

**EXECUTIVE  
BOARD  
MEETING**

EBS/20/60  
Correction 1

April 20, 2020

To: Members of the Executive Board

From: The Secretary

Subject: **Paraguay—Request for Purchase Under the Rapid Financing Instrument**

Board Action:

The attached correction to EBS/20/60 (4/15/20) has been provided by the staff:

**Factual Errors Not  
Affecting the  
Presentation of Staff's  
Analysis or Views**

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Questions:

Mr. Bakker, WHD (ext. 34649)



## B. Impact of COVID-19

7. **The virus has given rise to an urgent BOP need.** The main channels of impact on the economy include: additional direct health and other expenditures to address the virus, assessed to be on the order of 2 percent of GDP; loss of output due to demand and supply shocks (including from virus containment measures), currently projected to reduce 2020 real GDP growth to  $-1$  percent,  $53$  percent below the pre-virus baseline; loss of fiscal revenues on the order of 0.5 percent of GDP from the growth impact); and a near-cessation of travel and tourism. The resulting BOP financing need is assessed to some US\$1,200 million, 3.2 percent of GDP (see Table 4). If the BOP impact were to be absorbed through a sharper decline in reserves, the reserve loss would be significant, which would risk triggering a loss in confidence.

## ECONOMIC POLICIES

### A. Crisis Response

8. **The authorities have implemented social distancing policies.** On March 7, the first case was confirmed in Asunción. Since then, Paraguay has suspended public school sessions and large-scale public and private events, partially closed the borders, restricted crowds and imposed a night time curfew. On March 20, it implemented a total lockdown.

9. **They have also increased health care and social safety net spending.** In late March, congress passed an emergency package with some 2.4 percent of GDP in measures, of which about 1.3 percentage point was for additional health care spending, 1.0 percentage point for social safety nets (including for informal sector workers) and the remainder for emergency loans for small enterprises.

10. **To mitigate the impact on the private sector** they have lowered policy rates, allowed banks to restructure loans to private sector companies that are in repayment difficulties, and postponed collection of taxes and user fees for 2 months.

11. **To finance the resulting higher fiscal deficit,** the authorities are looking for external financing from the IMF and other IFIs. Financing the higher deficit domestically would be

#### Fiscal Financing Gap in 2020

	In bn guaranies	In mn U.S.\$	Percent of GDP
<b>Total revenue</b>	<b>33,300</b>	<b>5,117</b>	<b>13.4</b>
Tax revenue	22,567	3,468	9.1
Nontax revenue	10,733	1,649	4.3
<b>Expenditure</b>	<b>46,426</b>	<b>7,134</b>	<b>18.7</b>
<b>Expense</b>	<b>39,464</b>	<b>6,064</b>	<b>15.9</b>
<i>of which</i> : Compensation of employees	18,671	2,869	7.5
<b>Net acquisition of nonfinancial assets</b>	<b>6,963</b>	<b>1,070</b>	<b>2.8</b>
<b>Net lending</b>	<b>-11,246</b>	<b>-1,728</b>	<b>-4.5</b>
<b>Financing</b>	<b>11,246</b>	<b>1,728</b>	<b>4.5</b>
Net domestic financing	384	59	0.2
Net external financing	3,052	469	1.2
<b>Financing Gap</b>	<b>7,809</b>	<b>1,200</b>	<b>3.1</b>
Available financing	5,998	922	2.4
Identified budget support	5,857	900	2.4
World Bank	3,254	500	1.3
Inter-American Development Bank (IDB)	1,952	300	0.8
Development Bank of Latin America (CAF)	651	100	0.3
Unidentified budget support	141	22	0.1
IMF RFI disbursement	1,812	278	0.7

Sources: Paraguay authorities and IMF staff estimates