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November 8, 1985

To: Members of the Executive Board

From: The Secretary

Subject: Paraguay - Staff Report for the 1985 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1985 Article IV consultation with Paraguay, which has been tentatively scheduled for Board discussion on Friday, December 6, 1985. A draft decision appears on page 19.

Mr. D. Lachman (ext. 8601) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

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INTERNATIONAL MONETARY FUND

Paraguay

Staff Report for the 1985 Article IV Consultation

Prepared by the Staff Representatives for the 1985 Consultation with Paraguay

Approved by Eduardo Wiesner and Manuel Guitian

November 7, 1985

Contents | Page

Tables

Appendices

Charts

I. Introduction

The 1985 Article IV consultation discussions with Paraguay were held in Asuncion from August 29 to September 12, 1985. The representatives of Paraguay included the Ministers of Finance, Agriculture, and Industry and Commerce; the President and the Board of Directors of the Central Bank; the Executive Secretary of the Technical Planning Office; the Directors of the Itaipu and Yacyreta binational entities; 1/ the chief executives of the largest public enterprises; and other senior officials. The mission also met with representatives of the private sector and the banking system. The staff mission consisted of Desmond Lachman (Head), Lazaros Molho, Roberto Ramaciotti (all WHD), Paulo Leme (ETR), and Marcela Toso (Secretary-WHD). The mission was assisted by Ivan Bello, the Fund resident representative in Asuncion. Paraguay continues to avail itself of the transitional arrangements of Article XIV.

The previous consultation discussions with Paraguay were held in October 1984. The relevant documents (SM/84/274, SM/84/276) were considered by the Executive Board on January 11, 1985 (EBM/85/5). On that occasion, Directors underlined the drawbacks of Paraguay's system of multiple exchange rates and they urged that further measures be taken toward the unification of the exchange rate, particularly in view of the expected reduction in foreign exchange inflows related to the construction of Paraguay's hydroelectric projects.

In recent years, Paraguay has not made recourse to use of Fund resources. As of September 30, 1985 the Fund's holdings of Paraguayan guaranies amounted to SDR 16.2 million or 33.4 percent of quota, and Paraguay's holdings in the Special Drawing Rights Department stood at SDR 37.9 million or 276.5 percent of allocation. Further information on Paraguay's relations with the Fund is presented in Appendix I.

1/ The Itaipu Binational Entity is a joint Paraguayan and Brazilian venture entrusted with the construction and operation of the 12.6 million kilowatt Itaipu hydroelectric complex now nearing the end of its construction phase; the Yacyreta Binational Entity is a joint Paraguayan and Argentine venture in charge of the construction and eventual operation of the 2.7 million kilowatt Yacyreta hydroelectric project whose implementation has been delayed in recent years due to the financial difficulties being experienced in Argentina.

II. Economic Background 1/

Since 1981, there has been a significant deterioration in Paraguay's economic and financial performance. Following a prolonged period of rapid economic growth and strong balance of payments performance associated with the construction of the Itaipu hydroelectric project, in 1982-83 real GDP registered a cumulative decline of 5 percent and recorded unemployment rose to 8 1/2 percent (Table 1). In addition to the winding down of construction at Itaipu, the slackening in economic activity reflected heavy flood damage to agriculture in 1983 and the impact on exports of developments in Argentina and Brazil. However, beyond these external factors, there was also a significant weakening in economic management and in particular the emergence of an overly appreciated exchange rate, especially for exports and for petroleum imports (Charts 1 and 2).

During 1984, real GDP grew by an estimated 2 3/4 percent and preliminary indications suggest that economic growth was maintained at about this pace in 1985. The modest rebound in activity over the past two years was largely associated with improved performance in the agricultural sector, which benefited from more favorable weather conditions and from higher international prices until the end of 1984 for soybeans and cotton. Moreover, there was a revival in the service sector stemming from increased tourism from Argentina.

The slackening in economic activity since 1981 was initially accompanied by a slowing of inflation. In terms of the official consumer price index, the 12-month rate of inflation decelerated from 18 1/2 percent at the end of 1980 to under 9 percent by end-1982. However, the subsequent easing in credit policy, together with important exchange rate measures in May 1984, resulted in a quickening in the rate of price increase. By end-1984, the 12-month rate of increase in the official consumer price index had picked up to almost 30 percent and it has remained at around this level through September 1985 despite the appreciable delays in public enterprise tariff adjustments. There is reason to believe, however, that the official price index understates the actual rate of inflation. On the basis of a rather comprehensive unofficial price survey in the private sector, inflation would currently appear to be running at an annual rate of over 50 percent.

1/ Analysis of the Paraguayan economy is rendered extremely difficult by the poor quality of the economic statistics, particularly in regard to the national accounts, the balance of payments, and the public finances. Over the past few years, this situation has been further complicated by the considerable widening in the spread between the different exchange rates in effect for alternate transactions. The current status of the macroeconomic statistics in Paraguay is outlined in Appendix II.

Table 1. Paraguay: Selected Economic Indicators

	1981	1982	1983	1984	Est. 1985
	(Percentage change)				
GDP at constant prices	8.6	-1.9	-3.3	2.8	3.0
Agriculture	16.6	0.7	-2.9	7.3	6.0
Manufacturing	4.3	-3.7	-4.2	4.5	3.0
Construction	13.6	-14.8	-8.5	-5.1	--
Price indicators					
GDP deflator	16.3	5.2	14.5	26.9	19.8
Consumer prices (end-period)	8.7	8.8	14.1	29.8	27.6 1/
	(In millions of U.S. dollars)				
Balance of payments indicators					
Overall balance of payments surplus or deficit (-)	53	-125	-258	-127	-163
Net international reserves at end of period	825	699	633	542	409
Commercial payment arrears at end of period	--	--	192	228	258
Public and publicly guaranteed external debt	809	1,038	1,305	1,509	1,712

Sources: Central Bank of Paraguay; and Fund staff estimates.

1/ 12-month rate through August 1985.

Against the background of increased inflation, the minimum wage, which had last been adjusted by 10 percent in July 1983, was increased by 15 percent in June 1984 and by a further 15 percent in September 1984. The minimum wage was again increased by 10 percent in February 1985 and by a further 20 percent at the beginning of October 1985.

Following a decade of balance of payments surpluses, there has been an appreciable deterioration in Paraguay's external accounts since 1982. A primary factor in this regard was the lower net foreign exchange inflows associated with the Itaipu and the Yacyreta hydroelectric projects. These inflows, which had reached a peak of US$450 million or 13 percent of GDP in 1981, have declined steadily in recent years to an estimated annual rate of US$70 million or barely 2 percent of GDP in 1985 (Table 2). 1/ This decline reflected the near completion of the construction phase at Itaipu, which was not offset by increased activity at the joint project with Argentina at Yacyreta. This latter project has been indefinitely delayed.

Additional factors exerting pressure on Paraguay's external accounts have been the considerable easing in credit policy and, as was mentioned above, the emergence of an overly appreciated real exchange rate. The latter manifested itself in a significant decline in overall export earnings (including unregistered trade) from the levels reached in 1980 (see Table 2). During 1985, Paraguay's export earnings were further depressed by the sharp decline in the international prices for soybeans and cotton. In response to the increased pressure on the balance of payments, the authorities stepped up public sector external borrowing to an annual rate exceeding US$200 million over the past few years. Moreover, import restrictions were intensified, foreign exchange rationing was tightened, and since May 1984 most nonpetroleum imports were shifted to the free market. In reflection of these measures, Paraguay's imports are estimated to have declined from a peak of over US$1,000 million at the beginning of the 1980s to their current level of below US$700 million. Notwithstanding this decline, however, Paraguay's balance of payments swung from an overall surplus of US$50 million in 1982 to overall deficits averaging around US$165 million over the past four years.

Paraguay has financed its recent balance of payments deficits by drawing down its international reserves and by accumulating a considerable amount of commercial payment arrears. From a level of US$825 million at the end of 1981, Paraguay's net international reserves declined to US$480 million by August 1985, and they are expected to

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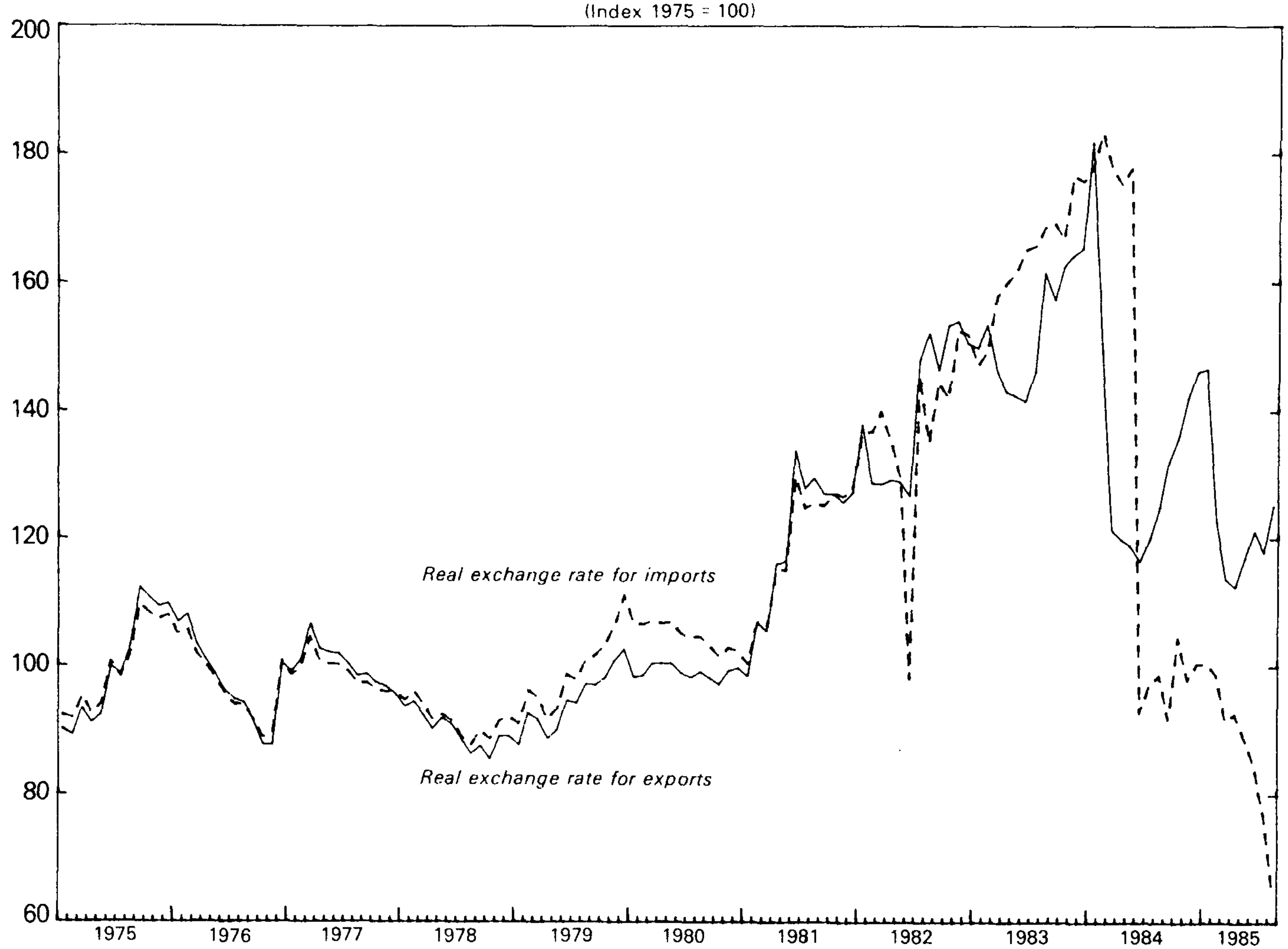
1/ For purposes of this calculation, Paraguay's GDP in terms of U.S. dollars was estimated starting from a base date of 1970, at which time the official exchange rate appears to have been broadly appropriate. A dollar GDP series was constructed by applying to the 1970 dollar estimate of GDP, the real rates of GDP growth as reflected in Paraguay's national accounts and the rate of consumer price inflation in the United States.

CHART 1

PARAGUAY

REAL EFFECTIVE EXCHANGE RATE[1]

(Index 1975 = 100)



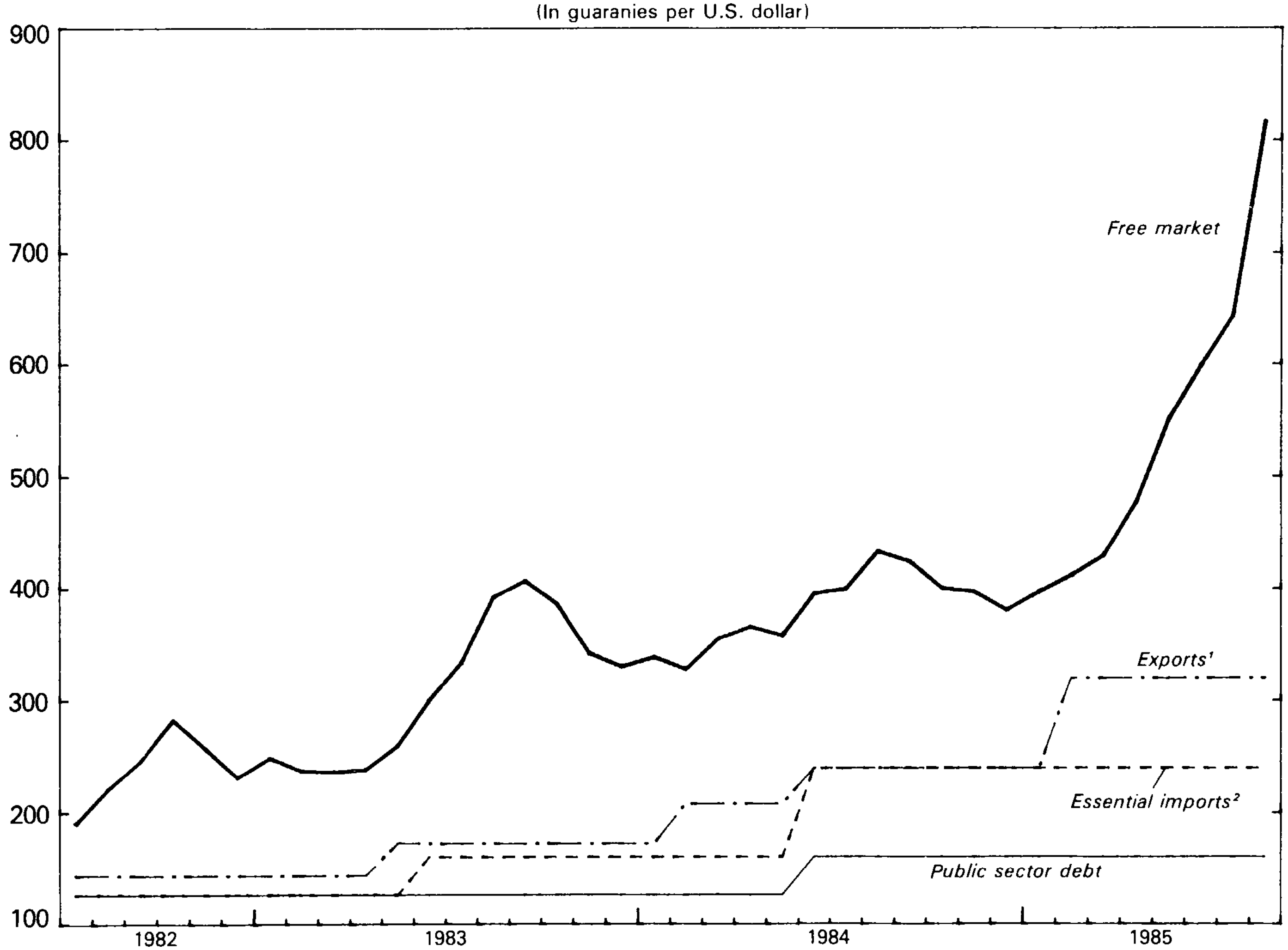
[1] Based on average exchange rates applicable to Paraguay's registered trade in terms of relative consumer prices. An increase in the index reflects a real appreciation of the exchange rate

CHART 2

PARAGUAY

SELECTED NOMINAL EXCHANGE RATES

(In guaranies per U.S. dollar)



[1] Represents averages of the different exchange rates for exports.
[2] Includes petroleum products, and agricultural and industrial inputs

Table 2. Paraguay: Summary Balance of Payments

(In millions of U.S. dollars)

	1981	1982	1983	1984	1985
Overall balance excluding operations of the binational corporations	-395.5	-446.8	-552.0	-299.0	-231.0
Current account balance	-528.8	-443.6	-408.9	-336.4	-360.7
Exports	(668.2)	(564.4)	(490.0)	(530.4)	(487.4)
Imports	(-1,038.8)	(-836.1)	(-710.0)	(-739.3)	(-688.6)
Services (net)	(-164.5)	(-189.1)	(-195.0)	(-136.8)	(-168.0)
Of which: investment income (net)	/13.9/	/-31.9/	/-57.0/	/-54.3/	/-70.2/
Transfers (net)	(5.8)	(17.2)	(6.1)	(9.3)	(8.5)
Capital account	133.3	-3.2	-143.1	37.4	129.7
Private long-term borrowing	(54.4)	(1.1)	(-13.6)	(-13.4)	(-12.9)
Public medium- and long-term borrowing	(101.6)	(233.2)	(268.7)	(204.5)	(207.5)
Short-term borrowing and errors and omissions	(-22.7)	(-237.5)	(-398.2)	(-153.7)	(-64.9)
Net inflows related to operations of the binational corporations	448.9	321.4	294.0	171.6	68.0
Overall balance	53.2	-125.4	-258.0	-127.4	-163.0
Reserve increase (-)	-53.2	125.4	65.7	92.2	133.0
Accumulation of arrears	--	--	192.3	35.2	30.0

Sources: Central Bank of Paraguay; and Fund staff estimates.

decline further to around US$400 million by year-end. Over the same period, Paraguay has built up commercial payments arrears totaling around US$260 million. Moreover, there are reported to have been widespread delays, albeit of a short duration, in external debt repayments, including those on debts to the World Bank and to the Inter-American Development Bank.

During the second half of the 1970s, the Paraguayan authorities exercised considerable restraint over public expenditures and the overall fiscal position remained broadly in balance. Since 1979, however, there has been an appreciable weakening in the public sector's finances. Up until 1983, this weakening stemmed primarily from increased current expenditures of the Central Administration, especially on pensions, and from the undertaking of major public enterprise investment projects in the steel and cement sectors. These increased expenditures were not accompanied by any new initiatives of substance in the area of fiscal revenue, and tax collections declined as the macroeconomic environment deteriorated. As a result, the overall position of the public sector, including the quasi-fiscal deficit incurred by the Central Bank through the provision of foreign exchange to the public sector at highly subsidized rates, reached the equivalent of 8 1/2 percent of GDP in 1983 (Table 3 and Chart 3).

During 1984, an important effort was made to reduce the fiscal deficit through tight control of current expenditures, including a freeze on wages, and through cutbacks in capital expenditures. At the same time, the financial position of a number of public enterprises was strengthened through a substantial increase in their tariffs at the beginning of 1984. On this basis, the overall deficit of the public sector, including the losses of the Central Bank, was reduced to around 6 3/4 percent of GDP in 1984. However, preliminary staff estimates of the fiscal outturn for 1985 would suggest a renewed widening of the overall deficit to almost 8 percent of GDP. Important factors in this regard were delays in public enterprise tariff adjustments since early 1984 and the rapid growth in interest payments on the public sector's external debt. In addition, the exchange losses incurred by the Central Bank are estimated to have risen to the equivalent of 2 percent of GDP in 1985.

Over the past two years monetary policy was loose as evidenced by the very strong expansion in banking system credit (see Table 3 and Chart 4). To an important extent, this reflected the mounting losses incurred by the Central Bank on the provision of foreign exchange to the public sector. Further contributing to the rapid rate of credit expansion were the large borrowing needs of the public sector and the continuation up until April 1985 of the system whereby the Central Bank automatically rediscounted up to 40 percent of the special credit operations of the commercial banks. Notwithstanding the pickup in inflation over the past two years, the Paraguayan authorities have maintained unaltered the ceilings on banking system deposit and loan rates. As a result, real interest rates have become highly negative,

Table 3. Paraguay: Selected Financial Indicators

	1981	1982	1983	1984	Est. 1985 1/
	(As percent of GDP)				
Fiscal indicators					
Central government finances					
Total revenues	8.2	9.1	7.9	7.9	8.4
Total expenditures	10.7	10.8	12.6	8.9	9.4
Of which: capital expenditures	(2.4)	(2.9)	(3.4)	(1.6)	(1.9)
Overall surplus or deficit (-)	-2.5	-1.7	-4.7	-1.0	-1.0
Nonfinancial public sector finances and central bank losses					
Total nonfinancial public sector revenues	11.5	12.9	12.1	11.1	11.0
Total nonfinancial public sector expenditures 2/	14.0	15.7	20.3	16.6	16.9
Overall surplus or deficit (-) of the nonfinancial public sector	-2.5	-2.8	-8.1	-5.5	-5.9
Central bank losses	-0.1	-0.2	-0.3	-1.2	-2.0
Overall deficit of the nonfinancial public sector and Central Bank	-2.6	-3.0	-8.4	-6.7	-7.9
Financing of the overall of the nonfinancial public sector and the Central Bank	2.6	3.0	8.4	6.7	7.9
External financing	1.6	3.7	4.8	3.8	5.1
Domestic financing	1.0	-0.7	3.6	2.9	2.8
	(Percentage increases)				
Monetary indicators					
Central Bank					
Net domestic assets 3/	40.2	17.3	98.1	85.1	60.9
Public sector	(34.4)	(17.4)	(63.3)	(27.7)	(12.5)
Foreign exchange losses	(--)	(4.4)	(7.3)	(32.9)	(53.4)
Other	(5.8)	(-4.4)	(27.5)	(24.5)	(-5.0)
Liabilities to private sector	13.4	7.0	16.0	28.4	21.0
Banking system					
Net domestic assets 4/	17.4	10.0	19.9	18.5	26.4
Public sector	(7.0)	(5.3)	(11.5)	(4.3)	(1.4)
Foreign exchange losses	(--)	(0.8)	(1.4)	(6.5)	(12.3)
Other	(10.4)	(3.9)	(7.0)	(7.7)	(12.7)
Liabilities to private sector	21.7	6.5	12.8	11.6	18.5

Sources: Central Bank of Paraguay; Ministry of Finance; and Fund staff estimates.

1/ Estimates based on data through July 1985.
2/ Includes correction by the staff for the accounting of expenditures at the artificially low exchange rates at which government foreign exchange expenditures are officially recorded.
3/ In relation to central bank liabilities to private sector outstanding at the beginning of the period.
4/ In relation to banking system liabilities to the private sector outstanding at the beginning of the period.

which has resulted in a widespread tendency toward financial disintermediation from the official banking system.

In the area of exchange rate policy, over the past several years the authorities have maintained a complex system of multiple exchange rates that severely penalizes exports and that highly subsidizes government debt service payments and petroleum imports. Until February 1985, three basic exchange rates had been in effect, but since that date the system has consisted of the following four basic rates: (a) ₲ 160 per U.S. dollar for public sector capital and external debt service payments; (b) ₲ 240 per U.S. dollar for 50 percent of exports at the minimum prices set by the Central Bank, for private capital transactions, for transactions related to the binational entities, and for imports of petroleum and agricultural and industrial inputs; (c) ₲ 400 per U.S. dollar for the remaining 50 percent of export proceeds based on minimum export prices; and (d) a free market exchange rate for all other imports, profit remittances and service payments, as well as for that part of export proceeds corresponding to the difference between the actual and the minimum export price. The free market exchange rate has more than doubled from around ₲ 400 per U.S. dollar at the beginning of 1985 to around ₲ 800 per U.S. dollar in September.

In late 1982, priorities for processing import requests were established which amounted to a de facto system of import control. These controls have since been considerably tightened in response to the increased pressure on foreign exchange reserves. Moreover, since 1983 there has been a significant accumulation of commercial payment arrears, while the trade and payments system continues to be characterized by a wide array of duties, surcharges, and commissions. At the end of 1984, however, the many taxes and surcharges on exports were removed and the tariff system was simplified through the adoption of a new Tariff Law.

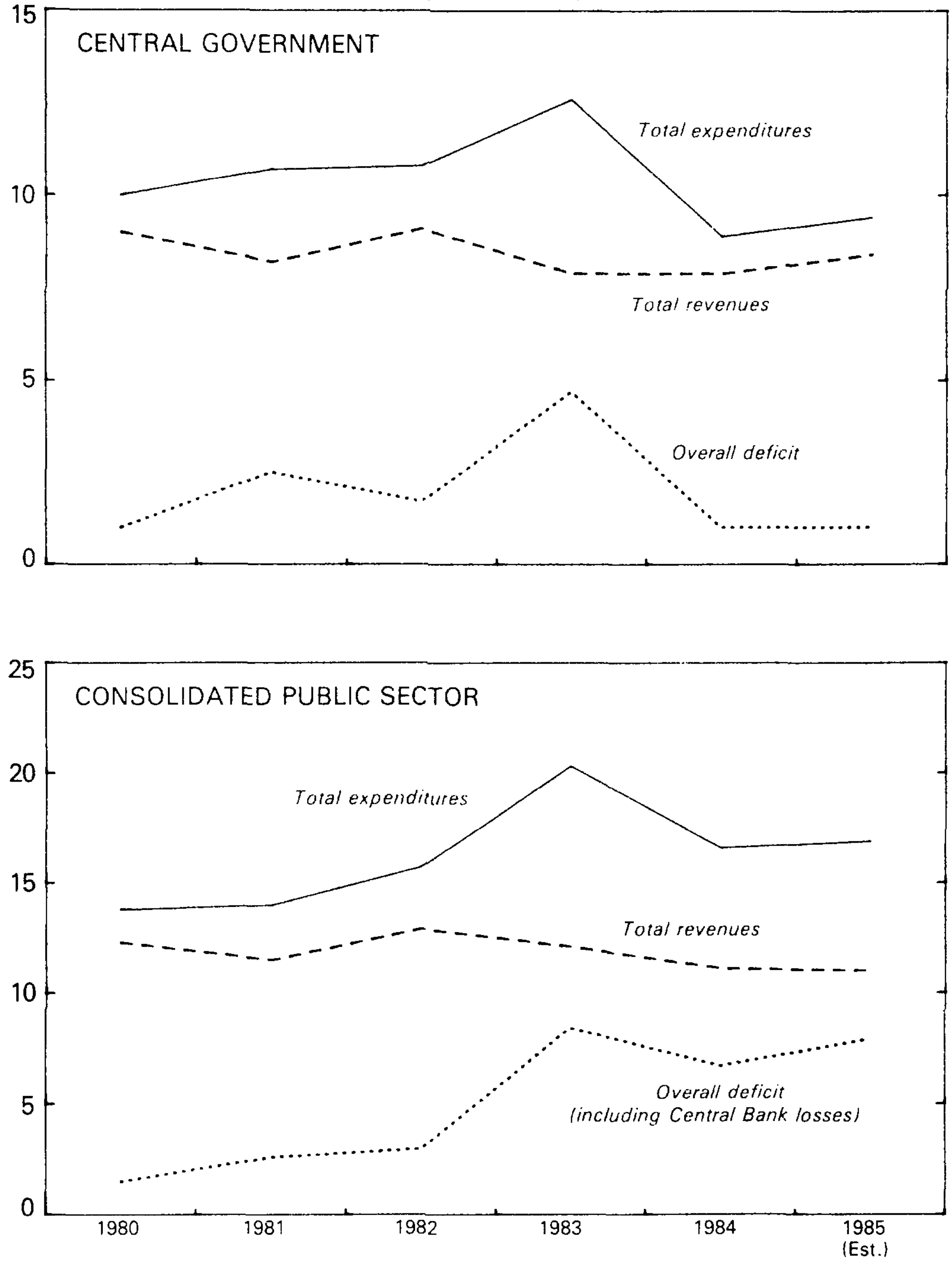
Since the middle of 1985, disbursements of World Bank loans were significantly slowed and negotiations of new World Bank loan arrangements were stalled (see Appendix III for a summary of Paraguay's relations with the World Bank). The main factor in this regard was the basic difference between the Bank and the authorities concerning the appropriate exchange rate to be used for the conversion of local currency expenditures in World Bank projects. In August 1985, the World Bank informed the Paraguayan authorities that no further disbursements of World Bank loans for local currency expenditures would be made unless the exchange rate for this purpose was raised to ₲ 400 per U.S. dollar from its current level of ₲ 160 per U.S. dollar. Over the past year, the World Bank has also encountered difficulties with the provision of counterpart funds for a number of agricultural projects and it has recommended major changes in interest rate policy.

CHART 3

PARAGUAY

PUBLIC SECTOR OPERATIONS

(In percent of GDP)

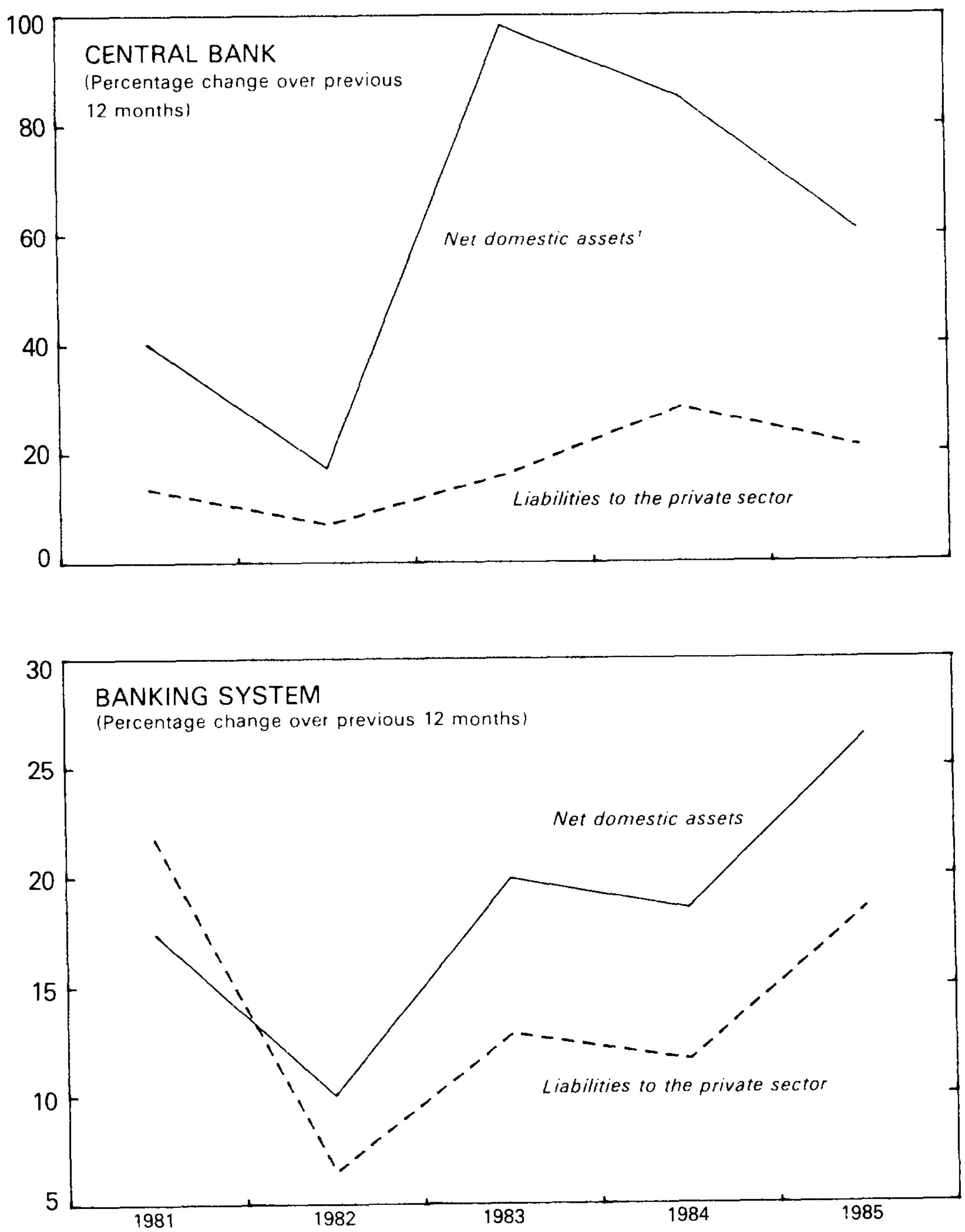


Sources: Ministry of Finance, Technical Planning Secretariat, and Fund staff estimates.

CHART 4

PARAGUAY

MONETARY DEVELOPMENTS



[1] Percentage change in relation to central bank liabilities to the private sector at the beginning of the period

[2] Percentage change in relation to banking system liabilities to the private sector at the beginning of the period

III. Report on the Discussions

In the discussions, the authorities recognized the seriousness of the current economic situation and in particular they expressed a deep concern about the rapid erosion of Paraguay's financial situation. Moreover, the authorities appeared to perceive the need for early remedial action to adjust the economy to its new situation of sharply reduced foreign exchange inflows from the Itaipu project. However, the economic team had not yet come to a decision on the nature of the measures to be taken. Against this background, the discussions focused on how policies might best be adjusted to restore sustained economic growth within the context of a sound balance of payments and a reduced rate of inflation.

1. External policies

The Paraguayan representatives agreed that a major strengthening was required in Paraguay's external accounts. They also recognized that this task would require all the greater effort in view of the decline since 1981 in annual foreign exchange inflows from Itaipu and Yacyreta. In addition, there was also now the need to service the large amount of external debt accumulated over the past few years, the grace periods on which were coming to an end.

The authorities expressed concern about the rapid pace at which international reserves were being depleted. Moreover, they recognized that the external debt could not continue to increase at the pace of recent years and that efforts would also need to be made to reduce the commercial payment arrears that had been built up since 1982. With respect to these latter arrears, the authorities indicated that Paraguay had been experiencing an increased reluctance on the part of foreign suppliers to extend trade credits and that a large part of import transactions was now taking place on a cash basis. The staff urged the authorities to settle these arrears promptly in order to re-establish the basis for more normal trade transactions.

The authorities accepted the staff's view that it would be imprudent to premise policies on the basis of any significant rebound in foreign exchange inflows from the Itaipu and Yacyreta projects. They indicated that since 1983 construction at Itaipu had largely been confined to the installation of turbines. Over the next few years, around two new turbines would be installed each year, which would maintain foreign exchange inflows from construction at the Itaipu project at around its current level of only US$70 million a year. While electricity sales from Itaipu had already begun, the authorities did not expect to receive any significant royalties from these sales until modifications were agreed upon with Brazil on the definition of the formula for the determination of these royalties. By the end of the decade, however, the authorities estimated that anywhere between US$100 million and US$200 million a year might be received from electricity royalties. As regards the status of the Yacyreta project, the authorities noted that differences with Argentina on the exchange rate to be used for local currency expenditures had brought this project to a virtual halt in 1985. The authorities were not expecting an early resumption of work at this project.

On the issue of exchange rate policy, there was considerable divergence among the Paraguayan authorities on the appropriate course of action. Whereas the Central Bank had recently called upon the Government to conduct the 1986 budget exercise on the basis of a uniform exchange rate of ₲ 320 per U.S. dollar, the Ministry of Finance was proceeding on the basis of the exchange rates of ₲ 160 and ₲ 240 per U.S. dollar currently in effect for government transactions. At the same time, while it was generally recognized that the average exchange rate for exports of ₲ 320 per U.S. dollar was no longer appropriate, the authorities expressed great concern that an adjustment of this exchange rate might unleash an inflationary process. The authorities were nevertheless aware that failure to adjust the exchange rate would discourage exports and would lead to a further reduction in foreign exchange flows through the Central Bank, especially in view of the recent rise in the free market rate to around ₲ 800 per U.S. dollar. The authorities estimated that well over half of Paraguay's external trade transactions was already being conducted outside official channels.

The staff took the position that in Paraguay's current circumstances there was no realistic alternative but to follow policies that would promote export receipts at an appreciably faster rate than import payments. In this regard, the staff noted that a fundamental change in exchange rate policy would have to play the crucial role and the staff urged the authorities to make such a change promptly before Paraguay lost the room for maneuver that it now still enjoys. The staff expressed the view that unification of the exchange rate at a realistic level would offer Paraguay the best prospect for restoring sustainable growth by allowing the economy to develop along the lines of its comparative advantage and by reducing the incentives for trade flows through irregular channels. The staff emphasized, however, that exchange rate action should be taken within the framework of a carefully co-ordinated package of supporting fiscal and monetary measures that would make available the resources needed to strengthen the external sector.

The authorities indicated that Paraguay's complex exchange and trade system had evolved in response to external developments, particularly in neighboring countries. They nevertheless recognized the adverse effects that this system had on domestic resource allocation and they stated their intention to simplify this system as external conditions permitted. In this regard, the authorities observed that as part of the 1985 budget, a new Tariff Law had been passed by Congress. The main objectives of this law had been to rationalize Paraguay's tariff structure within a general range of between 5 and 30 percent and to simplify the many charges and fees to which imports were presently subjected. The authorities also indicated that it was their intention not to extend the two-year bilateral agreement with Brazil pertaining to Itaipu-related payments that is due to expire at the end of 1985.

On the issue of the external debt, the authorities observed that while an increasing proportion of Paraguay's external debt was now being contracted on market-related terms, the bulk of the external debt outstanding was of a concessional nature. The staff, however, drew attention to the rapid rate at which the debt ratios had been increasing and it underlined that the current pace of external debt accumulation was not sustainable. Over the past four years, the ratio of public and publicly guaranteed external debt had approximately doubled to 42 percent of GDP, while the public debt service ratio in relation to overall exports of goods and services had risen to 30 percent (Table 4). On this basis, the staff urged the authorities to strengthen the existing mechanism of prior control over public sector external borrowing. The authorities acknowledged that, to date, external borrowing had been authorized by the Council of Ministers on a rather ad hoc basis with relatively little consideration having been given to macroeconomic considerations.

2. Fiscal policy

The authorities noted that over the past two years an important effort had been made to reverse the earlier weakening in the public finances. This effort had centered on expenditure policy including a highly restrictive wage policy and a cutback in capital outlays. The authorities added that this tight expenditure policy had affected all but a few priority sectors such as social security spending and debt service payments. At the same time, although there had been relatively few changes in tax policy, fiscal revenues had registered some increase in 1985 on account of the gradual improvement in the macroeconomic environment. On this basis, the authorities were expecting that the central government deficit in 1985 would be contained at around its 1984 level of 1 percent of GDP as compared with the deficit of 4 3/4 percent of GDP registered in 1983.

The authorities acknowledged that a large part of the improvement recorded in the public finances had been facilitated by the increased exchange losses being borne by the Central Bank on account of government exchange transactions. Moreover, the authorities recognized that the official figures on public sector expenditures were distorted to the extent that all foreign currency expenditures by the public sector were converted at the artifically low exchange rates applicable to government transactions. The staff noted that if corrections were made for these exchange rate factors, the public finances showed only a marginal improvement over the past two years.

The authorities noted that the 1986 budget, which was currently being presented to Congress, aimed at broadly maintaining the stance of fiscal policy. A principal objective of the budget was to restrain

Table 4. Paraguay: Summary of External Debt

	1980	1981	1982	1983	Est. 1985
	(In millions of U.S. dollars)				
Public sector debt outstanding at end of period	809	1,038	1,304	1,509	1,712
Central Administration	317	370	502	622	772
Public enterprises	342	482	596	650	626
Rest of public sector	150	186	206	237	314
Private sector nonguaranteed debt	436	419	400	386	373
Total debt service payments	164	174	171	198	254
Public sector and officially guaranteed debt service	82	87	92	121	181
Interest payments	(35)	(42)	(48)	(58)	(65)
Amortization	(47)	(45)	(44)	(63)	(116)
Private sector nonguaranteed debt service	82	87	79	77	73
	(In percent)				
Debt service ratio 1/	21.1	26.5	29.7	29.1	41.6
Public sector and officially guaranteed debt service	10.5	13.3	16.0	17.8	29.7
Private sector nonguaranteed	10.6	13.2	13.7	11.3	11.9
Ratio of total debt to GDP 2/	36.0	40.5	47.6	49.3	50.7
Public and officially guaranteed	23.4	28.9	36.4	39.3	41.7
Private sector nonguaranteed	12.6	11.6	11.2	10.1	9.1
	(In millions of U.S. dollars)				
Memorandum items					
Exports of goods and nonfactor services	778.0	656.6	577.0	677.4	610.8
GDP 3/	3,457	3,592	3,595	3,843	4,109

Sources: Central Bank of Paraguay; and Fund staff estimates.

1/ In relation to exports and nonfactor services.
2/ Excluding exports of the binational entities.
3/ Based on a dollar GDP series calculated using a shadow exchange rate which maintains the real effective exchange rate of the guarani at its 1970 level.

public sector expenditures in 1986 to a level no higher in real terms than that recorded in 1985. Thus, whereas real increases were to be permitted in expenditures on health, education, and investment, these increases were to be offset by a restrained public sector wage policy which would limit public sector wage increases to no more than 12 percent in nominal terms. On the revenue side, the 1986 budget contemplated no new measures, but tax collections were expected to be strengthened through an improvement in tax administration. The authorities observed that while the introduction of a personal income tax had been under consideration for some time, action on this matter would have to await the results of a three-year study recently initiated by the Inter-American Development Bank.

The staff questioned whether the maintenance of the current stance of fiscal policy was adequate in light of Paraguay's need to make a major adjustment in its external accounts. In this regard, the staff underlined that the true imbalance currently characterizing the public sector's operations was being masked by the multiple exchange rate system presently in effect. The staff urged the authorities to re-examine all the options at its disposal for reducing public expenditures. Moreover, the staff pressed for a basic overhaul of the revenue system with a view to appreciably raising Paraguay's tax effort. The authorities did not take issue with the staff's view that the behavior of revenues in recent years had reflected not only a decline in economic activity, but also inadequacies in the tax system, an increasing number of tax exemptions, and the growing incidence of tax evasion.

The authorities noted that in recent years the public enterprises had made only limited recourse to domestic borrowing. However, the authorities acknowledged that the enterprises' financial position was coming under increasing pressure because of delays in tariff adjustments and the reduced availability of subsidized foreign exchange for these enterprises. Moreover, the authorities shared the staff's concern about the future pressure that these enterprises were likely to exert on the Central Bank as a result of the major investment projects which had been undertaken in the steel and cement sectors. These projects, which were largely financed from abroad at a total cost of around US$500 million, were motivated more by national and security reasons than by economic considerations. The staff underlined the danger that the weakening in the public enterprises' finances posed for economic management in the period ahead. In these circumstances, the staff urged the authorities to take the necessary measures to regain control over the public enterprises' operations and in particular to exercise increased vigilance over their future investment projects.

3. Monetary policy

The authorities indicated that the rapid rate of expansion in the Central Bank's net domestic assets over the past two years essentially reflected the Central Bank's rediscount operations and its growing losses on foreign exchange operations associated with the multiple exchange rate system. At the beginning of 1985, the situation was exacerbated by the sharp drop in international cotton prices, which made it necessary for the Central Bank to increase rediscounts to this sector. Moreover, the increase in the exchange rate for exports in February 1985, which was not accompanied by increases in the rates at which the Central Bank sells foreign exchange, resulted in a substantial boost to the Central Bank's exchange losses. These losses totaled around ₡ 25 billion for the first eight months of 1985 or almost double their level for the whole of 1984.

The authorities indicated that with a view to slowing down the rate of credit expansion, since April 1985 they had suspended all rediscount operations at preferential rates. The authorities recognized, however, that this would not in itself be sufficient to restore control over the monetary and credit aggregates. The authorities shared the staff's view that in order to restore such control they would need to eliminate the Central Bank's exchange losses while at the same time containing the public sector borrowing requirement.

On the question of interest rate policy, the staff took the position that the present structure of interest rates was not adequate in light of the current rate of inflation. In particular, the staff drew attention to the current ceilings of between 11 percent and 14 percent on deposit rates, which rendered these rates highly negative in real terms. While recognizing the adverse impact that these rates had on the whole process of financial intermediation, the authorities indicated that political considerations precluded any adjustment to these rates. The authorities added that similar considerations prevented any change to the interest rates that the banks were required to charge on special credits to agriculture, manufacturing, and exports. These special credits, which are required to constitute at least 50 percent of the commercial banks loan portfolio, bear an interest rate (including commissions) of 14 1/2 percent. The authorities recognized the adverse allocative effects of this system, and they acknowledged that in practice they could not control the final destination of these special credits.

4. Medium-term prospects

The authorities did not take issue with the staff's medium-term assessment that a major and sustained reduction was required in the current account deficit of the balance of payments. In the absence of such a reduction, even under the best of assumptions, the ratio of Paraguay's public sector external debt to GDP would rise to over 60 percent by the end of the decade while the public sector debt service ratio would rise to around 40 percent.

In order to obtain a rough quantification of the degree of external adjustment required, the staff explored a number of medium-term balance of payments scenarios (Table 5). The main underlying assumptions of

Table 5. Paraguay: Medium-Term External Debt Projection

(In millions of U.S. dollars)

	Est. 1985	Projected 1986	1987	1988	1989	1990	1991
I. Balance of Payments Projection							
Overall balance excluding operations of the binational entities	-231	-118	-80	-90	-100	-120	-130
Current account balance	-361	-334	-325	-326	-323	-313	-295
Exports	(487)	(589)	(654)	(725)	(805)	(894)	(992)
Imports	(-689)	(-736)	(-787)	(-841)	(-899)	(-961)	(-1,028)
Interest on external debt	(-97)	(-138)	(-143)	(-163)	(-181)	(-197)	(-211)
Other	(-63)	(-48)	(-48)	(-48)	(-48)	(-48)	(-48)
Capital account	130	216	244	236	223	193	165
Net medium- and long-term borrowing	(195)	(216)	(244)	(236)	(223)	(193)	(165)
Other	(-65)	(--)	(--)	(--)	(--)	(--)	(--)
Net inflows related to operations of the binational entities	68	68	80	90	100	120	130
Overall balance	-163	-50	--	--	--	--	--
II. External Debt Statistics							
Total public and publicly guaranteed debt outstanding	1,712	1,905	2,126	2,336	2,532	2,696	2,830
(In percent)							
Ratio of public sector debt to GDP	41.7	43.7	46.0	47.7	48.8	49.0	48.6
Total debt service ratios 1/	41.6	46.2	42.9	41.9	41.6	40.9	40.1
Public sector and officially guaranteed	(29.7)	(34.8)	(32.0)	(31.5)	(31.6)	(31.4)	(31.0)
Private sector	(11.9)	(11.4)	(10.9)	(10.4)	(9.9)	(9.5)	(9.1)
Memorandum items							
Assumed real GDP growth	...	2.0	2.0	2.0	2.0	2.0	2.0
Real export growth	...	7.0	7.0	7.0	7.0	7.0	7.0
Real import growth	...	4.0	4.0	4.0	4.0	4.0	4.0
Current account deficit in relation to GDP	9.4	7.7	7.0	6.7	6.2	5.7	5.1

Sources: Central Bank of Paraguay; and Fund staff estimates.

1/ In relation to exports of goods and services.

these scenarios were that export and import prices in dollar terms would rise by an annual average 5 percent, that Paraguay's real GDP would grow by an average 2 percent a year, and that net foreign exchange inflows from the Itaipu project would gradually start to climb after 1986 on the basis of royalty receipts from electricity production. Moreover, it was assumed that new concessional borrowing would decline gradually from its current level and that the nonconcessional borrowing needed to cover the balance of payments gap would have a two-year grace period, a ten-year maturity, and a real interest rate of around 4 percent.

On the basis of the above assumptions, Paraguay's debt service ratios could only be stabilized at around their present level if export volumes were to grow at an appreciably faster rate than import volumes. Specifically, if real import growth were to be constrained to 3 percent a year through the rest of the decade, export volume still would need to increase by an average 7 percent a year in order to hold the public sector debt service ratio to around 30 percent and the ratio of public debt to GDP to below 50 percent. If on the other hand, export growth were to be 1 percentage point a year lower and import growth 1 percentage point a year higher, the public sector debt service ratio would reach around 36 percent of export earnings while the ratio of the public sector's debt to GDP would rise to 57 percent by the end of the decade.

IV. Staff Appraisal

Since 1981, there has been a major deterioration in Paraguay's economic and financial performance. Following the boom of the late 1970s associated with the Itaipu hydroelectric project, output has broadly stagnated and inflation has accelerated to a level that now gives cause for serious concern. Over the past three years, Paraguay's economic situation has been adversely affected by the drop in foreign exchange inflows related to the Itaipu project, but laxity in demand management policy and the maintenance of an increasingly unrealistic and complex multiple exchange rate system have aggravated the country's problems. Thus, despite the increased resort to import restrictions and foreign exchange controls, since 1982 net official international reserves have been more than halved, external payment arrears have risen substantially, and the external debt has reached some 45 percent of GDP.

The basic issue now confronting the authorities is not whether Paraguay will have to adjust to its changed external environment, but rather whether it will succeed in adjusting promptly and in an orderly manner before it loses the room for maneuver that it now still enjoys. In this regard, the staff is deeply concerned about the apparent lack of a well defined policy strategy to deal with Paraguay's difficult economic situation. While certain tentative steps have been taken to improve the Central Administration's finances and to adjust the exchange rate, the staff would emphasize that much stronger actions are needed to reverse the recent trends in economic performance.

A major strengthening in the external accounts would be central to a strategy aimed at getting the Paraguayan economy back on a path of sustainable growth. In the staff's view, endeavors toward this end would best be achieved through the adoption of a coordinated policy package that would include the unification of the exchange rate at a realistic level. Such an approach would offer the best prospect for Paraguay's longer term economic development by allowing the economy to develop along the lines of its comparative advantage. It would also permit the progressive reduction of import and exchange controls, reduce the incentives for trade flows through irregular channels, and improve resource allocation by making explicit the true cost of foreign exchange for all uses. In the staff's view, the pricing of foreign exchange at different levels for different uses only leads to distortions and to the waste of scarce economic resources.

While exchange rate action is fundamental to the required adjustment of the Paraguayan economy, it must be emphasized that such action needs to be accompanied by supporting measures in the area of fiscal and monetary policy. These measures would be required to make possible the necessary shift of resources to the external sector and to avoid the possibility of triggering an inflationary process.

In the staff's view, a major adjustment is required in the public sector finances. To date, the fiscal imbalance in Paraguay has been partially masked by the artificial exchange rate subsidies provided to the public sector by the Central Bank. Corrected for these exchange rate subsidies, the staff estimates that the overall public sector deficit is currently around 8 percent of GDP. This deficit is being covered in large measure by the high implicit tax on exporters, who are required to surrender their foreign exchange proceeds to the Central Bank at a low exchange rate.

While some steps are underway to cut public expenditures in the 1986 budget exercise, it is clear that these measures fall far short of what is required in Paraguay's current circumstances. The staff would urge the authorities to strengthen their efforts at expenditure reduction. However, given the magnitude of the fiscal imbalance, the staff would also urge the authorities to improve Paraguay's tax effort. The staff believes that a basic reform of the tax system is required. This reform should aim at the broadening of the tax base and at the simplification of the tax structure.

The finances of the public enterprises have been weakened in recent years by large scale investment projects of rather dubious economic merit that have been financed mainly from abroad. Moreover, since the beginning of 1984 there have been substantial delays in the adjustment of public enterprise tariffs. The staff would urge the authorities to strengthen the existing mechanism of control over public sector external borrowing, which has now reached a level that gives cause for concern. The staff would also urge the authorities to make a prompt adjustment in the level of public enterprise tariffs with a view to restoring balance to their operations.

The correction of the fiscal imbalance referred to above, coupled with the elimination of the exchange rate subsidy currently being borne by the Central Bank, would provide the basis for a deceleration in domestic credit expansion. Only under such circumstances would it be reasonable to expect the Central Bank to regain the monetary control required for the reduction of inflation and the restoration of balance of payments equilibrium. In the staff's view, the authorities' efforts at re-establishing monetary control should be supported by a substantive reform of interest rate policy. While the present ceilings on loan and deposit rates might not have been a source of weakness in the past, in the current inflationary environment they contribute to the misallocation of resources and to the discouragement of saving. The staff would suggest that serious consideration be given to the elimination of interest rate ceilings and to the progressive phasing out of the system of subsidized credits, which currently cover as much as 50 percent of the commercial banks' loan portfolio.

The staff believes that the authorities would be well advised to dismantle the restrictive trade policies and exchange controls that have come to characterize Paraguay's exchange and trade system. The staff would also urge the authorities to eliminate the substantial commercial payment arrears that have been accumulated over the past three years. It is clear, however, that a basic redirection of macroeconomic policies would be required to provide the basis for a permanent reduction in Paraguay's restrictive exchange and trade system. At present, economic policies in Paraguay do not give sufficient assurance that Paraguay's restrictive practices can be regarded as temporary. Accordingly, Fund approval of Paraguay's multiple currency practices and exchange restrictions is not being proposed.

It is recommended that the next Article IV consultation with Paraguay be held on the standard 12-month cycle.

V. Proposed Decision

The following draft decision is proposed for adoption by the Executive Board:

1. The Fund takes this decision relating to Paraguay's exchange measures subject to Article VIII, Sections 2(a) and 3, in concluding the 1985 Article XIV consultation with Paraguay and in the light of the 1985 Article IV consultation with Paraguay, conducted under Decision No. 5392-(77/63), adopted April 29, 1977. (Surveillance over Exchange Rate Policies.)

2. The restrictions on the making of payments and transfers for current international transactions and the multiple currency practices maintained by Paraguay are subject to Article VIII. The Fund notes the complexity of Paraguay's exchange system and urges the authorities to simplify it by unification of the exchange rate and by the removal of restrictions on payments and transfers for current international transactions.

Paraguay - Fund Relations

(As of September 30, 1985, unless otherwise indicated)

I. Membership status

(a) Date of membership:	December 28, 1945
(b) Status:	Article XIV

A. Financial Relations

II. General department (General Resources Account)

(a) Quota:	SDR 48.4 million
(b) Total Fund holdings of guaranies:	SDR 16.16 million or 33.38 percent of quota
(c) Reserve tranche	SDR 32.2 million

III. SDR department

(a) Net cumulative allocation:	SDR 13.7 million
(b) Holdings:	SDR 37.87 million or 276.5 percent of net cumulative allocation
(c) Current designation plan:	None

B. Nonfinancial Relations

IV. Exchange rate arrangement: In May 1984, a number of measures were taken, which resulted in a sizable devaluation of the guarani and in a simplification of the exchange rate system. In March 1985, a further modification to Paraguay's exchange system was introduced; pertaining to export receipts. As a result, Paraguay has now four different rates: ₲ 160 per U.S. dollar applicable to official capital transfers, ₲ 240 per U.S. dollar for 50 percent of exports proceeds and some basic imports; ₲ 400 per U.S. dollar for the remaining proportion of export proceeds; and a free market rate, currently around ₲ 800 per U.S. dollar, at which all other transactions take place.

V. Last Article IV consultation: The 1984 Article IV consultation discussion was completed on January 11, 1985 (EBM/85/5 and SUR/85/4) and the following decision was taken:

1. The Fund takes this decision relating to Paraguay's exchange measures subject to Article VIII, Sections 2 and 3, and in concluding the 1984 Article XIV consultation with Paraguay in

the light of the 1984 Article IV consultation with Paraguay conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. The Fund notes the complexity of Paraguay's exchange system and urges the authorities to simplify it by unification of the exchange rate and by the removal of restrictions on payments and transfers for current international transactions.

The consultation is under the normal 12-month cycle.

VI. Technical assistance: There has been a Fund representative in Paraguay since August 1979. The resident representative post, which was vacated on September 30, 1985, is expected to be filled within the next few months. Mr. Gutierrez, an advisor on organization and methods hired by the Central Banking Department, has been stationed in Paraguay since June 1983.

Paraguay - Statistical Issues

The compilation of Paraguay's macroeconomic statistics is complicated by the high proportion of trade transacted through irregular channels and by the multiple exchange rate system currently in effect. As a result, the national accounts and the balance of payments and the financial statistics are surrounded by more than the usual margin of uncertainty for a country at Paraguay's stage of development. In addition, the surveys on prices, wages, and unemployment are either incomplete or else are based on samples that have become outdated, while the financial statistics fail to capture the increased amount of transactions that take place outside the regular banking system.

1. National accounts

National accounts data are compiled primarily on the basis of production estimates. Particular difficulties are encountered in estimating agricultural exports. Expenditure estimates of the national accounts are derived indirectly through the financial and balance of payments statistics, and are therefore subject to the same weaknesses as those statistics.

2. Prices, wages, and unemployment

The consumer price index was revised in 1980 to make it more representative of consumer purchases. However, it appears to give too little weight to the large proportion of imports in the consumer basket. The wholesale price index remains restricted to a small and unrepresentative sample of goods making it subject to wide fluctuations. Data on wages and on unemployment are based on small sample surveys largely restricted to Asuncion and are generally accepted to be unreliable.

3. Monetary accounts

Central bank data are current and comprehensive. The data relating to the commercial banks are current but are subject to difficulties owing to the vastly different ways of reporting by individual banks of accounts in foreign exchange. Moreover, the commercial banks' balance sheets are widely believed to understate the true size of the operations of these banks to the extent that they engage in unrecorded transactions induced by high legal reserve requirements and by the large spreads between deposit and loan rates.

4. Fiscal data

Data relating to the Central Administration are current and comprehensive. However, government expenditures are understated to the extent that such expenditures in foreign currency are converted at exchange rates that bear little relation to reality. Data on the rest of the public sector, and in particular on the public enterprises, are only available after long lags and are subject to considerable doubt. As a result, the overall position of the public sector cannot be accurately gauged by above-the-line estimates, which tend to differ widely from the corresponding below-the-line estimates.

5. External accounts

Paraguay's official trade statistics do not reflect actual trade flows due to the high degree of unrecorded border trade with neighboring countries and to the respective over- and under-invoicing of import and export transactions. Estimates of such trade have to be made on the basis of direction of trade data of Paraguay's trade partners.

6. Coverage, currentness, and reporting of the data in IFS

		Latest Data in September 1985 IFS
Real Sector	- National Accounts	1983
	- Prices	April 1985
	- Production	n.a.
	- Employment	n.a.
	- Earnings	n.a.
Government Finance	- Deficit/Surplus	1982
	- Financing	1982
	- Debt	1982
Monetary Accounts	- Monetary Authorities	December 1984
	- Deposit Money Banks	March 1985
	- Other Financial Institutions	March 1985
External Sector	- Merchandise Trade: Value	January 1985
	Prices	January 1985
	- Balances of Payments	Q2 1985
	- International Reserves	July 1985
	- Exchange Rates	July 1985

Paraguay: Financial Relations with the World Bank Group

(In millions of U.S. dollars)

	Commitments (Net of Cancel- lations	Disburse- ments	Undisbursed Amount
I. IBRD Operations (as of Sept. 30, 1985)			
Sectors			
Agricultural and rural development	-241.1	162.2	78.9
Industry and industrial credit	41.0	17.1	23.3
Transportation	151.6	124.4	27.2
Education	33.1	15.7	17.4
Water supply	18.8	11.1	7.7
Preinvestment	9.0	5.6	3.4
Total	494.6	336.7	157.9
Repayments		56.6	
Total outstanding		280.1	
II. IFC Operations (as of Sept. 30, 1985)			
	Loans	Equity	Total
Commitments	11.1	3.2	14.3
Net held by IFC	5.8	2.2	8.0
Total undisbursed	1.0	--	1.0

III. IBRD Loan Transactions (fiscal year)

	1982	1983	1984	1985
Disbursements	46.0	34.8	39.9	58.8
Repayments	4.4	8.0	11.0	14.9
Net lending	41.6	26.8	28.8	43.9

Source: World Bank.

Paraguay--Basic Data

Area and population

Area	406,752 sq. kilometers
Population (mid-1984)	3.67 million
Annual rate of population increase (1972-82)	2.9 percent
Unemployment rate (Great Asunción 1984)	7.4 percent
GDP (1984)	US$3,843 million
	SDR 3,749 million
GDP per capita (1984)	SDR 1,022

	1982	1983	Rev. 1984	Est. 1985
Origin of GDP		(percent)		
Agriculture	15.5	15.6	16.2	16.7
Livestock	7.6	7.7	7.8	7.7
Forestry	2.5	2.5	2.5	2.5
Manufacturing	16.2	16.0	16.3	16.3
Construction	8.0	7.6	7.0	6.8
Of which: Itaipu and Yacyreta	1.4	1.1	0.8	0.4
Transportation and communications	4.2	4.3	4.3	4.3
Commerce and finance	26.3	26.3	26.1	26.1
General Government	4.4	4.5	4.4	4.4
Other	15.3	15.5	15.4	15.2
Ratios to GDP				
Exports of goods and nonfactor services 1/	21.3	19.4	19.1	16.0
Imports of goods and nonfactor services 1/	-51.2	-39.0	-35.97	-28.6
Current account of the balance of payments	-12.4	-11.4	-8.8	-8.8
Central government revenues	9.1	7.9	7.9	8.4
Central government expenditures	10.8	12.6	8.9	9.4
Public sector savings	2.6	1.3	2.1	2.1
Public sector overall surplus or deficit (-)	-2.8	-8.1	-5.5	-5.9
External public debt (end of year)	28.9	36.3	39.3	41.7
Gross national savings 2/	19.1	19.1	13.5	9.0
Gross domestic investment 2/	26.6	25.2	23.9	21.7
Money and quasi-money (end of year)	29.3	30.1	25.7	25.0
Annual changes in selected indicators				
Real GDP	-1.9	-3.3	2.8	3.0
GDP at current prices	3.2	10.8	30.5	23.4
Domestic expenditures (at current prices)	3.1	4.2	35.5	22.8
Investment	4.0	-8.9	26.2	4.9
Consumption	2.7	11.0	39.2	29.4
GDP/GNP deflator	5.2	14.5	26.9	19.8
Consumer prices (annual averages)	6.7	13.5	20.3	24.8
Central government revenues	14.6	-3.7	30.2	30.3
Central government expenditures	4.0	29.5	-8.1	30.3
Liabilities to private sector	6.4	13.6	11.5	18.9
Money	-1.3	22.3	25.7	20.2
Quasi-money	9.4	10.5	5.9	18.3
Net domestic assets of the financial system 3/	10.9	19.0	17.0	24.4
Credit to public sector	5.0	10.4	8.7	11.0
Credit to private sector	7.9	6.2	12.3	14.4
Merchandise exports (in U.S. dollars)	-18.2	-13.3	4.3	-12.1
Merchandise imports (in U.S. dollars)	-5.3	-27.1	-1.3	-15.8

	1982	1983	Rev. 1984	Est. 1985
Central government finances		(millions of guaranís)		
Revenues	68,249	65,729	85,588	111,517
Expenditures	80,718	104,533	96,068	125,157
Current account surplus or deficit (-)	3,109	-8,824	6,908	11,125
Overall surplus or deficit (-)	-12,469	-38,804	-10,480	-13,640
Balance of payments 1/		(millions of U.S. dollars)		
Merchandise exports	630.7	546.8	569.9	500.9
Merchandise imports	-1,517.9	-1,106.3	-1,092.3	-919.6
Investment income (net)	-551.9	-539.5	-601.7	-620.2
Other services and transfers (net)	-204.5	-154.2	-165.7	-142.3
Balance on current account	-1,643.6	-1,253.2	-1,289.8	-1,181.2
Official capital	233.2	268.7	204.5	207.5
Banking system	1,426.1	934.6	1,002.2	776.5
Private capital, including errors and omissions	-141.1	-208.1	-44.3	34.2
Basic balance	-125.4	-258.0	-127.4	-163.0
Debt Rescheduling				
Changes in reserves (increase -)	-125.4	65.7	92.2	133.0
Changes in arrears, n.i.e.	--	192.3	35.2	30.0
Other exceptional financing	--	--	--	--
International reserve position		(millions of SDRs)		
Central Bank (net)	601.2	589.3	531.0	377.2
Financial system (net)	633.9	605.2	552.4	394.6

1/ Includes transactions related to binational entities and unrecorded trade flows.

2/ Excluding binational entities.

3/ As a percent of liabilities to the private sector at the beginning of the period.