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February 10, 2021

**Joint Statement by Ms. Mahasandana, Mr. White, Mr. Chea, and Mr. Iona on Paraguay
(Preliminary)
Executive Board Meeting
February 12, 2021**

We thank staff for the papers and Mr. Chodos and Mr. Corvalan Mendoza for the helpful Buff statement.

The COVID-19 pandemic hit Paraguay just as the country was embarking on a strong recovery path after economic growth stalled in 2019 following a severe drought. Sound macroeconomic policies and favorable terms of trade movements over the past decades have resulted in strong economic growth and rapid drops in the poverty rate. We commend the authorities for their swift reaction to mitigate the economic impact of the pandemic. While the health system was generally well supported, lockdown measures have severely affected activity and threatened to reverse progress made on income inequality—mainly due to the disproportionate impact on the most vulnerable. In this context, near-term policies should focus on recovering lost ground in social protection, poverty reduction and education, while remaining prepared should the health crisis become more protracted. *With low learning outcomes that predate the pandemic, particularly for poor children, can staff comment on how the authorities are planning to recover lost ground on education that resulted from the extended closing of schools?* Beyond the pandemic, enhancing structural reforms and economic diversification will also be vital to ensure sustainable growth. We broadly agree with staff's appraisal and would like to offer the following comments for emphasis.

While the accommodative fiscal stance has helped mitigate economic impact of the pandemic, efforts to better protect disadvantaged groups must be strengthened. We note with concern the larger unemployment increases for women and the informal sector, as they could jeopardize poverty reduction. Therefore, the authorities are encouraged to better target social programs and be prepared to extend the duration of support in the event of a more prolonged pandemic. Under such scenario, and public debt being assessed to be sustainable, we agree with staff that the authorities should consider a return to the Fiscal Responsibility Law deficit ceiling when the crisis abates. Vaccines procurement and distribution will play an important role in curtailing the pandemic. In this regard, we encourage the authorities to proactively put in place comprehensive roll out plans. While we welcome the authorities' plan to improve expenditure efficiency and transparency, continued efforts are also needed to strengthen public financial management, improve tax and custom administration, and increase non-energy/nonagricultural revenues. *Staff comments on the areas of tax reform that could close the revenue gap would be welcome.*

The banking system is well capitalized for now, but potential stress could be masked by the current pandemic relief measures. This calls for close monitoring and timely data collection to better assess the impact of the crisis. In addition, the supervisor must require the submission of credible plans by financial institutions to restore capital and liquidity positions once the crisis abates. We take positive note of the authorities' ongoing efforts to extend supervisory coverage of the largely unregulated non-bank financial institutions. We welcome the progress made in the AML/CFT framework and encourage the authorities to follow through with stringent implementation going forward.

Improving the business climate and governance are key to promote inclusive and sustainable growth. We are encouraged by the authorities' plans to pursue appropriate structural reforms to complement Paraguay's strong record of macroeconomic stability. We take note of the finding of the IMF/IADB mission in early 2020 on governance challenges and welcome the incorporation of the team's recommendations into the Government National Plan on Integrity, Transparency and Anticorruption. Looking ahead, we encourage staff to continue to provide the authorities with the support needed to ensure steadfast implementation of their governance and anti-corruption plan.