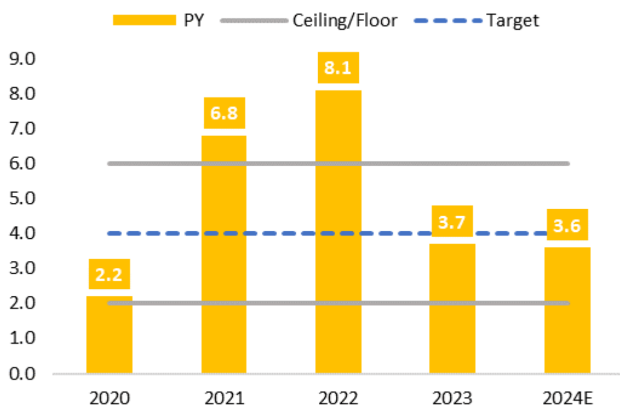
Figure 111. Volatility of economic growth 2024 (%)



Sources: Fitch Ratings Dec-24
Note: Standard deviation of the annual percentage change in real GDP over the last 10 years, including the last real year.

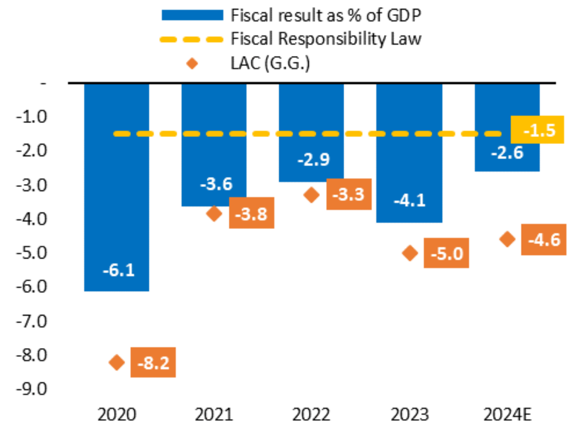
Paraguay managed to anchor inflation within the target range, even in a context of high global volatility. The inflation rate fell to 3.7% in 2023, and projections for 2024 anticipate a further moderation of 3.6%, consolidating within the BCP's target range (Figure 112). This performance evidences the effectiveness of the monetary policy implemented and strengthens the credibility of the inflation targeting scheme.

Figure 112. Inflation 2020-2024 (%)



Sources: BCP and WEO, IMF

Figure 113. Overall balance of the Central Administration 2020-2024 (% of GDP)



Sources: BCP and WEO, IMF.

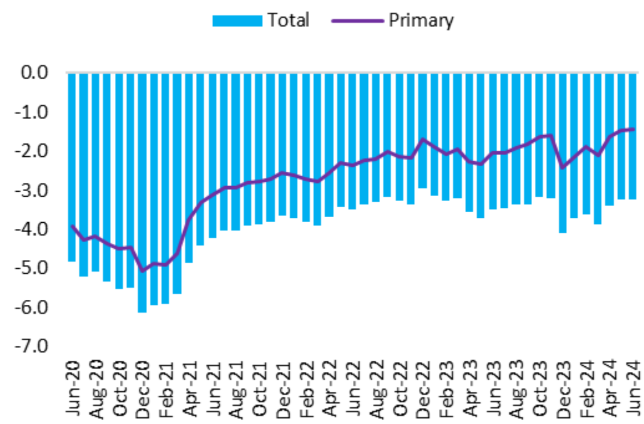
Paraguay is executing a historic return to fiscal discipline, consolidating its public finances with surgical precision. The trajectory of the total deficit evidences this transformation (Figure 113): from a peak of -6.1% during the pandemic crisis of 2020, it is projected to decline to -2.6% in 2024, with a target of -1.5% by 2026. The fiscal horizon is further strengthened by the projection of a primary surplus in 2026, supported by robust tax revenue growth and optimized public spending. This convergence towards fiscal balance demonstrates the commitment to the FRL and marks a return to Paraguay's tradition of fiscal prudence (Table 10).

5.4 A firm commitment to continuous institutional strengthening

Paraguay's post-pandemic recovery transcends normalization: it marks the beginning of a new era of institutional strength. The country has capitalized on sustained economic growth to implement reforms that strengthen its governance and diversify its productive matrix. Strategic investment in infrastructure is transforming the transportation system, catalyzing a growing flow of private investment into emerging sectors such as light manufacturing, forestry, and clean energy. Thus, the country is consolidating a more resilient economic base in the face of external shocks.

Paraguay is implementing a fiscal consolidation plan that combines ambition with pragmatism. The strategy for reordering the fiscal accounts is distinguished by its credibility and transparency, establishing a clear roadmap towards fiscal balance (Figure 114). This framework seeks to clean up public finances and lays the groundwork for sustained medium-term growth (Table 1), prioritizing the efficiency o public spending in areas of high developmental impact.

Figure 114. Central Government Fiscal Balance 2020-2024 (% of GDP)



Source: MEF.

Paraguay undertook the most extensive institutional modernization in its history. The scope and depth of the structural reforms reflect the State´s transformative vision. The creation of the Superintendency of Pensions emerges as a fundamental pillar of this transformation, establishing a robust framework for the pension system´s supervision and guaranteeing decent and secure pensions for all Paraguayans.

The DNIT revolutionizes the Paraguayan tax system. This new institution optimizes tax collection and promotes a new paradigm of tax equity, ensuring that each sector of society contributes proportionally to national development.

The MEF marks a turning point in the economic management of the Paraguayan State. The centralization of economic and fiscal policy under a single institution enhances coherence and efficiency in managing public resources. This ministry strengthens economic planning, budget management, and public debt administration, consolidating a responsible and sustainable management framework.

Paraguay modernizes its state architecture with an unprecedented administrative reform. The Law of Administrative Organization of the State establishes new standards of governmental efficiency, optimizing inter-institutional coordination and providing public services through more agile and transparent processes.

Paraguay is at the forefront of the green economy in Latin America. The Carbon Credit Law establishes a pioneering framework for the carbon market and it also catalyzes the transition to a more sustainable economy, positioning the country as a regional benchmark in the fight against climate change.

Paraguay revolutionizes its public debt management with a historic milestone: the first bond issue in guaraníes in international markets. This financial innovation diversifies the State's sources of financing and it also validates international confidence in the soundness of the Paraguayan economy and its currency. The success of this issue reinforces the country's financial autonomy and consolidates its position as a reliable player in global markets.

Paraguay mobilizes an unprecedented offensive against corruption. The National Strategy to Combat Corruption marks a turning point by aligning, for the first time, the three branches of government—the

Office of the Comptroller General of the Republic, the Attorney General's Office—on a common front against this scourge. This historic coordination demonstrates the country's determination to face one of its greatest development challenges.

Paraguay's new anti-corruption architecture sets regional governance standards. The strategy deploys a comprehensive structure with four pillars, sixteen areas, and forty-four initiatives, configuring a robust and coordinated institutional framework. Its impact is already resonating internationally: Moody's highlighted these reforms as a key factor in improving the country's credit rating. This transformation strengthens prevention and sanction mechanisms and it also drives a cultural shift towards integrity and transparency in public management, consolidating a more predictable and reliable institutional environment.

5.5 Achievement of investment grade rating

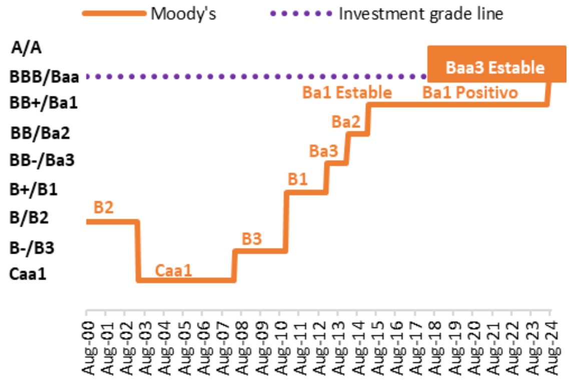
Paraguay consolidates its institutional transformation with an unprecedented achievement in its economic history. The restored macroeconomic fundamentals and the structural reforms implemented strengthen public management and establish a solid foundation for sustainable and equitable development. This evolution has positioned the country among the most stable economies in the region, catalyzing the emergence of new economic sectors that diversify the productive matrix and strengthen resilience to external shocks.

The investment grade granted by Moody's validates Paraguay's path of institutional changes. The rating agency especially highlighted the social and political consensus that underpins the country's economic stability and institutional reforms (Figure 115), recognizing a trajectory of structural changes unparalleled in the region.

Paraguay stands out as a beacon of stability and growth in Latin America. Institutional advances transcend traditional economic metrics, building an infrastructure that guarantees the effective implementation of public policies and ensures that the benefits of growth reach all sectors of society.

Paraguay's macroeconomic predictability catalyzes a new era of investment and productive diversification. The robust institutional framework attracts foreign direct investment and fosters the emergence of emerging sectors that strengthen the economy's adaptability to global changes, consolidating the country as a preferential destination for long-term investments.

Figure 115. Credit rating for Paraguay assigned by Moody's 2000-2024



Source: MEF.

The investment-grade rating expands opportunities for business growth in Paraguay. The new credit rating attracts large corporations, and creates a more favorable ecosystem for the development of small and medium-sized enterprises, which will find a stable and predictable environment for their expansion. This integral dynamization of the business fabric catalyzes a virtuous circle of growth that benefits all sectors of the economy, driving inclusive and sustainable development.

5.5.1 Potential benefits

This achievement represents a transformative milestone for our country's economy, which has the potential to catalyze our economic growth. Achieving investment grade status is a recognition of our economic stability and it also brings with it several tangible benefits that will contribute to improving the quality of life of all Paraguayans .[18]

Being an investment-grade country is associated with multiple benefits for the State, the private sector, and the population. First, a reduction in country risk translates into greater financing facilities at more favorable interest rates.This allows the State and companies to access capital more advantageously, facilitating investment in key projects that will boost the country's economic and social development. It is a clear and strong message to the world: Paraguay is a safe and reliable destination for investment, encouraging local investment and attracts foreign capital.

Similarly, increased investment, both local and international investment will directly generate more quality employment. Governments and investors can finance and implement more ambitious infrastructure projects, which will improve connectivity and economic efficiency and will also contribute to the modernization of our economy. In addition, greater economic diversification will reduce dependence on traditional sectors, making us more resilient to global market fluctuations while improving public finances through greater economic dynamism and a broader tax base.

[18] Investment grade and foreign direct investment flows to emerging economies" by Elmer Sánchez León (2013.
Sovereign Credit Ratings and Spreads in Emerging Markets: Does Investment Grade Matter? (Jaramillo and Tejada)
Foreign direct investments from emerging markets: The push-pull effects of sovereign credit ratings. Peilin Cai, Suk-Joong Kim, Eliza Wu.

The increase in foreign investment contributes to facilitating the exchange of knowledge and improving the skills of our labor force. The arrival of international companies with high standards and state-of-the-art technology will foster the development of advanced skills among Paraguayan workers, raising the country's level of competitiveness on the global stage. This improvement in the education and training of our human resources will benefit the private sector and will also strengthen the country's capacity to innovate and adapt to the challenges of the future.

These developments will favor the private sector, generating an environment more conducive to business growth and expansion. The confidence generated by investment-grade status will attract large corporations and it will also attract small and medium-sized companies seeking a stable and predictable environment to develop. This business dynamism will bring with it a number of significant advantages for all sectors of the economy, driving inclusive and sustainable growth.

5.5.2 Consistency for a more resilient, sustainable, and equitable development

To ensure more resilient, sustainable and equitable long-term development, we must continue to strengthen fiscal and monetary management. This will allow us to maintain economic stability, and to move toward more robust and inclusive growth. Prudence in these areas is not just a choice, but a fundamental necessity to ensure that our economy remains resilient in the face of global and local challenges.

To achieve this, the implementation of structural reforms in the process of being legislated and drafted is key to reaching these objectives. These reforms bring us closer to consolidating our credit rating, as well as lay the groundwork for more equitable and sustainable economic development.

The focus on investment is equally crucial. Paraguay continues actively working to attract both domestic and foreign investment. This strategy seeks to expand and diversify our economy and to open up new opportunities in global markets. Exploring markets and introducing innovative products are essential to strengthen our position in the global economy.

Nevertheless, the new global economic reality presents significant challenges. To maximize the benefits of our policies, we must promote greater investment, both domestic and international, and continue to strengthen our institutions. Prudent management of fiscal risks is essential to maintain confidence in our economy, and investment in infrastructure plays a vital role in supporting economic growth.

At the same time, it offers opportunities: Paraguay has exceptional potential to become a regional digital and logistics *hub*. Leveraging this geographic advantage requires a proactive approach to increase our competitiveness and attract both resources and key investments, especially through public-private partnership projects. These projects are fundamental to the development and modernization of our infrastructure. In turn, they act as catalysts to foster closer and more effective collaboration between the public and private sectors. By consolidating our digital and logistics hub position, we will strengthen our position in the region and create an environment conducive to sustainable growth, job creation, and economic diversification.

Paraguay stands out as one of the most attractive countries for investment in the region, managing to maintain its sovereign rating and it also to improves its outlook in complex times. In the last five years, thanks to solid macroeconomic fundamentals and the continuous strengthening of its institutions with the implementation of a series of reforms, Paraguay managed to maintain its sovereign rating with the three main rating agencies and, in addition, improve its outlook. In fact, Paraguay was one of the only countries to maintain its rating during the pandemic.

In the same vein, Paraguay managed to consistently reduce its risk premium in a more challenging macroeconomic environment. In recent years, Paraguay has proven to be a resilient economy that has implemented adequate policies to soften the impact of external shocks. Progress in institutional reforms and the implementation of the right policies have contributed to maintaining the sovereign rating and even improving it, which also reflects in the evolution of the country's risk premium and bond yields.

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Annex A

Table 31. Financial Situation of the General Government 2023 (Bn of PYG)

	Budgetary	Extra budgetary	Social security	Governorships	General Government
	(1)	(2)	(3)	(4)	(5) = (1)+(2)+(3)+(4)
Total revenue(collected)	**43,942**	**4,176**	**11,080**	**1,138**	**60,336**
Tax revenues	31,750	114	(1)	-	31,863
Social contributions	3,710	-	9,261	-	12,971
Grants	1,810	2,330	11	1,063	5,214
Other income	6,673	1,732	1,809	74	10,288
Total obligated expense	**48,506**	**3,744**	**10,026**	**823**	**63,099**
Compensation of employees	20,524	2,399	1,806	147	24,876
Use of goods and services	6,111	561	2,290	83	9,044
Interest	5,217	1	-	-	5,219
Grants	5,172	479	0	10	5,662
Social benefits	9,162	178	5,618	473	15,431
Other expenses	2,321	125	311	110	2,867
Net operating balance	**-4,564**	**433**	**1,054**	**314**	**-2,763**
Net acquisition of non-financial assets	8,264	363	293	290	9,210
Loan / net indebtedness	**-12,828**	**70**	**761**	**24**	**-11,972**

Source: DGPMF, MEF.
Note: Consolidation columns are not included.

Table 32. Financial Situation of the General Government 2023 (% of GDP)

	Budgetary	Extra budgetary	Social security	Governorships	General Government
	(1)	(2)	(3)	(4)	(5) = (1)+(2)+(3)+(4)
Total revenue (collected)	**14.0%**	**1.3%**	**3.5%**	**0.4%**	**19.2%**
Tax revenues	10.1%	0.0%	0.0%	0.0%	10.1%
Social contributions	1.2%	0.0%	2.9%	0.0%	4.1%
Grants	0.6%	0.7%	0.0%	0.3%	1.7%
Other income	2.1%	0.6%	0.6%	0.0%	3.3%
Total obligated expense	**15.4%**	**1.2%**	**3.2%**	**0.3%**	**20.1%**
Compensation of employees	6.5%	0.8%	0.6%	0.0%	7.9%
Use of goods and services	1.9%	0.2%	0.7%	0.0%	2.9%
Interest	1.7%	0.0%	0.0%	0.0%	1.7%
Grants	1.6%	0.2%	0.0%	0.0%	1.8%
Social benefits	2.9%	0.1%	1.8%	0.2%	4.9%
Other expenses	0.7%	0.0%	0.1%	0.0%	0.9%
Net operating balance	**-1.5%**	**0.1%**	**0.3%**	**0.1%**	**-0.9%**
Net acquisition of non-financial assets	2.6%	0.1%	0.1%	0.1%	2.9%
Loan / net indebtedness	**-4.1%**	**0.0%**	**0.2%**	**0.0%**	**-3.8%**

Source: DGPMF, MEF.
Note: Consolidation columns are not included.

Table 33. Financial Situation of the Consolidated Public Sector 2023 (Bn of PYG)

	General Government (1)	Public companies (2)	Non-financial public sector (3)=(1)+(2)	Official financial institutions and BCP (4)	Public sector (5)=(3)+(4)
Total revenue (collected)	**60,336**	**13,168**	**73,504**	**4,361**	**77,865**
Tax revenues	31,863	**0**	31,862	-	31,862
Social contributions	12,971	-	12,971	-	12,971
Grants	5,214	-	5,214	13	5,227
Other income	10,288	13,169	23,457	4,348	27,805
Total obligated expense	**63,099**	**12,398**	**75,497**	**2,318**	**77,815**
Compensation of employees	24,876	1,235	26,111	509	26,620
Use of goods and services	9,044	9,539	18,584	451	19,035
Interest	5,219	519	5,738	866	6,604
Grants	5,662	161	5,823	248	6,071
Social benefits	15,431	299	15,730	101	15,831
Other expenses	2,867	644	3,512	142	3,654
Net operating balance	**-2,763**	**770**	**-1,993**	**2,043**	**50**
Net acquisition of non-financial assets	9,210	2,372	11,582	111	11,693
Net lending/borrowing	**-11,972**	**-1,602**	**-13,575**	**1,932**	**-11,643**

Source: DGPMF, MEF.
Note: Consolidation columns are not included.

Table 34. Public Sector Financial Position 2023 (% of GDP)

	General Government (1)	Public companies (2)	Non-financial public sector (3)	Official financial institutions and BCP (4)	Public sector (5)=(3)+(4)
Total revenue (collected)	**19.2%**	**4.2%**	**23.4%**	**1.4%**	**24.8%**
Tax revenues	10.2%	0.0%	10.1%	0.0%	10.1%
Social contributions	4.1%	0.0%	4.1%	0.0%	4.1%
Grants	1.7%	0.0%	1.7%	0.0%	1.7%
Other income	3.3%	4.2%	7.5%	1.4%	8.8%
Total obligated expense	**20.1%**	**3.9%**	**24.0%**	**0.7%**	**24.8%**
Compensation of employees	7.9%	0.4%	8.3%	0.2%	8.5%
Use of goods and services	2.9%	3.0%	5.9%	0.1%	6.1%
Interest	1.7%	0.2%	1.8%	0.3%	2.1%
Grants	1.8%	0.1%	1.9%	0.1%	1.9%
Social benefits	4.9%	0.1%	5.0%	0.0%	5.0%
Other expenses	0.9%	0.2%	1.1%	0.0%	1.2%
Net operating balance	**-0.9%**	**0.2%**	**-0.6%**	**0.6%**	**0.0%**
Net acquisition of non-financial assets	2.9%	0.8%	3.7%	0.0%	3.7%
Loan / net indebtedness	**-3.8%**	**-0.5%**	**-4.3%**	**0.6%**	**-3.7%**

Source: DGPMF, MEF.
Note: Consolidation columns are not included.

Annex B

Table 35: Medium-term fiscal framework for the general government and consolidated public sector 2024-2029 (% of GDP)

	General Government						Consolidated public sector					
	2024	2025	2026	2027	2028	2029	2024	2025	2026	2027	2028	2029
Total revenues	18.9	19.1	19.3	19.5	19.5	19.7	24.6	24.8	25.1	25.2	25.2	25.4
Total expenses	19.0	18.6	18.4	18.3	18.3	18.3	23.8	23.3	23.1	23.0	23.0	22.9
Net operating balance	**-0.1**	**0.5**	**0.9**	**1.2**	**1.2**	**1.4**	**0.8**	**1.5**	**1.9**	**2.2**	**2.3**	**2.5**
Public investment	2.1	2.1	2.1	2.4	2.4	2.6	3.0	3.0	3.0	3.3	3.3	3.5
Overall balance	**-2.2**	**-1.6**	**-1.2**	**-1.2**	**-1.2**	**-1.2**	**-2.2**	**-1.5**	**-1.1**	**-1.0**	**-1.0**	**-1.0**

Source: DGPMF - MEF.

Annex C

Table 36: Approved and current GBN of the Central Administration 2023

Central government entities	GBN approved (Bn PYG)	GBN in force (Bn PYG)	Current FP (Bn PYG)	Required (Bn PYG)	Obligated / Current FP (%)	Required (% of GDP)
Ministry of Finance (now MEF)	18,825	19,615	19,615	18,217	92.9	5.8
Ministry of Education and Science	8,213	8,249	8,249	7,880	95.5	2.5
Ministry of Public Health and Social Welfare	8,078	11,052	11,050	9,140	82.7	2.9
Ministry of Public Works and Communications	6,844	9,307	9,122	7,724	84.7	2.5
Ministry of the Interior	3,371	3,372	3,370	3,273	97.1	1.0
Ministry of National Defense	2,170	2,193	2,193	2,085	95.1	0.7
Supreme Court of Justice	1,468	1,520	1,520	1,469	96.6	0.5
Presidency of the republic	890	1,055	1,046	756	72.3	0.2
Ministry of Urbanism, Housing and Habitat	746	796	796	724	91.0	0.2
Ministry of Foreign Affairs	681	724	724	658	90.9	0.2
Public Prosecutor's Office	679	771	771	698	90.6	0.2
Electoral justice	671	670	670	647	96.6	0.2
Ministry of Social Development	592	638	638	587	92.1	0.2
Ministry of Agriculture and Livestock	537	571	553	394	71.3	0.1
Ministry of Justice	439	453	453	387	85.4	0.1
Ministry of Information and Communication Technologies	327	334	334	163	48.7	0.1
Ministry of Labor, Employment and Social Security	322	356	356	302	84.8	0.1
Ministry of Public Defense	275	278	278	271	97.2	0.1
Chamber of Deputies	249	277	277	257	92.9	0.1
Chamber of Senators	178	178	178	174	98.0	0.1
Office of the Comptroller General of the Republic	163	163	163	160	98.2	0.1
National Congress	130	130	130	123	94.5	0.0
Ministry of Children and Adolescents	107	110	110	88	80.2	0.0
Ministry of Industry and Commerce	97	146	146	90	61.5	0.0
Ministry of Environment and Sustainable Development	75	76	76	68	89.4	0.0
Jury for the impeachment of magistrates	43	43	43	43	98.2	0.0
Judicial Council	36	38	38	36	95.2	0.0
Ministry of Women's Affairs	19	22	22	18	81.9	0.0
Ombudsman's Office	18	18	18	14	75.9	0.0
Vice-Presidency of the Republic	14	14	14	13	93.9	0.0
General receivership of bankruptcies	14	17	17	16	95.3	0.0
National preventive mechanism against torture	6	6	6	5	90.7	0.0
Total	**56,277**	**63,193**	**62,976**	**56,483**	**89.7**	**18.0**

Source: SICO, MEF.
Note: Excluding consolidable transfers.