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Concluding Statement of the IMF's 2009 Article IV Mission to Paraguay

An International Monetary Fund (IMF) mission visited Paraguay during March 4-18, 2009 for discussions with officials and the private sector, as part of the IMF's regular Article IV consultations with its member countries. IMF Mission Chief Patricia Alonso-Gamo issued the following statement today on the mission's findings:

"The rapid deterioration in the global environment is affecting the region, and Paraguay is no exception. In the wake of a favorable 2008, with GDP growth of around 6 percent, the growth trajectory will experience a turnaround in the current year, largely due to two specific factors. First, the global crisis, which is turning out to be deeper and longer than originally foreseen and which is affecting external demand, both of traditional exports and possibly, to an even larger extent, non-traditional exports. Second, in addition to external factors, the main cause of the deceleration in economic growth is the drought registered during late 2008 and early 2009. In part as a result of the weakening global economic environment, inflation in Paraguay is now on a firmly downward trend, well within the Central Bank's target range. The floating exchange rate continues to serve Paraguay well by acting as a shock absorber in the face of commodity price fluctuations and strong regional linkages.

"Owing to prudent macroeconomic policies that the government pursued in recent years and is continuing to implement, Paraguay is better placed than many other countries to confront the global financial turbulence and economic recession. The fiscal accounts have been in surplus, and external public debt is low, providing the government with sufficient margins to conduct counter-cyclical policies until a global economic recovery takes hold. Wise use of these margins, while refraining from inflationary policies, would help preserve Paraguay's macroeconomic stability and bolster the sustainability of its social reform agenda.

"The government has so far reacted appropriately to the adverse economic conditions. Monetary policies have been eased, and the central bank has injected liquidity into the financial system by retiring sterilization bills. It is important for the central bank to preserve its strong international reserves position to bolster confidence, especially so as not to reverse the gains registered in the de-dollarization of the economy. Paraguay's banking system remains solid and has become more stable following recent improvements of prudential regulations, but the lack of long-term funding constrains banks' capacity to meet the private sector's financing needs. The government's plan to support the economy through fiscal stimulus measures appropriately

focuses on public investment on infrastructure and well-targeted social programs to mitigate poverty and improve health and education. Given the relatively low tax rates and a still narrow tax base, there is little scope for tax reductions. The external financing of the plan by international donors and multilateral lenders supports the balance of payments and will help preserve the financial system's capacity to lend scarce domestic resources to the private sector. Key to the recovery program's success will be its effective and timely implementation, while transparent monitoring should ensure that domestic and externally-financed resources will be spent efficiently.

“The government remains committed to resolve pending structural problems by continuing to strengthen financial oversight and regulation, as well as buttressing the financial viability of the central bank to allow for a more effective conduct of monetary policy. Measures are also envisaged to strengthen the institutional capacity to implement the government budget and consolidate the improvements in tax and customs administration that have been achieved in recent years. In addition, the government is seeking to strengthen the mechanisms for the oversight of state-owned enterprises and develop a viable business strategy for each of these enterprises.

“If the government is able to implement effectively an ambitious and well-prioritized medium-term recovery plan along the above lines, not only will Paraguay be able to mitigate the impact of the crisis, but it would also exit from the global recession stronger and in better condition to resume sustainable growth and help reduce the country's high rates of poverty and income inequality.

“Finally, the mission would like to thank the authorities and the citizens of Paraguay for their warm hospitality.”