OFFERING MEMORANDUM

REPUBLIC OF PARAGUAY
US$500,000,000 5.850% Bonds due 2033

The Republic of Paraguay (the "Republic" or "Paraguay") is offering US$500,000,000 aggregate principal amount of 5.850% bonds due 2033 (the "Bonds"). The Bonds will bear interest on their outstanding principal amount from the date of issuance, expected to be July 12, 2023, at a rate of 5.850%, payable semi-annually in arrears on February 21 and August 21 of each year, commencing on February 21, 2024 and ending on August 21, 2033. Principal on the Bonds will be repaid in two installments on August 21, 2032 and at maturity. For more information see "Description of the Bonds—General—Basic Terms."

The Republic may redeem the Bonds, in whole or in part, prior to maturity on the terms described herein. For more information see "Description of the Bonds—Redemption and Repurchase—Optional Redemption." The Bonds constitute and will constitute direct, general, unconditional and unsubordinated External Debt (as defined herein) of the Republic for which the full faith and credit of the Republic is pledged. The Bonds rank and will rank without any preference among themselves and equally with all other unsubordinated External Debt of the Republic. It is understood that this provision shall not be construed so as to require the Republic to make payments under the Bonds ratably with payments being made under any other External Debt. The Bonds will contain provisions commonly known as "collective action clauses." Under these provisions, which differ from the terms of the Republic's public external indebtedness issued prior to March 31, 2016, the Republic may amend the payment provisions of any series of debt securities issued under the indenture (including the Bonds) and other reserved matters listed in the indenture with the consent of less than all of the holders of the debt securities. For more information see "Description of the Bonds—Meetings, Amendments and Waivers—Collective Action."

Application will be made to list the Bonds on the Official List of the Luxembourg Stock Exchange and to have the Bonds trade on the Euro MTF Market of the Luxembourg Stock Exchange.

See "Risk Factors" beginning on page 14 to read about important factors you should consider before investing in the Bonds.

The Bonds have not been and will not be registered under the Securities Act of 1933, as amended (the "Securities Act") or with any securities regulatory authority of any state or other jurisdiction of the United States, and may not be offered or sold in the United States to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act ("Regulation S")) unless the Bonds are registered under the Securities Act or an exemption from the registration requirements of the Securities Act and applicable state securities laws is available. The Bonds are being offered and sold only to qualified institutional buyers in reliance on Rule 144A under the Securities Act ("Rule 144A") or to non-U.S. persons in accordance with Regulation S. For a description of certain restrictions on transfer of the Bonds, see "Notice to Investors" and "Transfer Restrictions."

Public Price: 99.989% plus accrued interest, if any, from July 12, 2023.

Delivery of the Bonds in book-entry form will be made through the facilities of The Depository Trust Company ("DTC") and its direct and indirect participants, including Euroclear Bank SA/NV ("Euroclear") and Clearstream Banking, Luxembourg, *société anonyme* ("Clearstream") on or about July 12, 2023.

Joint Book-Running Managers

Citigroup **Itaú BBA**

The date of this Offering Memorandum is June 28, 2023.

BOLIVIA
BRASIL
ARGENTINA
GRAN CHACO
ALTO PARAGUAY
BOQUERÓN
PRESIDENTE HAYES
CONCEPCIÓN
AMAMBAY
SAN PEDRO
CANINDEYÚ
CORDILLERA
CAAGUAZÚ
ALTO PARANÁ
CENTRAL
PARAGUARÍ
GUAIRÁ
CAAZAPÁ
ÑEEMBUCÚ
MISIONES
ITAPÚA
ASUNCIÓN
SERRANÍA DE SANTIAGO
SIERRA DE MARACAJÚ
SIERRA DE AMAMBAY
Lag. Concepción
San José de Chiquitos
Santo Corazón
Fortín Roboré
Santiago de Chiquitos
Tucavaca
Santa Ana
El Carmen
Fortín Suárez Arana
Bañados de Izozog
Laterigüigue
Pt. Suárez
Corumbá
Fortín Ravelo
Fortín Coronel Sánchez
Co. Chovoreca
Co. Cnl. F. Cabrera
Fortín Palmar de las Islas
Fortín Gral. Pando
Albuquerque
Río Negro
Amboró
Capitán Pablo Lagerenza
Fortín Teniente 1º H. Mendoza
Cerrito Jara
Fortín Galpón
Pôrto Esperança
Aquidauana
Fortín Tte. Gabino Mendoza
Fortín Mayor R. Santacruz
Pt. Bahía Negra
Pt. Esperanza
Miranda
Campo Grande
Gral. Eugenio A. Garay
Fortín Madrejón
Fortín Florida
Fortín Cnl. Bogado
Puerto Mihanovich
Fuerte Olimpo
Pto. Estrella
Fortín Tte. Agripino Enciso
Fortín Torres
Fortín Gral. Díaz
Fortín Carlos A. López
Pt. Guaraní
Nioaque
Maracajú
Fortín Teniente 1º F. Espínola
María Auxiliadora
Pt. Tres Palmas
Pôrto Murtinho
Fortín Infante Rivarola
Fortín Hernandarias
Puerto La Esperanza
Bela Vista
Dourados
Mariscal Estigarribia
Fortín Tte. 1º Anselmo Escobar
Dr. Pedro P. Peña
Filadelfia
Fn. Casanillo
Puerto Casado
San Lázaro
San Carlos
San Luis de la Sierra
Santa Luisa
Ponta Porã
Pedro Juan Caballero
Cnia. Mariscal López
Fortín Mayor Rodríguez
Fn. Isla Poí
Fn. Rojas Silva
Celia
Pt. Fonciere
Puerto Max
Puerto Pinasco
Fortín Boquerón
Fortín Tte. 1º B. Ruiz
Fortín Cap. O. R. Orellado
Fortín Tte. Montiel
Fn. Falcón
Puerto Abente
San Rafael
Puerto Cooper
Fortín Linares
Grl. Enrique Mosconi
Fortín Leonida Escobar
Fn. Ávalos Sánchez
Pozo Colorado
Trópico de Capricornio
Loreto
Yby Yaú
Capitán Bado
Concepción
Belén
Horqueta
Tacuatí
San Antonio
San Florencio
Fortín Gral. Díaz
Fn. Pilcomayo
Pto. Horqueta
Fortín Valois Rivarola
Fortín Tte. Rojas Silva
Pedernal
Puerto Ybapobó
Puerto Tacurú Pitá
Nva. Germania
Lima
Ypé-Yhu
Ygatimí
Salto del Guairá
La Florencia
Posta Cambio
Gral. San Martín
Fortín Gral. Caballero
Fn. Cadete Pastor Pando
Fn. Cabo 1º Cano
San Pedro
Antequera
Tayi Care
Rosario
General E. Aquino
San Isidro del Curuguaty
Puerto Marangatú
San Camilo
Fortín General Delgado
Benjamín Aceval
Itacurubí del Rosario
San Estanislao
El Pintado
Las Lomitas
Fortín Gral. Bruguez
Unión
Cnel. F. S. López
Itakyry
Kilómetro 642
Villa Hayes
Cnl. Cecilio Báez
Pt. Galileo
Ibarreta
Clorinda
Villeta
Caacupé
Carayaó
Cnl. Oviedo
Caaguazú
Hernandarias
Foz do Iguaçu
Ciudad del Este
Pt. Iguazú
Comandante Fontana
Yaguarón
San José
Villarrica
Paraguarí
Carapeguá
Numí
Ñumí
Domingo M. Irala
Castelli
Quiindy
Ybycuí
Iturbe
Maciel
Ovaí
Tavaí
San Juan Nepomuceno
Ñacunday
Formosa
Alberdi
Villa Franca
Caapucú
Mbuyapey
Caazapá
Mayor Otaño
Florida
Yegros
San Miguel
Yuty
Gral. J. de San Martín
San Juan Neembucú
San Juan Bautista
Pilar
Tacuaras
Guazú-cuá
Santa María
San Pedro del Paraná
San Ignacio
Santa Rosa
Gral. Artigas
Cnia. Elisa
Pedro González
Isla Umbú
Humaitá
Desmochados
Cerrito
Santiago
Cnl. Bogado
Jesús
Jesús y Trinidad
San Ignacio
Makallé
Resistencia
Paso de la Patria
Laureles
San Cosme
Ayolas
Yabebyry
Encarnación
Barranqueras
Corrientes
Candelaria
Posadas
Charadai
Ituzaingó
Apóstoles
San Javier
Concepción de la Sierra
Azara
San Lorenzo
Mburucuyá
Santo Ângelo
Concepción
Santo Tomé
São Luís Gonçaga
Bella Vista
Esros. del Iberá
Paraná
Paraguay
Pilcomayo
Bermejo
Monte Lindo
Uruguay
Apa
Aquidabán
Jejuí Guazú
Ypané
Tebicuary
Lago Ypoá
L. Ypacaraí
Monday
Acaray
Emb. Itaipú
Verde
Negro
Confuso
Aguaray Guazú
Cord. de Mbaracayú
Amambai
Iguatemi
Cuiabá
Pantanal de San Lorenzo
Pantanal de Taquari
Taquari
Coxim
Miranda
Tucavaca
BRAZIL
ARGENTINA
PARAGUAY

Paraguay has provided you only with the information contained in this offering memorandum (the "Offering Memorandum"). Paraguay has not authorized anyone to provide you with different information. Paraguay is not, and the initial purchasers (as defined under "Plan of Distribution") are not, making an offer of these securities in any jurisdiction where the offer is not permitted. You should not assume that the information contained in this Offering Memorandum is accurate as of any date other than the date on the front of this Offering Memorandum.

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NOTICE TO INVESTORS

The Bonds will be available in book-entry form only. Paraguay expects that the Bonds sold pursuant to this Offering Memorandum will be issued in the form of one or more global certificates, which will be deposited with, or on behalf of, DTC and registered in its name or in the name of Cede & Co., its nominee. Beneficial interests in the global certificates will be shown on, and transfers of the global certificates will be effected only through, records maintained by DTC and its participants, including Euroclear and Clearstream. After the initial issuance of the global certificates, Bonds in certificated form will be issued in exchange for the global certificates only as set forth in the indenture governing the Bonds. For more information see "Book-Entry, Delivery and Form."

This Offering Memorandum does not constitute an offer of or an invitation by or on behalf of Paraguay or the initial purchasers to subscribe or purchase any of the Bonds in any jurisdiction where the offer or sale would not be permitted or is not authorized. The distribution of this Offering Memorandum and the offering of the Bonds in certain jurisdictions may be restricted by law. People in possession of this Offering Memorandum are required by Paraguay and the initial purchasers to inform themselves about and to observe any such restrictions.

The Bonds offered in this Offering Memorandum are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under the Securities Act and applicable state securities laws pursuant to registration or exemption from such laws. You should be aware that you may be required to bear the financial risk of this investment for an indefinite period of time. For more information see "Transfer Restrictions."

The information contained in this Offering Memorandum is provided by Paraguay in connection with an offering exempt from registration under the Securities Act solely for the purpose of enabling a prospective investor to consider a purchase of the Bonds, as described herein, and should be used for this purpose only. No representation or warranty, express or implied, is made by the initial purchasers as to the accuracy or completeness of such information and nothing contained in this Offering Memorandum is, or shall be relied upon as, a promise or representation by the initial purchasers. Neither the initial purchasers nor any of their agents has independently verified any of such information and assumes no responsibility for the accuracy or completeness of the information contained in this Offering Memorandum.

The Bonds offered in this Offering Memorandum have neither been approved nor disapproved by the Securities and Exchange Commission (the "SEC") or any state or foreign securities commission or any regulatory authority. These authorities have not passed on or determined the adequacy or the accuracy of this Offering Memorandum. Any representation to the contrary is a criminal offense.

Paraguay is making this offering subject to the terms described in this Offering Memorandum and the purchase agreement relating to the Bonds offered.

Paraguay confirms that, to the best of its knowledge, the information given in that part of the Offering Memorandum for which it is responsible is in accordance with the facts and contains no omissions likely to affect the import of the Offering Memorandum on the Official List of the Luxembourg Stock Exchange. This Offering Memorandum constitutes a Prospectus for the purpose of Part IV of the Luxembourg law on Prospectuses for Securities dated July 16, 2019. Paraguay accepts responsibility for the information it has provided in this Offering Memorandum.

In connection with the issuance of the Bonds, Citigroup Global Markets Inc. and Itau BBA USA Securities, Inc. (the "Stabilizing Managers") (or persons acting on behalf of any Stabilizing Manager) may over-allot Bonds or effect transactions with a view to supporting the market price of the Bonds at a level higher than that which might otherwise prevail. However, there is no assurance that a Stabilizing Manager (or persons acting on behalf of any Stabilizing Manager) will undertake stabilization action. Such stabilization, if commenced, may be discontinued at any time and, if begun, must be brought to an end after a limited period. Any stabilization action or over-allotment must be conducted by the relevant Stabilizing Manager (or persons acting on behalf of any Stabilizing Manager) in accordance with all applicable laws and rules.

PRIIPs/IMPORTANT – EEA RETAIL INVESTORS

PROHIBITION OF SALES TO EEA RETAIL INVESTORS - The Bonds have not been and will not be registered under the laws of any member state of the European Economic Area (the "EEA"). The offering of the Bonds is being made, and the Bonds are being offered and issued, only to persons other than retail investors in the EEA. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "MiFID II"); or (ii) a customer within the meaning of Directive (EU) 2016/97 (the "Insurance Distribution Directive"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the "PRIIPs Regulation") for offering or selling the Bonds or otherwise making them available to retail investors in the EEA has been prepared. Offering or selling the Bonds or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

PRIIPs/IMPORTANT – UNITED KINGDOM RETAIL INVESTORS

PROHIBITION OF SALES TO UK RETAIL INVESTORS – The Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom ("UK"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 ("EUWA"); or (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 ("FSMA") and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA. Consequently, no key information document required by Regulation (EU) No 1286/2014 as it forms part of domestic law by virtue of the EUWA (the "UK PRIIPs Regulation") for offering or selling the Bonds or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Bonds or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

This Offering Memorandum has not been approved by an authorised person for the purposes of section 21 of the FSMA. Accordingly, this Offering Memorandum is for distribution only to, and is directed solely at, persons who are: (i) outside the UK; (ii) are investment professionals, as such term is defined in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "Financial Promotion Order"); (iii) persons falling within Articles 49(2)(a) to (d) of the Financial Promotion Order; or (iv) persons to whom an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) in connection with the issue or sale of any Bonds may otherwise lawfully be communicated or caused to be communicated (all such persons together being referred to as "relevant persons"). This Offering Memorandum is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this Offering Memorandum relates is available only to relevant persons and will be engaged in only with relevant persons. Any person who is not a relevant person should not act or rely on this Offering Memorandum or any of its contents.

CONVENTIONS

Unless otherwise specified or unless the context requires so, "dollars," "U.S. dollars" and "US$" refer to United States dollars and "G." or "Guaraníes" refer to Paraguayan Guaraníes. Where noted, exchanges from Guaraníes to U.S. dollars have been provided solely for the convenience of the reader. Amounts converted from Guaraníes to U.S. dollars in this Offering Memorandum were converted at a rate of G.5,732 for 2018 data, G.6,241 for 2019 data, G.6,771 for 2020 data, G. 6,778 for 2021 data and G. 6,983 for 2022 data, which represent the annual arithmetic average of monthly average bid/offer Guaraníes/U.S. dollar exchange rates as reported by the Central Bank of Paraguay (*Banco Central del Paraguay*) (the "Central Bank") as of December 31, 2022, and G. 7,098 for 2023 data, which represents the implicit Guaraníes/U.S. dollar exchange rate that has been assumed for the purpose of preparing the 2023 Budget. The Federal Reserve Bank of New York does not report a noon buying rate for Guaraníes. No representation is made that the Guaraníes or the U.S. dollar amounts referred to herein could have been or could be converted into U.S. dollars or Guaraníes at any particular rate or at all. The exchange rate for the sale of U.S. dollars for Guaraníes, which is used as a reference rate by financial institutions in the commercial market, as reported by the Central Bank for April 30, 2023 was Guaraníes G. 7,255 References to "billion" are to thousands of millions.

The fiscal year of the government ends on December 31, and all figures for 2021, 2022 and 2023 included in this Offering Memorandum are preliminary. Unless otherwise indicated, all annual information is based upon a January 1 to December 31 calendar year. Certain monetary amounts included in this Offering Memorandum have been subject to rounding adjustments; accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them. All references herein to the "government" are to the central government of Paraguay (including governmental agencies and subdivisions and excluding financial and non-financial public sector institutions and the Itaipú and Yacyretá hydroelectric plants).

In 2018, Paraguay conducted a periodic re-basing of its real GDP calculations, updating the base year of such calculations from 1994 to 2014. One effect from this re-basing is the reduction of the historical volatility of GDP growth and a decrease in the debt-to-GDP ratio when compared to the same statistics but based on 1994 dollars.

Unless otherwise indicated, (1) all annual rates of growth are average annual rates using current or nominal numbers; (2) all rates of growth or percentage changes in financial data are based upon such data expressed in constant prices (*i.e.*, prices as adjusted for inflation); and (3) all financial data are presented in current nominal prices.

The terms set forth below have the following meanings for the purposes of this Offering Memorandum:

- Gross Domestic Product, or "GDP", means the total value of final products and services produced in Paraguay during the relevant period, using nominal prices. Real GDP instead measures GDP based on constant prices using 2014 as the base year. In 2018, Paraguay conducted a periodic re-basing of its real GDP calculations, updating the base year of such calculations from 1994 to 2014. One effect from this re-basing is the reduction of the historical volatility of GDP growth and a decrease in the debt-to-GDP ratio when compared to the same statistics but based on 1994 dollars.

- Imports are calculated based upon cost, insurance and freight, or "FOB" values.

- Exports are calculated based upon free on board, or "FOB" values.

- Rate of inflation or inflation rate is measured by the percentage change between two periods in consumer price index, or "CPI." CPI is an index that comprises a basket of goods and services that reflects the pattern of consumption in Asunción and major urban areas. CPI is calculated on a monthly basis by the Central Bank based on surveys conducted by the Central Bank.

- Balance of payments data is presented according to the Sixth Edition of the Balance of Payment and International Investment Position Manual of the International Monetary Fund ("IMF").

- Foreign direct investment ("FDI") flows are based on the sum of positive and negative transactions. The positive flows consist of capitalization, reinvested earnings and loans from a foreign office to a local branch. The negative flows consist of decapitalization, divestment of profits, losses for the period and loans from a local branch to a foreign office.

Paraguay's official financial aid and economic statistics are subject to a review process by the Central Bank. Accordingly, certain financial and economic information in this Offering Memorandum may be subsequently adjusted or revised. The government believes that this practice is substantially similar to the practices of many industrialized nations. The government does not expect revisions to preliminary statistics to be material, but cannot assure you that material changes will not be made to preliminary data. The Bureau of Statistics, Surveys and Census of Paraguay (*Instituto Nacional de Estadística* – "INE") is the state agency responsible for generating, systematizing, analyzing and distributing certain statistical and cartographic information about Paraguay.

Unless otherwise indicated in this Offering Memorandum, the information and data provided in this Offering Memorandum have been prepared and published in accordance with the IMF Government Finance Statistics Manual 2001 ("GFSM 2001") standards.

Itaipú Binational and Yacyretá Binational, in each case to the extent of Paraguay's 50% equity interest, are considered Paraguayan residents for accounting purposes in accordance with the standards of the IMF Balance of Payments Manual. Their contribution to Paraguay's economy is identified as the "binational sector" in this Offering Memorandum.

CAUTIONARY STATEMENT REGARDING PROJECTIONS AND OTHER INFORMATION ABOUT FUTURE EVENTS

This Offering Memorandum may contain, and Paraguay's officials and representatives may from time to time make, projections and forward-looking statements concerning financial information, future economic performance or international dispute resolution or international institution decisions and expectations, plans and objectives relating to economic policy, budgets, plans and expectations, and assumptions underlying these projections and statements. These projections and forward-looking statements are not historical facts but instead represent the central government's belief regarding the impact of current events, including the COVID-19 pandemic and any economic and other effects associated therewith, that are not reasonably foreseeable or known at this time and that may differ materially from those contemplated by the forward-looking statements, and future events, many of which, by their nature, are inherently uncertain and outside Paraguay's control. You should not place undue reliance on these projections and forward-looking statements. These projections and forward-looking statements speak only as of the date they are made, and Paraguay undertakes no obligation to update them in light of new information or future events.

Projections and forward-looking statements involve inherent risks. Paraguay cautions you that many factors could cause actual results to differ materially from those expressed in projections, budgets and other information concerning future events, including those discussed in "Risk Factors" beginning on page 14. These factors include, but are not limited to:

- adverse external factors, such as:
  - public health crises and epidemics/pandemics, including the COVID-19 pandemic, and worldwide effects thereof, including the impact in Paraguay's economy, and responses thereto;
  - severe weather, natural disasters and adverse climate changes, whether global or regional in nature, such as severe droughts;
  - a global or regional financial crisis or downturn;
  - higher international interest rates;
  - decisions and policies of international institutions such as the International Monetary Fund, the World Bank, the World Trade Organization, the United Nations, the Organization of American States, the Inter-American Development Bank ("IDB") or the Southern Common Market ("MERCOSUR");
  - adverse court decisions;
  - a downgrade of Paraguay's sovereign credit ratings by international rating agencies;
  - changes in MERCOSUR import tariffs;
  - changes in international commodity prices, in particular soy beans and bovine meat;
  - recession, low economic growth or economic contraction affecting Paraguay's trading partners, or international conflicts, including the war between Russian and Ukraine;
  - suspension or termination of trade agreements or treaties;
  - deterioration in the economic condition of or Paraguay's relationship with neighboring countries; and

- volatility in the international capital markets for emerging market issues causes by geopolitical pressures.

- adverse domestic factors, such as:

  - deterioration or non-improvement in general economic and business conditions;

  - reduction in foreign currency reserves;

  - volatility of exchange rates of Guaraníes against key currencies;

  - reduction in fiscal revenue;

  - the ability of the government to enact key economic reforms;

  - higher domestic debt;

  - increased rates of domestic inflation;

  - the level of foreign direct and portfolio investment in Paraguay;

  - the level of Paraguay's domestic interest rates;

  - political instability;

  - increase in crime rates; and

  - natural events, such as climatic changes, droughts and floods, which may have a negative impact on soy and bovine meat production and exports.

SUMMARY

The following summary is qualified in its entirety by, and should be read in conjunction with, the more detailed information appearing elsewhere in this Offering Memorandum. It is not complete and may not contain all the information that you should consider before purchasing the Bonds. You should carefully read the entire Offering Memorandum, including "Risk Factors" (beginning on page 14*), before purchasing the Bonds.*

Selected Economic Information

THE ECONOMY	12-month period ended December 31,				
	2018	**2019**	**2020**	**2021**(1)	**2022**(1)
	(in millions of US$)				
Nominal GDP (in millions of US$)(2)	$ 40,692	$ 38,757	$ 36,146	$ 40,284	$ 41,862
% Change of Real GDP from the Previous Year	3.2%	(0.4)%	(0.8)%	4.0%	0.1%
Population (in thousands)(3)	7,053	7,153	7,253	7,353	7,454
Per Capita GDP	5,769	5,419	4,984	5,479	5,616
Inflation Rate(4)	3.2%	2.8%	2.2%	6.8%	8.1%
Unemployment Rate	5.6%	5.7%	7.2%	6.8%	5.7%
Exchange Rate (Guaraníes/per US$)(5)	G.5,732	G.6,241	G.6,771	G.6,774	G. 6,983

BALANCE OF PAYMENTS (6)(7)	12-month period ended December 31,				
	2018(1)	**2019**(1)	**2020**(1)	**2021**(1)	**2022**(1)
	(in millions of US$)				
Export of Goods (FOB)	13,181.6	12,116.3	10,954.9	13,223.0	12,815.4
Imports of Goods (FOB)	12,608.6	11,912.8	9,729.2	12,594.3	14,725.3
Current Account Surplus (Deficit)	(97.3)	(218.9)	691.7	(305.2)	(2,713.0)
Net Foreign Direct Investment	(218.5)	(532.2)	(119.6)	(94.9)	(222.7)
Overall Balance of Payments Surplus (Deficit)	(183.0)	(54.9)	1,805.2	593.0	(134.3)
Total International Reserves (end of period)	7,969.6	7,674.7	9,490.1	9,946.6	9,825.0
Reserves (in months of imports)	9.9	10.6	14.3	11.6	9.8

(1) Preliminary data.
(2) GDP includes Paraguay's share of Itaipú Binational and Yacyretá Binational.
(3) Population data is based on the 2015 revision to the projection of the Instituto Nacional de Estadísticas.
(4) Percentage change of consumer prices measured by CPI over the 12-month period ended December 31 of each year.
(5) Annual arithmetic average of monthly average bid/offer exchange rates.
(6) Includes Paraguay's exports of Itaipú Binational and Yacyretá Binational electricity, trade registered by customs and re-exports, among others.
(7) Negative amounts indicate budget deficit.
Source: Ministry of Finance and Central Bank.

PUBLIC SECTOR FINANCES	12-month period ended December 31,					Five-month period ended May 31,	
	2018	2019	2020	2021[1]	2022[1]	2022[1]	2023[1]
	(in millions of US$ and percentage of nominal GDP)						
Central Government Revenues	5,675.9	5,389.2	4,798.9	5.477,0	5,885.1	2,399.4	2,330.3
% of nominal GDP	14.1%	14.2%	13.5%	13.7%	14.1%	5.8%	5.3%
Central Government Expenditures	5,377.3	5,340.5	5,687.4	5,764.7	5,919.8	2,225.0	2,526.0
% of nominal GDP	13.4%	14.1%	16.1%	14.4%	14.2%	5.3%	5.7%
Central Government Net Operating Balance	298.5	48.7	(888.5)	(287.8)	(34.7)	174.4	(195.7)
% of nominal GDP	0.7%	0.1%	(2.5)%	(0.7%)	(0.1%)	0.4%	(0.4%)
Consolidated Public Sector Revenues	9,434.5	8,920.9	7,749.9	8,849.6	9,807.5	n.a	n.a
Consolidated Public Sector Expenditures	8,196.5	7,935.0	8,022.6	8,556.3	9,040.7	n.a	n.a
Consolidated Public Sector Balance	(178.1)	(641.2)	(2,117.7)	(1,493.7)	(1,137.0)	n.a	n.a

12-month period ended December 31,

PUBLIC SECTOR DEBT	As of December 31,					As of April 30,	
	2018	2019	2020	2021[1]	2022[1]	2022[1]	2023[1]
	(in millions of US$ and percentage of nominal GDP)						
Public Sector Domestic Debt	1,638.5	1,620.6	1,724.4	1,819.3	1,730.6	1,928.8	1,825.7
Public Sector External Debt	6,402.4	7,238.5	10,488.5	11,812.0	13,323.1	12,195.0	13,618.6
Total Public Sector Debt	8,040.9	8,859.1	12,212.9	13,631.3	15,053.7	14,123.9	15,444.4
Total Public Sector Debt as % of nominal GDP	19.8%	22.9%	33.8%	33.8%	36.0%	33.7%	34.3%

(1) Preliminary data.
Source: Ministry of Finance and Central Bank.

Republic of Paraguay

Paraguay is located in central South America and, as of 2022, had an estimated population of approximately 7.45 million. The population is distributed unevenly across the country. Over half the population lives in urban areas in the eastern portion of the country. Less than 3% of the population resides in regions that account for 61% of the country's land mass.

Paraguay is rich in hydroelectric power capacity thanks to a wealth of rivers. It has dense forests and extensive farmlands.

Because of its predominantly agrarian economy and unevenly distributed population, Paraguay's growth has historically been volatile. Compared to its neighbors, Paraguay has a considerable low-income population although some improvements in poverty reduction were made in recent years. Government economic policies have focused on poverty, adopting measures intended to increase the overall income levels of Paraguay's population through investment in infrastructure, education and health. Such policies are designed to provide a foundation for sustainable economic development and diversification of productive capacity across the country.

In 2014, Paraguay adopted the National Development Plan - Paraguay 2030 ("NDP"). The NDP has three main purposes: to reduce poverty and to increase social development, to seek inclusive economic growth, and to further integrate Paraguay into the global economy.

Recent Developments

U.S. Sanctions. On January 26, 2023, the U.S. Department of the Treasury's Office of Foreign Assets Control ("OFAC") sanctioned, pursuant to U.S. Executive Order 13818, former President of Paraguay Horacio Manuel Cartes Jara ("Cartes"), and current Vice President of Paraguay Hugo Adalberto Velázquez Moreno ("Velázquez"), for their alleged involvement in several corruption practices. These include, among other things, bribing public officials, interfering with legal processes, and, in the case of Velázquez, protecting himself and criminal associates from criminal investigations. OFAC also designated Tabacos USA Inc., Bebidas USA Inc., Dominicana Acquisition S.A., and Frigorifico Chajha S.A.E., for being owned or controlled by Cartes.

As a result of the sanctions against Cartes and Velázquez, all property and interests in property of Cartes and Velázquez located in the United States, or in the possession or control of U.S. persons, are blocked and must be reported to OFAC. Additionally, any entities owned, directly or indirectly, individually or in the aggregate, 50% or more by one or more blocked persons are also subject to these sanctions. Consequently, on March 31, 2023, Tabacalera del Este S.A., was also included in the OFAC Specially Designated Nationals list. Unless authorized by OFAC, OFAC's regulations generally prohibit all transactions by U.S. persons or that are otherwise within U.S. jurisdiction that involve any blocked persons or their property or interests in property. For details regarding the U.S. Sanctions, see "—U.S. Sanctions"

In addition, in March 2023, the United States also announced the imposition of travel restrictions on other Paraguayan public officers, such as the former Director of Paraguay's National Directorate of Civil Aeronautics (DINAC), Edgar Melgarejo; a member of the Paraguayan Panel for the Discipline of Judges and Prosecutors, Jorge Bogarín; and Court Clerk, Vicente Ferreira for their involvement in significant acts of corruption under Section 7031(c) of the Department of State, Foreign Operations, and Related Programs Appropriations Act.

2023 Elections. The general presidential elections were held in Paraguay on April 30, 2023. Santiago Peña of the Colorado Party was elected President, defeating his opponents, Efrain Alegre of the National Concertation Party and Paraguayo Cubas of the National Crusade Party. President Peña received 42.74% of the votes cast, while Alegre and Cubas received 27.48% and 22.91%, respectively. President Peña will begin his five-year term on August 15, 2023.

Elections for the Senate and the Chamber of Deputies (the lower house) were also held on April 30, 2023. The Colorado Party led the April elections in both chambers of the Paraguayan Parliament, taking 23 of 45 seats in the Chamber of Senators (the upper house) and 49 of 80 seats, in the Chamber of Deputies. The Colorado Party secured a majority in both houses of Congress. The National Concertation Party, the second largest political party in the Paraguayan Congress, took 12 seats in the Chamber of Senators and 22 seats in the Chamber of Deputies.

Paraguayan Economy

Economic Performance

Paraguay's macroeconomic performance showed robustness for 15 years through 2018. In the period between 2005 and 2018, the economy grew at an average rate of 4.4%, a stronger pace than its regional peers. Growth during this period was the result of sound macroeconomic policies and an increase in agricultural commodity prices, which, as a result, positively impacted the services sector.

In 2019, real GDP contracted by 0.4%, largely due to adverse climatic factors that persistently affected key sectors of the economy such as agriculture, forestry, fishing and mining, and electricity and water, which declined 4.4%, 1.1% and 11.5%, respectively. Likewise, manufacturing and commerce also contracted with reductions of 1.2% each. In contrast, various services helped mitigate the decline in GDP, driven mainly by an increase in the household services, business services, telecommunications and restaurant and hotel services sectors as well as expansion in the government sector and the financial sector, each of which grew 5.7%, 1.0%, 4.6%, 5.4%, 4.3% and 3.7%, respectively.

In 2020, real GDP decreased by 0.8% and real GDP per capita decreased by 2.2%. The economic contraction in 2020 was mainly due to the restrictive measures implemented by the national government in an effort to contain the spread of the COVID-19 virus. The services sector was particularly impacted, namely transportation, business services, restaurants and hotels and household services. Manufacturing was also significantly affected, particularly textiles and clothing, paper and paper products, timber, machinery and equipment, leather and shoes, oil products, beverages and tobacco and metal products. Finally, commerce was greatly affected, particularly the sale of durable goods, such as vehicles and home equipment and semi-durable goods, such as clothing, and fuel. In addition to the poor performance of certain sectors as a result of the restrictive measures implemented by the national government to contain the spread of the COVID-19 virus, the decline in year-over-year economic performance in April and May of 2020 is also partly due to declines in electricity generation resulting from decreased river water flow caused by droughts. Notwithstanding the contraction in each of the services, manufacturing and commerce sectors and the electricity generation subsector, growth in the agriculture, livestock, construction, communications and finance sectors helped mitigate the decline in aggregate economic activity resulting from the impact of the COVID-19 pandemic and continued droughts.

Economic activity and aggregate demand began to recover from the pandemic in the first quarter of 2021, consistent with the easing of restrictive measures implemented by the national government to contain the spread of COVID-19. This trend continued into the second quarter of 2021, with a 14.0% increase in real GDP compared to the same period in 2020. Real GDP also increased by 2.6% in the third quarter of 2021 compared to the same period in 2020. This increase was considerably less than the second quarter, but still indicative of the ongoing recovery in the construction and manufacturing sectors. Investment grew by 10.9% in the third quarter of 2021 compared to the same period in 2020, and private consumption increased by 7.7% during the same period. However, net external demand showed a negative trend throughout 2021.

As of the fourth quarter of 2021, real GDP had grown for four consecutive quarters compared to the same period in 2020. By the end of the year, real GDP had increased by 4.0% compared to 2020, a significant improvement from the 0.8% decrease observed in 2020. This was largely driven by the construction and manufacturing sectors' recoveries.

However, 2022 brought new challenges. A severe drought hindered economic recovery, leading to a drop in GDP in the first and second quarters (-0.9% year over year and -3.3% year over year, respectively). From the third quarter of 2022, a rebound in the agricultural sector contributed to a recovery in economic activity, with real GDP increasing by 2.9% year over year, a trend that continued into the fourth quarter of 2022 (1.7% year over year). Despite the difficulties faced in the first half of the year, real GDP increased by 0.1% in 2022, propelled by sectors such as restaurants and hotels, business services, and commerce, as well as electricity and water.

Paraguay's Efforts to Mitigate Negative Economic Impacts

Paraguay has pursued various fiscal and monetary policy responses to mitigate the economic impact of COVID-19. In March 2020, the national government enacted the National Emergency Law No. 6524/20 (the "NEL"), which was in force until June 30, 2022. The NEL declared a state of emergency in the entire country and provided administrative, fiscal and financial measures to mitigate the effects of the COVID-19 pandemic, including US$1.99 billion for social protection, the healthcare system, the functioning of the state and support for micro, small and medium-sized enterprises ("MSMEs"). In March and April 2020, the Central Bank guaranteed sufficient liquidity to the financial system and began implementing monetary stimulus and temporary credit measures to support economic activity. As part of these measures, the Central Bank reduced the Monetary Policy Rate (MPR) by 325 basis points between March and June 2020, from 4.00% to 0.75%, the lowest level since the adoption of the inflation targeting scheme in 2011.

In August 2021, in order to meet the medium-term inflation target, the Central Bank initiated a gradual process of normalization of its monetary policy. As a result, the Central Bank increased the MPR by 450 basis points between August and December 2021, reaching 5.25% as of December 31, 2021. This normalization process continued in 2022, with the Central Bank increasing its MPR by 325 basis points from December 2021 to September 2022, reaching 8.50% in September 2022, where it stood as of the date of this Offering Memorandum. This increased in the MPR by the Central Bank were made in response to unexpected external shocks, particularly the escalating conflict between Russia and Ukraine, which significantly impacted local food and fuel prices and resulted in medium-term inflation expectations exceeding the Central Bank's target.

Inflation stayed within the target range of 2%-6% in 2017 (4.5%), 2018 (3.2%), 2019 (2.8%) and 2020 (2.2%). However, from 2021 onwards, the inflation rate has exceeded the target, with the inflation rate recorded at 6.8% in 2021, 8.1% in 2022, and 5.1% in May 2023. Inflationary pressures were observed mainly due to the increase in food and fuel prices. Furthermore, Paraguay's agricultural sector faced a significant decline due to drought conditions persisting since late 2021, a situation worsened by the geopolitical conflict. This contributed to the inflation rate rise to 8.1%, a 1.3 percentage point increase from the previous year. For a summary of adjustments to the MPR over recent years, see "Monetary System."

Real GDP increased in 2022, largely as a result of a recovery in the restaurants and hotels services, business services, commerce, real estate and household services, which grew by 17.9%, 9.7%, 3.4%, 2.1% and 1.8%, respectively, compared to 2021. In 2022, the value of exports decreased by 1.6% in real terms compared to 2021, because of the drop in the exports of soy, oil, and meal of soy, during 2022. However, there was an increase in exports of corn, beef and products under the Maquila Regime (as defined below). The manufacturing sector remains one of the main sectors of the Paraguayan economy, accounting for 19.6% of real GDP in 2022 reflecting no significant variation when compared to 2021. The manufacturing sector increased by 0.1% in 2022, driven mainly by an increase in the production of sugar, leather and shoes, chemical products, paper and paper products, and textiles and clothing. The production in this sector grew by 2.4% and 6.9% in 2018 and 2021 and decreased by 1.1% and 1.3% in 2019 and 2020, respectively.

Other important sectors of Paraguay's economy include commerce and agriculture, which represented 11.1% and 6.0%, respectively, of real GDP in 2022, compared to 10.7% and 6.9%, respectively, in 2021. Commerce increased by 4.6% in 2018, decreased by 1.2% and 8.1%, respectively, in 2019 and 2020, and grew again by 14.3% in 2021 and 3.4% in 2022. Agriculture dropped by 18.2% in 2021 and 12.7% in 2022, as a result of adverse weather conditions, expanded by 9.0% in 2020, decreased by 4.4% in 2019 and increased by 3.4% in 2018.

In 2019, as part of a program that seeks to improve the efficiency and quality of Paraguay's infrastructure, the Ministry of Public Works and Communications ("MOPC") completed the financing of its first public-private partnership ("PPP") project in the transportation sector. This PPP relates to the expansion and renovation of highway Routes 2 and 7, Paraguay's two most important roads. Route 2 connects the capital city, Asunción, to Coronel Oviedo, and Route 7 connects Coronel Oviedo with Caaguazú. For more information see "The Paraguayan Economy—State-Owned Enterprises—Public-Private Partnerships (Law No. 5102/13)."

Between 2017 and April 2023, the government conducted tenders for three of the turnkey projects contemplated under Law No. 5074/13 (the "Turnkey Infrastructure Projects") and awarded the following contracts to the selected bidders: (i) the construction and paving of the San Cristobal - Naranjal Segment - Route No. 6 in 2017; (ii) a project for the design and construction of a new road between Loma Plata and Carmelo Peralta (the "Corredor Bioceanico Project") in 2018; and (iii) a project for the design and construction of Avenida Costanera Sur in 2019. As of the date of this Offering Memorandum, the San Cristobal – Naranjal Segment – Route No. 6 and the Corredor Bioceanico have been completed, while Avenida Costanera Sur is still under construction. For more information see "The Paraguayan Economy—State-Owned Enterprises—Turnkey Projects (Law No. 5074/13)." Additional turnkey infrastructure projects are under evaluation by different public agencies as of the date of this Offering Memorandum.

The central government implemented a package of contingency measures related to the country's primary sector to mitigate the impact caused by the droughts in 2021 and 2022. These measures are based on four main lines of action established to prevent the impact caused by weather-related events: (i) assistance to small producers with inputs (e.g., fuels, seeds, agricultural defensives) for the replanting of crops; (ii) tax measures such as the suspension of withholdings related to the corporate income tax as well as delays of withholdings of the simplified tax regime applicable to SMEs; (iii) support measures through the establishment of credit facilities by public financial institutions, such as the National Development Bank (*Banco Nacional de Fomento*), the Financial Development Agency (*Agencia Financiera de Desarrollo*) and the Agricultural Credit (*Crédito Agrícola de Habilitación*) and (iv) the refinancing of certain loans in the agricultural and livestock sector through transitory facilities issued by the Central Bank. Since the beginning of 2023, temporary support measures have been adopted for the renegotiation of debts in sectors related to agriculture and livestock to alleviate the effects of adverse weather conditions.

The Maquila Regime

The maquila regime established in 1997 (the "Maquila Regime"), is an export production framework and important source of employment aimed at supporting Paraguayan companies that seek to export domestically produced goods and services. This regime provides exemptions from import tariffs for a number of inputs involved in these production processes, as well as other tax benefits. With the exception of the Maquila Only Tax, which equals one percent of value added in Paraguay, maquiladoras are exempt from all other Paraguayan taxes, including the Value Added Tax (VAT). Although production under the Maquila Regime is primarily destined to promote exports, maquiladoras are permitted to sell in the domestic market as well, up to a cap of ten percent of the volume of their previous year's exports. As of April 30, 2023, there were 272 enterprises operating under the Maquila Regime in 14 departments of Paraguay. During 2022, 18 programs were approved under the Maquila Regime, representing US$18.5 million in private investment and creating 726 new jobs. The main maquila export items were auto parts, clothing and textiles, food products, aluminum and plastic.

Paraguay's Hydroelectric Power Generation

Paraguay is the largest exporter of electricity in South America, and the seventh largest in the world, the bulk of which is produced at the Itaipú hydroelectric plant located on the Paraná River on the border between Paraguay and Brazil and, to a lesser extent, by the Yacyretá hydroelectric plant located on the Paraná River on the border between Paraguay and Argentina. Electricity accounted for approximately 13.2% of Paraguay's registered exports in the four-month period ended April 30, 2023. During such period, 9,403 GW were exported. Each hydroelectric plant is managed and operated by a binational company created pursuant to a treaty between Paraguay and Brazil, in the case of Itaipú Binational, and Paraguay and Argentina, in the case of Yacyretá Binational. Paraguay owns a 50% equity stake in each binational entity and is entitled to 50% of the electricity produced by each of the two plants. Revenues generated by its participation in each of the Itaipú and the Yacyretá hydroelectric plants contribute significantly to Paraguay's GDP. The electricity and water sector, which includes generation, transmission and distribution of electricity (including the Paraguayan portion of electricity generated by the Binationals), distribution of water, and collection, treatment, and recycling of sewage and waste, accounted for 6.8% of Paraguay's GDP in 2022, compared to 6.3% of Paraguay's GDP in 2021 and 7.1% in 2020. The decrease in the electricity and water sector as a percentage of GDP over the past two years as compared to 2020 has primarily been a result of drought-induced decreased river water flow.

On June 28, 2019, Congress enacted Law No. 6324/19, which provides a sovereign guarantee of up to US$300 million for certain debt incurred in connection with ANDE's electric energy distribution and transmission projects arranged in accordance with Law No. 2051/03. The National Electricity Administration (*Administración Nacional de Electricidad* — "ANDE") is scheduled to tender various projects under the framework in the near future. As of March 2023, ANDE has utilized US$ 295.6 million of the US$ 300 million stipulated in Law No. 6324/19.

COVID-19. By the end of May 2023, Paraguay had confirmed over 735,759 cases of ***COVID-19***, of which over 19,880 were fatal. Progress in vaccination and easing mobility restrictions from 2021 stimulated demand for services impacted in 2020, driving growth in manufacturing and construction sectors. However, economic recovery and a 2022 surge in raw material prices caused 8.1% inflation, surpassing the Central Bank's target, similarly to the previous year, 2021, when inflation was 6.8%. The persisting COVID-19 impacts, potential simultaneous outbreaks of arbovirus, influenza, and COVID-19, could place significant strain on Paraguay's healthcare system and economy, impacting its ability to meet obligations under this Offering Memorandum's Bonds.

Balance of Payments and Foreign Trade

In 2022, Paraguay recorded a balance of payments deficit of US$134.3 million (0.3% of GDP), compared to a surplus of US$593.0 million (1.5% of GDP) in 2021, resulting primarily from a higher deficit in the current account due mainly to a sharp increase in imports and a decrease in exports. The balance of payments recorded a surplus of US$1,805.2 million (5.0% of GDP) in 2020, a deficit of US$54.9 million (0.1% of GDP) in 2019 and a deficit of US$ 183.0 million (0.4% of GDP) in 2018. The balance of payments surplus in 2020 resulted primarily from a higher surplus in the current account due to a sharp decrease in imports that exceeded the decrease in exports. The balance of payments deficits in 2019 and 2018 resulted primarily from a current account deficit, explained by a lower trade balance surplus, and a higher deficit in the net primary income.

In 2022, Paraguay recorded a current account deficit of US$2,713.0 million (6.5% of GDP), compared to a deficit of US$305.2 million (0.8% of GDP) in 2021, resulting primarily from a trade balance deficit due to an increase in imports and a decrease in exports. Registered exports were affected by the negative performance of soybeans, a key export product for the country, which decreased by 58.8%. Imports increased, primarily due to sharp increases in imports of goods for domestic consumption and higher prices for fuel products. In 2021, Paraguay recorded a current account deficit of US$305.2 million (0.8% of GDP) with a trade surplus of approximately US$628.8 million and a services sector deficit of US$124.2 million. In 2020, Paraguay recorded a current account surplus of US$691.7 million (1.9% of GDP) with a trade surplus of US$1,225.8 million and a services sector surplus of US$131.4 million. Imports and exports in 2020 decreased compared to 2019 due to a combination of internal and external factors, including, but not limited to, a decrease in the electricity sector due to adverse weather conditions, a decrease in imports of goods for domestic consumption as a consequence of the COVID-19 pandemic and lower international oil prices. A current account deficit of US$218.9 million (0.6% of GDP) was recorded in 2019 with a trade surplus of US$203.5 million and a service sector surplus of US$161.3 million. In 2018, Paraguay recorded a current account deficit of US$97.3 million (0.2% of GDP), with a trade surplus of US$573.1 million and a service sector surplus of US$93.1 million.

Paraguay primarily engages in trade with MERCOSUR members, countries in the European Union, Russia and China. MERCOSUR members remain Paraguay's main export partners. Paraguayan exports to MERCOSUR members increased from US$5.1 billion in 2018 to US$5.8 billion in 2022. In 2022, exports to MERCOSUR accounted for 58.2% of Paraguay's registered exports. The European Union, China, Russia, and the rest of the world accounted for 4.4%, 0.2%, 3.6% and 33.6% of registered exports, respectively. In the four-month period ended April 30, 2023, exports to MERCOSUR totaled US$2.9 billion, accounting for 75.2% of Paraguay's registered exports, compared to US$1.8 billion and 59.4% in the four-month period ended April 30, 2022; the European Union and Russia accounted for 2.8% and 1.1% of registered exports, respectively, compared to 5.3% and 3.5%, respectively, in the four-month period ended April 30, 2022. Brazil is Paraguay's largest trading partner, accounting for 24.0% and 23.3% of registered exports and imports, respectively, in the four-month period ended April 30, 2023, compared to 36.7% and 22.7%, respectively, in the four-month period ended April 30, 2022, followed by Argentina, with 49.0% and 6.6% of registered exports and imports, respectively, in the four-month period ended April 30, 2023, compared to 21.1% and 9.0%, respectively, in the four-month period ended April 30, 2022.

FDI flows totaled US$1.0 billion between 2018 and 2022. The sectors of the economy that have attracted most of the FDI in this period have been financial intermediation, oilseed production, metal production, beef production, and communications.

Paraguay's international reserves increased by US$1.9 billion between December 31, 2018, and December 31, 2022, primarily as a result of record levels of bond issuances by the public and private sectors between 2020 and 2021 and, to a lesser extent, a surplus in FDI inflows recorded between 2018 and 2022. Meanwhile, international reserves increased 5.4% from April 30, 2023, to April 30, 2022.

Monetary System

The Central Bank is independent of the government. Its fundamental objectives are to preserve and safeguard the stability of Paraguay's currency, the Guaraní, and promote efficiency and stability in the financial system. The Central Bank has focused its efforts on maintaining a stable and predictable level of inflation.

Paraguay has a floating exchange rate regime. From time to time, the Central Bank intervenes in the foreign exchange market in order to stabilize the Guaraní. The Guaraní appreciated during 2017 due to external factors, such as the weakening of the dollar due to uncertainty surrounding the economic policies of the United States and, in part, due to internal factors, including Paraguay's macroeconomic performance. In 2018, exchange rate depreciation followed a larger global trend, driven by increases in the Federal funds rate in the United States.

In 2019, the exchange rate depreciation remained consistent with the global and regional trends of the U.S. dollar. Despite decreases in the Federal funds rate, global commercial, technological and political developments continued to strengthen the U.S. dollar. In addition, a decrease in production of agricultural products resulting from adverse weather conditions and lower commodity prices resulted in a significant reduction in export income, which also contributed to the depreciation of the Guaraní. In 2020, during the early months of the pandemic, the Guaraní exhibited a significant depreciation against the U.S. dollar consistent with other South American currencies. However, towards the end of 2020, the U.S. dollar lost value against the Guaraní, as well as against most currencies in the South American region, in the context of optimism related to COVID-19 vaccines, partially reversing the depreciation in early 2020. The Guaraní appreciated against the U.S. dollar in the first quarter of 2021 as a result of a large inflow of U.S. dollars from agricultural exports. A subsequent decrease in agricultural exports between the second and third quarters of 2021 resulted in the depreciation of the Guaraní against the U.S. dollar. The exchange rate remained relatively stable from August 2021 to the end of 2021. In 2022, the cumulative depreciation of the Guaraní against the U.S. dollar was 3.1%. Although the nominal exchange rate remained relatively stable during the first half of 2022, the Guaraní depreciated rapidly from the third quarter onward. This depreciation of the Guaraní was driven by the appreciation of the U.S. dollar within the global market during that year, triggered by upwards adjustments to the Federal Reserve's interest rates and the heightened likelihood of a global recession. The average exchange rate as of December 31, 2022, was 7,331.3 Guaraníes per US$1.00.

The Central Bank has remained committed to developing a monetary policy that focuses primarily on achieving price stability and maintaining low inflation levels. The Central Bank has anchored its monetary policy with an inflation targeting scheme. In December 2014, the Central Bank set the annual inflation rate (CPI) target at 4.5%, within a target range of 2.5% to 6.5%. In February 2017, the Central Bank reduced its inflation target from 4.5% to 4%, maintaining the tolerance range of +/- 2 percentage points. Inflation remained within the target range in each of 2016 (3.9%), 2017 (4.5%), 2018 (3.2%), 2019 (2.8%) and 2020 (2.2%). In 2021, however, inflation stood at 6.8% and exceeded the target range, mainly due to a recovery in economic activity and a rise in commodity prices. The inflation rate has remained above the target at 6.8% in 2021, 8.1% in 2022 and 5.1% in May 2023. The variations in inflation rate are explained primarily by fluctuations in the prices of food products and oil derivatives, both of which registered significant increases in 2021 and 2022.Recently, some factors that have contributed to the slowdown in prices are the lower commodity prices that had an impact on food and fuel prices and a monetary policy that has reacted to contain inflationary pressures, align expectations and promote convergence of inflation to the target. In 2022, the economic activity of Paraguay demonstrated a significant decline in the agricultural sector, which has been substantially impacted by drought conditions since the latter part of 2021. This situation was further exacerbated by the consequences arising from the conflict between the Russia and Ukraine, resulting in a notable escalation in inflation.

In 2018, the monetary policy interest was 5.25%. In 2019, the Central Bank reduced the reference interest rate in February, March, July, August and September in response to decreases in domestic and external demand. Throughout 2019, the reference interest rate decreased by 125 basis points, from 5.25% to 4.00%. In 2020, the Central Bank reduced the reference interest rate in March, April, and June. Throughout 2020, the reference interest rate decreased by 325 basis points, from 4.00% to 0.75%. In 2021, a recovery in economic activity and a rise in commodity prices led to an increase in inflation. In order to contain future inflationary pressures and avoid a de-anchoring of expectations, the reference rate was adjusted by 25 basis points in August 2021, 50 basis points in September 2021 and 125 basis points in each of October, November and December 2021, reaching 5.25% as of December 31, 2021. This normalization process continued in 2022, with the Central Bank increasing its Monetary Policy Rate ("MPR") by 325 basis points from December 2021 to September 2022, reaching 8.50% in September 2022, where it stood as of the date of this Offering Memorandum.

Public Sector Finances

Paraguay's public sector consists of the central government, public financial institutions, public non-financial institutions and other general government agencies. Central government revenues are derived mainly from tax collection (VAT, income tax and excise taxes) and non-tax revenue (royalty payments from Itaipú Binational and Yacyretá Binational, compensation payments from the Brazilian and Argentine governments for sales of electricity generated at Itaipú and Yacyretá, respectively, unused by Paraguay, and social security contributions). Central government expenditures consist mainly of compensation of employees, payments for goods and services, transfer payments, interest on public debt and investments in infrastructure.

Other public sector institutions derive revenue from operating income or transfers from the central government. The budgets of all public sector institutions are included in the government's annual budget.

Municipalities are not included in the government's annual budget and do not require authorization from the government to obtain financing, and there would be no recourse to the central government for any such financing. However, in accordance with the IMF's Government Finance Statistics Manual (GFSM 2001), consolidated public sector finance statistics also include finances related to municipalities.

For the five-month period ended May 31, 2023, the central government's fiscal balance recorded a deficit of US$587.7 million (1.3% of GDP), while the central government's primary balance showed a deficit equivalent to 0.7% of GDP. For the five-month period ended May 31, 2022, the central government's fiscal balance recorded a deficit of US$215 million (0.5% of GDP), while the central government's primary balance showed a surplus equivalent to 0.01% of GDP. In 2022, the central government's fiscal balance recorded a deficit of US$1,234.7 million (3.0% of GDP), while the central government's primary balance showed a deficit equivalent to 1.7% of GDP. In 2021, the central government's fiscal balance recorded a deficit of US$1,450.6 million (3.6% of GDP), while the central government's primary balance showed a deficit equivalent to 2.5% of GDP. In 2020, the central government's fiscal balance recorded a deficit of US$2,175.3 million (6.1% of GDP), while the central government's primary balance showed a deficit equivalent to 5.1% of GDP. In 2019, the central government's fiscal balance recorded a deficit of US$1,065.7 million (2.8% of GDP), while the central government's primary balance showed a deficit equivalent to 2.0% of GDP. In 2018, the central government's fiscal balance recorded a deficit of US$526.4 million (1.3% of GDP), while the central government's primary balance showed a deficit equivalent to 0.6% of GDP.

The Fiscal Responsibility Law ("FRL") regulates the creation and approval of the government's annual budget, although it does not govern its execution. This law aims to prevent discretionary increases in spending by establishing targets for the central government's overall balance. Ultimately, the FRL advocates for balanced budgets that align with the government's financial capabilities. Additionally, the FRL imposes restrictions on the executive branch's primary expenditures during the first seven months of election years. From January to July in years when elections take place, the Executive is permitted to spend only up to 60% of the funds allocated in the annual budget on primary expenditures. In essence, the FRL sets a limit on primary expenditures during these months of election years. These constraints apply equally to general and local municipal elections. Lastly, to provide the government with fiscal flexibility in handling the economic impacts of COVID-19, the application of the FRL was temporarily suspended for the fiscal year 2021. Consequently, the fiscal deficit ceiling of the central administration for that year was increased from 1.5% to 4% of GDP.

Following the approval of the 2023 Annual Budget by both chambers of Congress in December 2022, the executive branch enacted the 2023 Budget on January 4, 2023. The objective of the 2023 Budget is to maintain macroeconomic stability and pave the way for economic recovery. Although the 2023 budget complies with the parameters established in the FRL as part of the gradual convergence process following the consecutive shocks experienced due to the drought in 2019 and 2022, as well as the impacts of the COVID-19 pandemic in 2020, the National Congress has approved the suspension of the fiscal deficit limit for the fiscal year 2023. This approval includes an expansion of the deficit ceiling from 1.5% of GDP to 2.3% of GDP.

This prudent fiscal approach allows for the continuation of ongoing investment projects and the reinforcement of traditional social programs aimed at supporting the vulnerable population. See "Public Sector Finance—Budget Process—2023 Annual Budget" for more information on the 2023 budget. The 2023 budget was crafted in accordance with the key principles of austerity and fiscal responsibility. It includes essential instruments designed to equip the central government with the fiscal policy tools necessary to navigate the prevailing complex economic landscape. Tax revenues forecasted for 2023 exceed those projected in the 2022 budget. Despite this optimistic outlook, the 2023 Budget incorporates measures to curb or decrease current expenditure. The nominal increase in primary spending projected in the 2023 Budget is 3.2%, falling below the FRL-provided cap for increased expenditure.

In light of the general elections held in April 2023, the restrictions outlined in the FRL on current primary expenditure were implemented. From January to July 2023, the current primary expenditure should not surpass 60% of the total budget. For a more detailed discussion on the 2023 budget, refer to "Public Sector Finance—Budget Process—2023 Annual Budget".

Moreover, as of the date of this Offering Memorandum, the executive branch has begun the preparation of the 2024 draft budget. Incumbent President Mario Abdo Benitez has issued general guidelines to all public agencies forming part of the executive branch, emphasizing the importance of (i) austerity, rationality, and fiscal responsibility, and (ii) alignment with the United Nations Sustainable Development Goals. The 2024 draft budget is scheduled for presentation to Congress by September 1, 2023.

From 2018 through 2022, tax revenues averaged 71.1% of total central government revenues, and the majority of tax revenues were provided by consumption taxes (including VAT and excise tax), which accounted for 62.7% of total tax revenues. Excise taxes are levied primarily on fuel, beverages and cigarettes. The central government's non-tax revenue (including grants and social contributions) represented, on average, 28.9% of total central government revenue for the period from 2018 through 2022. Itaipú Binational and Yacyretá Binational are the largest contributors to the central government's non-tax revenue, accounting for an average 8.9% of total central government revenues in the same period.

In the five-month period ending on May 31, 2023, tax revenues constituted an average of 77.3% of the total central government revenues. The majority of these tax revenues were derived from consumption taxes, such as VAT and excise tax, which contributed to 59.7% of the overall tax revenues. Excise taxes primarily encompass fuel, beverages, and cigarettes. The central government's non-tax revenue (including grants and social contributions) represented, on average, 22.7% of total central government revenue for the mentioned period. Itaipú Binational and Yacyretá Binational are the largest contributors to the central government's non-tax revenue, accounting for an average 7.4% of total central government revenues in the same period.

The main component of Paraguay's central government expenditures in the period from 2018 through May 2023 was payroll, representing on average approximately 46.3% of total expenditures (excluding the acquisition of non-financial assets). The percentage of total expenditures represented by payroll amounted to 49.4% in 2018. In May 2023, payroll represented 42.3% of total expenditures, a 7.5% increase compared to May 2022.

Public Sector Debt

The ratio of total public sector debt to GDP stood at 34.3% as of April 30, 2023 compared to 33.7% as of April 30, 2022. Paraguay's public sector external debt totaled US$13.6 billion as of April 30, 2023, an increase of approximately 11.7% compared to April 30, 2022. As of April 30, 2023, the total outstanding public sector domestic debt was approximately US$1.8 billion, of which US$1.2 billion was owed by the central government.

The Inter-American Development Bank ("IDB") and the Development Bank of Latin America ("CAF") are Paraguay's largest creditors, accounting, as of April 30, 2023, for 20.9% and 14.0%, respectively, for Paraguay's total public sector external debt. Paraguay's borrowings from multilateral organizations are used primarily for infrastructure and social development programs. For a breakdown of the loans from multilateral organizations and credit agencies approved in 2023, see "Public Sector Debt—Public Sector External Debt—Public Sector External Debt Owed to Multilateral Organizations and Credit Agencies.

Since 2013, Paraguay has issued sovereign bonds in the international capital markets. As of the date of this Offering Memorandum, Paraguay has issued a total of nine series of bonds, for a total of US$6.86 billion. A portion of the net proceeds of this Offering are intended to be applied to pay the purchase price for the Old Bonds (as defined below) that are validly tendered and accepted in the Offer to Purchase that is conducted simultaneously herewith. For a discussion of Law No. 6638/20, which authorizes the aforementioned intended use of a portion of the net proceeds, see "The Paraguayan Economy—Current Economic Policy—Liability Management Law."

The Offering

The following is a brief summary of certain terms of this offering. For a more complete description of the terms of the Bonds, see "Description of the Bonds" in this Offering Memorandum.

Issuer	Republic of Paraguay.
Securities Offered	US$500,000,000 principal amount of 5.850% Bonds due 2033.
Issue Price of the Bonds	99.989% of the principal amount of the Bonds, plus accrued interest, if any, from July 12, 2023.
Maturity Date	August 21, 2033.
Principal	Principal will be paid in two installments on August 21, 2032 and at maturity, to be calculated as follows: the aggregate amount of the (i) first principal installment on the Bonds shall equal 40% of the principal amount outstanding on the Bonds as of such principal payment date, and (ii) second principal installment will equal the remaining principal amount under the Bonds as of the maturity date. To the extent necessary, principal payments may be rounded down to the nearest whole number, with any difference being paid at maturity.
Interest	The Bonds will bear interest on their outstanding principal amount from the date of issuance, at a fixed rate of 5.850%, payable semi-annually in arrears on February 21 and August 21 of each year, commencing on February 21, 2024.
Optional Redemption	The Bonds will be subject to redemption at the option of Paraguay before maturity. For more information see "Description of the Bonds—Redemption and Repurchase—Optional Redemption" in this Offering Memorandum.
Status	The Bonds constitute and will constitute direct, general, unconditional and unsubordinated External Debt of the Republic for which the full faith and credit of the Republic is pledged. The Bonds rank and will rank without any preference among themselves and equally with all other unsubordinated External Debt of the Republic. It is understood that this provision shall not be construed so as to require the Republic to make payments under the Bonds ratably with payments being made under any other External Debt.
Use of Proceeds	Paraguay is issuing the Bonds offered hereby contemporaneously with an offer to purchase (the "Offer to Purchase") certain outstanding bonds due 2026 (collectively, the "Old Bonds"). Paraguay expects to apply a portion of the net proceeds of the Bonds to pay the purchase price for the Old Bonds that are validly tendered and accepted in the Offer to Purchase, and the balance for general government purposes, in accordance with the Annual Budget Law No. 7050/23, Liability Management Law No. 6638/20, the Regulatory Decree No. 8759/23, the Regulatory Decree No. 9301/23, Resolutions No. 91/23, 296/23 and 297/23 issued by the Ministry of Finance and Resolution No. 1/23, Act No. 32 issued by the Central Bank.
Taxation	Paraguay will make all interest payments on the Bonds without withholding or deducting any Paraguayan taxes, unless required by law. If Paraguayan law requires Paraguay to withhold or deduct taxes, Paraguay will pay bondholders, subject to certain exceptions, additional amounts to provide the equivalent of full payment of interest to bondholders. For more information see "Description of the Bonds—Additional Amounts" in this Offering Memorandum. For a discussion of

	the Paraguayan and United States federal income tax consequences of owning the Bonds, see “Tax Considerations—Paraguayan Tax Considerations,” and “Tax Considerations— Certain United States Federal Income Tax Considerations.”
Risk Factors	See “Risk Factors” starting on page 14 for a discussion of certain factors you should consider before deciding to invest in the Bonds.
Form and Denomination of the Bonds	The Bonds will be issued in the form of one or more registered global securities without coupons, which will be deposited with a custodian for DTC. The Bonds will not be issued in bearer form. The Bonds will be issued in denominations of US$200,000 and integral multiples of US$1,000 in excess thereof.
Transfer Restrictions	The Bonds have not been registered under the Securities Act and will be subject to restrictions on transferability and resale. For more information see “Notice to Investors” and “Transfer Restrictions.”
Listing	Application will be made to list the Bonds on the Official List of the Luxembourg Stock Exchange and to trade them on the Euro MTF market of the Luxembourg Stock Exchange.
Indenture	The Bonds will be issued under the indenture dated March 31, 2016 (as amended, modified and/or supplemented from time to time) between Paraguay and The Bank of New York Mellon, as trustee, which indenture provides for the issuance from time to time of one or more series of debt securities.
Trustee, Paying Agent, Transfer Agent and Registrar	The Bank of New York Mellon.
Luxembourg Listing Agent	The Bank of New York Mellon SA/NV, Luxembourg Branch.
Governing Law	The Bonds will be, and the indenture is, governed by and construed in accordance with the laws of the State of New York, except that the laws of Paraguay will govern all matters relating to authorization and execution by Paraguay.

RISK FACTORS

This section describes certain risks associated with investing in the Bonds. You should consult your financial and legal advisors about the risks of investing in the Bonds and the suitability of your investment in light of your particular situation.

The risks described below are not the only ones that Paraguay faces. Additional risks that are not currently known to Paraguay or that Paraguay currently believes are immaterial may also adversely affect it. Many of these risks are interrelated and occur under similar economic conditions, and the occurrence of certain of them may in turn cause the emergence, or exacerbate the effect, of others. Such a combination could materially increase the severity of the impact on Paraguay. As a result, should certain of these risks emerge, Paraguay may need to raise additional funds through borrowing in the internal or external capital markets, and there is no assurance that Paraguay will be able to borrow needed funds on terms that it considers acceptable or at all.

Risk Factors Relating to Paraguay

The development of a possible concurrent outbreak of arbovirus, strains of influenza and COVID-19, if occurring, may cause a significant strain on Paraguay's healthcare system, which could adversely affect Paraguay's economy and its ability to perform its obligations under the Bonds.

Paraguay is becoming increasingly susceptible to outbreaks of mosquito-borne arbovirus diseases, such as dengue, chikungunya, zika and mayaro. Although the peak of arbovirus cases occurs usually during the summer season from January to March, current and former health authorities underscored that arbovirus cases are endemic to Paraguay the entire year. Paraguayan health authorities have issued national management strategies to prevent and treat arbovirus diseases.

During the summer season of 2023, Paraguay was significantly affected by outbreaks of arbovirus, particularly chikungunya. During this period, the country faced an unprecedented chikungunya epidemic, with 82,981 recorded cases and 217 deaths as of May 13, 2023. The disease has been reported in all regions of the country, with 58% of the cases concentrated in the most densely populated regions: the capital city of Asunción, the surrounding department of Central, and Alto Paraná, which borders Brazil. Although a national emergency was not declared, several local city governments responded to the outbreak by implementing emergency declarations at the local level.

As Paraguay transitions into its autumn and winter season, temperatures and mosquito activity decrease. Consequently, there is a decline in arbovirus cases, particularly chikungunya. However, the arrival of the winter season heightens the risk of potential outbreaks of respiratory viruses, particularly influenza and COVID-19. National health authorities have issued public statements emphasizing that COVID-19 is still present in Paraguay, and there is a possibility of an increase in cases in the coming weeks. To mitigate this risk, health authorities in Paraguay launched nationwide vaccination campaigns against respiratory diseases in April 2023.The potential seasonal increase in arbovirus cases represents a great challenge both for the population and for health service providers, particularly in areas with highly vulnerable communities. The General Directorate of the Ministry of Health urges all Paraguayan departments to sustain and strengthen prevention and control actions in accordance the framework of the IMS-Arbovirus to avoid increases in cases, to establish integrated response mechanisms to reduce the risk of deaths caused by arboviruses and to avoid overwhelming the healthcare system.

Part of the offering proceeds could be attached by creditors to satisfy outstanding judgments against Paraguay.

Creditors holding outstanding court judgments present a risk of disruption to the offering. The risk with respect to the offering is that the initial purchasers could be said to have an obligation to pay money to Paraguay, and Paraguay's judgment creditors may attempt to restrain Paraguay's interest in any such obligation. Further, Paraguay's creditors could attempt to attach the proceeds of the offering.

As of the date of this Offering Memorandum, there are two outstanding judgments against Paraguay, issued by the Swiss Federal Tribunal. The first judgment was issued in 2005 in favor of nine banks for approximately US$85 million (the "2005 Judgment"). In addition, after the 2005 Judgment, one of the banks that had withdrawn its complaint reinstated its complaint and obtained a judgment against Paraguay in September 2010 in the amount of approximately CHF10 million (approximately US$11.2 million as of April 30, 2023) plus interest (the "2010 Judgment" and, together with the 2005 Judgment, the "Swiss Judgments").

Pursuant to settlement agreements entered into in November 2009 between SACE S.p.A. ("SACE") and each of the ten banks, SACE holds all rights to portions of the Swiss Judgments that granted monetary awards to the ten banks.

In July 2015, SACE filed an action in the U.S. District Court for the District of Columbia (the "D.C. District Court") seeking recognition of the Swiss Judgments against Paraguay. On January 21, 2016, Paraguay filed a motion to dismiss for lack of jurisdiction on grounds of sovereign immunity. On March 21, 2016, SACE filed a motion in opposition of Paraguay's motion to dismiss, wherein SACE reaffirmed its arguments that Paraguay is bound by the Swiss Judgments. On September 2, 2016, the D.C. District Court held a hearing on Paraguay's motion to dismiss for lack of jurisdiction, and on March 21, 2017, the D.C. District Court granted such motion to dismiss. As of the date of this Offering Memorandum, SACE had not appealed the D.C. District Court's judgment and the deadline for filing such appeal has passed, rendering this judgment final and non-appealable. As of the date of this Offering Memorandum, SACE had not initiated litigation regarding the matter in any other jurisdiction. Should SACE or any other creditors of Paraguay be successful in having their judgments or awards recognized by a court and, in turn, having a court attach part of the proceeds of the offering, Paraguay may not receive part or all of the proceeds of the offering. For more information see "Public Sector Debt—Contingencies—Gramont Berres Litigation."

Severe weather, natural disasters and adverse climate changes, as well as species-based diseases affecting crops and livestock, may materially adversely affect Paraguay's economy.

Paraguay's economy is heavily reliant on agriculture. In 2022, the primary sector registered the lowest growth (-8.7%) in relation to the secondary (0.4%) and tertiary (1.6%) sectors due to the drought at the beginning of the year. In the same year, beef products were Paraguay's largest export product, making up approximately 17.4% of total registered exports. In addition, as of April 30, 2023, beef products were Paraguay's third largest export product (after soybeans and electricity), making up approximately 12.5% of total registered exports. Soybeans accounted for approximately 12.3% of Paraguay's exports in 2022, while maize registered 10.9% of exports and soybean flour registered 5.9%. Paraguay's economy is very susceptible to severe weather conditions, such as droughts and floods, as well as species-based diseases, which can significantly affect crop production and livestock.

In 2019, the Paraguayan economy encountered significant challenges due to widespread floods that affected the country. These floods had direct repercussions on the agricultural and livestock sectors, submerging fields used for soy planting and cattle grazing. Furthermore, the transportation infrastructure suffered damage, including roads and ports essential for the movement of agricultural and livestock products. Additionally, the floods led to the displacement of approximately 50,000 individuals, resulting in social unrest.

Following the floods, Paraguay endured significant droughts starting from late 2019. These droughts led to a noticeable drop in water levels in the Paraguay River, impeding navigation, particularly for cargo barges, and sparking wildfires throughout the country. The effects of the drought, from December 2021 onwards, contributed to decreased economic activity, a rise in unemployment rates, inflation in food prices, a drop in the export of key crops like soybeans, and a slump in foreign currency income. During the first half of 2022, the Monthly Indicator of Economic Activity of Paraguay (IMAEP) reported a contraction of 3.0%. This decline can be primarily ascribed to the underperformance of the agricultural sector and diminished electricity generation due to low water flow in the Paraná River. The decrease in water flow is a direct result of the low level of rainfall recorded in its tributaries.

As long as Paraguay continues to be affected by severe floods or droughts, the production and transportation of Paraguayan agricultural and livestock products as well as the construction sector may be negatively impacted.

The Paraguayan agricultural and the livestock industry may also be significantly affected by species-based diseases. For example, in 2015, the agricultural sector suffered a 11.2% drop in soy production that was partially due to an outbreak of the *roya* fungus that affected certain harvest areas. Moreover, the livestock industry is susceptible to diseases such as Foot and Mouth Disease ("FMD") and spongiform encephalopathy (commonly referred to as "mad cow disease" or "BSE"). Paraguay had outbreaks of FMD in 2011, which led to a ban in September 2011 of Paraguayan livestock production from the Chilean and European markets. However, as of the date of this Offering Memorandum, the World Organization for Animal Health (the "OIE") recognizes Paraguay as FMD-free, and Paraguay is no longer banned from exporting beef to Chile, the European Union or any other markets. As of the date of this Offering Memorandum, Paraguay is categorized by the OIE as having insignificant risk of BSE, bovine pleuropneumonia, also known as lung plague, FMD, swine fever, African horse sickness, among other similar diseases. However, it is impossible to predict eventual outbreaks of FMD, BSE or other species-based diseases affecting livestock, which could result in further restrictions on Paraguayan beef exports and concerns that these diseases may occur and spread in the future, whether or not resulting in regulatory action, may lead to cancellation of orders by customers of Paraguayan beef products and create adverse publicity that may have a material adverse effect on customer demand for Paraguayan beef products.

A number of internal and external factors may decrease agricultural production or cause a significant drop in the production of beef or soybean products, which would adversely affect Paraguay's economy significantly and, as a result, could have an adverse effect on Paraguay's ability to perform its obligations under the Bonds.

U.S. Sanctions.

On January 26, 2023, OFAC sanctioned, pursuant to U.S. Executive Order 13818, former President of Paraguay Cartes and current Vice President of Paraguay Velázquez for their alleged involvement in several corrupt practices, including, among other things bribing public officials, interfering with legal processes and, in the case of Velázquez, protecting himself and criminal associates from criminal investigations. OFAC also designated Tabacos USA Inc., Bebidas USA Inc., Dominicana Acquisition S.A., and Frigorifico Chajha S.A.E., for being owned or controlled by Cartes.

As a result of the sanctions against Cartes and Velázquez, all property and interests in property of Cartes and Velázquez that are in the United States or in the possession or control of U.S. persons are blocked and must be reported to OFAC. In addition, any entities that are owned, directly or indirectly, individually or in the aggregate, 50% or more by one or more of the blocked persons are also blocked. Unless authorized by OFAC, OFAC's regulations generally prohibit all transactions by U.S. persons or that are otherwise within U.S. jurisdiction that involve any blocked persons or their property or interests in property.

Paraguayan prosecutors have initiated investigations into Vice President Velazquez and former President Cartes. The nature of these investigations is confidential, and details regarding specific allegations or charges have not yet been publicly disclosed.

In March 2023, the United States also announced the imposition of travel restrictions on other Paraguayan public officers, such as the former Director of Paraguay's National Directorate of Civil Aeronautics (DINAC), Edgar Melgarejo; a member of the Paraguayan Panel for the Discipline of Judges and Prosecutors, Jorge Bogarín; and Court Clerk, Vicente Ferreira for their involvement in significant acts of corruption under Section 7031(c) of the Department of State, Foreign Operations, and Related Programs Appropriations Act.

The U.S. sanctions and associated reputational consequences may have potential economic implications for Paraguayans such as a decrease in foreign investments, restricted access to international financial systems, and limited trade opportunities. Moreover, the country's reputation and credibility may be negatively impacted, leading to strained diplomatic relations with international partners, investors, and lenders.

The imposition of sanctions on high-ranking officials may also impair political stability within the country. It may contribute to domestic conflicts, polarization among political factions, and a potential erosion of public trust in government institutions. Consequently, this may lead to increased political unrest and social divisions. Governance challenges may arise as a result of these sanctions, impeding the government's ability to effectively address pressing issues, implement policies, and promote socio-economic development. This may hinder economic growth, social welfare, and overall governance effectiveness.

Furthermore, the imposition of sanctions may result in international isolation for the country. It may limit the country's participation in global forums, organizations, and diplomatic initiatives, thereby reducing its influence in international decision-making processes and impeding Paraguay’s ability to advocate for its interests on the global stage.

Paraguay’s credit ratings could be adversely affected by internal and external factors. Any adverse change in Paraguay’s credit rating would adversely affect the liquidity of and demand for Paraguay’s debt securities and Paraguay’s access to the international financial markets.

As of the date of this Offering Memorandum, Paraguay’s Moody’s long term credit rating is Ba1 (Positive), its Standard & Poor’s long term credit rating is BB (Stable), and its Fitch long term credit rating is BB+ (Stable). However, Paraguay’s ratings or outlooks may be downgraded or placed on watch by Standard & Poor’s, Fitch and Moody’s or any other rating agency in the future, possibly making any financing more costly for Paraguay than in the past and, potentially, altogether unavailable. Successive ratings downgrades could occur as Paraguay’s borrowing needs increase. If Paraguay increases its sovereign debt levels materially, its ratings could be adversely affected and cut.

Any developments that could derail Paraguay’s economic growth would also adversely affect its credit ratings. The uncertainty over the country’s medium-term economic outlook remains considerable. Paraguay’s economy is small and undiversified and, as a result, economic growth is highly dependent on a few large-scale investment projects. Governmental policies (including fiscal reform and the ability to maintain balanced budgets) and their implementation, including infrastructure and other capital-intensive investments, currency and capital controls, will have a direct and indirect impact on Paraguay’s credit ratings. If Paraguay’s relations with its neighbors and trading partners deteriorate, it could have a material adverse effect on Paraguay’s economy and therefore on its credit ratings.

Any adverse change in a credit rating could adversely affect the trading price for the Bonds and the liquidity of and demand for Paraguay’s debt securities in general. Downgrades would also adversely affect the cost of funding and terms on which Paraguay is able to borrow in the international financial markets and is likely to adversely affect Paraguay’s access to the international financial markets and the ability of Paraguay to service its public debt, including the Bonds.

A decrease in Brazilian demand for electricity, political instability arising out of negotiations related to allocation and usage of Itaipú Binational’s power production or Itaipú Binational’s inability to service its debt to Eletrobras could significantly adversely affect Paraguay’s economy and Paraguay’s ability to perform its obligations under the Bonds.

Paraguay's state-owned electric utilities company, ANDE, owns a 50% equity stake in Itaipú Binational, while Eletrobras, a partially state-owned Brazilian company, owns the remaining 50%. The Itaipú hydroelectric plant serves as a substantial source of revenue for the government. In 2018, 2019, 2020, 2021 and 2022, payments to Paraguay with respect to energy generated at the Itaipú hydroelectric plant accounted for approximately 1.4%, 1.3%, 1.2%, 1.0% and 0.9% of Paraguay’s GDP, respectively.

Payments to Paraguay by Itaipú Binational consist of royalty payments based on revenues from electricity sales and compensation payments from the Brazilian government for the unused portion of Paraguay’s share of the electricity produced at Itaipú Binational. The two governments negotiate the amount of these compensation payments periodically. Currently, they have agreed on a tariff of US$16.71 kW/month for the energy generated from Itaipú. The amount of compensation stood at US$12,234 per GW/hour as of December 31, 2022, an increase compared to the US$10,919.6 per GW/hour registered on December 31, 2021. All compensation payments Paraguay receives from Brazil for the sale of its unused electricity are contingent on the amount of electricity sold to Brazil. As of December 31, 2022, Itaipú Binational supplied approximately 10.8% of Brazil’s electricity needs and approximately 88.5% of Paraguay’s electricity needs, reflecting no significant variation compared to 2021.

Furthermore, as of December 31, 2022, Paraguay's electricity exports to Brazil increased by 10.3% compared to December 31, 2021.

A decrease in electricity consumption in Brazil would adversely affect Paraguay's compensation revenues, which, in turn, could adversely affect Paraguay's ability to perform its obligations under the Bonds.

Previous negotiations and agreements regarding compensation payments have led to political instability in Paraguay. For example, in mid-2019, the Chamber of Deputies received a formal request to initiate impeachment proceedings against President Mario Abdo Benitez, Vice President Hugo Velazquez and Minister of Finance Benigno Lopez from various members of Congress, triggered by the political crisis that ensued following the disclosure of the May 2019 diplomatic agreement governing the allocation and usage of the power production of Itaipú Binational for 2019 between ANDE and Eletrobras. Even though the political crisis was resolved, and the impeachment proceedings were ultimately dismissed, future agreements on the allocation and usage of the power production of Itaipú Binational and/or compensation payments from Itaipú Binational could lead to political instability in Paraguay, which could adversely affect Paraguay's ability to perform its obligations under the Bonds.

Finally, Eletrobras provided 85% of the financing for the construction of Itaipú Binational. After becoming operational, Itaipú Binational could not service its debt to Eletrobras, and in September 1997, Eletrobras entered into a restructuring agreement with Itaipú Binational with respect to such outstanding amounts. As of December 31, 2022, Itaipu Binational does not have any debt with Electrobras. Itaipu Binational only owed approximately US$243 million to the National Treasury of Brazil, which is a significant decrease from the US$1.4 billion owed on December 31, 2021.

A reduction or discontinuation of Yacyretá's payments to Paraguay could adversely affect Paraguay's economy and Paraguay's ability to perform its obligations under the Bonds.

Yacyretá Binational administers, supervises and operates the Yacyretá hydroelectric plant. The company is owned by ANDE and Emprendimientos Binacionales S.A., an Argentine state-owned company, in a 50/50 joint venture. Because of cost overruns in the project, Argentina unilaterally decided in 1992 that accumulated royalties and compensation for the years 1994 to 2004 should be deferred until 2019. However, since Yacyretá commenced operations in 1994, Paraguay has received royalties and compensation payments from Yacyretá Binational, although a substantial part of such payments is at Yacyretá Binational's discretion and is subject to agreement by Argentina and Paraguay on an annual basis. Beginning in 2014, the Argentine government halted the transfer of any revenue from Yacyretá to Paraguay. In 2016, Argentina promised to honor the royalties and compensation payments for 2014 and 2015 due to Paraguay from the Yacyretá hydroelectric plant. In 2017, Paraguay received US$64.9 million from Yacyretá Binational on account of royalties and compensation, of which US$32 million corresponded to payments due for 2016. In 2018, 2019, 2020, 2021 and 2022, Paraguay received US$46.2 million, US$125.1 million, US$46 million, US$45.8 million and US$78.9 million, respectively, from Yacyretá Binational on account of royalties and compensation due for prior years. Should Yacyretá Binational decide in its discretion to discontinue these payments, Paraguay's economy would be adversely affected, which in turn would adversely affect Paraguay's ability to perform its obligations under the Bonds.

Certain economic risks are inherent in any investment in an emerging market country such as Paraguay.

Investing in an emerging market country such as Paraguay carries economic risks. These risks include many different factors that could affect Paraguay's economy, including the following:

- changes in the global economy, interest rates and financial markets;
- changes in economic conditions of Paraguay's main trading partners and the demand that such economies have for Paraguay's exports;
- changes in governmental economic or tax policies;

- the imposition of trade barriers by the government or by third parties, including sanctions imposed by other governments on any country with which Paraguay has significant trade relationships;
- general economic and business conditions in Paraguay;
- uncertainties relating to political and economic conditions in Paraguay and the South American region;
- the impact of political developments on demand of Paraguay's securities;
- high interest rates;
- capital and foreign exchange controls;
- wage and price controls;
- future decisions by international financial institutions regarding the terms of their financial assistance to Paraguay; and
- limitations in terms of human resources and infrastructure (and in several respects the institutional and regulatory framework) needed to develop the economy more rapidly.

Any of these factors, as well as volatility in the markets for securities similar to the Bonds, could adversely affect the liquidity of, and trading markets for, the Bonds.

The Paraguayan economy may contract in the future, which could have a material adverse effect on public finances and on the market price of the Bonds.

The Paraguayan economy experienced real GDP growth of 3.2% in 2018, real GDP contraction of 0.4% in 2019 and 0.8% in 2020, and real GDP growth of 4.0% in 2021 and 0.1% in 2022. Between 2018 and 2022, real GDP grew at an annual average rate of 1.2%.

Paraguay cannot assure investors that its economy will grow in the future. Paraguay's economic growth depends on a variety of factors, including, among others, international demand and prices for Paraguayan exports, economic conditions in the countries that serve as Paraguay's most important trading partners, climatic factors affecting Paraguay's agricultural sector, fiscal and monetary policies, confidence among Paraguayan consumers and foreign and domestic investors and their rates of investment in Paraguay, the willingness and ability of businesses to engage in new investment, the exchange rate and the rate of inflation. Some of these factors are outside Paraguay's control. A sustained economic slowdown or recession could result in a material decrease in Paraguay's fiscal revenues, or a significant depreciation of the Guaraní over an extended period of time could adversely affect Paraguay's debt/GDP ratio, either of which in turn would materially and adversely affect the ability of Paraguay to service its public debt, particularly its debt obligations denominated in foreign currencies, including the Bonds.

Fluctuations in exchange rates between Guaraníes and the U.S. dollar may adversely affect Paraguay's ability to perform its obligations under the Bonds.

From time to time, the Central Bank intervenes in the foreign exchange market in order to stabilize the Guaraní. Despite these interventions, the Guaraní has depreciated in the past and may in the future depreciate significantly. If the Guaraní should depreciate significantly over an extended period of time, economic growth in Paraguay could be adversely affected or even reversed, and it would be more burdensome for Paraguay to repay debt obligations denominated in foreign currency. In that event, Paraguay may not be able to perform its obligations under the Bonds, which are denominated in U.S. dollars. Alternatively, if the Guaraní should appreciate significantly, Paraguay's exports may become less competitive, which would adversely affect Paraguay's economy and, ultimately, Paraguay's ability to perform its obligations under the Bonds. As of April 30, 2023, the exchange rate was G. 7,255.7 per U.S. dollar.

Paraguay's dollarization level is high, which could limit the effectiveness of monetary policy.

Paraguay experienced a gradual decline in dollarization in the early 2000s as macroeconomic stability improved and inflation declined. However, progress on de-dollarization has reversed somewhat since 2010, driven by fluctuations in commodity prices and the exchange rate, and global economic uncertainty. As of April 30, 2023, dollar deposits represented 52.3% of private sector deposits and dollar-denominated loans represented 44.5% of total loans extended by Paraguay's public and private banks. Such levels of financial dollarization could weaken monetary transmission and reduce the Central Bank's capacity as lender of last resort.

Commodity prices are volatile, and a significant decline in commodity prices would adversely affect Paraguay's economy and affect its ability to perform its obligations under the Bonds.

Paraguay's economy is exposed to commodity price volatility, especially with regard to soybeans, which made up approximately 62.1% of Paraguay's total agricultural production in 2021, compared to 59.4% in 2020. In addition, soybeans made up approximately 38% of registered exports for the four-month period ended April 30, 2023, compared to 21% for the four-month period ended April 30, 2022. A significant drop in the price of commodities, such as soybeans, would adversely affect Paraguay's economy and could affect Paraguay's ability to perform its obligations under the Bonds.

Paraguay's economy remains vulnerable to external shocks, including international financial downturns or events affecting other emerging market sovereigns, which could adversely affect its ability to grow, as well as Paraguay's ability to service its public debt.

Paraguay's economy remains vulnerable to conditions and events in the global markets and other international economic and political developments, which are outside the control of the central government.

Paraguay's balance of trade and economic growth are also vulnerable to adverse developments affecting its principal trading partners (such as Brazil and Argentina, each of which have recently experienced recessions and strong currency depreciation). A significant decline in the economic growth of any of Paraguay's major trading partners could have a material adverse impact on Paraguay's balance of trade and adversely affect Paraguay's economic growth.

In addition, because reactions of international investors to events occurring in one market, particularly in emerging markets, frequently appear to demonstrate a "contagion" effect, in which an entire region or class of investment is disfavored by international investors, Paraguay could be adversely affected by negative economic or financial developments in other markets. Paraguay's economy may also be affected by conditions in developed economies, such as the United States, that are significant trading partners of the Republic or have influence over world economic cycles. For example, if interest rates increase significantly in developed economies, including the United States and Europe, the Republic and its developing economy trading partners, such as Brazil and Argentina, could find it more difficult and expensive to borrow capital and refinance existing debt, which could adversely affect economic growth in those countries.

The United Kingdom ("UK") withdrew from the European Union ("EU") on January 31, 2020 ("Brexit"). The UK's membership in the EU single market ended on December 31, 2020. On December 24, 2020, the UK and the EU announced that they had struck a new bilateral trade and cooperation agreement governing the future relationship between the UK and the EU (the "EU-UK Trade and Cooperation Agreement") which was formally approved by the 27 member states of the EU on December 29, 2020 and by the UK parliament on December 30, 2020. The EU-UK Trade and Cooperation Agreement became effective as of May 1, 2021, pursuant to the European Council Decision 2021/689.

The EU-UK Trade and Cooperation Agreement provides some clarity with respect to the intended shape of the future relationship between the UK and the EU and some detailed matters of trade and cooperation. However, as of the date of this Offering Memorandum, there remain unavoidable uncertainties related to Brexit and the new relationship between the UK and EU, which will continue to be developed and defined, and could negatively affect taxes and costs of business; cause volatility in currency exchange rates, interest rates, and EU, UK or worldwide political, regulatory, economic or market conditions; and contribute to instability in political institutions, regulatory agencies, and financial markets, which may in turn have a material adverse effect on Paraguay's business, financial condition and results of operations. Global issues, such as the effects of Brexit, could lead to additional political, legal and economic instability in the EU and produce a negative impact on the commercial exchange of Paraguay with that region.

Decreased growth on the part of Paraguay's trading partners could have a material adverse effect on the markets for Paraguay's exports and, in turn, adversely affect economic growth. Decreased growth on the part of the Republic's trading partners could have a material adverse effect on the Republic's ability to service its public debt generally, including the Bonds.

An increase in inflation and government measures to curb inflation may adversely affect the Paraguayan economy.

Paraguay's economy has experienced high levels of inflation in the past and may experience high levels in the future. Periods of rapid economic expansion and contraction in Paraguay have resulted in volatile rates of inflation. More specifically, fluctuations in food prices and oil derivatives and, more generally, increases in agricultural commodity prices, have led to drastic volatility in Paraguay's rate of inflation. For example, inflation was 1.9% in 2009 before increasing to 7.2% in 2010 and then decreasing to 4.9% in 2011.

In response, Paraguay's Central Bank adopted an inflation targeting scheme to stabilize inflation rates. Between March 2014 and July 2016, the Central Bank reduced the interest rate by a total of 125 basis points (with a slight increase of 25 basis points between February and May of 2016). The Central Bank decreased the interest rate by 25 basis points during the period of July 2016 to August 2017, but took no action with respect to the interest rate in 2018. In 2019, the reference interest rate decreased by 125 basis points, from 5.25% to 4.00%. In 2020, the Central Bank reduced the reference interest rate in March, April and June 2021 by 325 basis points. Throughout 2020, the reference rate decreased by 325 basis points from 4.00% to 0.75%. In 2021, a recovery in economic activity and a rise in commodity prices led to an increase in inflation. In order to curb future inflationary pressures and avoid a de-anchoring of expectations, the reference rate was adjusted by 25 basis points in August 2021, 50 basis points in September 2021 and 125 basis points in each of October, November and December 2021, reaching 5.25% by December 31, 2021. The target rate for inflation for 2022 was set at 4.0% within a range of 2.0% to 6.0%. Similarly, the target rate for inflation for 2023 remains at 4.0%, within a range of 2.0% and 6.0%. As of the date of this Offering Memorandum, the Central Bank's updated inflation forecast for 2023 indicates an expectation of 4.5% inflation, which is higher than the previous forecast of 4.1%.

In the future, significant inflation may cause Paraguay to impose controls on credit and/or prices, or to take other action, which could inhibit Paraguay's economic growth. In addition, inflation can result in greater market volatility by causing economic uncertainties and reduced consumption, GDP growth and consumer confidence. Inflation, measures to combat inflation and public speculation about possible additional actions have also contributed to economic uncertainty in Paraguay in the past and could produce uncertainty in the future. Any of these factors can have a material adverse effect on Paraguay's results of operations and financial condition.

Paraguay has experienced and may continue to experience internal security issues that could have a negative effect on the Paraguayan economy and political situation.

Paraguay has experienced internal security issues in the past, primarily because of the activities of the Ejército del Pueblo Paraguayo (the "EPP"), a small guerrilla group operating in central-eastern Paraguay, and land invasions by landless farmers. In September 2011, the EPP attacked a police station in the central-eastern town of Horqueta resulting in the death of two police officers. In June 2012, a land invasion in Campos Morombí ended in a shootout with police officers that resulted in 17 deaths, triggering the impeachment and removal of former President Lugo.

On September 2, 2020, Paraguayan armed forces inadvertently killed two female Argentinean teenagers believed to be related to EPP members in an assault on an EPP camp near Yby Yáu. This incident led to formal complaints by the Argentinean government and objections by human rights groups. One week later, the EPP kidnapped former vice president of the Republic Oscar Denis and his assistant Adelio Mendoza. Although Adelio

Mendoza was released a few days later, as of the date of this Offering Memorandum, former vice president Oscar Denis continues to be held by the EPP.

On December 6, 2021, Peter Reimer, a Paraguayan citizen, was kidnapped by the EPP. As a condition to his release, the EPP demanded that Mr. Reimer's family donate over US$500,000 in food supplies to vulnerable communities in Amambay, San Pedro, Canindeyú and Asunción in order to release him. On December 14, 2021, Peter Reimer was released after his family and the community complied with the EPP's demands.

Due to the challenges that internal security issues in rural areas create for the government, in August 2013, Congress granted the executive branch the authority to deploy armed forces to address security challenges in the northern departments of Concepción, San Pedro and Amambay without having to declare a formal state of emergency. Although the troops have been successful either in capturing or killing leaders of the terrorist group, as of the date of this Offering Memorandum, the EPP remains active in Paraguay.

Moreover, organized crime has been increasing in Paraguay. In April 2017, President Cartes called on Paraguay's military to respond after police were outgunned by a group of 60 armed men who blasted their way into a Spanish security firm and stole US$12 million dollars. On December 19, 2018, a group of 30 people aboard several trucks surrounded the central area of the city of Ypejhú, located in the Canindeyú Department (on the border with Brazil). The group attacked three private houses and a car dealership, using guns and hand grenades, before allegedly escaping to the border city of Paranhos, Brazil, in what is suspected to have been an act of violence as part of a conflict between drug dealers. Police were unable to respond to the attack, as the local police station itself had been surrounded by members of the armed group.

Additionally, due to the increasing occurrence of contract killings, the Paraguayan Congress has taken action by introducing an initiative to incorporate this particular crime into the penal code. The proposed legislation seeks to establish a legal framework that specifically addresses and imposes penalties on individuals engaged in contract killings. This initiative demonstrates an acknowledgment of the necessity for comprehensive legal measures to combat such crimes and strengthen the country's security apparatus even further.

Any worsening of the internal security situation may have a negative effect in the future on Paraguayan economic and political conditions. As a result, Paraguay's ability to make payments on its outstanding public debt generally, including the Bonds, could be adversely affected.

A significant increase in interest rates in the international financial markets could have a material adverse effect on the economies of Paraguay's trading partners and adversely affect Paraguay's economic growth and Paraguay's ability to make payments on its outstanding public debt, including the Bonds.

An increase in international interest rates, similar to the surge experienced in the United States during 2022 and 2023, may result in adverse effects on Paraguay and its primary trading partners, particularly the EU and Brazil. This echoes the impact seen in the previous year when the uptick in the U.S. interest rates directly affected the Paraguayan economy, making international financing, including from multilaterals, more expensive and difficult to procure. The repercussions of these shifts reverberate through the domestic market, prompting, for instance, the suspension of the local issuance programs as a result of unfavorable market conditions.

Moreover, increased interest rates may impact borrowings and make refinancing of existing debt more cumbersome for Paraguay's trading partners, thereby elevating costs that might obstruct economic growth in those countries. This could potentially trigger negative implications for the markets that Paraguay exports to, eventually impacting Paraguay's own economy. Furthermore, higher interest rates would increase Paraguay's debt service requirements, particularly in relation to its debt obligations with floating interest rates. This could detrimentally affect Paraguay's ability to make timely payments on its outstanding public debt, including the Bonds.

A significant depreciation of the currencies of Paraguay's trading partners or trade competitors may adversely affect the competitiveness of Paraguayan exports and cause an increase in Paraguay's imports, thus adversely affecting Paraguay's economy.

During the 2018-2022 period, the nominal exchange rate of the Guaraní appreciated annually on average by approximately 4.7% against the Brazilian Real and 30.3% against the Argentine Peso. The depreciation of the currencies of one or more of Paraguay's trade partners (including, Brazil and Argentina) or trade competitors relative to the Guaraní may result in Paraguayan exports becoming more expensive and less competitive. It may also cause an increase in cheaper imports. A decrease in exports and an increase in imports may have a material adverse effect on Paraguay's economic growth, its financial condition and the ability of Paraguay to service its debt.

In August 2019, after the results of the Argentine presidential primaries were announced, the Argentine peso suffered a substantial depreciation vis-a-vis the Guaraní, Argentina's risk index increased significantly and its stock market dropped. As a result, foreign exchange controls were reestablished and those policies remain in effect as of the date of this Offering Memorandum. The devaluation of the Argentine peso has affected price differentials between Argentinean and Paraguayan products, reducing the competitiveness of Paraguayan businesses.

A significant increase in non-tariff trade barriers by MERCOSUR members would negatively affect Paraguay's economy and Paraguay's ability to perform its obligations under the Bonds.

MERCOSUR countries agreed in 2015 (Decision No. 23/15) to analyze alternatives with a view to the future elimination of tariff barriers and other equivalent measures that exist in the bloc. Moreover, on December 5, 2019, the MERCOSUR countries executed Decision No. 29/19 in Bento Goncalves, Brasil. This agreement, which is still subject to congressional approval in Paraguay, aims to simplify customs procedures in the MERCOSUR territories.

In 2016, Argentina shifted from a requirement of affidavits for imported goods to a more predictable and flexible system for monitoring imports. This shift was a stark contrast to prior years, during which the Argentine government implemented several trade barriers and import controls, all aimed at protecting its domestic industry. These measures included the need for affidavits prior to importing consumer goods, the elimination of automatic import licenses, and restrictions on river transportation of Paraguayan exports. Argentina's stance on imports has continued to evolve under the administration of President Alberto Fernandez, who assumed office in December 2019 and has since indicated intentions to increase import controls. These restrictive practices ended with the launch of the Argentine Republic's Import System (SIRA) on October 17, 2022, under General Resolution 5271/2022. SIRA, a system established to ensure the appropriate management of foreign trade operations, introduces a comprehensive methodology for monitoring, control, and registration. This system sets differentiated criteria for access, modality, and traceability of trade flows, with several key objectives. SIRA aims to bolster preventive control measures by consistently monitoring operations, ensure predictability and traceability through real-time monitoring, and secure necessary inputs for Small and Medium Enterprises (SMEs). Before SIRA's establishment, to import into Argentina, an affidavit needed to be filed with the Integral Import Monitoring System (SIMI) under the Federal Administration of Public Revenues (AFIP). As the term of President Alberto Fernandez comes to an end, policies regarding imports may change under a new administration.

Argentina is one of Paraguay's most important trade partners, accounting for approximately 19.2% and 8.4% of Paraguay's total exports and imports, respectively, as of December 31, 2022. In the event that Argentina maintains, reinstates or expands its protectionist policies, specifically those affecting the agribusiness sector, Paraguay's economy and its ability to perform its obligations under the Bonds may be adversely affected.

In 2021, Uruguay expressed its interest in negotiating trade agreements unilaterally. The founding principles of MERCOSUR stipulate that the formation of a common market includes, among other items, the necessity for a unified foreign trade policy, which is the foundation of the current bloc negotiations. In December 2022, Uruguay's president contended that MERCOSUR benefits only a select few of its members and criticized its protectionist policies. Even though Uruguay has publicly shown interest in negotiating trade agreements unilaterally, as of the date of this Offering Memorandum, the country has not yet submitted a formal proposal to MERCOSUR's executive bodies.

The government may be unable to obtain financing on satisfactory terms in the future, which could have a material adverse effect on Paraguay's ability to make payments on its outstanding public debt, including the Bonds.

Paraguay's future tax revenue and fiscal results may be insufficient to meet its debt service obligations and Paraguay may have to rely in part on additional financing from domestic and international capital markets in order to meet future debt service obligations. In the future, the government may not be able or willing to access international or domestic capital markets, and Paraguay's ability to service its outstanding public debt, including the Bonds, could be adversely affected.

Any revision to Paraguay's official financial or economic data resulting from any subsequent review of such data by the Central Bank or other government entities may reveal that Paraguay's ability to make payments on its outstanding public debt, including the Bonds, has deteriorated.

Certain financial and other information presented in this Offering Memorandum may subsequently be materially adjusted or revised to reflect new or more accurate data as a result of the periodic review of Paraguay official financial and economic statistics. Such revisions could reveal that Paraguay's economic and financial conditions as of any particular date are materially different from those described in this Offering Memorandum. Paraguay can give no assurance that such adjustments or revisions will not have a material adverse effect on the interests of Paraguay's creditors, including any purchasers of the Bonds.

Developments relating to the COVID-19 pandemic may have a continued material adverse impact on our economy.

The long-term effects of COVID-19, including the rapid spread of new variants continue to pose challenges. These challenges extend beyond public health crises and affect global financial markets and economy. Potential consequences, although difficult to predict, may include: (i) risks to citizens' health and safety, (ii) reduced economic activity leading to decreased government revenue and increased expenditures, and/or (iii) social unrest arising from the collapse of healthcare infrastructure, among other impacts. The containment or resolution of these challenges and uncertainties, as well as their implications for the long-term stability of global financial markets and the economy, remain uncertain. Apart from the measures implemented by Paraguay's national, departmental, and local governments, the country may also be affected by the impacts of the disease in other Latin American regions and measures undertaken by other countries or organizations, such as travel suspensions or trade restrictions.

Risk Factors Relating to the Bonds

Paraguay is a foreign sovereign state and, accordingly, it may be difficult to obtain or enforce judgments against it.

Paraguay is a foreign sovereign state. Consequently, it may be difficult for investors to obtain or enforce judgments against it.

The Bonds are governed by the law of the State of New York, and accordingly, Paraguay has irrevocably agreed that any legal action or proceedings in respect of the Bonds issued may be brought in the federal and state courts in the Borough of Manhattan, The City of New York and for such purpose will accept irrevocably, generally and unconditionally, the jurisdiction of such courts. Paraguay has irrevocably designated, appointed and empowered the Consul General of Paraguay in The City of New York for the time being and from time to time to receive for and on its behalf service of process in such jurisdiction in any legal section or proceedings in respect of the Bonds issued. Holders of the Bonds may, however, be precluded from initiating actions based on the Bonds in courts other than those mentioned above.

Paraguay will, to the fullest extent permitted by law, irrevocably waive and agree not to plead any immunity from the jurisdiction of any of the above courts in any action based upon the Bonds. This waiver covers Paraguay's sovereign immunity and immunity from prejudgment attachment, post-judgment attachment and execution. A judgment obtained against Paraguay in a foreign court can be enforced in the courts of Paraguay if such judgment is ratified by the Paraguayan courts. Based on existing law, Paraguayan courts will ratify such a judgment if (i) a formal request for the payment of the award under the judgment is lodged with the Paraguayan government and not honored (it is not clear how such request must be made, and how and when such request must not have been honored, in order for a party to have the right to seek such ratification) and (ii) there exists a treaty with the country where such judgment was issued providing for reciprocal enforcement of foreign judgments (no such treaty exists at the present time between Paraguay and the United States); or if no such treaty exists (A) such judgment has *res judicata* effects in the jurisdiction where it was rendered, (B) such judgment was issued by a competent court with *in personam* jurisdiction or (if the relevant assets were transferred to Paraguay during or after the complaint was filed) *in rem* jurisdiction, (C) there is no legal action filed and pending judgment at a Paraguayan court with the same cause of action and among the same parties, (D) any person or entity domiciled in Paraguay against whom such judgment is sought to be enforced must have been duly served with process and represented during the trial or adjudged to have failed to appear in accordance with the laws of the country where the trial was held, (E) the obligation that gave rise to the complaint must be valid under Paraguayan law, (F) such judgment is not contrary to the public policy of Paraguay, (G) such judgment must comply with all necessary requirements to be considered as a valid judgment in the foreign jurisdiction and (H) such judgment must not conflict with a judgment rendered previously or simultaneously by a Paraguayan court.

Once a foreign judgment is ratified by the Paraguayan courts, payment of such judgment should be included by Congress as a liability under the budget law for the following fiscal year. Under Paraguayan law, creditors may not be able seek attachment prior to judgment and attachment in aid of execution with respect to property of Paraguay located in Paraguay.

Nevertheless, Paraguay reserves the right to plead sovereign immunity under the U.S. Foreign Sovereign Immunities Act of 1976, as amended (the “Immunities Act”), in actions brought against it under the United States federal securities laws or any state securities laws. Paraguay’s appointment of its process agent will not extend to these actions. Without Paraguay’s waiver of immunity, you will not be able to obtain a United States judgment against Paraguay unless the court determines that Paraguay is not entitled under the Immunities Act to sovereign immunity in such action. In addition, execution upon property of Paraguay located in the United States to enforce a judgment obtained under the Immunities Act may not be possible except in the limited circumstances specified in the Immunities Act.

The trading market for the Bonds may be volatile and may be adversely affected by many factors.

There can be no assurance that an active trading market for the Bonds will be maintained. If an active trading market for the Bonds is not maintained, investors may not be able to sell their Bonds easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market, and the market or trading price and liquidity of the Bonds may be adversely affected. In addition, the Bonds may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions, and the financial condition of Paraguay. Although an application will be made to list the Bonds on the Luxembourg Stock Exchange, there can be no assurance that such application will be accepted or that an active trading market will be maintained. Illiquidity may have a material adverse effect on the market value of the Bonds.

The Bonds contain provisions that permit Paraguay to amend the payment terms without the consent of all holders.

The Bonds contain provisions, commonly known as “collective action clauses.” Under these provisions, certain key terms of the Bonds may be amended, including the maturity date, interest rate and other reserved matters listed in the indenture with the consent of the holders of: (1) with respect to a single series of debt securities, more than 75% of the aggregate principal amount of the outstanding debt securities of such series; (2) with respect to two or more series of debt securities, if certain “uniformly applicable” requirements are met, more than 75% of the aggregate principal amount of the outstanding debt securities of all series affected by the proposed modification, taken in the aggregate; or (3) with respect to two or more series of debt securities, more than 66 ⅔% of the aggregate principal amount of the outstanding debt securities of all series affected by the proposed modification, taken in the aggregate, and more than 50% of the aggregate principal amount of the outstanding debt securities of each series affected by the proposed modification, taken individually. For more information see “Description of the Bonds—

Meetings, Amendments and Waivers—Collective Action." These provisions permit defined majorities to bind all holders of the Bonds including holders who did not attend and vote at the relevant meeting and holders who voted in a manner contrary to the majority.

Payments to holders of the Bonds could be attached by creditors to satisfy outstanding judgments against Paraguay. As a result, Paraguay may not be able to make payments to holders of the Bonds.

Judgment creditors may seek to attach payments of interest and principal by Paraguay to holders of the Bonds outside Paraguay claiming that, until payments reach holders of the Bonds, payments could be deemed Paraguay's assets. As of the date of this Offering Memorandum, there is a court judgment in favor of nine banks in the amount of approximately US$85 million, and a judgment in favor of one additional bank in the amount of approximately CHF10 million plus interest outstanding against Paraguay. In July 2015, SACE filed an action in D.C. District Court seeking recognition of the Swiss Judgments against Paraguay, in which SACE holds rights as a result of a settlement agreement between SACE and each of the ten banks, but on March 21, 2017, the D.C. District Court granted Paraguay's motion to dismiss, and the court's judgment is now final and non-appealable. Although SACE's action seeking recognition of the Swiss Judgements against Paraguay was dismissed and is not appealable in the United States, SACE may seek recognition of the Swiss Judgements in other jurisdictions in the future. For more information on these outstanding judgments and the SACE action, see "Risk Factors—Risk Factors Relating to Paraguay—Part of the offering proceeds could be attached by creditors to satisfy outstanding judgments against Paraguay." If SACE or other creditors are successful in attaching payments to holders of the Bonds, Paraguay may not be able to make payments to holders of the Bonds. For more information see "Public Sector Debt—Contingencies—Gramont Berres Litigation."

The ability of holders to transfer the Bonds in the United States and certain other jurisdictions will be limited.

The Bonds issued pursuant to this offer will not be registered under the Securities Act and, therefore, may not be offered or sold in the United States except pursuant to an exemption from the registration requirements of the Securities Act and applicable U.S. state securities laws. Offers and sales of the Bonds may also be subject to transfer restrictions in other jurisdictions. You should consult your financial or legal advisors for advice concerning applicable transfer restrictions with respect to the Bonds.

Credit ratings may not reflect all risks of investment in the Bonds.

Credit ratings are an assessment by rating agencies of Paraguay's ability to pay its debts when due. Consequently, real or anticipated changes in Paraguay's credit ratings will generally affect the market value of the Bonds. These credit ratings may not reflect the potential impact of risks relating to structure or marketing of the Bonds. Agency ratings are not a recommendation to buy, sell or hold any security, and may be revised or withdrawn at any time by the issuing organization. Each agency's rating should be evaluated independently of any other agency's rating.

Any significant real depreciation of Guaraníes against the U.S. dollar or other major currencies could have a material adverse effect on our ability to make payments on our outstanding debt, including the Bonds.

Any significant real depreciation of Guaraníes against the U.S. dollar or other major currencies might have a negative effect on our ability to repay our debt denominated in currencies other than the Guaraní, including the amounts due under the Bonds.

Any significant real change in the value of Guaraníes or the currency of our trading partners against the U.S. dollar or other major currencies might adversely affect our economy and financial condition, which could have a negative effect on our ability to make payments on our outstanding public debt.

USE OF PROCEEDS

The net proceeds of the issuance and sale of the Bonds, after deduction of underwriting fees, are anticipated to be approximately US$499,545,000. Paraguay is issuing the Bonds offered hereby contemporaneously with the Offer to Purchase. Paraguay expects to apply a portion of the net proceeds of the Bonds to pay the purchase price for the Old Bonds that are validly tendered and accepted in the Offer to Purchase, and the balance for general government purposes, in accordance with the Annual Budget Law No. 7050/23, Liability Management Law No. 6638/20, the Regulatory Decree No. 8759/23, the Regulatory Decree No. 9301/23, Resolutions No. 91/23, 296/23 and 297/23 issued by the Ministry of Finance and Resolution No. 1/23, Acta No. 32 issued by the Central Bank.

REPUBLIC OF PARAGUAY

Introduction

Paraguay is located in central South America and, as of 2022, had an estimated population of approximately 7.45 million. The population is distributed unevenly across the country, with over half the population living in urban areas in the eastern portion of the country, and with less than 3.0% of the population residing in regions that account for 61% of the country's land mass.

Paraguay is rich in hydroelectric power capacity, thanks to a wealth of rivers. It is densely forested in parts, and has extensive farmlands.

Although agriculture continues to play a prominent role in the Paraguayan economy and Paraguayan agricultural resources have attracted significant FDI in recent years, the economy is increasingly diversified, and manufacturing is now the country's largest economic sector.

Paraguay fosters FDI and other investments in the country, in agricultural and other sectors. Paraguay's market economy has been characterized in recent years as having one of the highest growth rates in GDP of any country in Latin America.

Because of its predominantly agrarian economy and unevenly distributed population, Paraguay remains a developing country, with a considerable low-income population. Government economic policies have focused on this issue, adopting measures to increase the overall income levels of Paraguay's population through investment in infrastructure, education and health. Such policies are designed to provide a foundation for sustainable economic development and diversification of productive capacity across the country.

Territory and Population

Paraguay is located in central South America bordering Argentina to the south and west, Bolivia to the north and Brazil to the east. Its territory covers an area of approximately 407,000 square kilometers (157,048 square miles). Paraguay's major cities are Asunción, the nation's capital and seat of government, Ciudad del Este, on the Paraguayan-Brazilian border and a major trading city, and Encarnación, an agricultural center on the Paraguayan-Argentine border.

Based on projections contained in the National Population and Housing Census of 1982, 1992, 2002 and 2012*,* Paraguay's population was 7.35 million in 2021 with 62.9% of the population living in urban areas (7.2% in Asunción as of 2021). From 2018 to 2022, the population grew at an average annual rate of 1.40%. In 2022, the population is expected to increase from 7,353,038 in 2021 to 7,453,038 in 2022, an increase of 1.37% compared to 2021.

Spanish and Guaraní are the official languages of Paraguay.

The following table sets forth comparative per capita GDP figures and other selected comparative statistics.

Comparative Per Capita GDP and Other Statistics

Indicators	Paraguay[(1)]	Guatemala	Honduras	Bolivia	Colombia	Brazil	Peru	Venezuela	Argentina	United States of America
Per Capita (Nominal) GDP[(2)] (US$)	12,349	8,723	5,298	8,111	14,384	14,370	12,246	4,811	20,925	64,765
United Nations Index of Human Development (World Ranking) [(3)]	100	133	138	119	88	86	85	118	47	21
Life Expectancy at *Birth (years)* [(4)]	70.3	69.2	70.1	63.6	72.8	72.8	72.4	70.6	75.4	77.2
Infant Mortality (per 1,000 *live* births) [(5)]	17.2	22.1	15.1	21.8	12.2	12.8	11.1	21.4	8.8	5.6
Adult Literacy Rate (%) [(6)]	94.0	81.3	87.2	92.5	95.1	93.2	94.4	97.1	99.0	n.a.
Population below the poverty line (%) [(7)]	0.9	8.8	14.8	3.2	4.9	4.6	2.2	n.a.	n.a.	n.a.

(1) This data may differ from official Government data.
(2) 2021 data.
(3) 2020 data.
(4) 2021 data.
(5) 2018 data.
(6) Data refers to the most recent year available during 2008 and 2018.
(7) Data refers to the most recent year available during the period 2009 – 2019. The international poverty line is defined as the population living on a daily per capita income of US$1.90 or less, adjusted for purchasing power parity.

Source: United Nations Development Programme, Human Development Report 2021/2022.

As of 2022, approximately 70.0% of the Paraguayan population was under the age of 40.

2022 Population by Gender and Age Group

				Gender	
Age /years	**Total Population**	**Percentage**	**Cumulative Percentage**	**Men**	**Women**
0-4	707,767	9.5	9.5	361,139	346,628
5-9	702,406	9.4	18.9	358,019	344,387
10-14	695,107	9.3	28.2	353,899	341,208
15-19	679,283	9.1	37.4	345,620	333,663
20-24	659,087	8.8	46.2	335,096	323,990
25-29	633,655	8.5	54.7	321,472	312,183
30-34	600,773	8.1	62.8	303,924	296,849
35-39	543,146	7.3	70.0	273,618	269,528
40-44	450,153	6.0	76.1	224,266	225,888
45-49	381,215	5.1	81.2	189,147	192,068
50-54	337,609	4.5	85.7	167,831	169,778
55-59	290,489	3.9	89.6	144,460	146,029
60-64	245,043	3.3	92.9	122,618	122,425
65-69	195,998	2.6	95.5	97,874	98,124
70-74	137,744	1.8	97.4	67,404	70,340
75-79	90,405	1.2	98.6	42,633	47,771
80 and above	103,815	1.4	100.0	42,425	61,389
Total	**7,453,694**			**3,751,447**	**3,702,248**

Source: Bureau of Statistics and Census. Projection of the National Population, Urban and Rural Areas 2000-2025 -Revision 2015.

History, Government and Political Parties

Paraguay declared its independence from Spain in 1811 after almost 300 years of colonial rule. In 1864, Paraguay was involved in a five-year war against Argentina, Brazil and Uruguay (known as the "Triple Alliance"), during which half of Paraguay's population was killed. Brazilian troops occupied the country for a decade, until 1874. A succession of presidents governed Paraguay under the banner of the Colorado Party from 1880 until 1904, when the Liberal Party seized control, ruling until 1940.

From 1932 to 1935, Paraguay was involved in the Chaco war against Bolivia. Paraguay was successful in regaining part of its territory but lost a significant part of its male population. The Chaco War resulted in political instability that led to a *coup d'état* by Colonel Rafael Franco and the subsequent establishment of an authoritarian regime in 1940 by General Higinio Morinigo, who was overthrown in 1948. Another period of political instability ensued from 1948 until 1954, when General Alfredo Stroessner assumed power in a military *coup*. As the Colorado Party presidential candidate, Stroessner was elected president of Paraguay in 1954. President Stroessner remained in power until 1989. During his 34-year presidency, the Colorado Party dominated Paraguayan politics.

During President Stroessner's presidency, significant efforts were made to increase Paraguay's business relations with its neighboring countries. The construction of the Itaipú dam (14,000 megawatt capacity), the largest hydroelectric facility in the world measured by annual electricity generation, was completed in 1986 by Paraguay and Brazil, and Paraguay began construction of the Yacyretá dam (3,200 megawatt capacity), a smaller hydroelectric facility, in cooperation with Argentina. Inflation averaged 33.7% during the 1950s, 3.5% during the 1960s and 13.4% during the 1970s. The Stroessner administration was able to control inflation during the early 1980s, but decreasing demand for Paraguayan exports during the same period led to increasing levels of unemployment. In addition, starting in 1983, inflation increased and remained high through the early 1990s at an average rate of 13.6% from 1990 to 2000. See "The Paraguayan Economy—Principal Sectors of the Economy—Binational Entities (Binationals)—Electricity Production at Itaipú and Yacyretá Hydroelectric Plants" for information on the hydroelectric projects built during the Stroessner presidency.

In 1989, President Stroessner was overthrown in a coup led by General Andrés Rodríguez, who assumed the presidency and was elected president shortly thereafter. His administration pledged to respect human rights, to establish new links with the international community, to improve relations with the Roman Catholic Church, and to relinquish power to a civilian successor in 1993. The Rodríguez administration has been credited with commencing Paraguay's economic liberalization. In 1993, the Colorado Party's presidential candidate, Juan Carlos Wasmosy, was elected president for a five-year term. President Wasmosy consolidated Paraguay's democratic transition, completed a comprehensive reorganization of the military high command and undertook important reforms to the judicial and electoral systems.

Raul Cubas Grau, the Colorado Party candidate, was elected president in May 1998 and took office three months later. This presidential election marked the first transition of power from one civilian president to another in 50 years. During the 1998 congressional elections, the Colorado Party also won a majority of seats in Congress.

Following a seven-month period of political instability during which Vice President Luis Maria Argaña was killed and President Cubas resigned, the president of the Senate, Luis Gonzalez Macchi of the Colorado Party, became the president of Paraguay in March 1999, as mandated by the Constitution, until 2003.

In May 2003, Nicanor Duarte Frutos, a politician from the Colorado Party, was elected and sworn in as president for the five-year constitutional period. During the Duarte Frutos presidency, Paraguay experienced significant macroeconomic growth, and his administration is credited with initiating the path toward fiscal stability and increasing social investments. Towards the end of the Duarte Frutos presidency, after having actively sought the repeal of the constitutional provision limiting a president to one term to seek reelection, Duarte Frutos was heavily criticized by the opposition and accused of seeking to establish an authoritarian regime. These events are credited, in part, with strengthening the opposition to the Colorado Party establishment and leading to the historic election in 2008 of a non-Colorado Party candidate.

In the 2008 general elections, a non-politician and former Roman Catholic Bishop, Fernando Lugo, was elected president and Federico Franco was elected vice president. With the support of the *Alianza Patriótica para el*

Cambio (Patriotic Alliance for Change), a political coalition of opposing parties, including the center-right Liberal Party, the Colorado Party's traditional opposition, Mr. Lugo received approximately 41% of the votes cast, and the Colorado Party candidate received approximately 31% of the votes. This was the first time since 1954 that the Colorado Party had lost a presidential election.

Mr. Lugo's stated key policy objectives were to reduce extreme poverty, especially in rural areas, to strengthen internal security and to achieve a more equitable distribution of land among farmers and peasants. One of the Lugo administration's first initiatives, the Economic and Social Program 2008-2013 (*Plan Estratégico Económico y Social 2008-2013*) ("PEES"), for example, spurred the adoption of several programs aimed at strengthening commercial competitiveness and financial investment in agriculture, manufacturing, exports and telecommunications.

Mr. Lugo was impeached and removed from office in June 2012. In accordance with the Constitution, Vice-President Franco was sworn in as president and served for the remainder of Mr. Lugo's term. As a direct consequence of Mr. Lugo's impeachment and removal, Paraguay's membership in MERCOSUR and UNASUR was suspended. Such membership was re-established after the 2013 presidential elections, which resulted in the election of Horacio Cartes (a candidate for the Colorado Party).

During President Franco's term in office, President Franco implemented several initiatives to consolidate sustainable medium- and long-term economic growth. In 2012, for example, Congress enacted Paraguay's first Personal Income Tax law (*Impuesto a la Renta del Servicio de Carácter Personal*). President Franco also laid the groundwork for the proposal of the Law of Public-Private Partnerships (the "PPP") (*Ley de Alianza Público Privadas* or the "PPP Law") and related planned infrastructure investment to support growing production through long-term financing provided by the Financial Development Agency (*Agencia Financiera de Desarrollo*), Paraguay's government-owned bank.

President Horacio Cartes succeeded President Federico Franco after the 2013 presidential election, in which he received 45.8% of the total votes cast. The primary policy objectives of the Cartes government were (i) the reduction of poverty and increase of social development, (ii) inclusive economic growth, and (iii) continued integration of Paraguay into the world economy. In addition, the Cartes government sought to increase transparency by implementing a system of public payroll information (and eliminated more than one thousand public employment positions). In light of these goals, the Cartes administration focused on generating more opportunities for the population through sustainable economic and social development. Infrastructure works were key to the Cartes administration's economic policy, based on the belief that infrastructure development would allow Paraguay to further integrate itself in the world economy and attract and connect private capital with public infrastructure. The Cartes government also prioritized the fight against corruption, political patronage, and political blackmail.

After taking office in August 2013, President Cartes submitted to Congress for approval the Protocol of Accession of Venezuela to MERCOSUR as a way of evidencing Paraguay's good will to MERCOSUR and to restore Paraguayan relations with other members of the regional bloc. Venezuela's entry into MERCOSUR became effective in December 2013. Paraguay held the pro-tempore presidency of MERCOSUR from July to December 2015, and holds the pro-tempore presidency again for the first half of 2018.

President Mario Abdo Benítez of the Colorado Party succeeded Horacio Cartes, also of the Colorado Party, on August 15, 2018, and will serve a five-year term. Mr. Abdo Benítez won 46.4% of the votes, defeating Efraín Alegre of the Liberal Party, who ran in coalition with the Frente Guasú (FG). In the general elections, the Colorado Party retained control of most governorships and the Chamber of Deputies, but did not achieve a majority in the 45-seat Senate, where it secured 17 seats, compared with the Liberal Party's 13 and the Frente Guasú's 6.

During the first year of Abdo Benítez's presidency, Paraguay experienced the adverse effects of exogenous events such as floods and droughts, which impacted the output of key economic sectors, such as agriculture, livestock, and hydroelectric power production. During the second half of 2018, the economy slowed its growth pace, ending the year with an overall growth of 3.4% in 2018, somewhat below the 4% average achieved in previous years. These exogenous events continued to impact during 2019, which ended with an overall growth of 0.2%.

In mid-2019, Mr. Abdo Benítez and the Paraguayan government faced a political crisis related to Itaipú. For more information see "The Paraguayan Economy—Principal Sectors of the Economy—Binational Entities (Binationals)—Electricity Production at Itaipú and Yacyretá Hydroelectric Plants."

From March 2021 to May 2021, the executive branch of the Paraguayan government was under intense public pressure because of a peak of COVID-19 cases, primarily caused by the Gamma variant. Allegations of corruption in the procurement of medical supplies for COVID-19, the collapse of the Paraguayan health infrastructure during the peak as well as the shortage of vaccines and medical supplies against COVID-19 led to this crisis. Protests erupted throughout the country, forcing the resignation of the Health Minister Julio Mazzoleni. Further, in March 2021, both President Abdo Benítez and Vice President Hugo Velázquez faced another impeachment trial. The Chamber of Deputies rejected the two requests for impeachments in a vote that resulted in 42 votes against the impeachments and 36 votes in favor.

On January 26, 2023, pursuant to U.S. Executive Order 13818, OFAC sanctioned former Paraguayan President Cartes and the current Vice President Velázquez for their involvement in various corrupt practices, such as bribing public officials and interfering with legal processes. Additionally, OFAC sanctioned Edgar Melgarejo, the former Director of Paraguay's National Directorate of Civil Aeronautics (DINAC), and Jorge Bogarín, a member of the Magistrates Impeachment Jury (JEM), for their significant participation in acts of corruption. These actions were taken under Section 7031(c) of the Department of State, Foreign Operations, and Related Programs Appropriations Act.

In the general presidential elections held on April 30, 2023, Santiago Peña from the Colorado Party emerged as the President of Paraguay. He secured victory with 42.74% of the total votes, defeating his rivals Efrain Alegre of the Concertacion Party and Paraguayo Cubas of the National Crusade Party, who received 27.48% and 22.91% of the votes, respectively. President Peña is scheduled to begin his five-year term on August 15, 2023.

Furthermore, on April 30, 2023, parliamentary elections were held for the Senate and the Chamber of Deputies in Paraguay. The Colorado Party demonstrated its dominance by achieving significant victories in both chambers. They secured 23 out of 45 seats in the Chamber of Senators and obtained a majority of 49 out of 80 seats in the Chamber of Deputies, holding a majority in both chambers of Congress. In contrast, the Concertacion Party obtained 12 seats in the Chamber of Senators and 22 seats in the Chamber of Deputies.

The general elections held in Paraguay on April 30, 2023, marked the eighth national electoral event since the end of Alfredo Stroessner's dictatorship in February 1989. These elections encompassed the selection of the president, vice president, 45 senators (with 30 alternates), 80 deputies (with 80 alternates), 17 governors, and 17 departmental boards.

The newly elected president is set to take office on August 15, 2023, and will serve until August 2028, without the possibility of seeking re-election. Similarly, the vice president, Pedro Alliana, elected on the same ticket, will also take office. They will replace Mario Abdo Benítez and Hugo Velázquez from the Colorado Party, who have been governing since August 15, 2018.

In August 2023, the 17 elected governors, along with their respective council members, will also assume their positions. The senators and deputies, on the other hand, will be sworn in on July 1, 2023. All the mentioned positions will be held for a term of five years.

Constitution

The fundamental law of the Republic of Paraguay is the national constitution (the "Constitution"), which was ratified by a National Constitutional Convention in 1992. Pursuant to the Constitution, Paraguay is a representative democracy that embraces separation of powers. The government has three branches: legislative, executive and judiciary. The Constitution grants the president, as head of the executive branch, and Congress emergency powers to declare a state of exception (suspending the Constitution) in times of war or unrest.

Any amendments to the Constitution relating to the election, composition, term in office or powers of any of the three branches of government and fundamental rights must be introduced pursuant to a request by 25% of the members of either the Senate or the Chamber of Deputies, by the president or by a petition signed by 30,000 voters. The amendment initiative must then be approved by a two-thirds majority of each of the two chambers. If approved, the Supreme Electoral Court must call general elections for a National Constituent Assembly and the amended Constitution becomes effective upon approval by the National Constituent Assembly.

Executive. The president is the head of the executive branch and commander-in-chief of both the armed forces and the police. The president and vice president are elected jointly and directly by the people for a five-year term; neither can be re-elected. The vice president assumes all presidential powers in case of disability or temporary absence of the president, or the permanent vacancy of the presidential office. The vice president is eligible to become president in forthcoming general elections if the vice president resigns from office six months prior to the general election.

Congress. The legislative branch, or Congress, is comprised of two chambers, namely, the Senate (45 members) and the Chamber of Deputies (80 members), and is responsible for enacting all national laws, including the annual General Budget of the Nation, through which any new sovereign debt must be approved. Members of Congress are elected by direct popular vote in each of Paraguay's 17 departments (states) for five-year terms that coincide with the president's five-year term. General elections for the Paraguayan Parliament were held on April 30, 2023. The Colorado Party led the April elections in both Chambers of the Paraguayan Parliament, taking 23 seats in the Chamber of Senators and 49 seats in the Chamber of Deputies. The National Concertation Party, the second largest political party in the Paraguayan Congress took 12 seats in the Chamber of Senators and 22 seats in the Chamber of Deputies.

Following the general elections held on April 30, 2023, the following table sets forth the representation of each major political party in the Paraguayan Congress:

Congressional Representation by Parties

	Senate		**Chamber of Deputies**	
Party	**Seats**	**%**	**Seats**	**%**
Colorado Party (*Asociación Nacional Republicana)*	23	51.1	49	61.25
Concertación Party (*Concertacion Nacional*)	12	26.67	22	27.5
Frente Guazú Party *(FG)*	1	2.2	0	0.0
Yo Creo Party (*Partido Yo Creo*)	1	2.2	2	2.5
PPQ (*Partido Patria Querida*)	1	2.2	1	1.25
National Crusade *(Cruzada Nacional)*	5	11.1	4	5
National Encounter Party *(PEN)*	2	4.4	2	2.5
Independent seat *(Bancada Independiente)*	0	0.0	0	0.0
Total	**45**	**100.0%**	**80**	**100.0%**

Judiciary. The judiciary includes a Supreme Court of nine Supreme Court Justices, who are appointed by the president and the Senate for renewable five-year terms. If elected for two consecutive terms, Supreme Court Justices cannot be removed until they reach retirement age, at 75 years. The Supreme Court controls its own budget and heads a system of lower courts and magistrates.

Political and Administrative Structure

Paraguay's political and administrative structure is divided into 17 departments and 254 municipalities, each of which is accorded political, administrative and normative autonomy in their respective jurisdiction and autonomy in the collection and investment of their respective resources, within constitutional limitations.

The city of Asunción is the capital and the seat of all three branches of government. It is a municipality independent from the other 17 departments that constitute the Republic of Paraguay.

The departments of Presidente Hayes, Boquerón and Alto Paraguay are situated in the large western region of the country, covering 61% of the national territory. The remaining departments, which are the most heavily populated, are in the eastern region.

Pursuant to the Constitution, each department has a governor, who exercises executive authority in the department, and a departmental assembly with local legislative authority. Both the governor and members of the departmental assembly are elected by direct popular vote by voters in each department in departmental elections that coincide with general presidential and congressional elections.

Municipalities are local government entities with juridical personality. They have political, administrative and normative autonomy, as well as autonomy in the collection and investment of their respective resources. The municipal government is headed by a mayor and a municipal assembly, and is elected by direct vote. Municipal elections are held independently and do not coincide with the nation's general presidential and congressional elections. The 2020 municipal elections were postponed due to the COVID-19 pandemic and were rescheduled for October 10, 2021, resulting in one-year extensions to the terms of existing elected municipal officials.

Municipal elections took place on October 10, 2021 to elect Mayors and municipal assemblies in all districts of the country. The ruling Partido Colorado obtained the most favorable results in the election, winning 160 of the 261 municipalities being contested. The elected authorities will serve for a four-year term until 2025.

Foreign Policy and Membership in International and Regional Organizations

Paraguay is part of strategic international organizations at the regional and multilateral level, as well as various agencies, programs, funds, specialized organizations and a number of consultation forums. Paraguayan foreign policy has concentrated on maintaining good relations with its neighbors, and Paraguay has been an active proponent of regional cooperation. Paraguay is a founding member of the United Nations and actively participates in many of its specialized agencies. Paraguay is a member of the OAS and the World Trade Organization (the "WTO"). It is also a member of the IMF, the World Bank, the Multilateral Investment Guarantee Agency of the World Bank Group (the "MIGA"), the International Finance Corporation, the IDB and the CAF. Other memberships include the Latin American Integration Institute, the International Atomic Energy Agency and the International Telecommunications Union. For more information on our foreign relations, see "Republic of Paraguay—History, Government and Political Parties."

Paraguay is seeking to reestablish its trajectory towards fiscal consolidation and economic recovery through a plan of structural reforms. To achieve this, the nation has requested support and oversight from the International Monetary Fund (IMF) through the Policy Coordination Instrument (PCI). The PCI is a non-financial tool that the IMF makes available to its member countries. Paraguay's request was approved by the IMF on November 21, 2022. The IMF's support through the PCI is expected to serve as a tool to stimulate economic growth, strengthen the foundations of macroeconomic stability, and sustain social policies. The program is scheduled to extend over a two-year period until November 2024 and is expected to promote reforms to improve domestic revenue collection, formalize workers in small and medium-sized enterprises (SMEs) and self-employed professionals, enhance the efficiency of government operations, strengthen financial supervision, reform the civil service, rationalize public expenditure, reform the fiscal management, improve the business environment, among other reforms.

Paraguay maintains close ties with its neighboring countries and participates in several regional arrangements designed to promote cooperation in trade and investment, the Community of Latin American and Caribbean States (the "CELAC"), which is the successor of the Río Group, and the Latin American and Caribbean Summit on Integration and Development (the "CALC"), an organization composed of Latin American and Caribbean countries with the purpose of promoting political, economic and social integration.

On April 11, 2019, Paraguay gave the depositary of the UNASUR Treaty notice of its decision to withdraw from UNASUR. As of October 11, 2019, Paraguay discontinued its membership of UNASUR.

In 1991, Argentina, Brazil, Paraguay and Uruguay signed the Treaty of Asunción, which resulted in the creation of MERCOSUR. MERCOSUR provides for the gradual integration of the four members' economies, gradual economic convergence and macroeconomic policy coordination. Paraguay, as a member state of MERCOSUR, has also signed trade agreements with countries of the Pacific Alliance, including the Economic Complementation Agreement (the "ECA") No. 35 with Chile in 1996, the ECA No. 36 with Bolivia in 1996, the ECA No. 54 with Mexico in 2002, and the ECA No. 58 with Peru in 2005 and the ECA No. 74 with Colombia in 2017.

Paraguay has also entered into bilateral investment treaties (each, a "BIT") with Argentina, Austria, Belgium, Bolivia, Brazil, Chile, Costa Rica, the Czech Republic, Ecuador, El Salvador, France, Germany, the Republic of Korea, the Netherlands, Peru, Portugal, Romania, South Africa, Switzerland, the UK, Spain, Hungary, Venezuela and in January 2017, with the United Arab Emirates. The Intra-MERCOSUR Investment Corporation and Facilitation Protocol was signed in April 2017, which is not yet in force.

In March 2016, Paraguay became the second South American state to ratify the WTO's Trade Facilitation Agreement, which contains provisions for expediting the movement, release and clearance of goods and delineates measures for the effective cooperation between the countries' customs officers and other relevant authorities on trade facilitation and customs compliance. As a result, the National Committee for Trade Facilitation was created in April 2017 for the purpose of developing a national strategic agenda based on the coordination of the implementation of trade facilitation measures, in accordance with a dialogue between the public administration and the private sector.

Paraguay's fourth Trade Policy Review took place in 2017. These reviews assess the WTO member's applied trade policies and practices, and the impact of these policies and practices on the functioning of the multilateral trade system. The frequency of this review depends on the corresponding country's level of participation in world trade. Paraguay undergoes such evaluation every five years. In connection therewith, Paraguay has presented its Government Report, which discusses aspects of the country's economic and commercial environment, its main economic reforms, multilateral, regional and bilateral trade negotiations, and regulatory framework on its NDP, the tariff profile, agriculture and livestock, trade in services, trade and the environment, the national energy policy, intellectual property, public contracting, defense of competition, electronic commerce, business environment, development of infrastructure and public works, stock market, support for small and medium enterprises, women and commerce.

In 2016, Paraguay joined Development Center of the Organization for Economic Co-operation and Development's ("OECD") Global Forum on Transparency and Exchange of Information for Tax Purposes, a group that works to address the risks to tax compliance posed by non-cooperative jurisdictions, and committed to adhering to OECD's new Base Erosion and Profit Shifting (BEPS) framework, consisting of the gradual adoption of fiscal reforms designed to mitigate erosion of the tax base by companies who strategically avoid taxes by shifting profits to low or no-tax locations. In January 2017, Paraguay joined as a member of the OECD, an intergovernmental economic organization with 35 member countries, founded in 1960 to stimulate economic progress and world trade. In 2018, Paraguay signed the Convention on Mutual Administrative Assistance in Tax Matters, becoming the 119th jurisdiction to sign onto. The Convention on Mutual Administrative Assistance in Tax Matters facilitates international co-operation for a better operation of national tax laws and provides for all possible forms of administrative co-operation between states in the assessment and collection of taxes, in particular with a view to combating tax avoidance and tax evasion. This co-operation ranges from exchange of information, including automatic exchanges, to the recovery of foreign tax claims.

On January 4, 2019, the Government of Paraguay, together with twelve other states, adopted the Lima Group declaration, by which the new presidential mandate of Mr. Nicolás Maduro was not recognized. Based on the foregoing, the Government of the Republic of Paraguay adopted the decision to sever diplomatic relations with Venezuela and such diplomatic relations have not been reestablished.

As of the date of this Offering Memorandum, the current situation remains unchanged. With regard to the Lima Group, the members have recently taken no action and are currently awaiting the outcome of the negotiations between Maduro's regime and the opposition party, a process facilitated by Norway and Mexico. In reference to

MERCOSUR, the rules governing trade remain in place. However, a suspension has been imposed due to a breach of the MERCOSUR Democratic Protocol.

Developments in the Agricultural Sector

Agricultural production in Paraguay features a sector of well-capitalized, efficient producers and another sector with a larger number of farmers with smaller plots, composed of subsistence-level individual farmers. Well-capitalized producers tend to focus on the production of grains and meat, which have large, well-developed markets for domestic sale and export. By contrast, individual farmers typically produce only enough to provide for the very basic needs of their families or, in some cases, to sell small amounts of surplus production in a local market. Although concentration of land ownership is in part historically responsible for this bifurcation of the agricultural sector, education and access to capital and technology have been more significant contributors. The lack of opportunity in the small famers sector of the agricultural economy has led to emigration from rural areas in Paraguay to urban areas within Paraguay and to other countries. The ability of urban areas within Paraguay to absorb such inflows of population depends on growth of employment in relatively unskilled industrial labor sectors. Agricultural reforms focused on clarifying title to land and other policy initiatives may make it possible for some individual farmers to develop sustainable agricultural businesses that produce for markets outside the immediate vicinity of their farms.

The central government is aware of the importance of developing other opportunities for participants in the subsistence-level subsector of the agricultural economy. Lack of opportunity for many living in rural areas has led to conflicts, some of them violent. President Lugo’s initiatives to address such inequalities in the agricultural sector failed, and outbreaks of violence in the sector in certain regions of Paraguay led to the events that ultimately resulted in his impeachment and removal from office in June 2012.

U.S. Sanctions

On January 26, 2023, OFAC sanctioned, pursuant to U.S. Executive Order 13818, former President of Paraguay Cartes and current Vice President of Paraguay Velázquez for their alleged involvement in several corrupt practices, including, among other things bribing public officials, interfering with legal processes and, in the case of Velázquez, protecting himself and criminal associates from criminal investigations. OFAC also designated Tabacos USA Inc., Bebidas USA Inc., Dominicana Acquisition S.A., and Frigorifico Chajha S.A.E., for being owned or controlled by Cartes.

As a result of the sanctions against Cartes and Velázquez, all property and interests in property of Cartes and Velázquez that are in the United States or in the possession or control of U.S. persons are blocked and must be reported to OFAC. In addition, any entities that are owned, directly or indirectly, individually or in the aggregate, 50% or more by one or more of the blocked persons are also blocked. Unless authorized by OFAC, OFAC’s regulations generally prohibit all transactions by U.S. persons that are otherwise within the U.S. jurisdiction that involve any blocked persons or their property or interests in property.

In March 2023, the United States also announced the imposition of travel restrictions on other Paraguayan public officers, such as the former Director of Paraguay's National Directorate of Civil Aeronautics (DINAC), Edgar Melgarejo; a member of the Paraguayan Panel for the Discipline of Judges and Prosecutors, Jorge Bogarín; and Court Clerk, Vicente Ferreira for their involvement in significant acts of corruption under Section 7031(c) of the Department of State, Foreign Operations, and Related Programs Appropriations Act.

The Paraguayan Agency for Prevention of Money or Property Laundering (“SEPRELAD”), responsible for combatting money laundering and terrorist financing, has issued a statement reminding obligated entities about the requirement to verify international lists, such as the OFAC list and the United Nations Security Council sanctions list, prior to establishing relationships. Notable figures such as former President Cartes and current Vice President Velázquez already appear on the OFAC list. SEPRELAD emphasized that obligated entities must conduct ongoing monitoring and employ enhanced due diligence when dealing with individuals or entities listed by OFAC. While UN sanctions carry legally binding implications and involve asset freezing, the U.S. sanctions serve as an alert that triggers the application of risk mitigation mechanisms based on a risk-focused approach.

THE PARAGUAYAN ECONOMY

History and Background

Until the Spanish established Asunción in 1537, economic activity in Paraguay was limited to the subsistence agriculture of the Guaraní Indians. The Spanish, however, found little economic interest in their colony, which had no precious metals and no seacoasts. The typical feudal Spanish economic system did not dominate colonial Paraguay. Economic relations were distinguished by the *reducciones* (reductions or townships) that were established by Jesuit missionaries from the early seventeenth century until the 1760s. The inclusion of the native population in these Jesuit agricultural communes laid the foundation for an agriculture-based economy that survived into the late twentieth century.

Three years after Paraguay overthrew Spanish authority and gained its independence in 1811, the country's economy was controlled by the autarchic policies of José Gaspar Rodríguez de Francia (1814-40), who closed Paraguay's borders to virtually all international trade. Landlocked, isolated, and underpopulated, Paraguay structured its economy around a centrally administered agricultural sector, extensive cattle grazing, and inefficient shipbuilding and textile industries.

After the demise of Rodríguez de Francia, government policies focused on expanding international trade and stimulating economic development. The government built several roads and authorized British construction of a railroad. The Triple Alliance War (1864-70) with Argentina, Brazil and Uruguay fundamentally changed the Paraguayan economy. Economic resources were employed in and consumed by the war effort. Paraguay was occupied by its enemies in 1870, the countryside was in virtual ruin, the labor force was decimated, peasants migrated to Asunción from the east and south of the country, and the modernization of the preceding three decades was undone.

The late 1800s and the early 1900s saw a slow rebuilding of ports, roads, the railroad, farms, cattle stock, and the labor force. The country was slowly being repopulated by former Brazilian soldiers who had fought in the Triple Alliance War, and Paraguay's government encouraged European immigration. Although few in number, British, German, Italian, and Spanish immigrants helped modernize the country. Argentine, Brazilian, and British companies in the late 1800s purchased some of Paraguay's best land and started the first large-scale production of agricultural goods for export. One Argentine company, whose owner had purchased 15% of the immense Chaco region, processed massive quantities of tannin, which were extracted from the bark of the Chaco region's ubiquitous quebracho (break-axe) hardwood. Large quantities of the extract were used by the region's thriving hide industry. Another focus of large-scale agro-processing was the yerba mate bush, whose leaves produced the potent tea that is the national beverage. Tobacco farming also flourished.

The period of steady economic recovery came to an abrupt halt in 1932 as the country entered another devastating war with Bolivia over possession of the Chaco region. The war ended in 1935 after extensive human losses on both sides, and war veterans led the push for general social reform. During the 1930s and 1940s, the state passed labor laws, implemented agrarian reform, and assumed a role in modernization. Reformist policies, however, did not enjoy a consensus, and by 1947 the country had entered into a civil war, which in turn initiated a period of economic chaos that lasted until the mid-1950s.

After centuries of isolation, two devastating regional wars, and a civil war, in 1954, Paraguay entered a period of prolonged economic stability under the authoritarian rule of Alfredo Stroessner. Stroessner's economic policies took a middle course between social reform, *desarrollismo*, and laissez-faire. Relative to previous governments, Stroessner took a fairly active role in the economy but reserved productive activities for the local and foreign private sectors.

By the 1960s, the economy was on a path of modest but steady economic growth. As part of the United States-sponsored Alliance for Progress, the government was encouraged to expand its planning apparatus for economic development. With assistance from the OAS, the IDB, and the United Nations Economic Commission for Latin America, in 1962 Paraguay established the Technical Planning Secretariat (*Secretaría Técnica de Planificación* - "STP"), the major economic planning arm of the government. By 1965, the country had its first National Economic Plan, a two-year plan for 1965-66. This was followed by another two-year plan (1967-68) and then a series of five-year plans. Compared with most Latin American countries, nevertheless, Paraguay retained a small public sector. Free enterprise dominated the economy, export promotion was favored over import substitution, agriculture continued to dominate industry, and the economy remained generally open to international trade and market mechanisms.

During the 1970s, Paraguay's real GDP grew at over 8% a year and exceeded 10% from 1976 to 1981—a faster growth rate than in any other economy in Latin America. Four coinciding developments accounted for Paraguay's rapid growth in the 1970s. The first was the completion of the road from Asunción to Puerto Presidente Stroessner (currently known as Ciudad del Este) and to Brazilian seaports on the Atlantic, ending traditional dependence on access through Argentina. The second was the signing of the Treaty of Itaipú with Brazil in 1973. The third event was land colonization, which resulted from the availability of land, the existence of economic opportunity, the increased price of crops, and the newly gained accessibility of the eastern border region. Finally, the significant increase in the price of soybeans and cotton led farmers to quadruple the number of hectares planted with these two crops. As the 1970s progressed, soybeans and cotton came to dominate the country's employment, production and exports.

The Paraguayan government's emphasis on industrial activity increased noticeably in the 1970s. Law No. 550, also referred to as Law No. 550/75 or the Investment Promotion Law for Social and Economic Development, opened Paraguay's doors further to foreign investors by providing income-tax breaks, duty-free capital imports, and additional incentives for companies that invested in priority areas, especially in the Chaco region. Law No. 550 was successful. FDI by U.S., European, and Japanese companies increased significantly during the 1970s. Industrial policies also encouraged the establishment of state-owned enterprises, including ones involved in producing liquor from sugar cane (aguardiente), cement and steel.

In the beginning of the 1980s, the completion of the most important parts of the Itaipú project and the drop in commodity prices ended Paraguay's rapid economic growth. Paraguay's economic performance was also set back by world recession, poor weather conditions, and growing political and economic instability in Brazil and Argentina.

The 1995-2003 Period

Paraguay's financial system experienced five financial crises during the 1995-2003 period.

By 1989, with the change in government, Paraguay embarked on a process of financial liberalization, which continued through the mid-1990s. The authorities introduced a unified, managed floating exchange rate regime, liberalized interest rates, reduced reserve requirements and freed public sector deposits from the Central Bank to the banking system. Banking regulations did not establish sufficiently robust prudential norms for asset classification and did not require arm's length lending. The required provisions did not reflect the true risks of banks' assets. In addition, lax licensing requirements and low required capitalization permitted a proliferation of new financial institutions. The 1995 crisis was the by-product of a rapid financial liberalization without adequate safeguards in terms of sound prudential regulations and enforcement.

The 1995 crisis was triggered when two large banks failed to meet their clearing obligations. An inadequate official response to the 1995 crisis was mainly responsible for the 1997 crisis. Lack of regulatory capacity and generous *de facto* deposit guarantees allowed financial institutions to pay insufficient attention to risk. In 1998, the failure of the fourth largest bank, which held approximately 6% of total deposits and whose liquidity dried up while depending increasingly on public sector deposits, had adverse consequences for the Paraguayan financial system as a whole.

The 1995 crisis resulted in the adoption of new banking regulation, intended to overhaul the country's financial system. Law No. 489 and Law No. 861, which were adopted in 1995 and 1996, respectively, continue to be in force with a few minor amendments. These statutes, which were fully implemented by 1999, aimed at increasing supervision powers of the Central Bank and strengthening the stability of the banking sector by improving internal banking procedures and enforcing minimum capitalization ratios, limitations on related party transactions, risk-weighted asset rules and risk control management.

In 2002, further to the effects of the economic downturn, the volatility in South America following Argentina's default, the freeze of deposits and adoption of exchange controls in Argentina led to a run on a Paraguayan subsidiary of an Argentine bank, which held approximately 11% of total deposits in the Paraguayan financial system. This led to a loss of confidence in the banking system as a whole and resulted in a run on several banks, which in combination with the depreciation of the Guaraní against major currencies, resulted in a system-wide financial crisis. Finally, in 2003, the Paraguayan monetary authorities were confronted with an isolated case of fraud in a medium-sized, locally owned bank that did not have systemic repercussions. The Superintendence of Banks responded more appropriately and timely to the 2002 and 2003 crises by closing the failing banks, with a cost to the public sector equivalent to approximately 1% of GDP.

Economic performance stabilized in 2003, albeit at a lower level of GDP growth, as a result of improved performance of the agricultural sector and improved regional conditions. However, there were significant difficulties in financing the fiscal deficit and problems with the government's fiscal position so that there were continued delays in the fulfillment of fixed costs, including wages, pensions and debt service, which together represented more than 90% of total spending.

In 2003, Paraguay enacted Law No. 2334/03 ("*Ley de Garantía de Depósitos*") to provide additional protection to depositors and establish a new liquidation procedure for insolvent entities. The main purpose of this law was to give additional certainty to depositors by preserving public confidence, maintaining stability of the banking sector and providing incentives to encourage the banking sector's discipline.

Economic Recovery Structural Adjustment Loan

In 2002, Paraguay experienced an economic crisis as a result of a combination of factors, including the negative impact of adverse weather conditions on crop production, an FMD outbreak that negatively affected exports from the livestock sector and a decline in the construction sector, all of which collectively adversely affected the Paraguayan economy. In addition, in the same year, Paraguay's largest commercial bank, Banco Alemán Paraguayo S.A., which was a subsidiary of an Argentine bank, was forced into liquidation after the controlling shareholder became subject to the deposit freeze and exchange control measures adopted by the Argentine government upon abandoning 10 years of foreign exchange parity with the U.S. dollar. Paraguay was unsuccessful in negotiating a stand-by credit facility and, in 2003, the government defaulted in the payment of US$210 million worth of debt, of which 65.7% was debt owed to local banks and government suppliers. Thereafter, the government through a law enacted by Congress restructured all of the defaulted debt by exchanging the old bonds for new bonds.

In 2003, Paraguay entered into a stand-by facility with the IMF for special drawing rights equivalent to US$73 million. The economic agreement signed with the IMF included a series of targets that the country agreed to meet during 2004. The US$73 million facility granted by the IMF to strengthen monetary reserves in case of an emergency was not drawn. In addition, Paraguay received an economic recovery credit-line facility from the World Bank for US$30 million, which allowed Paraguay to resume servicing its debt by the end of the first half of 2004. An additional US$30 million credit-line facility was granted to Paraguay by the IDB, of which US$20 million was disbursed to Paraguay. In 2005, Paraguay gave up its right to the remaining US$10 million disbursement.

The average annual real GDP growth from 1992 to 2002 in Paraguay was approximately 1.8%, well below the average growth rates of 8.9% and 4.2% during the 1970s and 1980s, respectively. This decline in the average real GDP growth for the period was mainly the result of an economic slowdown that affected the Paraguayan economy in 1999-2002, including declines of 2.3% in 2000, 0.8% in 2001 and 0.02% in 2002. A significant economic recovery driven by agriculture, construction and trade sectors began in 2003.

Current Economic Policy

Overview

Paraguay's macroeconomic performance was robust between 2003 and 2018, with an average annual rate of real GDP growth of 4.4%. However, the economy contracted slightly in 2019 and further contracted in 2020, primarily due to the effects of the COVID-19 pandemic. In 2021, the Paraguayan economy experienced real GDP growth of 4.0%. Over most of the past 18 years, in addition to improving per-capita income, Paraguay's economy has shown improvements in productive capacity and market diversification. The Central Bank's policies reduced inflation to an average of 3.4% during the 2017-2021 period, while maintaining exchange rate flexibility. Inflation fell in 2019 and 2020, to 2.8% and 2.2%, respectively, but increased to 6.8% in 2021 due to a rise in food and energy prices. Structural reforms have been advanced in several areas, including financial supervision, budget management, and the tax system. During the 2017-2021 period, real GDP grew annually by an average of 2.2%, although real GDP contracted by 0.4% in 2019 and by 0.8% in 2020. In 2022, Paraguay's real GDP grew by 0.1%. This modest growth can be primarily attributed to a drought's impact on agriculture (especially the soybean sector), and its associated sectors such as agricultural-related manufacturing activity. The expansion of the Russian-Ukrainian war also resulted in increased commodity prices, increasing inflation. In response, the Monetary Policy Committee (CPM) raised the Monetary Policy Rate (MPR) from 5.50% in January to 8.50% in September of 2022. Consequently, inflation fell from 11.8% in April to 8.1% in December 2022.

The real GDP contraction in 2019 was the result of a multiple factors, including adverse weather conditions (drought and floods) which directly impacted agricultural production, electricity generation, livestock and construction, as well as a reduction in commodity prices and the deterioration of the external and regional economic environment.

The real GDP contraction in 2020 was mainly a result of the restrictive measures implemented by the national government in an effort to contain the spread of the COVID-19 virus, that negatively impacted the services sector (namely transportation, restaurants and hotels, business services and household services), the manufacturing sector (particularly the textiles and clothing, paper and paper products, timber, machinery and equipment, leather, oil products, beverages and tobacco and metal products subsectors) and the commerce sector (particularly the sale of durable goods, such as vehicles and home equipment and semi-durable goods, such as clothing, and fuel), while the decreased river water flow caused by droughts and a lower demand of energy from Brazil explained the falls in the electricity generation subsector.

Real GDP growth in 2021 was mainly sustained by the recovery of the services sector. Progress made in the process of immunization of Paraguay's population against COVID-19 and the easing of restrictive mobility measures implemented by the national government beginning in 2021 boosted the demand for certain services that were heavily impacted by the COVID-19 pandemic in 2020. In the secondary sector, the expansion was mainly explained by the performance of the manufacturing and construction sectors, which was partially offset by a contraction in the electricity and water sectors. The primary sector registered a drop due to lower agricultural production while the livestock sector continued its upward trend.

Total international reserves increased by US$1.9 billion between December 31, 2018 and December 31, 2022. In 2018 and 2019, international reserves registered a decrease compared to previous years as a result of current account deficits, a result that was reversed in 2020. As of April 30, 2023, total international reserves amounted to US$9.8 billion, an increase of US$504.4 million compared to April 30, 2022.

An important component of Paraguay's economic policies is the FRL, which was enacted into law in October 2013. The FRL aims to promote fiscal discipline by containing current spending and setting limits on fiscal deficits. The FRL governs the preparation and approval of budgets, but not their execution. In order to achieve the fiscal discipline goals, the FRL establishes a ceiling of 1.5% of GDP (or 1.0% average over a three-year period) on the government's fiscal deficit, limits any increase in annual expenditures to 4.0% in real terms and provides that wage increases in the public sector must be in line with increases in the minimum wage. Following the passage of the FRL, the government has taken steps to reduce non-discretionary expenses related to the public sector payroll by controlling salary expenditures, a hiring freeze and the reallocation of existing resources within the public sector to improve performance and productivity.

The limitations set by the FRL on the government's fiscal deficits were suspended for 2020 and 2021, including the requirements that (i) the annual fiscal deficit not exceed 1.5% of GDP and (ii) the public sector's annual primary expenditures not exceed the inter-annual inflation rate plus 4.0%. Additionally, the executive branch has presented the Proposed New FRL to Congress which aims to repeal and replace the existing FRL.

Access to the international capital markets by the public sector as well as by the private sector is viewed as a priority and has been key to the generation of the resources needed to enhance the physical and social infrastructure required to develop Paraguay's economy on a sustainable basis. The government's financing strategy, which includes accessing the international capital markets, has created greater visibility for Paraguay's economy and allowed private sector issuers to equally access the market as source of funding for the infrastructure projects to which they are being invited to participate under the public-private partnership initiatives.

The basis for sustained growth has been a combination of prudent fiscal and monetary policies. Paraguay has followed a fiscal policy aimed at strengthening institutional and fiscal transparency, within a framework of sustainable public finances, with a low fiscal deficit compliant with the FRL, while also implementing a monetary policy which has resulted in stable inflation, in line with the objective of maintaining inflation at or below 4% and maintaining the stability of the local financial system. The restrictive measures implemented by the national government to contain the spread of the COVID-19 virus negatively impacted economic activity, particularly in the commercial and services sector, and consequently resulted in decreased tax collection during 2020. As of December 2022, the fiscal deficit of the central administration amounted to G. 8,621.5 billion, representing 3.0% of GDP. The operating deficit stood at G. 242.2 billion, constituting 0.1% of GDP.

In 2022, tax revenues increased by 13.5% compared to a 16.1% nominal increase in 2021. The Taxation Secretariat (SET) reported a 15.2% increase in the collection of internal taxes in 2022. This surge can be largely attributed to the economic recovery following recent shocks to the economy, including the pandemic and the effects of the drought. Moreover, a rise in imports of goods and services in 2022, in comparison to 2021, led to an 11.5% increase in revenue collection by the National Customs Directorate (DNA) from import duties. Tax revenues constituted 10.3% of GDP in 2022, marking a 0.5% increase from 9.8% of GDP in 2021.

Liability Management Law

In November 2020, Congress enacted Law No. 6638/20 (the "Liability Management Law"). The Liability Management Law expressly grants the executive branch and the Ministry of Finance broad powers to, among others: (i) conduct liability management operations with bonds issued by the Republic without requiring additional authorizations by Congress; (ii) modify maturity dates of bonds issued by the Republic in accordance with the terms of the relevant indentures; (iii) issue bonds on par, below par or above par, according to market conditions; (iv) conduct any operation accepted in international market practice in connection with liability management operations, including debt restructuring, interest swaps and currency swaps; and (v) modify budgetary line items related to liability management operations without congressional approval. However, the Liability Management Law limits the amounts of bonds that may be subject to liability management transactions in a single fiscal year to 40% of the aggregate face value of all outstanding bonds issued by the Republic.

In addition to governing specific matters related to liability management operations, the Liability Management Law includes complementary provisions that govern general matters applicable to all bond issuances by the Republic, including: (i) granting tax exemption over capital gains, increases, interests and any income derived from the possession or transfer of public debt securities issued by Paraguay and (ii) granting powers to the executive branch and to the Ministry of Finance to submit to foreign law and foreign jurisdictions as well as to waive sovereign immunity.

Modernization and Simplification Act of the National Tax System

In September 2019, Congress enacted legislation reforming the national tax system (the "Modernization and Simplification of the National Tax System Law"), aimed at improving the current tax system by making it simpler, more efficient, equitable and competitive. The Modernization and Simplification of the National Tax System Law reflects certain principles that prevail in modern tax systems, aimed at reducing tax avoidance and tax evasion.

Through the new Modernization and Simplification of the National Tax System Law, the government seeks to raise revenue with an emphasis on fairness and direct taxation, implementing a more progressive tax system in which the tax rate increases as the taxable amount increases. In addition, the Modernization and Simplification of the National Tax System Law intends to improve fairness while maintaining market competitiveness, supporting micro and small businesses, and strengthening middle-income families.

The reform of the tax system is part of a broader reform strategy that consists of an overall fiscal reform designed to promote development, which emphasizes on human capital as well as education, health and infrastructure. In addition to the commitment to maintaining fiscal balance in a medium-term sustainability framework as well as improving the quality of spending and tax equality, the government has formed two public-private commissions (the "PPC"). The first PPC, the Public-Private Inter-institutional Commission for the Analysis of Public Expenditure, was created to analyze and propose measures designed to improve the efficiency of spending and generate tax savings, with a focus on public procurement, budgets, salary policy and social protection. The second PPC, the Technical Tax Economic Commission, was largely responsible for drafting the Modernization and Simplification of the National Tax System Law.

The Organization for Economic Cooperation and Development (OECD) has developed 15 actions, or standards in the context of the OECD/G20 BEPS Project, for governments with domestic and international rules and instruments to address tax avoidance, providing that profits are taxed where economic activities generating the profits are performed and where value is created. The convergence agenda to adhere to such standards poses significant challenges to Paraguay's national tax system. Likewise, there are challenges related to the adoption of the recommendations of the Pan-American Health Organization and World Health Organization, which recommend taxing, to the extent possible, products that generate negative externalities on public health or the environment with a tax rate determined taking into account the damages caused and the expenses produced by such externalities, in order to discourage its use or consumption. Paraguay is confronting these challenges through the implementation of the Modernization and Simplification of the National Tax System Law and increasing the maximum tax rate for all goods subject to excise taxes.

The Modernization and Simplification of the National Tax System Law became effective in January 2020 and is expected to increase tax revenue by 0.7% of GDP (approximately US$300 million) upon full implementation by 2024. The expected increase in revenues will be applied to fund public expenditure in education, public health, infrastructure and social protection.

Proposed New Fiscal Responsibility Law

On December 3, 2020, the executive branch submitted the Proposed New FRL to Congress to repeal and replace the existing FRL, with the aim of limiting the levels of public debt and further restricting the growth of current expenditures. The Proposed New FRL seeks to ensure the stability, sustainability, and predictability of public finances in the medium term, and to promote fiscal results that do not negatively impact macroeconomic stability. As of the date of this Offering Memorandum, the Proposed New FRL was pending Congressional approval.

The principal modifications contained in the Proposed New FRL are:

- Establishment of a public debt cap of 40% of GDP;

- Maintenance of a yearly fiscal deficit ceiling of 1.5% of GDP to the extent that total public debt is below 36% of GDP, with a reduction of the yearly fiscal debt ceiling to 1.0% if total debt is equal to or higher than 36% of GDP;

- Limiting the annual increase in primary current expenditure of the central administration and public sector to the inter-annual inflation rate plus 2.0%;

- Limiting primary current expenditures from January to July to 60% of the budget in election years, excluding expenses allocated to national election authorities;

- Creation of a special fund, principally funded with future budget surpluses and net profits from the fund's own investments, aimed at financing public investment projects and fiscal deficits, thus contributing to the Republic's economic stability; and

- Formation of a fiscal advisory council, with the participation of independent economic experts, to provide greater transparency in the management of public finances.

The Proposed New FRL provides for exceptions if (i) Congress declares a national emergency or (ii) economic growth falls below 75% of the average GDP of the previous ten years. In such cases, the following exceptions and/or restrictions apply:

- Permission for public debt to exceed 40% of GDP;

- Permission for the fiscal deficit to be increased to a maximum of 3.0% of GDP, provided that the government commits to converge the fiscal deficit back to 1.5% of GDP within the following three consecutive years;

- Requirement that during such convergence period, wage increases in the public sectors must be proportionally inferior to any increase in the minimum wage; and

- Prohibition on the allocation of funds obtained through public debt to current expenditures.

Lastly, as a result of the increase in public debt incurred by the Republic as a response to the COVID-19 pandemic, in 2020, the fiscal deficit was 6.1%. Due to this increase in the fiscal deficit, the Proposed New FRL contains transitory measures which aim to control public spending for the four years following its enactment. During those four years, the following exceptions and/or restrictions apply:

- fiscal deficit may exceed 1.5% of GDP, provided that it converge back to 1.5% of GDP within a maximum period of four consecutive years;

- primary current expenditures of the public sector may not increase; and

- wage increases in the public sector must be proportionally lower to any increase in the minimum wage.

The Proposed New FRL is expected to contain the government's current expenses and achieve debt sustainability. As of the date of this Offering Memorandum, the Proposed New FRL is pending Congressional approval.

Further, in the medium-term, the government expects to receive additional tax revenues due to the enactment of the Modernization and Simplification of the National Tax System Law, which is expected to help reduce the deficit back to 1.5% of GDP. As of the date of the date of this Offering Memorandum, the Proposed New FRL is still pending Congressional approval.

Educational transformation and quality health

The government intends to improve the current education system by focusing on implementing technology and innovation as a component of education and a means of reinforcing the learning process. Also, the administration aims to improve healthcare by creating a unified healthcare system characterized by universal access and coverage, expanded preventive medicine and greater responsiveness.

Digital government and the "orange economy"

Paraguay, through its Digital Agenda Support Program (DASP), seeks to increase the speed and efficiency of online governmental services to the Paraguayan people and promote economic and personal growth through greater access for its citizens to technology, interconnectivity and business innovation. The DASP is intended to be a collaborative effort of the government and the private and academic sectors. Additionally, the government has prioritized the development of the creative economy (the "orange economy") by spurring innovation and productive diversification of the Paraguayan economy. In March 2018, Paraguay, the Center for Information and Resources for

Development (CIRD), as the executing body, and Multilateral Investment Fund (FOMIN), as financier, entered into an agreement to implement the Project for the Promotion of the Creative Economy in Paraguay. This program is aimed at promoting the orange economy by supporting public and private actors in creative businesses, particularly small and medium-sized businesses, to help them turn their ideas into cultural goods and services whose value is determined by their intellectual property.

In 2020, spurred by the restrictions implemented due to COVID-19, the Paraguayan government created a digital platform where public documents can be accessed. The government has also created websites publicizing the allocation of public funds to contain the COVID-19 pandemic.

Employment and competitiveness

The government seeks to develop quality employment training programs and the promotion of entrepreneurship. Through the installation of an inter-disciplinary commission between the Ministry of Finance, the IPS, the Ministry of Industry and Commerce (*Ministerio de Industria y Comercio*) and the Secretariat for the Prevention of Money Laundering (*Secretaría de Prevención de Lavado de Dinero*), among other governmental agencies, the government intends to combine the supervision, protection and promotion of employment and social security, and reduce informal employment by 20% by the year 2023.

The government also seeks to improve the competitiveness of Paraguay's production chains, while also fostering the development of food chains, manufacturing, transportation logistics and the chemical industry by providing support to marketing, exports, the development of technological centers, and co-financing projects within these sectors. The government also aims to improve the process of opening new businesses, obtaining credit and addressing insolvency through the work of the inter-disciplinary commission. The government plans to increase Paraguay's competitiveness in part through the introduction of regulatory proposals to offer increased legal certainty, flexibility and efficiency for investors. The proposals, some of which have been enacted into law, include (i) the creation of a registry of security interests, (ii) the creation of a digital database for factoring operations and (iii) the introduction of simplified business entities.

In March 2019, the Ministry of Finance submitted a draft bill regarding security interests in movable property to Congress. The draft bill was based on the Model Law on Secured Transactions of the United Nations Commission on International Trade Law. If the bill is enacted by Congress, it will modernize the process for creating security interests in movable assets. As of the date of this Offering Memorandum, the bill is pending in Congressional approval. In December 2022, a new, updated, and modified version of the draft bill was presented to the National Congress by the Central Bank of Paraguay, with the cooperation of International Organizations. The draft bill remains under analysis by the National Congress.

In June 2020, Congress enacted Law No. 6542/20 thereby creating a digital database system (the "SEOG") designed to register factoring operations. Prior to the enactment of such law, factoring operations lacked adequate regulations in Paraguay and, as a result, have been rare. SEOG became operational on December 21, 2020 and is administered by the Central Bank.

In September 2020, the executive branch issued Decree No. 3988/20 regulating Law No. 6480/20 in an effort to formalize economic activities, simplify the incorporation of companies and reduce associated administrative costs.

In February 2021, Congress enacted Law No. 6480/20 thereby creating simplified share companies ("EASs"), which include expedited incorporation procedures, broad permitted corporate purposes and optional single-membership.

The government believes that these proposals, if enacted, along with the legislation already enacted mentioned above, will reduce bureaucratic burdens on business and will contribute to commercial dynamism and greater economic diversification in Paraguay.

The Ministry of Industry and Commerce (MIC) in Paraguay has reported significant progress in the implementation of Simplified Shares Companies (EASs). This initiative, established in 2021, allows for the creation of new companies in an expedited timeframe of less than 72 hours. From its inception until June 2023, a total of 5,332 companies have been rapidly established under this new framework. The initiative has attracted a total investment of US$187 million (G.1.3 trillion) during the stated period.

Out of the total number of companies and the amount of investments made for the establishment of small and large businesses, 89% have originated from national capital, while the remaining 11% represents foreign investment. This indicates a strong emphasis on domestic entrepreneurship and investment in Paraguay.

Infrastructure and transportation

Paraguay's overall public investment plan focuses on road infrastructure, energy, water and sanitation, education, hospitals, social housing and other related areas.

Between 2017 and April 2023, the government conducted tenders for three of the turnkey projects contemplated under Law No. 5074/13 (the "Turnkey Infrastructure Projects") and awarded the following contracts to the selected bidders: (i) the construction and paving of the San Cristobal - Naranjal Segment - Route No. 6 in 2017; (ii) a project for the design and construction of a new road between Loma Plata and Carmelo Peralta (the "Corredor Bioceanico Project") in 2018; and (iii) a project for the design and construction of Avenida Costanera Sur in 2019. As of the date of this Offering Memorandum, the San Cristobal – Naranjal Segment – Route No. 6 and the Corredor Bioceanico have been completed, while the Avenida Costanera Sur is still under construction. Additional turnkey infrastructure projects are under evaluation by different public agencies as of the date of this Offering Memorandum. For more information see "The Paraguayan Economy—State-Owned Enterprises—Turnkey Projects (Law No. 5074/13)."

The government's current economic policy seeks to increase connectivity with neighboring countries to improve economic relations and promote tourism. To achieve this goal, the government is focused on facilitating Paraguay's connection with Brazil through new international bridges. The first bridge, which is currently under construction, will cross the Paraná River, connecting Puerto Presidente Franco in Paraguay with Foz de Iguazú in Brazil, and the second bridge, which construction began in 2022 with an investment of US$88 million, will cross the Paraguay River, connecting Carmelo Peralta in Paraguay with Porto Murtinho in Brazil, as part of the Corredor Bioceanico Project. Additionally, the construction of the Heroes del Chaco (Chaco'i) Bridge, over the Paraguay River, is expected to be completed in 2023. Once finalized, the bridge will link the nation's capital to its western region, also known as Chaco.

Other upcoming projects in the infrastructure and transportation sectors include: (i) the expansion of Route 1 connecting Cuatro Mojones with Quiindy within Paraguay; (ii) the improvement, expansion and operation of Route 6 connecting Encarnación with Pirapó within Paraguay; (iii) the construction of the second stage of the Corredor Bioceanico Project, connecting Centinela in Paraguay with Pozo Hondo in Argentina; (iv) the paving of Route 21 connecting the Puerto Indio to the superhighway junction within Paraguay; (v) the paving of the Route 12 connection section Chaco's with General Bruguez within Paraguay; (vi) the construction of a sanitary sewer system, wastewater treatment plant and improvement of the drinking water system for each of the cities of Carapeguá, Santa Rita, San Ignacio Guazú and Santa Rosa del Aguaray; (vii) the construction of approximately 1,000 housing units for indigenous families located in Alto Paraguay, Alto Paraná, Boquerón, Canindeyú and Presidente Hayes; (viii) the construction of approximately 600 integrated community homes, which include basic services, recreation spaces and access to public transportation, in the San Blas neighborhood of Mariano Roque Alonso; (ix) the construction of the Pilar Costal Defense project which aims to provide a definitive solution to the flooding issues afflicting the city of Pilar due to the rising waters of the Paraguay River and the Ñeembucú stream. This construction project is expected to be completed in 2024; (x) the construction of the National Hospital of Coronel Oviedo and (xi) the construction of a telecommunications network to improve learning conditions and management in educational institutions in Paraguay. Some of these projects are, as of the date of this Offering Memorandum, under construction.

Public investments have played a crucial role in driving the economic growth of the country and have served as a driving force for private investment. These investments have fostered sectoral diversification, enhancing national competitiveness and promoting socio-economic development through job creation. Among the most significant recent investments are the PARACEL project, which aims to develop a greenfield pulp mill and associated eucalyptus plantations; the Omega Green project, which involves the construction of an advanced biofuels plant; and the Ball Paraguay project, where Ball Corporation successfully built a beverage can and end manufacturing facility in Guaramberé. Furthermore, Atome Paraguay, has invested in the production of hydrogen and green ammonia, marking a significant contribution to the country's sustainable energy sector.

In 2022, an international tender is expected to commence for ANDE's electric power distribution and transmission projects under Law No. 6324/19. Bidders participating in the international tender must have the necessary financing secured for the complete execution of their respective projects. As of the date of this Offering Memorandum, Regulatory Decree No. 5226/2021 has been enacted to facilitate the tender process.

As of the date of this Offering Memorandum, the MOPC has approved pre-feasibility studies for the opening, dredging, signaling, operation and maintenance of the Paraguay River waterway. Further, the MOPC has the following projects under the PPP modality under initial study and structuring: (i) the expansion of Route 1 (between the Cuatro Mojones and Quiindy section) (ii) the improvement, expansion and operation of Route 6 (a 60km route between Cambyretá and Pirapó Access) and (iii) the development of a passenger commuter train between the cities of Asunción and Ypacarai.

The government is promoting the use of new financial tools, provided for by Law No. 5102/13 (PPP Law) and Law No. 5074/13 (Turnkey Projects Law), to meet the new infrastructure investment objectives and plans, including financing through the issuance of bonds, loans from multilateral and bilateral organizations, as well as funding with institutional resources. With these alternatives, the government seeks to expand and improve the financing options available to develop infrastructure, involving the private sector.

The aforementioned upcoming projects will foster public investment and private sector participation, strengthening the framework of the existing PPP and Turnkey Infrastructure Projects, to support the country’s economic growth and its ability to meet fiscal policy targets. The PPP Law approved on November 1, 2013 provides a consolidated legal framework for the formation of partnerships between the public and private sectors to finance and provide the necessary public services required for infrastructure development. Likewise, the Turnkey Projects Law provides alternative financing methods for infrastructure investment. The Turnkey Projects Law provides that the government is only obliged to pay capital amortization on project financing facilities once the related projects are completed and operational, thereby encouraging efficient and timely completion of such projects. The Ministry of Public Works and Communications has also implemented an infrastructure investment plan on similar terms.

On December 2, 2020, the executive branch issued regulatory Decree No. 4436/20, which introduces additional procedures to facilitate the implementation of Law No. 6490/20. On January 2, 2020, Paraguay passed Law No. 6490/20 to regulate the actions of the National Public Investment System (the “SNIP”) and to strengthen the SNIP within the framework that plans, formulates, evaluates, prioritizes and executes public investment projects that are fully or partially financed with resources from the General Budget of the Nation or guaranteed by the Treasury.

Energy, science and security

Paraguay’s goals in these areas include improving the distribution system of energy and services, improving internet speeds to be on par with average speeds in South America, and implementing a national fiber optic network. Paraguay also aims to create a laboratory for governmental innovation to develop e-government projects. In terms of security, Paraguay’s goals are to strengthen overall security for the citizenry by, among other measures, providing structural, technical and technological resources to security forces, fighting against drug trafficking and associated illicit activities and improve the penitentiary system.

Climate Change Mitigation Policies

The central government is implementing a package of contingency measures related to the country's primary sector to mitigate the impact caused by the droughts in 2021. These measures are based on four main lines of action established to prevent the impact caused by weather-related events: (i) assistance to small producers with inputs (e.g., fuels, seeds, agricultural defensives) for the replanting of crops; (ii) tax measures such as the suspension of retainers related to the corporate income tax as well as delays of retainers of the simple regime; (iii) support measures through the establishment of credit facilities by public financial institutions, such as the BNF, the Financial Development Agency (*Agencia Financiera de Desarrollo*) and Agricultural Credit (*Crédito Agrícola de Habilitación*) and (iv) the refinancing of certain loans in the agricultural and livestock sector through transitory facilities issued by the Central Bank. Since the beginning of 2023, additional temporary support measures have been adopted for the renegotiation of debts in sectors related to agriculture and livestock to alleviate the effects of adverse weather conditions.

Recently, the Ministry of Finance, with the support of the World Bank, has presented a Roadmap for Climate Change. The strategic goal is to establish short, medium, and long-term actions related to the incorporation and mainstreaming of climate change initiatives within its fiscal competencies. This is aimed at better designing and implementing policies for resilience and mitigation of climate change and for sustainable growth. These actions are based on the Helsinki Principles and adapted to Paraguay. The implementation of the actions must be framed within the existing legal framework in Paraguay, without limiting the possibility of making modifications that enable the implementation of the established actions. Currently, the Roadmap for Climate Change is in the process of being edited for subsequent publication.

In addition, the World Bank is currently working on the Climate and Development Report for Paraguay, which will provide a diagnosis focusing on the interaction between development and climate change. The goal is to identify risks and opportunities for the country's development, as well as policy recommendations to minimize risks and seize the opportunities that come with transitioning to a low-carbon economy.

Moreover, the Ministry of Environment and Sustainable Development (MADES) has created the National Adaptation Plan 2022-2030 (PNACC 2022-2030), published in 2022, which is a planning instrument aimed at promoting the coordinated action of various stakeholders to address the effects of climate change in the country. This facilitates the integration and adaptation of environmental policies, programs, and projects in relevant sectors and at required levels on a national scale. In addition, there is a National Climate Change Plan detailing and defining national strategies, plans, and actions in response to climate change. These align with Paraguay's National Climate Change Policy (PNCC) and the National Development Plan (PND) for 2014-2030.

As a signatory to the Climate Change Convention, Paraguay has enacted Law No. 251/1993, approving the Climate Change Convention adopted during the UN Conference on Environment and Development – the Earth Summit held in Rio de Janeiro, Brazil. Paraguay has also passed Law No. 5875/2017, the "National Climate Change" law, with the aim of establishing a general normative framework to plan, coordinate, and adequately and sustainably respond to the impacts of climate change.

Additionally, to consolidate technical strengths and institutional and intersectoral capacities, and to face the vulnerability of the agricultural sector to disaster risks, climate variability, and climate change, the Ministry of Agriculture and Livestock (MAG) approved an "Intersectoral Strategic Plan for Risk Management 2020-2030 for Paraguay". The Plan is an operational document designed to adjust the actions and activities of the "National Plan for Disaster Risk Management and Adaptation to Climate Change in the Agricultural Sector of Paraguay." It aims at providing responses to the agricultural sector regarding damage and losses in production related to climatic events and disaster risks, seeking to strengthen mitigation and adaptation mechanisms, and managing strategic mechanisms and actions for the agricultural sector. The Plan establishes four lines of action:

1. Strengthening of institutional capacities for disaster risk management and adaptation to climate change in the agricultural sector.

2. Strengthening of the agrometeorological database for the management of disaster risks affecting the sector.

3. Development of mechanisms to mitigate damage and losses in the agricultural sector.

4. Development of response strategies to adverse events affecting the agricultural sector.

The Maquila Regime

The Maquila Regime, established in 1997, is an export production framework and important source of employment aimed at supporting Paraguayan companies that seek to export domestically produced goods and services. This regime provides exemptions from import tariffs for a number of inputs involved in this production, such as machinery, equipment, and tools, as well as other tax benefits. With the exception of the Maquila Only Tax, which equals one percent of value added in Paraguay, maquiladoras are exempt from all other Paraguayan taxes, including the Value Added Tax (VAT). Although production under the Maquila Regime is primarily destined for export, maquiladoras are permitted to sell on the domestic market as well, up to a cap of ten percent of the volume of their previous year's exports. As of April 30, 2023, there are a total of 272 companies operating under the Maquila Regime in the 14 departments of Paraguay. Between January and April 2023, 15 new programs were approved under the Maquila Regime modality, totaling an accumulated sum of $US9.3 million in private investment, which represents an increase of 282% compared to the same period in 2022 ($US2.45 million). Accumulated exports under the maquila regime totaled $US334 million at the end of April 2023, which means an increase of 7% compared to 2022. The main exports under the Maquila Regime were auto parts, clothing and textiles, food products, aluminum and plastic.

Central Bank's New Organic Law

In July 2018, Congress passed the new organic law of the Central Bank (Law No. 6104/18), updating a twenty-year-old law as part of a series of reforms in Paraguay's financial system. The new law expands the Central Bank's oversight to some institutions that were previously beyond its purview and gives the Central Bank greater authority to intervene and sanction noncomplying financial entities. In addition, the law strengthens the autonomy of the Central Bank, permitting, for example, the Central Bank to sign agreements with its counterparts in other countries without restrictions or conditions.

Judicial Reform

Law No. 5360/14, as amended, was enacted in 2014, which initiated a process of judicial reform in Paraguay. Law No. 5360/14 created a national commission in charge of proposing draft bills to modify the existing laws which govern the judiciary in Paraguay. The commission is composed by representatives of all three branches of government, including members of both houses of Congress, members of the executive branch, members of the judicial branch, which in turn include members of the Supreme Court of Justice, the Attorney General, and public defenders. By January 2019, the commission had presented four bills to Congress which seek to modify the current structure of the judiciary in Paraguay, including modifications to the existing Judicial Organization Code, and to broaden the administrative powers of the Supreme Court of Justice.

Moreover, the administration is seeking to strengthen the judicial system via a constitutional reform. The current administration has been debating with all political parties on how best to implement such reforms. The aim is to improve the selection of magistrates, while de-politicizing and strengthening the Supreme Court.

Gross Domestic Product and Structure of the Economy

In 2018, Paraguay conducted a periodic re-basing of its real GDP calculations, updating the base year of such calculations from 1994 to 2014. One effect from this re-basing is the reduction of the historical volatility of GDP growth and a decrease in the debt-to-GDP ratio when compared to the same statistics but based on 1994 dollars.

During the 2018-2022 period, real GDP grew at an average annual rate of 1.2%. Total GDP in real terms grew by 3.2% in 2018, contracted by 0.4% in 2019 and 0.8% in 2020 and grew by 4.0% in 2021. In 2022, total GDP in real terms grew by 0.1%, driven mainly by increases in electricity and water, commerce, business services and restaurants and hotels. GDP per capita growth at an average annual rate of -0.2% from 2018-2022, with an increase of 1.8% in 2018, decreases of 1.8% and 2.2% in 2019 and 2020, respectively. In 2021, the real GDP per capita increased by 2.6% and in 2022 decreased by 1.3%.

In 2018, real GDP grew by 3.2% and real GDP per capita increased by 1.8%, driven mainly by growth in the manufacturing, commerce, finance and household services sectors, which grew by 2.4%, 4.6%, 4.5% and 7.3%, respectively. The livestock sector instead experienced a 3.2% contraction.

In 2019, real GDP contracted by 0.4%, largely due to adverse climatic factors that persistently affected key sectors of the economy such as agriculture, forestry, fishing and mining, and electricity and water, which declined 4.4%, 1.1% and 11.5%, respectively. Likewise, manufacturing and commerce also contracted with reductions of 1.1% and 1.2%, respectively. In contrast, various services helped mitigate the decline in GDP, driven mainly by an increase in the household services, business services, telecommunications and restaurant and hotel services sectors as well as expansion in the government sector and the financial sector, each of which grew 5.7%, 1.0%, 4.6%, 5.4%, 4.3% and 3.7%, respectively.

In 2020, the rate of economic activity substantially declined primarily due to the restrictive measures implemented by the national government to contain the spread of the COVID-19 virus. The services, manufacturing and commerce sectors were the most directly affected by these measures and exhibited poor performance. Restaurant and hotel services, business services and household services were impacted due to the social nature of such services, whereas manufacturing, trade and transport were negatively affected by the general decreases in consumption and decreased trade in border areas. In addition, a decrease in the water flow of the Parana River also resulted in a contraction in the electrical power and water subsector. In contrast, the favorable performance of the agriculture, livestock, construction, communications and finance sectors helped mitigate the fall in aggregate economic activity.

In 2021, real GDP grew by 4.0% and real GDP per capita increased by 2.6%, driven mainly by a recovery in the household services, restaurant and hotel services, commerce, business services and manufacturing sectors, which grew by 16.4%, 17.3%, 14.3%, 10.3% and 6.9%, respectively. The agriculture sector instead experienced an 18.2% contraction.

In 2022, real GDP grew by 0.1%, due to increases in electricity and water, commerce, business services and restaurants and hotels which grew by 6.8%, 3.4%, 9.7% and 17.9%, respectively. On the other hand, agriculture, construction, transportation, communications, finance and government fell by 12.7%, 4.3%, 4.2%, 2.2%, 1.3% and 0.5%, respectively.

The following table sets forth information regarding nominal GDP and domestic expenditures, in US$, for the periods indicated.

Nominal GDP and Domestic Expenditures

	12-month period ended December 31,				
	2018	2019	2020	2021[(1)]	2022[(1)]
	(in millions of US$, at current prices)				
GDP	$ 40,692	$ 38,757	$ 36,146	$ 40,284	$ 41,862
Imports of goods and services	14,330	13,617	10,659	13,799	16,484
Total supply of goods and services	55,022	52,374	46,805	54,084	58,345
Less: Exports of goods and services	14,996	13,986	12,026	14,296	14,433
Total goods and services available for domestic expenditures	**$ 40,026**	**$ 38,388**	**$ 34,779**	**$ 39,788**	**$ 43,912**
Allocation of goods and services					
Private Consumption	26,068	25,353	22,964	25,281	27,828
Public Consumption	4,688	4,630	4,570	4,840	4,823
Total Consumption	30,755	29,983	27,535	30,120	32,651
Gross fixed investment	8,118	7,251	7,187	9,239	9,124
Changes in inventory	1,153	1,153	57	428	2,137
Total domestic expenditure	**$ 40,026**	**$ 38,388**	**$ 34,779**	**$ 39,788**	**$ 43,912**

(1) Preliminary data.
Source: Central Bank.

The following table sets forth the composition of nominal GDP by expenditures for the periods indicated.

Nominal GDP by Expenditures

	12-month period ended December 31,				
	2018	2019	2020	2021[(1)]	2022[(1)]
	(as percentage of total nominal GDP)				
Government consumption	11.5%	11.9%	12.6%	12.0%	11.5%
Private consumption	64.1	65.4	63.5	62.8	66.5
Gross fixed investment	19.9	18.7	19.9	22.9	21.8
Changes in inventories	2.8	3.0	0.2	1.1	5.1
Exports of goods and services	36.9	36.1	33.3	35.5	34.5
Imports of goods and services	35.2	35.1	29.5	34.3	39.4
GDP	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

(1) Preliminary data.
Source: Central Bank.

The following table sets forth the percentage change in real GDP by expenditures for the periods indicated.

Change in Real GDP by Expenditure

	12-month period ended December 31,				
	2018	**2019**	**2020**	**2021**	**2022[1]**
	(percentage change from previous year)				
Government consumption	3.0%	4.7%	5.1%	2.6%	(5.7)%
Private consumption	4.3	1.8	(3.6)	6.1	2.2
Gross fixed investment	6.9	(6.1)	5.3	18.2	(2.3)
Changes in inventories	111.2	(10.1)	(69.2)	223.2	82.3
Exports of goods and services	(0.4)	(3.4)	(9.0)	2.1	(1.6)
Imports of goods and services	8.2	(2.0)	(15.2)	21.8	5.6
GDP	3.2%	(0.4)%	(0.8)%	4.0%	0.1%

(1) Preliminary data.
Source: Central Bank.

Principal Sectors of the Economy

The composition of real GDP by economic sector has remained generally stable from 2018 to 2022. Manufacturing, commerce, agriculture, and electricity and water make up the bulk of the GDP, representing 19.6%, 11.1%, 6.0% and 6.8%, respectively, of real GDP in 2022, compared to 19.6%, 10.7%, 6.9% and 6.3%, respectively, of real GDP in 2021. The increase in commerce (as a percentage of GDP) was the result of economic normalization and greater dynamism, as in previous years it was affected by the adoption of the restrictive measures to deal with the COVID-19 pandemic. The decrease in agricultural sector (as a percentage of real GDP) was due to a drop in main products (i.e., soybeans, beans, tobacco, rice, manioc, sugar cane, etc.) in 2022 compared to 2021.

The following table sets forth the composition of Paraguay's nominal GDP by economic sector for the periods indicated.

Nominal GDP by Sector

	12-month period ended December 31,				
	2018	2019	2020	2021[1]	2022[1]
	(in millions of US$, at current prices)				
Goods					
Agriculture	$ 2,754	$ 2,657	$ 2,839	$ 3,180	$ 3,189
Livestock	1,035	859	821	1,133	1,190
Forestry, Fishing and Mining	382	359	336	368	364
Total Primary Sector	**$ 4,172**	**$ 3,874**	**$ 4,006**	**$ 4,680**	**$ 4,743**
Manufacturing	7,729	7,284	6,761	7,730	8,121
Construction	2,436	2,413	2,545	3,203	2,996
Electricity and Water	3,367	3,155	2,929	2,900	2,786
Total Secondary Sector	**$ 13,532**	**$ 12,852**	**$ 12,235**	**$ 13,834**	**$ 13,903**

	12-month period ended December 31,				
	2018	2019	2020	2021[1]	2022[1]
	(in millions of US$, at current prices)				
Commerce	$ 4,486	$ 4,138	$ 3,711	$ 4,403	$ 5,090
Transportation	1,481	1,444	1,356	1,474	1,688
Communications	1,314	1,185	1,039	1,109	893
Finance	2,293	2,342	2,085	2,227	2,320
Real-estate Services	2,679	2,534	2,432	2,530	2,555
Business Services	1,022	976	795	861	945
Restaurants and Hotels	963	981	638	741	921
Household Services	1,989	1,990	1,731	1,968	2,002
Government	3,665	3,617	3,618	3,617	3,809
Total Services Sector	**$ 19,890**	**$ 19,207**	**$ 17,406**	**$ 18,930**	**$ 20,223**
Gross Value Added[2]	37,594	35,934	33,647	37,444	38,869
Taxes on products	3,098	2,823	2,499	2,840	2,993
Total GDP	**$ 40,692**	**$ 38,757**	**$ 36,146**	**$ 40,284**	**$ 41,862**

(1) Preliminary data.
(2) Aggregate gross value of the production of Paraguay's electricity and water sector is included in total GDP.
Source: Central Bank.

The following table sets forth the percentage of total real GDP by sector for the periods indicated.

Percent of Total Real GDP by Sector

	12-month period ended December 31,				
	2018	**2019**	**2020**	**2021(1)**	**2022(1)**
			(in percentages)		
Agriculture	8.3%	7.9%	8.7%	6.9%	6.0%
Livestock	2.1	2.1	2.2	2.3	2.3
Forestry, Fishery and Mining	0.9	0.9	1.0	1.0	1.0
Total Primary Sector	**11.3%**	**11.0%**	**11.9%**	**10.1%**	**9.2%**
Manufacturing	19.3	19.2	19.1	19.6	19.6
Construction	6.0	6.2	6.9	7.5	7.2
Electricity and Water	8.1	7.2	7.1	6.3	6.8
Total Secondary Sector	**33.5%**	**32.6%**	**33.2%**	**33.5%**	**33.6%**
Commerce	10.6	10.5	9.8	10.7	11.1
Transportation	3.8	3.8	3.9	4.0	3.8
Communications	3.4	3.6	3.9	3.9	3.8
Finance	5.4	5.6	5.9	5.8	5.7
Housing	6.2	6.4	6.5	6.4	6.5
Business Services	2.3	2.3	2.1	2.2	2.4
Restaurants and Hotels	2.6	2.7	1.9	2.1	2.5
Household Services	4.4	4.7	4.2	4.6	4.7
Government	8.7	9.1	9.8	9.1	9.0
Total Services Sector	**47.5%**	**48.9%**	**47.8%**	**48.9%**	**49.7%**
Gross Value Added(2)	92.4	92.5	92.9	92.5	92.5
Taxes on products	7.6	7.5	7.1	7.5	7.5
Total GDP	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

(1) Preliminary data.
(2) Aggregate gross value of Paraguay's portion of total electricity production is included in total GDP.
Source: Central Bank.

The following table sets forth the percentage change in real GDP by sector for the periods indicated.

Change in Real GDP by Sector

	12-month period ended December 31,				
	2018	2019	2020	2021(1)	2022(1)
	(percentage change from previous year, at constant prices)				
Agriculture	3.4%	(4.4)%	9.0%	(18.2)%	(12.7)%
Livestock	(3.2)	1.2	4.4	6.2	(0.3)
Forestry, Fishery and Mining	1.1	(1.1)	0.9	6.8	(0.7)
Total Primary Sector	**1.9%**	**(3.1)%**	**7.4%**	**(11.6)%**	**(8.7)%**
Manufacturing	2.4	(1.1)	(1.3)	6.9	0.1
Construction	0.3	2.5	10.5	12.8	(4.3)
Electricity and Water	1.9	(11.5)	(2.3)	(7.6)	6.8
Total Secondary Sector	**1.9%**	**(3.0)%**	**0.7%**	**5.0%**	**0.4%**
Commerce	4.6	(1.2)	(8.1)	14.3	3.4
Transportation	1.4	0.5	0.9	7.2	(4.2)
Communications	5.1	4.6	6.1	4.5	(2.2)
Finance	4.5	3.7	3.2	3.2	(1.3)
Housing	3.3	1.8	0.6	2.8	2.1
Business Services	3.0	1.0	(11.3)	10.3	9.7
Restaurants and Hotels	8.0	5.4	(32.0)	17.3	17.9
Household Services	7.3	5.7	(12.2)	16.4	1.8
Government	4.3	4.3	6.4	(3.4)	(0.5)
Total Services Sector	**4.5%**	**2.4%**	**(3.1)%**	**6.5%**	**1.6%**
Gross Value Added(2)	3.2	(0.2)	(0.5)	3.6	0.0
Taxes on products	3.3	(2.7)	(5.1)	9.0	0.5
Total GDP	**3.2%**	**(0.4)%**	**(0.8)%**	**4.0%**	**0.1%**

(1) Preliminary data.
(2) Aggregate gross value of Paraguay's portion of total electricity production is included in total GDP.
Source: Central Bank.

Production of Goods

The primary sectors in the production of goods, namely agriculture, livestock, forestry, fishery and mining represented 9.2% of real GDP in 2022.

Agriculture. Agriculture decreased 4.6% from 2018 to 2022. In 2022, the agricultural sector accounted for 6.0% of real GDP. The agricultural sector in 2021 and 2022 contracted by 18.2% and 12.7%, respectively, primarily as a result of the decrease in the production of soybean, manioc, rice, and sugar cane, among other main products. In 2020, the agricultural sector increased by 9.0%. In 2019, the agricultural sector decreased by 4.4% and in 2018 increased by 3.4%.

Soybeans, sugar cane, corn, manioc, wheat, rice and sunflowers are the main crops of the Paraguayan agricultural sector, representing the largest share of Paraguay's agricultural production from 2018 to 2022. According to the United States Agricultural Department (USDA), Paraguay is a leading producer and exporter of soybeans (world's third largest exporter) and soybean oil (world's fifth largest exporter). The performance of the agricultural sector is highly dependent on weather and the international prices of Paraguay's main agricultural products.

The negative average of growth rates for the 2018-2022 period for the agricultural sector was driven mainly by a decrease in soybean, corn, wheat and sugar cane production, which are main agricultural products of Paraguay. Due to the 57.0% drop in soybeans in 2022, the soybeans production represented 48.9% of Paraguay 's agricultural production, however it is usually higher than 50%. In recent years, the agricultural sector has benefited from capital investment and increased use of advanced genetics technology and mechanization, which has resulted in Paraguay being ranked third in the world among soy grain-exporting countries by the USDA in 2023. In addition to being exported in raw form, soybeans are used to produce oil and derivatives for animal feed. The Paraguayan Chamber of Oilseeds and Cereals Processors and Exporters (CAPPRO) gathers the most important oilseed crushing companies (including ADM and CAIASA, among others), and its members account for 95% of Paraguayan produced and exported soybeans, oil and flour. In 2022, CAPPRO processed 1.90 million tons, of which 1.85 million tons were of soybeans.

The following table sets forth the production of selected primary agricultural products for the periods indicated.

Selected Agricultural Production

	12-month period ended December 31,				
	2018	2019	2020	2021(1)	2022 (1)
	(in tons)				
Soybeans	11,045,970	8,520,350	11,024,460	10,537,080	4,532,103
Corn	5,344,650	5,576,900	5,834,593	4,088,093	6,191,650
Manioc	3,294,000	3,384,000	3,329,331	3,384,013	2,617,980
Wheat	1,358,000	1,302,870	927,776	744,950	1,086,500
Sugar Cane	6,160,000	5,819,500	7,430,975	7,221,100	6,538,400
Rice	894,600	1,069,200	1,187,768	1,180,600	861,500
Beans	62,050	65,520	69,776	69,410	48,061
Sunflower	48,800	39,200	34,760	34,110	46,405
Cotton	18,896	27,000	29,040	29,800	37,500
Peanuts	27,483	21,250	25,009	25,132	21,055
Tobacco	6,825	7,175	7,452	7,459	5,790

(1) Preliminary data.
Source: Compilation based on the information supplied by the Ministry of Agriculture and Livestock through the Office of Agricultural Census and Statistics.

The following table sets forth average international commodity prices for the periods indicated.

Selected International Commodity Prices(1)

	12-month period ended December 31,				
	2018	2019	2020	2021(1)	2022
	(in US$/ton)				
Soybeans(2)	$ 342.4	$ 326.9	$ 350.0	$ 505.2	$ 569.6
Soybeans Oil(2)	658.8	645.2	691.3	1,277.6	1,565.9
Soybeans Meal(2)	371.8	333.8	349.8	421.3	487.0
Beef(3)	2,524.3	2,554.5	2,332.1	2,699.4	3,127.7
Corn(2)	144.9	150.9	143.3	228.9	273.2
Sunflower Seeds(4)	370.4	372.3	405.8	645.2	661.5

Wheat[2]	181.7	181.6	201.6	257.8	330.6

(1) Average prices for each year as published by Bloomberg for each market indicated.
(2) Chicago Board of Trade.
(3) Chicago Eastern Young Cattle Indicator.
(4) South Africa Futures Exchange.
Source: Compilation based on information extracted from Bloomberg.

The following table sets forth information regarding changes in the production of selected agricultural products in Paraguay for the periods indicated.

Selected Agricultural Production

	12-month period ended December 31,				
	2018	**2019**	**2020**	**2021[1]**	**2022[1]**
	(percentage change from previous year)				
Soybeans	5.4%	(22.9)%	29.4%	(4.4)%	(57.0) %
Corn	3.7	4.3	4.6	(29.9)	51.5
Manioc	4.0	2.7	(1.6)	1.6	(22.6)
Wheat	88.0	(4.1)	(28.8)	(19.7)	45.8
Sugar Cane	(6.8)	(5.5)	27.7	(2.8)	(9.5)
Rice	(3.2)	19.5	11.1	(0.6)	(27.0)
Beans	1.4	5.6	6.5	(0.5)	(30.8)
Sunflower	(25.4)	(19.7)	(11.3)	(1.9)	36.0
Cotton	35.0	42.9	7.6	2.6	25.8
Peanuts	2.6	(22.7)	17.7	0.5	(16.2)
Tobacco	6.6	5.1	3.9	0.1	(22.4)

(1) Preliminary data.
Source: Prepared by the Central Bank based on information supplied by the Ministry of Agriculture and Livestock through the Office of Agricultural Census and Statistics.

Livestock. The livestock sector decreased in real terms in 2018 by 3.2%, and increased in 2019, 2020 and 2021 by 1.2%, 4.4% and 6.2%, respectively. In 2022, the livestock sector represented 2.3% of real GDP and decreased by 0.3% in real terms compared to 2021, mainly as a result of the drop in the stock of cattle as well as the decrease in the number of cattle slaughtered.

The following table sets forth the value of selected livestock production for the periods indicated.

Selected Livestock Production

	12-month period ended December 31,				
	2018	**2019**	**2020**	**2021[1]**	**2022[1]**
	(in millions of US$, at current prices)				
Livestock	$1,035	$859	$831	$1,133	$1,190

(1) Preliminary data.
Source: Central Bank.

The following table sets forth the percentage change from the previous year at constant prices of selected livestock production for the periods indicated.

Change in Selected Livestock Production

	As of December 31,				
	2018	**2019**	**2020**	**2021[(1)]**	**2022[(1)]**
	(percentage change from previous year, at constant prices)				
Livestock	(3.2)%	1.2%	4.4%	6.2%	(0.3%)

(1) Preliminary data.
Source: Central Bank.

Growth in the livestock sector in recent years is in part the product of investments in genetics, general infrastructure and the health and sanitation system, including vaccinations against diseases such as FMD, all of which have improved the quality of cattle stock. This has allowed Paraguay to diversify its meat exports to markets such as Chile, Russia, Israel, Brazil, Taiwan and Vietnam in recent years. As of December 31, 2022, Paraguay exported beef to the following countries, Chile (39.5% of Paraguay's total beef exports), Russia (16.3% of Paraguay's total beef exports), Brazil (11.9% of Paraguay's total beef exports), Taiwan (11.6% of Paraguay's total beef exports), Israel (5.5% of Paraguay's total beef exports), Uruguay (2.6% of Paraguay's total beef exports) and Hong Kong (1.8% of Paraguay's total beef exports). In the 12-month period ended December 31, 2022, meat exports totaled US$ 1,842.1 million, reflecting 11.3% increase compared to the 12-month period ended December 31, 2021. In 2022, Paraguay was the eighth largest exporter of beef worldwide (in nominal U.S. dollar terms).

Additionally, the livestock sector could benefit from the negotiations between MERCOSUR and the EU, in which MERCOSUR has been awarded an export quota of 99,000 tons of beef with a preferential tariff. Paraguay, through negotiations at the regional level will seek to confirm the equitable distribution of quotas among the MERCOSUR members. In 2022, Paraguay was the eighth largest exporter of beef worldwide, as measured in volume of beef exported.

The following table sets forth the main destinations of Paraguayan beef exports in 2022. Main Destinations of Paraguayan Beef Exports.[(1)]

	As of December 31, 2022
	(% of Total)
Chile	39.5
Russia	16.3
Brazil	11.9
Taiwan	11.6
Israel	5.5
Uruguay	2.6
Hong Kong	1.8
Kuwait	1.7
Angola	0.8
Others	8.1
Total	**100.0%**

(1) Based on data from the Customs Office and the Ministry of Industry and Commerce.
Source: Central Bank.

Manufacturing. In 2022, the manufacturing sector represented 19.6% of real GDP and increased in real terms by 0.1%. This result was due to a higher production of beverage and tobacco, textiles and clothing, leather and shoes, chemicals, paper and paper products and sugar. However, declines in production of processed meats, oil products, metallic products, machinery and equipment and base metal products tempered manufacturing growth.

The manufacturing sector increased by 6.9% in 2021, fell by 1.3% in 2020 and 1.1% in 2019 and grew by 2.4% in 2018.

Manufacturing in Paraguay primarily focuses on the production of foodstuffs for human and animal consumption, such as dairy products, meat, animal feed, beverages and tobacco and textiles. Paraguay's manufacturing sector is characterized by small- and medium-sized enterprises in various industries, larger and more developed beverage companies that produce alcoholic and non-alcoholic beverages, and manufacturers of dairy products. Dairy production has developed significantly, producing many diverse export-quality products such as yogurt, probiotic yogurt, cheese, caramel, cream and ultra-high temperature processing milk, among others. In June 2018, Cooperative Chortitzer Ltda., a producer of dairy products, began operations of Paraguay's second milk powder production plant in the city of Loma Plata, department of Boquerón, with a daily production capacity of 30,000 kilograms of powdered milk, equal to 250,000 liters of milk. As of the date of this Offering Memorandum, Cooperative La Holanda Ltda., a producer of dairy products, is testing stages of its second milk powder production plant in the department of Caaguazu. The plant that will soon be operational will have a daily production capacity of powdered milk, equal to 750,000 liters of milk. Paraguay intends to grow powdered milk production beyond domestic consumption and in order to make it an attractive product for export to markets such as Brazil, Central America, the Dominican Republic, South Africa and a number of Middle Eastern countries. This development will benefit many small and large producers in Paraguay.

Paraguay's Maquila Regime remains a priority for the government. There are 272 enterprises operating in the departments of Alto Paraná, Central, Capital, Amambay, Canindeyú, President Hayes, Caaguazú, Guairá, Itapúa, Caazapá, Cordillera, Ñeembucú, Paraguarí and San Pedro. As of December 31, 2022, 18 programs were approved, amounting to US$18.5 million of private investment and the creation of 726 new direct jobs. Under the Maquila Regime, Paraguay is promoting the development of diverse industries, with maquila exports (which, as of April 30, 2023, represented 8.6% of total exports, compared to 10.2% as of April 30, 2022)) being made up of the following sectors (with accompanying percentages of the total maquila exports they represent): automobile parts (24.9%), apparel (13.9%), food products (11.7%), metal based products (9.8%) and other goods (39.7%). See "The Paraguayan Economy—Current Economic Policy—The Maquila Regime" for more information on the Maquila Regime.

The following table sets forth information regarding the value of selected manufacturing products measured by gross value added for the periods indicated.

Selected Manufacturing Products

	12-month period ended December 31,									
	2018	**% of Total**	**2019**	**% of Total**	**2020**	**% of Total**	**2021[(1)]**	**% of Total**	**2022[(1)]**	**% of Total**
	(in millions of US$, at current prices)									
Processed Meats	$ 1,011	13.1%	$ 1,009	13.9%	$ 1,022	15.1%	$ 1,163	15.0%	$1.260	15.5%
Beverages and Tobacco	859	11.1	750	10.3	655	9.7	606	7.8	551	6.8
Textiles and Clothing	574	7.4	528	7.3	428	6.3	456	5.9	475	5.8
Timber	208	2.7	194	2.7	174	2.6	192	2.5	207	2.5
Chemicals	1,000	12.9	1,028	14.1	971	14.4	1,142	14.8	1,239	15.3
Milling and Bakery	419	5.4	366	5.0	365	5.4	419	5.4	604	7.4
Paper and Paper Products	461	6.0	464	6.4	397	5.9	458	5.9	570	7.0
Oil Products [(2)]	500	6.5	434	6.0	430	6.4	578	7.5	427	5.3
Leather and Shoes	115	1.5	99	1.4	83	1.2	106	1.4	119	1.5
Sugar	183	2.4	187	2.6	192	2.8	192	2.5	249	3.1
Other Foodstuff	413	5.3	413	5.7	401	5.9	463	6.0	517	6.4
Dairy Products	322	4.2	288	4.0	252	3.7	278	3.6	340	4.2
Non-Metallic Products	341	4.4	314	4.3	294	4.4	337	4.4	293	3.6
Metallic Products	471	6.1	415	5.7	396	5.9	557	7.2	506	6.2
Machinery and Equipment	131	1.7	115	1.6	111	1.6	119	1.5	115	1.4
Base Metal Products	68	0.9	72	1.0	73	1.1	101	1.3	88	1.1
Other Manufactured Products	654	8.5	607	8.3	517	7.7	565	7.3	560	6.9
Total	**$ 7,729**	**100.0%**	**$ 7,284**	**100.0%**	**$ 6,761**	**100.0%**	**$ 7,730**	**100.0%**	**$8,121**	**100.0%**

(1) Preliminary data.
(2) Including soybean and sunflower oil, among others.
Source: Central Bank.

The following table sets forth information regarding percentage changes from the previous year in selected manufacturing products at constant prices for the periods indicated.

Selected Manufacturing Products

	12-month period ended December 31,				
	2018	**2019**	**2020**	**2021[(1)]**	**2022[(1)]**
	(percentage change from previous year, at constant prices)				
Processed Meats	(2.0)	(1.0)	5.1	4.4	(2.7)
Beverages and Tobacco	5.1	(5.5)	(4.7)	3.7	4.5
Textiles and Clothing	2.1	(5.5)	(10.9)	3.9	5.8
Timber	5.9	(0.3)	(4.3)	9.0	1.0
Chemicals	10.8	9.0	1.5	17.8	8.8
Milling and Bakery	1.3	(0.3)	3.6	5.3	0.0
Paper and Paper Products	1.0	4.7	(9.3)	14.2	7.5
Oil Products[(2)]	0.1	(7.0)	(2.3)	(14.5)	(34.8)
Leather and Shoes	(12.7)	(5.4)	(6.0)	25.7	9.4
Sugar	(2.3)	16.5	12.1	5.4	27.9
Other Foodstuff	7.7	(0.5)	5.9	7.8	(5.2)
Dairy Products	0.4	3.7	2.2	(2.7)	0.7
Non-Metallic Products	(3.6)	(1.4)	(1.0)	13.2	(1.8)
Metallic Products	3.7	(9.4)	(0.7)	13.6	(6.9)
Machinery and Equipment	1.0	(8.4)	(0.1)	(2.2)	(6.1)
Base Metal Products	(5.0)	15.8	7.6	27.6	(7.8)
Other Manufactured Products	3.6	(4.7)	(9.6)	5.6	(2.8)
Total	**2.4%**	**(1.1)%**	**(1.3)%**	**6.9%**	**0.1%**

(1) Preliminary data.
(2) Including soybean and sunflower oil, among others.
Source: Central Bank.

Construction. The construction sector, which focuses mainly on residential housing and commercial buildings, represented 7.2% of real GDP in 2022. This sector contributes significantly to the economy and has received significant domestic and international investment during recent years. The sector grew by, 0.3% in 2018, 2.5% in 2019 and 10.5% in 2020. In 2022, the construction sector declined 4.3%, after an increase of 12.8% in 2021.

Mining. Traditionally, mining in Paraguay has been closely linked with the extraction of stones for construction. However, in recent years, metal mining has gained grown in popularity with the arrival of a Canadian company engaged in the extraction of gold in the eastern region of the country. The gold exports in 2022 were approximately US$4.62 million. The government is also working to attract more companies that invest in the exploration and subsequent exploitation of other mineral resources of which there are indications that the country could have deposits. In 2022, the mining declined by 7.5% accounting for 0.4% of real GDP. This sector declined by 6.8% in 2018 and grew by 6.2%, 7.1%, 8.5% in 2019, 2020 and 2021, respectively. There were approximately 40 companies holding licenses for prospecting and exploration of metallic and non-metallic mineral mines in 2022, and more than 100 were exploiting quarries of basalt, sandstone, granite, quartzite and limestone.

Services. In 2022, the services sector (including trade) accounted for 49.7% of real GDP. The services sector grew by 2.4% on average during the 2018-2022 period. Growth in the sector was 4.5% in 2018 and 2.4% in 2019. In 2020, this sector decreased 3.1%. In 2021, the services sector increased 6.5%. In 2022, this sector grew 1.6% mainly a result of better performance in restaurants and hotels, commerce and business services, which increased by 17.9%, 3.4% and 9.7%, respectively.

Transportation services grew by 1.4% in 2018, 0.5% in 2019 and 0.9% in 2020. In 2021, the transportation services sector increased by 7.2%. This growth in 2021 is partly explained by the effects of the pandemic in transportation modes in 2020 and the fact that in 2021 Paraguay eased the restrictive measures for mobility that had been implemented to address the COVID-19 pandemic the year before. Further, positive results have been recorded for land and river freight transport, even though the latter has been impacted by the unfavorable navigability conditions due to a marked decrease in river water levels. In 2022, despite the improvement in river levels that allow navigability, this sector decreased 4.2% as a result of the significant reduction in demand for river water and land freight transport, resulting from lower agricultural activity.

Household services grew by 7.3% in 2018, 5.7% in 2019 and decreased by 12.2% in 2020. In 2021, the household services sector increased by 16.4%, as a result of the termination of the restriction measures affecting mobility previously put in place to address the pandemic. In 2022, this sector grew 1.8%, mainly due to the good performance of education, performance arts and shows, sports and entertainment activities. This growth can be attributed to the post-pandemic recovery of these economic activities.

Hotel and restaurant services grew by 8.0% in 2018, 5.4% in 2019 and decreased 32.0% in 2020. In 2021, the hotel and restaurant sector grew by 17.3% as a result of the easing of the restrictive measures affecting mobility previously put in place by the government to address the pandemic. In 2022, this services sector grew 17,9% driven in part by the realization of the "XII Juegos Suramericanos Asunción 2022 (ODESUR)", whose duration was 15 days, with around 10,000 people, 7,000 atheletes, and the other fans and family members.

Commerce. Commerce grew by 4.6% in 2018, decreased by 1.2% in 2019 and 8.1% in 2020 and grew by 14.3% in 2021. Growth in the sector during the 2017-2018 period was mainly driven by increasing domestic demand, a higher volume of trade in agricultural goods and an increase in imports. However, in 2019, commerce shrank as a result of the reduction in imports. In 2020, the slowdown in commercial activity was principally the result of the restrictive measures implemented by the national government to contain the spread of the COVID-19 virus. Growth in 2021 is mainly explained by the normalization of economic activity resulting from the easing of the restrictive measures affecting mobility previously put in place by the government to address the pandemic. In 2022, the commerce sector grew 3.4%, according to "Estimador Cifra de Negocios – ECN" with increases in sales of food, technological devices, clothing, home furnishing products, and vehicle sales and maintenance. Moreover, during this year, imports of goods amounted to US$14,587 million, reflecting a 16.5% increase compared to 2021. In April 2023, imports of goods experienced a growth of 3.1% compared to the same period in 2022. This growth can be primarily attributed to the increased importation of capital goods.

Government. The government sector is largely composed of expenditures in wages of the central government, local governments and decentralized entities (excluding state-owned companies). In 2022, the government sector represented 9.0% of real GDP. This sector grew by 4.3% in 2018, 4.3% 2019 and 6.4% in 2020. The government sector decreased by 3.4 and 0.5 in 2021 and 2022, respectively mainly as a result of lower current expenditures in line with the path set out in the fiscal convergence plan.

Communications. In 2022, communications represented 3.8% of real GDP. The communications sector is comprised of telecommunication companies operating in the country, and mail services, such as private courier companies. The communications sector grew at an average annual rate of 3.6% during the 2018-2022 period. The sector grew by 5.1% in 2018, 4.6% in 2019, 6.1% in 2020 and 4.5% in 2021. The sector continued to perform well in 2021 given that the restrictive measures affecting mobility put in place by the government to address the pandemic increased the use of communication through cellphone and computer applications, which led to increased data consumption. Further, higher education institutions had implemented an intensive use of technology to facilitate virtual classroom settings. In 2022, communications activity decreased by 2.2% as a result of the lower performance of mobile phones. However, the good dynamism of information services mitigated this decline.

Finance. The finance sector includes all the banks as well as financial and insurance companies in the financial system. The sector grew by an average annual rate of 2.7% during the 2018-2022 period. The sector grew by 4.5% in 2018, 3.7% in 2019, 3.2% in 2020 and 2021, and decreased by 1.3% in 2022 due to the drop in the volume of deposits and despite the increase in the volume of loans.

Binational Entities (Binationals) – Electricity Production at Itaipú and Yacyretá Hydroelectric Plants

Paraguay is the largest exporter of electricity in South America, and the seventh largest in the world, the bulk of which is produced at the Itaipú hydroelectric plant and, to a lesser extent, at the Yacyretá hydroelectric plant.

In 2018, 2019, 2020, 2021 and 2022 electricity accounted for approximately 23.3%, 23.7%, 20.4%, 15.4% and 16.7%, respectively of Paraguay's total exports. As of April 30, 2023, electricity accounted for approximately 13.2% of Paraguay's total exports (compared to 14.3% as of April 30, 2022). The vast majority of electricity consumed in Paraguay is produced by the Itaipú hydroelectric plant located on the Paraná River on the border of Paraguay and Brazil and, to a lesser extent, by the Yacyretá hydroelectric plant located on the Paraná River on the border of Paraguay and Argentina. Revenues from Itaipú and Yacyretá hydroelectric plants contribute significantly to Paraguay's public sector revenues. Paraguay's portion of the aggregate gross value of total electricity produced by these binational hydroelectric plants is included in the calculation of Paraguay's GDP. Electricity and water represented 6.2% of Paraguay's real GDP in 2021, compared to 7.1% in 2020 and 7.2% in 2019. The decrease in the electricity and water sector (as a percentage of GDP) over the past two years has primarily been a result of drought-induced decreased river water flow.

Acaray, a hydroelectric facility owned by ANDE, is also a part of the energy system, and its production is used entirely locally. As of December 31, 2022, according to the Commission for Regional Energy Integration (*Organismo supervisor de la Inversión en Mina y Energia – Osinergmin*), Paraguay had the lowest energy costs in South America for commercial uses at US$44.70 per MW/hour and the lowest energy cost for industrial uses at US$39.80 per MW/hour.

Itaipú, the world's largest hydroelectric plant measured by annual electricity generation, is located on the Paraná River in eastern Paraguay on the border with Brazil. Itaipú has an installed capacity of 14,000 MW/hour, and its construction extended over 17 years at a cost of US$18.0 billion. Not only is Itaipú a significant source of low-cost electric power for Paraguay, but it is also a significant source of revenues in U.S. dollars for the government. The accumulated electricity generation as of December 31, 2022 at Itaipú was 69,873 GW/hour, a 5.3% increase compared to December 31, 2021.

Itaipú was built after Paraguay and Brazil entered into a treaty in 1973 (the "Itaipú Treaty"). Pursuant to the Itaipú Treaty, Itaipú Binational was created for the administration, supervision and operation of the Itaipú hydroelectric plant. Paraguay owns a 50% equity stake in Itaipú Binational through ANDE, a Paraguayan state-owned company. Eletrobras, a partially state-owned Brazilian company, owns the remaining 50%. Among other provisions, the Itaipú Treaty states that the electricity produced by Itaipú Binational will be equally divided between Paraguay and Brazil, and requires Brazil to purchase all of Paraguay's unused electricity. The Itaipú Treaty also provides that all payments to and from Itaipú Binational are to be made in U.S. dollars. Itaipú Binational is managed by a Board of Directors and an Executive Board, composed of an equal number of members from each country.

The construction of Itaipú began in 1974, and its first turbine began operations in 1984. Itaipú has 20 turbines in operation as of the date of this Offering Memorandum. As of December 31, 2022, Itaipú Binational's electricity reached a production of US$70 million MW/hour, compared to US$66.4 million MW/hour as of the December 31, 2021. As of December 31, 2022, Itaipú Binational supplied 88.5% and 10.8% of the electric power consumed in Paraguay and Brazil, respectively, compared to the same period of the 2021.

The Itaipú Treaty remains in force until August 2023, and it is expected that its terms will be renegotiated before its expiration. As of the date of this Offering Memorandum, negotiations have not yet begun and are expected to take place once the change of government is effective. However, discussions are underway regarding potential amendments to the financial terms of the agreement.

Pursuant to the Itaipú Treaty, Paraguay is entitled to receive (i) an annual royalty from Itaipú Binational in an amount determined on the basis of a formula set forth in the Treaty and (ii) compensation from the Brazilian government for the unused portion of Paraguay's share of electricity produced by Itaipú that must be sold to Eletrobras at cost in accordance with the Treaty. The amount of compensation stood at US$12,234 per GW/hour as of December 2022, an increase compared to the US$10,919.6 per GW/hour registered in December 2021. Paraguay received royalty payments and compensation payments of US$444.8 million (1.2% of GDP) in 2020, US$520 million (1.3% of GDP) in 2019 and US$556.1 million (1.4% of GDP) in 2018. From 2018 to 2022, revenues decreased by 30.6%, as a result of the variation in the total production of electricity, which itself depends on the water flow of the Paraná River. In 2022, Paraguay received royalty payments and compensation payments of US$386.1 million, a reduction of 4.5% compared to US$404.2 million payments received during 2021. This was a result of lower electricity production.

As of December 31, 2022, Itaipú recorded an annual production of 69,873 GW/hour, a 5.3% increase compared to 66,369 GW/hour as of December 31, 2021. The following table sets forth the revenues received from Itaipú for the periods indicated.

Revenues from Itaipú

	12-month period ended December 31,				
	2018	2019	2020	2021	2022
	(in millions of US$)				
Royalties	229.2	279.1	226.7	216.4	166.4
Compensation	326.9	240.8	218.1	187.8	219.7
Total	556.1	520.0	444.8	404.2	386.1

Source: Itaipú.

Eletrobras provided 85% of the financing for the construction of Itaipú, with third parties providing the balance. After startup of operations, when the debt began to amortize, Itaipú Binational experienced difficulties in servicing its debt to Eletrobras. In September 1997, Eletrobras entered into a restructuring agreement with Itaipú Binational covering Itaipú Binational's principal repayment obligations and accrued interest, retroactive to January 1997. Pursuant to the terms of the agreement, approximately US$16.2 billion of principal was recorded as long-term debt denominated in U.S. dollars and indexed to U.S. inflation. It was agreed that approximately (i) US$4.2 billion of this debt would bear interest at an annual rate of 4.1%, which was repayable through 2001, (ii) US$10.3 billion would bear interest at an annual rate of 7.5% and is repayable through 2023, with a grace period through 2001 during which time interest was capitalized, and (iii) US$1.8 billion would bear interest at an annual rate of 4.1% and is repayable through 2023, with a grace period through 2006 during which time interest was capitalized. As of December 31, 2022, Itaipu Binational does not have any debt to Electrobras. Itaipu Binational only owed, as of December 31, 2022, approximately US$243 million to the National Treasury of Brazil, which is a significant decrease from the US$1.4 billion owed as of December 31, 2021.

Under the Itaipú Treaty, Itaipú Binational receives the revenues required to cover its operating expenses, service its debt obligations and pay royalties to each of Paraguay and Brazil, selling capacity to each of ANDE and Eletrobras on a firm basis. Excess production is also sold to those entities on a 50/50 basis. To the extent not used in Paraguay, ANDE must resell the electricity to Eletrobras at cost, in December 2022 it was approximately US$12,234 per GW/hour, compared to the US$10,919.6 per GW/hour in December 2021. An increase in the amount of electricity consumed in Paraguay reduces the compensation payments to the Paraguayan government, a revenue contraction that would normally be offset by additional tax revenues generated by the increased levels of economic activity that use the electricity that would otherwise be diverted to Brazil.

In mid-2019, Mr. Abdo Benítez and the Paraguayan government faced a political crisis related to Itaipú. On a yearly basis, ANDE and Eletrobras, the respective Paraguayan and Brazilian state-owned electric utility companies, negotiated the power production forecasts for Itaipú. On the basis of such forecasts, the two companies negotiated a power purchase agreement that sets forth each company's annual purchase of electric power produced at Itaipú as well as the price at which any excess over the 50% allocation to which each of the parties is entitled will be sold to the other party. In the yearly negotiations conducted in 2019, ANDE and Eletrobras were unable to reach agreement. Negotiations continued through diplomatic channels. Paraguayan and Brazilian diplomats reached agreement on May 24, 2019 (the "May 24, 2019 Agreement"), but the terms of the agreement only became public two months later, sparking a political crisis. Members of Congress claimed that the agreement was unfavorable for Paraguayan interests and questioned the involvement of several members of the government.

On July 24, 2019, ANDE´s president resigned from office. On July 26, 2019, the Chamber of Senators (the upper house) created a special congressional committee tasked with conducting an investigation on the negotiation of the May 24, 2019 Agreement. On July 29, 2019, President Mario Abdo Benitez accepted the resignation of several high-level government officials involved in the negotiation of the May 24, 2019 Agreement, including the

Minister of Foreign Affairs, the Paraguayan General Director of Itaipú, the President of ANDE and the Paraguayan Ambassador to Brazil. On August 1, 2019, Paraguay and Brazil agreed to terminate the May 24, 2019 Agreement.

On August 5, 2019, the Chamber of Deputies (the lower house) received a formal request to initiate impeachment proceedings against President Mario Abdo Benitez, Vice President Hugo Velazquez and Minister of Finance Benigno Lopez from various Congressmen. The impeachment proceedings were grounded on the alleged misconduct of government in connection with the May 24, 2019, agreement. However, on August 20, 2019, the Chamber of Deputies voted to reject the impeachment request, with 43 votes against and 36 votes in favor.

ANDE and Eletrobras resumed negotiations regarding their planned electric power purchases for the years 2019 through 2022. A new agreement signed between ANDE and Itaipú on December 13, 2019, governs the power supply from Itaipú to ANDE from January 1, 2020, to December 31, 2022. In 2021, Brazilian President Jair Bolsonaro and Paraguayan President Mario Abdo Benítez held meetings to discuss the power purchase tariff of Itaipú during 2022 prior to the renegotiation of "Annex C" of the Itaipu Treaty.

On February 28, 2023, the remaining financial debt of US$115 million for the Itaipu binational project was fully repaid. For many years, this financial debt, which constituted 62% of the plant's operating costs (approximately US$ 2 billion/year), was incorporated into the tariff. The repayment of this debt paved the way for a subsequent agreement on April 17, 2023, between Brazil and Paraguay to set Itaipú's tariff for 2023 at US$ 16.71 per kW/month. This revised tariff is projected to provide Paraguay and Brazil with an additional sum of approximately US$ 400 million per annum each. These funds can be allocated towards initiating new projects and sustaining infrastructure works, ultimately benefiting high impact programs for the population.

Yacyretá. The Yacyretá hydroelectric plant is located on the Paraná River in southern Paraguay on the border with Argentina. Although it started operating partially in 1994, the construction of Yacyretá is still ongoing. As of the date of this Offering Memorandum, Yacyretá is operating at its planned total capacity of 3,200 MW/hour.

The Yacyretá project began after Paraguay and Argentina entered into a treaty in 1973 (the "Yacyretá Treaty"). Pursuant to the Yacyretá Treaty, Yacyretá Binational was created for the administration, supervision and operation of the Yacyretá hydroelectric plant. Yacyretá Binational is owned by Paraguay's state-owned ANDE and Argentina's state-owned Emprendimientos Binacionales S.A. in a 50/50 joint venture. The Yacyretá Treaty establishes that the electricity produced by Yacyretá Binational will be equally divided between Paraguay and Argentina and requires Paraguay and Argentina to purchase jointly or severally, depending on their agreement, all of Yacyretá's installed capacity. The Yacyretá Treaty also provides that all payments to and from Yacyretá Binational are to be made in U.S. dollars.

The construction of Yacyretá began in 1975. Yacyretá's first turbine commenced operations in 1994, and there are 20 turbines in operation as of the date of this Offering Memorandum. In 2022, Yacyretá's production of electricity produced at a rate of 16,131 GW/hour, a 21% increase compared to the 13,372 GW/hour produced in 2021. The Yacyretá Treaty remains in force until Argentina and Paraguay mutually agree to terminate the treaty.

According to the Yacyretá Treaty, Paraguay receives (i) royalty payments and (ii) compensation payments based on revenues from the sale of Paraguay's unused electricity to Argentina. The latter is paid by Yacyretá Binational directly to Paraguay. The construction of Yacyretá was originally largely financed by loans from the World Bank and the IDB to Yacyretá Binational, which were guaranteed by Argentina. As of the date of this Offering Memorandum, Argentina is the creditor of such debt.

In January 1992, the governments of Paraguay and Argentina signed notes related to the Yacyretá Treaty to amend its provisions concerning the cost of the project. At that time, Paraguay and Argentina agreed to defer the payment of accumulated royalties and compensation (for the electricity Paraguay sold to Argentina) for the 1994 to 2004 period until 2019, and to reinvest such deferred amounts in construction and operational improvements. The deferred amounts shall be paid in equal, monthly installments over eight years, and without interest beginning in 2019. Despite the agreement, since Yacyretá commenced operations in 1994, Paraguay has received advances on deferred royalties and compensation based on revenues from the sale of Paraguay's unused electricity to Argentina. However, a substantial part of the early payments due to Paraguay for the periods prior to 2004 is at Yacyretá Binational's discretion and is agreed to on an annual basis by Argentina and Paraguay.

In 2018, 2019, 2020, 2021 and 2022, Paraguay received US$46.2 million, US$125.1 million, US$46 million, US$45.8 million and US$78.9 million, respectively, from Yacyretá Binational on account of royalties and compensation due for prior years.

The Yacyretá Treaty provides that the financial terms contained in Annex C of the treaty are to be renegotiated at 40 years from the effective date of the treaty. In May 2017, Paraguay and Argentina signed a bilateral agreement that outlined their political will to restructure the financial situation of Yacyretá, modify the financial terms of the treaty and increase the profitability of the entity. As a result of this agreement, the debt initially claimed by Argentina could be reduced by 76%, from US$17,088 million to US$4,084 million. As of the date of this Offering Memorandum, the Paraguayan Congress has approved the proposal presented by Yacyretá (*Acta de entendimiento 2017 para el ordenamiento economico financiero de la Entidad Binacional Yacyretá*), however, the proposal has not yet been approved by the Argentine Congress. The following table sets forth the revenues from Yacyretá Binational for the periods indicated:

Revenues from Yacyretá

	12-month period ended December 31,				
	2018	**2019**	**2020**	**2021**	**2022**
			(in millions of US$)		
Others[(1)]..............	46.2	125.1	46.0	45.8	78.9

(1) Corresponds to payments received from Yacyretá Binational in connection with Paraguay's share of operating expenses relating to Yacyretá Binational.
Source: Central Bank.

Pursuant to the Law No. 3984/10, royalty and compensation payments made by Itaipú and Yacyretá must be distributed as follows: 50% to the Paraguayan government, 40% to municipalities and 10% to departmental governments. The law also states that these resources must be used to finance infrastructure projects.

State-Owned Enterprises

There are nine state-owned enterprises ("SOEs"). In the aggregate, the SOEs generate positive net income for the government, and the SOEs with the highest share of total income from SOEs are ANDE, responsible in 2022 for 54.0% of total SOE income, and Petróleos Paraguayos ("PETROPAR"), responsible in 2022 for 33.0% of total SOE income. Of the nine SOEs, three operate in goods-producing sectors such as alcohol, oil and cement, and the other six are principally engaged in providing services.

ANDE, INC (cement), PETROPAR (importer and marketer of fuels), ANNP (port) and DINAC (airport) are wholly owned by Paraguay. In addition, Paraguay has a majority participation in Essap S.A. (water), Copaco S.A. (telecommunications), CAPASA (alcohol) and the inactive FEPASA (railway). Lastly, Paraguay owns a minority share (5.02%) in LAPSA (Paraguayan subsidiary of the LATAM Airlines Group). ACEPAR (steel) and FLOMERPASA (merchant marine) were formerly owned by Paraguay but were fully privatized.

In July 2014, pursuant to a judicial decision, the government displaced the board of directors of ACEPAR and a judicial administrator was appointed to manage the company. The displacement was a result of breaches of contract on the part of the Paraguayan steel consortium COSIPAR (majority shareholder of ACEPAR) in connection with the non-implementation of an agreed-upon investment plan, and a reforestation and environmental care program; and to a lesser extent, shortages in the domestic market for steel wires and rods in part due to the mismanagement of ACEPAR. In accordance with Law No. 1037/97, which authorized the sale of ACEPAR, poor management, domestic shortages and non-implementation of agreed-upon plans are all grounds for termination of ACEPAR's concession. The Paraguayan government subsequently decided to lease ACEPAR's facilities to VETORIAL Paraguay S.A. for a period of ten years. However, the proposed arrangement failed to accomplish the intended results and the lease agreement between ACEPAR and VETORIAL was terminated in January 2018.

In March 2018, in order to re-establish the government's control over ACEPAR, a bill was proposed in Congress through which ACEPAR would once again become a public company overseen by the National Council of Public Companies. This bill is still under review by Congress.

In August 2018, ACEPAR's judicial administrator entered into a lease agreement over ACEPAR's facilities with the Chinese company Henan Complant Mechanical & Electrical Equipment Group Co. Ltd. ("Henan"). However, Henan failed to fulfill its initial obligations and in February 2019, ACEPAR's judicial administrator terminated the lease agreement between Henan and ACEPAR. ACEPAR continues to seek investors interested in leasing and investing in ACEPAR.

SOEs Wholly-Owned by Paraguay	**SOEs Majority Owned by Paraguay**	**Privatized Former SOEs**
ANDE	ESSAP S.A.	LAPSA (LATAM) (5.0% state-owned)
INC	COPACO S.A.	ACEPAR (100% privately-owned)
PETROPAR	CAPASA	FLOMEPARSA (100% privately-owned)
ANNP	FEPASA	
DINAC		

Source: Ministry of Finance.

SOEs have played a significant role in the Paraguayan economy. All nine SOEs have accounted for roughly 5.2% of GDP, while the five SOEs that are in the General Budget of the National, represent 26.1% of central government expenditures, and 14.9% of public sector expenditures in 2022.

Although SOEs provide essential goods and services—including petroleum, water, telecommunications and electricity—their service delivery and management performance are limited, in part due to the distorted or monopolized markets in which they operate. In many cases, SOEs show high levels of underinvestment, failure to receive full compensation for basic services rendered to the public sector, increased levels of indebtedness and material inefficiencies. In March 2016 and 2017, the Ministry of Finance agreed to pay in the aggregate G.262.7 billion (US$48.9 million) out of a total of G.395.4 billion owed to ANDE. These payments settled almost half of the debt owed by the public sector for basic services, and also partially paid debt still owed to ANDE for electrification projects it had completed years ago but for which no payments had previously been made. As of April 30, 2023, the remaining amount owed by Central Administration to ANDE for basic service is G.98.5 billion (US$13.6 million).

In an effort to remedy high levels of underinvestment in ANDE's electrical substations, the Paraguayan government negotiated several loans with the CAF, Inter-American Development Bank (IADB), International Bank for Reconstruction and Development (IBRD) and with the European Investment Bank (BEI) for approximately US$1.06 billion to finance a master investment plan to be rolled out over a period of five years which commenced in 2020. This master financing plan includes US$100 million in financing for a 500 KW electricity transportation line connecting Asunción with Yacyretá, and a US$94 million loan to be applied to the modernization of electrical substations in the greater Asunción metropolitan area, reinforcing the transmission system in Asunción and the modernization and replacement of systems in San Lorenzo.

From a planning perspective, ANDE currently has: (i) a Short and Medium-Term Distribution Master Plan, which covers the period 2021-2030, and the necessary investments for the execution in the 2021-2025 period of an amount equal to US$ 1.2 billion, and for the 2025-2030 period of an amount equal to US$ 872.1 million; (ii) a Transmission Master Plan for the period 2021-2030, with an estimated investment budget of US$ 3.0 billion; and (iii) a Generation Master Plan for the period 2021-2040, with an estimated budget of US$ 3.6 billion.

To a large extent, SOEs mediocre performance has been attributed to the institutional limitations that prevailed until 2008. For instance, before the PEES reform process, the responsibilities of the different government actors overseeing the SOE were fragmented. This led to overlapping bureaucratic functions and authorities. Furthermore, there was a severe information asymmetry between management and the public regarding SOE operation and financial performance.

In 2008, in furtherance of the PEES, Paraguay strengthened oversight of SOEs while building on the existing institutional structures. A key part of the reform was increasing inter-ministerial coordination under the leadership of the Ministry of Finance by establishing the National Council of Public Enterprises (the "CNEP") in 2013. The CNEP is comprised of representatives from the Ministry of Finance, the Ministry of Public Works, the Ministry of Industry and Trade and the Attorney General. The CNEP is the authority responsible for establishing and coordinating the comprehensive national policy for the management of Public Enterprises. It also functions as the SOE shareholder on the government's behalf and supervises SOEs' corporate governance and financial and business management.

The CNEP relies on a workforce composed of highly trained technical professionals, each dedicated to closely monitoring each SOE. To fulfill its functions, the CNEP has begun monitoring some SOEs' financial and administrative affairs by concluding performance contracts with each of the SOEs. The CNEP assesses the management of each SOE based on qualitative and quantitative targets set forth in the performance contracts and provides recommendations for improvement to the president of Paraguay. The targets outlined in the performance contracts fall under the following categories:

(i) financial liquidity;

(ii) basic debt service of controlled entities;

(iii) achievement of goals measured by technical indicators;

(iv) creation of specialized technical teams;

(v) improved management of and access to financial and operational data;

(vi) publication of annual external audits; and

(vii) infrastructure investments (ANDE, ESSAP and INC).

The CNEP also requires that the SOEs file financial audits conducted by independent professional audit firms. The SOEs must subsequently submit the financial reports to the SOE monitoring body and make the audits available to the public. The oversight body also established an audit follow-up mechanism, including field visits, letters highlighting the main findings and recommendations of the audits, and, if needed, a warning report to the Minister of Finance to discuss the content during the next CNEP meeting. All SOEs publish audit reports within six months after the closing of the fiscal year. These measures are designed to help increase the SOEs' financial management soundness and provide a venue for civil society and the media to exert additional oversight of SOEs. With the progressive adoption of the practice and follow-up activities of the oversight body, it is expected that the timeliness and quality of audit reports will continue to improve. Audited financial statements of SOEs are published on the Ministry of Finance's website.

Currently, the nine companies are under the supervision of the General Directorate of Public Enterprises (DGEP) have existing management contracts. These contracts are signed by the Minister of Finance in his capacity as President of the CNEP, along with the presidents of the respective companies. The goal of these management contracts is to establish a mechanism that is objective, efficient, and transparent, enabling the creation and monitoring of performance indicators and management goals for public enterprises. These indicators and goals are based on strategic objectives set by the CNEP, aiming to enhance service quality indicators, expand and improve service coverage, ensure financial sustainability, and foster business innovation.

In accordance with the contracts, public enterprises are required to present their specific action plan outlining the measures they will undertake to fulfill the defined indicators and goals. The specific action plan will, in turn, serve the CNEP to monitor the progress of activities to be carried out by each company in order to achieve the established goals outlined in the contract.

The companies are required to submit monthly reports related to their balance sheet and income statement, cash flow statement, budget execution, cost structure, detailed information on taxes paid and intergovernmental contributions, short-term debts with suppliers for the provision of production inputs, accounts receivable from public and private clients, debts with foreign suppliers, human resources information (number of permanent contracts, other forms of employment, benefits payment, salaries, contests, regularization measures), compliance reports on the improvement plan based on the recommendations of the external audit, among others.

As of the date of this Offering Memorandum, the CNEP meets regularly to receive technical inputs from the General Directorate of each SOE. A quarterly SOE performance report is presented to the President of Paraguay, who in turn holds a meeting with SOE presidents to discuss the performance of each SOE.

Additionally, they must annually provide their annual operational plan, updates on their investment and business plans, projected cash flow, reports on compliance with the regulatory framework and the code of ethics, internal audit report, external audit selection report, board of directors' meeting minutes, external auditor reports, ratified and current collective labor agreements, among others.

In addition, the CNEP defined goals that include the strengthening of the regulatory framework for the supervision of financial and operational data so as to ensure that the reforms carried out in accordance with the Law of the National Council of Public Enterprises (Law No. 5058/13) are being implemented in a sustainable manner. Moreover, the CNEP follows all of the certified ISO 9001:2008 procedures for assessing the management of public companies. In 2014, with the support of the World Bank, Paraguay developed a Strategic Plan for the 2014-2018 period, which was approved in August 2014 by the members of the CNEP. The Strategic Plan proposes the adoption of certain coordinated and verifiable actions to promote an efficient and transparent management of SOEs, ensuring that the decisions are taken based on economic criteria.

The Strategic Plan’s main guidelines to modernize SOEs are the following:

(i) adopt a clear cost efficiency pricing and tariff policy;

(ii) adopt a subsidy policy designed to benefit end-users;

(iii) develop payment plans of inter-SOEs debt and public sector debt with SOEs;

(iv) eliminate consolidated outstanding debts between SOEs and between the central government and SOEs by compensation or payment of debts;

(v) prohibit the use of inter-SOEs debt as a financing mechanism;

(vi) develop an appropriate dividend policy for SOEs that does not compromise their mid-term and long-term business plans;

(vii) review SOEs’ current activities and functions to guarantee SOEs are exclusively focused on providing goods or services efficiently;

(viii) develop regulation and incentives that improve SOEs’ management and investments;

(ix) adopt uniform corporate governance guidelines for SOEs; and

(x) provide the General Directorate of Public Enterprises (DGEP) with financial and human resources required to implement the Strategic Plan.

Following the adoption of the Strategic Plan, CNEP has taken significant steps toward implementing the guidelines. One such step was the approval of Resolution No. 11 in September 2014, which established heightened requirements for SOEs seeking debt financing. Progress has been also made in reducing the debt held by basic services companies, such as companies providing water, electricity and telecommunication services. Further progress has been made on the first strategic guideline, adopting cost efficiency pricing and tariff policy for ANDE. In furtherance of these initiatives, the CNEP approved an increase in ANDE's electricity tariffs in early 2017, since those tariffs had been last modified in 2002, and failed to cover the cost of energy. New electricity tariffs are intended to cover the average cost of production, and also finance infrastructure projects planned for the next ten years.

According to such process, SOEs submitted efficiency plans for CNEP's approval for the 2015-2017 period. Such efficiency plans served as the basis for reviewing SOE management contracts signed for such two-year period.

The project undertaken by the CNEP to review the status of existing corporate governance practices since 2015 resulted in the issuance of executive branch Decree No. 6381/16 (Code Arandú), which regulates and formalizes the mandatory adoption of uniform principles of corporate governance in order to ensure SOEs follow international standards (such as the OECD principles of Corporate Governance for SOEs and Guidelines for Best Corporate Governance of CAF State Companies) to promote a legal, regulatory and institutional environment that favors the best practices of corporate governance for state-owned enterprises.

In the field of public procurement, Decree No. 5520/16 establishes guidelines for public contracting by SOEs and corporations, and governs engagement in commercial activities that require SOEs to perform as suppliers in competitive markets and which present the opportunity for such SOEs to improve their competitive position in the market. In addition, it establishes the SOEs' obligation to report on the public contracting process that was carried out to the CNEP, within 30 calendar days after the award resolution.

The Ministry of Finance is currently engaged in the development of a common legal and regulatory framework for public enterprises, aiming to promote efficiency in management and enhance transparency within these organizations. The implementation of this law will have several benefits, including the harmonization of corporate policies and guidelines, as well as improvements in the direction, control, and sanctioning of SOEs.

In December 2022, the Executive branch enacted Law No. 7021/2022, titled "On Public Procurement and Contracts," completely replacing Law No. 2051/2003, known as "On Public Procurement." The purpose of this new legislation is to update and modernize all state purchases, making them more efficient through the establishment and organization of a supply chain that encompasses all stages of planning, programming, administration, and evaluation of procurement. This is expected to be achieved through the utilization of technological and regulatory mechanisms, with the ultimate goal of bolstering public procurement as a driving force for national development. The new law, which is currently undergoing the regulatory process, includes provisions for public enterprises that engage in competitive practices with the private sector for the procurement of goods and services directly related to their commercial operations. These enterprises are encompassed within the scope of Special Procurement Procedures.

The reform of the SOEs Accounts Plan, as well as its harmonization, could not be implemented due to the significant delay in the reform of the Integrated System of the Administration of State Resources (SIARE). The Ministry of Finance is working with the SOEs achieving implementation and have a new proposed goal of implementing these by 2023. In 2021, the physical progress of the project was approximately 70% complete.

In addition, the Integrated System of Management Indicators (SIGIGEP) is designing, with the support of the Inter-American Development Bank and the Organization of Ibero-American States, a consulting agency that will be implemented by the DGEP. The project was completed in December 2019.

In December 2022, CNEP authorized the implementation of the Management Control Dashboard for Public Enterprises, which is mandatory for all companies. Additionally, the DGEP was appointed as the administrator of the Management Control Dashboard.

The Management Control Dashboard contains financial and budgetary information, human resources data, qualitative indicators, and other relevant information. Its purpose is to facilitate the monitoring and control of company operations, generating early alerts regarding deviations from established goals in relation to strategic objectives. This enables timely corrective measures to be taken.

Public-Private Partnerships (Law No. 5102/13)

The Paraguayan government, through the MOPC, signed the PPP Contract No. 01/17 on March 14, 2017 for the design, financing, construction, maintenance and operation of national Route 2 (Ypacarai - Coronel Oviedo) and 7 (Coronel Oviedo – Km 183) (the "Routes 2 y 7 Project"). The Routes 2 and 7 Project is the first PPP project undertaken by the Paraguayan government and aims to improve the efficiency and quality of Paraguay's infrastructure.

The estimated cost of the Routes 2 and 7 Project is US$527 million and includes nine segments and eleven sub-segments of national routes 2 and 7, all of which have a corresponding PDI (as defined below). In 2019, the MOPC issued an order to proceed with phases 3, 4 and 5 of the Routes 2 and 7 Project. In December 2020, the MOPC signed the second addendum to the contract for the Routes 2 and 7 Projects. In January 2022, the MOPC signed the third addendum to the contract for the Routes 2 and 7 Projects and in February 2023 the fourth. As of the date of this Offering Memorandum, the physical progress of the project is more than 94% complete.

The contract for the Routes 2 and 7 Project was awarded to "Rutas del Este" S.A., a special purpose vehicle (SPV) partially owned by each of the following entities: the Spanish construction company Sacyr Concesiones S.L. (60%), the Portuguese construction company Mota Engil S.A. (20%) and the Paraguayan construction company Ocho A S.A. (20%). In October 2018, Mota Engil S.A. exited the Routes 2 and 7 Project, leaving Sacyr Concesiones S.L. and Ocho A S.A. with 60% and 40% ownership of "Rutas del Este" S.A., respectively.

In July 2019, Rutas del Este S.A. and its financing parties achieved the financial closing of the Routes 2 and 7 Project. An addendum to the PPP agreement was executed on November 28, 2018, amending certain provisions relating to the project's financing. In October 2019**,** the Routes 2 and 7 Project secured project financing through a credit facility of US$200 million granted by IDB Invest (IDB Private Sector) and the issuance by the project company of a US$458 million zero coupon senior secured note. Payments for the project will be made by the Paraguayan government once the milestones are completed and accepted by the MOPC.

The Routes 2 and 7 Project agreement requires the government to make three different types of periodic payments to "Rutas del Este" S.A., each type of payment being linked to the achievement of certain milestones: (i) deferred investment payments (PDI) over 15 years, (ii) availability payments (PPD) for operations and maintenance and (iii) traffic related payments (PVT). Milestone 0 does not require a proportional PPD payment since it is not subject to maintenance or operation by the project company.

As of the date of this Offering Memorandum, the MOPC has approved the pre-feasibility studies for the opening, dredging, signaling, operation and maintenance of the Paraguay River waterway for an amount of US$110 million and published the tender of the project of the expansion of Route 1 (between the Cuatro Mojones and Quiindy sections). Further, the MOPC has the following projects under the PPP modality under initial study and structuring: (i) the improvement, expansion and operation of Route 6 (a 60km route between Cambyretá and Pirapó Access) and (ii) the development of a passenger commuter train between the cities of Asunción and Ypacarai.

On October 20, 2020, the Paraguayan government enacted a decree incorporating various best practices learned by Paraguay in the implementation of PPP projects, such as mandatory prequalification, competitive dialogue, abbreviated processes in the issuance of opinions and variable term contracts, among others.

Turnkey Projects (Law No. 5074/13)

Since 2013, Paraguay's regulatory framework for turnkey projects allows the government, through the MOPC, to assume payment obligations either (i) upon total completion of the public works or (ii) upon completion of milestones. The payment obligation described on (ii) above is known as a Certificado de Reconocimiento de

Obligación de Pago ("CROP"), which are issued upon acceptance by the government of the satisfactory completion of a milestone. CROPs represent Paraguay's unconditional and irrevocable recognition of its payment obligation, maturity dates, and payment method. CROPs bear the sovereign guarantee (full faith and credit) of Paraguay. Each CROP expressly precludes all set-off rights, and states that all payment obligations arising therefrom shall have no relation to any termination events or breaches that may be incurred in the construction of the remaining sections (milestones) of the relevant project. Each CROP accrues interest from the date of the issuance of an Acta de Recepción Provisoria ("ARP"), which is an MOPC ministerial resolution accepting the works related to the milestone. The payment rights arising under the CROPs are governed by Paraguayan law, transferable upon authorization by the MOPC.

Between 2017 and 2019, the government entered into agreements setting out the terms of three of the turnkey projects contemplated under Law No. 5074/13: (i) the construction and paving of the San Cristobal - Naranjal Segment - Route N ° 6 in 2017 (ii) a project for the design and construction of a new road between Loma Plata and Carmelo Peralta (the "Corredor Bioceanico Project") in 2018, and (iii) a project for the design and construction of Avenida Costanera Sur of Asunción in 2019. The MOPC is also considering the application of the "turnkey" model to additional projects, such as the construction of the second stage of the Corredor Bioceanico Project (Loma Plata - Pozo Hondo). The project for the construction and paving of San Cristóbal - Naranjal - Route No. 6 Section began in May 2017 and was completed in August 2019 and all tranches have been delivered by the contractor to the government. The total cost of the project was US$46 million. The MOPC has issued 5 CROPs as a result of the completion and delivery of all functional segments for the project.

On May 11, 2018, the MOPC and the Consorcio Corredor Vial Bioceánico, formed by the Brazilian construction company Constructora Queiroz Galvão S.A., and the Paraguayan construction company Ocho A S.A, entered into an agreement for the Corredor Bioceanico Project the execution of which is underway as of the date of this Offering Memorandum. The project includes 20 construction milestones, all of which, once completed, will trigger the MOPC's obligation to issue the respective CROPs. The project contract has established the price for each milestone, the sum of which amounts to US$443 million. As of April 2023, all the milestones for the Corredor Bioceanico Project had been completed and the corresponding CROPs have been issued.

In October 2019, the MOPC and the Consorcio del Sur, a consortium formed by the Spanish company Eurofinsa S.A. and the Paraguayan Ingeniería TyC S.A, entered into an agreement for the design and construction of Avenida Costanera Sur in Asunción. The contract was amended on April 30, 2020, temporarily suspending contractual obligations through July 30, 2020. In July 2021, the financial closure of the "Costanera Sur Project" was achieved between Banco Itau Paraguay S.A. and Consorcio del Sur.

An international tender is expected to commence for ANDE's electric power distribution and transmission projects under Law No. 6324/19, which will grant a guarantee from the National Treasury of US$300 million. Bidders participating in the international tender must have the necessary financing secured for the complete execution of the works, their respective projects, as well as consultancies and audits. As of the date of this Offering Memorandum, the Ministry of Finance is coordinating with the National Electricity Administration the bidding documents for the future tender under the Law No. 6324/2019.

Environment

The Constitution establishes the right to have a clean and safe environment and further provides that this right must be balanced with the right to social and economic progress. The Constitution also forbids the importation of toxic waste.

The Ministry of the Environment and Development (*Ministerio del Ambiente y Desarrollo* – "MADES") is responsible for developing a national environmental policy. MADES is the enforcement authority under the Office of Environmental Control, which is responsible for the protection of the environment and the evaluation of projects that may have a potential adverse impact on the environment. A report containing specific information about the ecological impact of such projects must be submitted to the Office of Environmental Assessment. Once the report is evaluated, the Office of Environmental Assessment either approves the project or proposes alternatives to minimize or eliminate the adverse effects on the environment. If the approval is not granted or if the Office of Environmental Assessment's alternatives are not satisfied, the project will not be authorized by the government.

Paraguayan environmental law regulates the establishment of national forests and natural reserves, reforestation plans, and the administration of forest resources and programs to prevent erosion. Paraguay also offers tax incentives to encourage reforestation and the preservation of forests.

The National Service of Environmental Health, an agency of the Ministry of Health and Public Welfare, regulates waste disposal and water, air, and land pollution and treatment, including the construction of treatment plants for waste recycling. The National Service of Environmental Health has the power to initiate administrative investigations concerning the contamination of water, air and land, impose fines and shut down industries or establishments causing damage to the environment.

Environmental Concerns and Remedial Efforts

Environmental studies and assessments made over the past years have indicated that Paraguay faces serious and growing environmental problems. Cumulative effects of the misuse of natural resources have seriously compromised the sustainability of natural ecosystems, air quality, water and land. Water is one of the most important natural resources and groundwater provides 80% of Paraguay's drinking water supply. The quality of groundwater and surface water has deteriorated as a result of inappropriate land use, pollution of aquifer recharge areas, misuse of toxic agrochemicals and inappropriate disposal of household and industrial waste.

Deforestation, which has increased in recent years, causes erosion. In addition, deforestation has led to the degradation and depletion of soil as a result of improper use of the land in agriculture and infrastructure projects. Deforestation has also resulted in the unplanned expansion of urban areas, which, in turn, leads to inadequate waste management. Other adverse impacts of deforestation include loss of wildlife habitat, loss of biodiversity and the disruption of water cycles.

Since 1998, certain acts against the environment are criminally punishable offenses. The criminal code penalties include fines and imprisonment. A national prosecutor is responsible for investigating and prosecuting environmental offenses under the criminal code.

Current environmental regulation includes two 2006 statues that promote the conservation, protection, recovery and sustainable development of Paraguay's biodiversity and natural resources through the evaluation and fair remuneration of timely and adequate environmental services, and direct funding of conservation projects. With Paraguay's entrance into the Paris Agreement, the country has committed to a 10% reduction of its greenhouse gas emissions, and another 10% reduction if it obtains the international cooperation in financing and technology transfer from developed countries contemplated by the Paris Agreement.

Another important environmental initiative is the Project for a Sustainable Paraguay (*Proyecto Paraguay Sostenible*), a five-year, US$30 million project in conjunction with the World Bank which is expected to take effect in 2023. This initiative is aimed at promoting greater transparency regarding environmental issues, reducing deforestation while increasing natural regeneration, and increasing national agricultural production to create greater sustainable biomass.

Construction of the Itaipú and Yacyretá dams led to periodic flooding of adjacent areas. Itaipú and Yacyretá binationals compensated the population affected by the floods by purchasing the flooded land. In addition, from time to time each of the binational companies implements remedial measures to mitigate any environmental damage that the operation of hydroelectric plants could cause, such as reforestation of adjacent areas and conservation of the underwater ecosystem.

Throughout mid-2019, forests in Paraguay suffered widespread bushfires, including in Alto Paraguay, a region hosting the largest public and private protected areas in the country. Approximately 325,000 hectares were affected in Alto Paraguay, mainly in the areas of the Cerro Chovoreca Natural Monument and the Park National Río Negro. Forest fires affected biodiversity of the affected areas, livestock establishments, small settlements and ancestral territories of indigenous communities. These bushfires have been attributed to slash-and-burn agriculture, a common practice in Paraguay, which was aggravated by adverse weather conditions, such as droughts and strong winds. In 2020, there were several fire outbreaks throughout Paraguay, largely due to a combination of high temperatures, low humidity, and high wind speeds. This trend continued through 2021. August 2021 was the most critical period for forest fires, particularly in the Occidental region of the country. As in 2020, the fire outbreaks throughout Paraguay in 2021 were largely due to a combination of high temperatures, low humidity and a lack of rain.

Recently, Law No. 6676/20 was enacted, which establishes a 10-year extension on the prohibitions on transforming forest areas in the eastern region of Paraguay to areas destined for agricultural use, human settlements, production, transport and the commercialization of wood, firewood, charcoal, or any other forest product. See "Current Economic Policies – Climate Change Mitigation Policies" for more information on the environmental initiatives.

Employment and Labor

The labor force in Paraguay increased from 2.9 million in 2011 to 3.7 million in 2022. The labor force includes any person above the age of 15 who is currently employed or looking for employment. In the first quarter of 2023, 3.5 million people were employed, compared to 3.4 million in the first quarter of 2022. The national labor rate was 65.6%, 0.4 percentage points higher than in the first quarter of 2022.

The following table sets forth certain information related to the employment in the main sectors of the Paraguayan economy for the indicated years.

Employed Population (1)

	As of December 31,					As of March 31,	
	2018	**2019**	**2020**	**2021**	**2022**	**2022**	**2023**
	(in percentage of total)						
Primary Sector	**20.1**	**19.7**	**20.8**	**19.6**	**16.7**	**17.7**	**16.5**
Agriculture, Livestock, Hunting and Fishing	20.1	19.7	20.8	19.6	16.7	17.7	16.5
Secondary Sector	**18.7**	**18.7**	**18.8**	**19.2**	**18.3**	**18.2**	**16.4**
Manufacturing	11.5	10.9	10.0	10.5	10.5	10.3	9.1
Construction	7.2	7.8	8.8	8.7	7.8	7.9	7.3
Services Sector	**61.2**	**61.6**	**60.7**	**61.2**	**65.0**	**64.0**	**67.1**
Trade, Restaurants and Hotels	26.0	26.5	26.7	28.2	27.1	27.6	28.6
Community, Social and Personal	25.0	25.5	24.6	23.5	26.0	26.3	27.2
Others(2)	10.2	9.6	8.4	9.5	11.9	10.2	11.3
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

(1) Includes any person above the age of 15 who is currently employed.
(2) Includes Electricity, Gas and Water, Transport, Storage and Communications, and Finance, Insurance and Real Estate.
Source: Bureau of Statistics and Census.

As of March 2023, there were roughly 1,060 labor unions active according to the Ministry of Labor, Employment and Social Security. The Constitution provides that workers have a right to strike when disputes among workers and employers are not settled according to the process established by the labor law. However, workers that provide essential services such as water, electricity and hospital services are limited in their right to strike. The Constitution does not allow members of the military and police to strike. Strikes and other labor actions by unions have tended to be brief and they occur infrequently.

Employment

The labor force in Paraguay increased from 2.9 million in 2011 to 3.7 million in 2022. The labor force includes any person above the age of 15 who is currently employed or looking for employment. The unemployment rate for 2022 was 5.7%, compared to 6.7% in 2021. As of the first quarter of 2023, the unemployment rate was 6.5%, a decrease of approximately 2.0% compared to the same period in 2022. In nominal terms, as of the first quarter of 2023, unemployment affected approximately 242,982 people, of which about 105,061 were men and 137,921 were women.

Approximately 46.0% of the employed people above the age of 15 who receive a salary or worked as employees were covered by a retirement or pension system in 2022. More men (57.5%) were covered by a retirement or pension system than women (42.5%). This discrepancy is a result of the predominance of female workers in the services sector, which includes all public sector institutions, like education and health.

The percentage of people employed in an occupation classified as informal was 64.2% in 2013 and 61.0% as of the third quarter in 2023, according to quarterly data from the Bureau of Statistics and Census. The definition of "informal occupation" adopted by the Bureau of Statistics and Census includes public and private employees who do not contribute to the retirement or pension system; employers whose company is not registered in the Unique Taxpayers Registry (RUC) of the Ministry of Finance, self-employed workers that are not registered in the RUC, unpaid family workers, and domestic employees who do not contribute to the retirement system, but excludes agricultural workers.

The estimated underemployment rate was 4.1% in 2022. Underemployed individuals are those who are unable to obtain full-time work if they work fewer than 30 hours per week and are actively seeking more hours of employment. As of the first quarter of 2023, the underemployment rate was 3.8%, a decrease of approximately 1.4% compared to the same period in 2022. In nominal terms, as of the first quarter of 2023, underemployment affected approximately 141,031 persons.

However, the labor market is segmented, where formal jobs with highly trained employees and working conditions above the national average exist on the one hand, and on the other hand there is a large segment of the labor market that can be characterized as informal, unskilled and with earning wages below the legal minimum.

The following table sets forth certain information referring to unemployment and underemployment for the periods indicated.

Estimated Unemployment and Underemployment (percentage)

	As of December 31,					As of March 31,	
	2018	2019	2020	2021	2022	2022	2023
Unemployment rate	6.2	6.4	6.9	6.7	5.7	8.5	6.5
Underemployment rate	5.4	7.1	6.8	4.7	4.1	5.2	3.8

Source: Bureau of Statistics and Census.

Wages

Workers of 18 years of age or older and formally employed are entitled to a minimum monthly wage of approximately US$364.2. Based on the 2022 annual employment survey, 65.2% of the employed population receiving a salary or working as an employee receive a monthly salary that is equal at least to the monthly minimum wage.

The minimum wage is set by the National Commission of Minimum Wage, which is composed of eight members, including two representatives of workers, two representatives of employers and four representatives of the government. The minimum wage is adjusted annually in June by the Executive Power, on the proposal of the National Commission of Minimum Wage, based on the year-over-year variation of the CPI. In 2022, the executive branch decided to increase the salaries and wages of the private sector in accordance with the provisions set forth in Decree No. 7270/2022. The increase was 11.4%, after accounting for inflation.

Along with the minimum wage, Paraguayan workers are also entitled to various benefits in the workplace, such as social security, health and severance benefits.

Unless otherwise indicated, the following table sets forth annual changes in the wage index for the periods indicated.

Changes in Nominal Wages(1)

Year	% Change
2018	6.0
2019	3.2
2020	1.1
2021	2.7
2022	6.9

(1) Wage index based on survey conducted by the Central Bank.

Source: Central Bank.

In 2018 public teachers and public health employees received wage increases. Although the 2020 annual budget included wage increases of 16% for public school teachers, these increases were suspended due to the economic and fiscal effects of the COVID-19 pandemic. In 2022, a 5% salary increase was granted to teachers starting from the month of July. This increase was granted as a supplement, based on the salary in effect as of September 2021, completing a 16% increase in the context of the gradual implementation of the Basic Professional Teaching Salary.

The 2023 Budget projects a salary reclassification and the implementation of the ranking system for sectors in the health area. In addition, it has budgeted a salary increase for teachers and administrative staff of the National University of Asuncion (UNA).

The 2023 Budget also projects salary equalization for staff of the Ministry of Environment and Sustainable Development (MADES), as well as improvements for contracted personnel within the Ministry of Justice.

Education

The total literacy rate in Paraguay was 95.3% in 2022.

The following table sets forth the illiteracy rate of individuals of 15 years or older for the years indicated.

Illiteracy Rate

	2018	2019	2020	2021	2022
	(in percentages of total population)				
Illiterate	6.0	6.8	5.5	5.4	4.7

Source: Bureau of Statistics and Census.

In 2011, the government sanctioned free, mandatory primary and middle school education. In addition, three-year secondary schooling is available to all Paraguayan citizens and the government provides substantial subsidies for the National University, with students responsible only for nominal examination fees.

Under the Constitution, at least 20% of the expenditures in the central government's annual budget must be allocated to education. See "Public Sector Finances—Budget Process" for more information on the central government's budget. New educational programs for public primary schools include teacher training and free distribution of textbooks. In 2013, a program providing for two school meals per day was implemented in public schools to alleviate food deficiency for school-age children. In addition, in February 2016, the IDB approved a US$20 million credit to finance an initiative to implement an 8-hour school day and the Scholas methodology (a method approved by Pope Francis in 2013, whose mission is to achieve the integration of communities, with special focus on the poorer ones, by committing all social actors and incorporating schools and educational networks worldwide to technological, sports and artistic proposals) that will benefit approximately 156,000 students in several educational institutions across the country. New programs at the university-level include international exchange programs, need- and merit-based scholarships and the establishment of research institutes.

Until the early 1990s, there were only two universities in Paraguay, the public National University and the Catholic University of Asunción. In recent years, the government has authorized through law the establishment of new private universities. As of the date of this Offering Memorandum, there were 47 private universities established in Paraguay, some of them servicing rural areas.

The following table sets forth the level of education achieved by Paraguayan citizens of 15 years of age or older for the periods indicated.

Educational Levels

	2018	2019	2020	2021	2022
	(in percentages of total population)				
Population uneducated	2.6	2.3	2.3	2.0	1.9
From 1 to 6 years of study	32.8	31.3	30.7	30.1	28.0
From 7 to 12 years of study	42.7	43.0	44.1	44.2	44.5
From 13 to 18 years of study	22.0	23.1	22.9	23.7	25.6

Source: Bureau of Statistics and Census.

Non-attendance in school increases with age, and 68.8% of those 19 to 25 years old did not study as of 2022. For those between 13 and 18 years old, this rate drops to 16.1%, and 0.7% for those between 5 and 12 years old. Non-attendance in school is higher in the poorest segment of the population. Approximately 76.1% of people 5 years and older attend public institutions, while 23.9% attend private institutions; 94.4% of the poor attend public institutions, together with 68.9% of the non-poor.

The average number of years of education of people aged 15 years and over is 10.0. This average is clearly differentiated by poverty level, with the non-poor having an average of 10.6 years of schooling while the non-extreme poor have an average of 7.9 years and the extreme poor an average of 7.3 years of schooling.

The government is developing a comprehensive educational reform plan known as National Plan for Educational Transformation 2030 (the "Education Plan 2030") which aims to improve the quality of education and will serve as the primary public policy in education for the next decade. Initially approved in 2017, the Education Plan 2030 is being led by the Ministry of Education and a strategic committee consisting of representatives from the Ministry of Finance, the Technical Secretariat for Economic and Social Development Planning, the Management Unit of the Presidency of the Republic, and members of civil society. The Ministry of Education is conducting public hearings to promote dialogue on educational policies in different sectors of the population, and is collaborating with national specialists, foreign universities and local organizations to obtain assistance in developing the Education Plan 2030. The implementation of a comprehensive reform in education is essential to achieve quality, equity and inclusion in Paraguay's educational curriculum.

Poverty and Income Distribution

According to data of a survey conducted by the National Institute of Statistics ("INE") in 2022, 24.7% of the Paraguayan population was considered to live in poverty, including 5.6% considered to be extremely poor. Most people in these two categories are located in rural areas.

Based on INE's classifications, the poor people in urban areas received a monthly income of approximately US$118.2 or less, and the extremely poor received a monthly income of approximately US$49.6 or less. In rural areas, poor people received a monthly income of approximately US$85.6 or less, and the extremely poor received a monthly income of about US$45.3 or less. Poverty in Paraguay is primarily attributable to relatively low levels of education and economic activity. In 2022, according to INE, 4.7% of the Paraguayan population was illiterate (with "illiterate" defined as an individual older than 15 years old who cannot read and write).

In 2022, 24.7% of the population was living in poverty, a decrease of 2.2 percentage points compared to 26.9% in 2021. From 2017 to 2019, the total national poverty level displayed a decreasing trend, reaching 23.5% in 2019. However, it rose to 26.9% in 2020 due to the crisis generated by the COVID-19 pandemic, and this percentage was maintained in 2021. Prior to 2020, the poverty rate generally declined over the years, with total poverty rates recorded at 23.5% in 2019 and 24.2% in 2018. In 2022, people living in extreme poverty represented 5.6% of the population, an increase of 1.7%, primarily due to the drought that severely impacted the primary sector. Extreme poverty affected 3.9% of the population in 2021, the same percentage as in 2020, and slightly less compared to 4.0% in 2019 and 4.8% in 2018.

The following table sets forth the percentages of those living in poverty and extreme poverty for the periods indicated showing a sustained reduction since 2018.

Poverty and Extreme Poverty Rates
(in percentages of the total population)

	2018	2019	2020	2021	2022
Total poverty	**24.2**	**23.5**	**26.9**	**26.9**	**24.7**
Extreme poverty	4.8	4.0	3.9	3.9	5.6
Non extreme poverty	19.4	19.5	23.0	23.0	19.1
Non poverty	**75.8**	**76.5**	**73.1**	**73.1**	**75.3**

Source: Bureau of Statistics and Census.

Poverty reduction in recent years has been accompanied by an expansion of the middle class, which included approximately 1.4 million people (21.7% of the population) in 2011, but had grown to approximately 1.9 million (26.6% of the population) by 2022, an overall increase of 30.5% of the Paraguayan population is considered to be middle class during this period. In 2022, 1,952 million (26.6%) of the population is considered middle class. Despite an increase in the middle class, it's crucial to note that the number of people of more limited means also rose in 2022. Similarly, there was a noticeable increase in inequality in 2022, as evidenced by the rising Gini index. Several factors contributed to this, such as a bad economic performance in 2022 coupled with high inflation, which led to a reduction in people's income.

Despite improvements in the reduction of poverty, inequality remains a problem for Paraguay. The Gini-index, the most commonly used measure of inequality, ranges from 0, which represents complete equality, to 1, which represents complete inequality. Paraguay's Gini index was 0.453 in 2022, 0.431 in 2021, 0.437 in 2020, 0.458 in 2019, 0.461 in 2018. The Gini coefficient has gone from 0.542 in 1997/98 to 0.453 in 2022. This indicates a 16.4% reduction in income inequality. However, when comparing the 2022 value with that of 2021, the indicator has increased by approximately 5.1%

The average monthly household income in 2022 was approximately G.5,535 thousand (approximately US$792.7). The disposable income for the wealthiest 20% of Paraguayans is 8 times higher than the total disposable income of a household in the poorest quintile.

The following table sets forth the average monthly income by monthly per capita income quintiles for the periods indicated.

Average Monthly Income
(in US$)

	2018	2019	2020	2021	2022
Lowest 20%	$238.85	$220.76	$206.51	$237.69	$212.50
20% below	435.94	392.18	343.81	372.17	389.32
20% below	633.18	608.83	496.67	525.31	544.59
20% below	877.50	837.75	695.94	731.42	808.28
Top 20%	1,787.72	1,640.58	1,331.17	1,377.36	1,610.53
Total	**$890.51**	**$829.64**	**$892.45**	**$725.11**	**$792.72**

(1) Calculated based on the annual average exchange rate.
Source: Bureau of Statistics and Census.

The government has created programs to address poverty, including Tekopora and a pension for older adults living in extreme poverty, and has promoted healthcare accessibility. The main purpose of Paraguay's National Health System, established under the Constitution, is to allocate funds and medical resources to provide for those in need of medical assistance.

Tekopora is a monthly cash transfer with co-responsibilities granted by the Social Action Secretariat to previously selected families. It is intended for households living in extreme poverty in urban and rural areas and seeks to ensure access to health, education and food security for children, pregnant women, the elderly, indigenous communities and people living with disabilities. As of December 2022, 184,503 families were receiving benefits under the Tekopora program. An additional payment was made in 2022 to 173,627 families, under the framework of the Presidential Decree N°. 8367/2022.

The Food Pension for Seniors in Poverty Law, which became effective in 2012, establishes the right to maintenance for senior adults in poverty who do not receive state pension or retirement payments, and it determines pension payments for people aged 65 and over, corresponding to 25% of the minimum wage. As of December 2022, approximately 278,632 were receiving pension payments.

The government also allocates funds to provide those in need with education, vocational work training and basic services.

The National Vocational Promotion Service (the "SNPP") is an agency under the Ministry of Labor, Employment and Social Security created in 2013, which offers courses designed for people of different levels of education and belonging to different sectors of the economy. The services are provided through use of the SNPP's headquarters, regional and sub-regional collaborating centers and mobile units that can reach anywhere in the country. Its primary objectives are organization, promotion and development of vocational training, qualifying workers of both sexes (preferably over 18 years old) and preparing them to enter a variety of professions.

Paraguay's Competitive Advantages

In terms of the business climate, results at the close of the second quarter of 2023 indicate that Paraguay is a leader in the region, scoring above the average for Latin America. According to the Fundación Getulio Vargas (FGV) sustainability report, Paraguay's position is a result of improved economic prospects and the consolidation of an environment conducive to both domestic and foreign investments. A GDP expansion of 4.5% is projected by the end of 2023, a figure surpassing the economic growth forecasted for other Latin American countries.

In comparison with other countries in South America, Paraguay presents a number of competitive advantages in terms of input costs, as illustrated in the following table.

Item	Paraguay	Brazil	Argentina	Chile
Energy Cost (c$/kWh)(1)	0.056	0.175	0.032	0.194
Indirect Tax Rate(2)	10.0%	17.0%	21.0%	19.0%
Corporate Tax Rate(3)	10.0%	34.0%	35.0%	27.0%
MFN Applied Tariff: Trade-Weighted Average(4)	6.4%	10%	11.9%	6.0%
Social Security Contribution(5)	25.5%	31.0%	40.0%	10.0%

(1) Global Petrol Prices (September 2022)

(2) CIAT (2021). Indirect taxation on the digital economy and its potential revenue in Latin America. OCDE (2023). Estadísticas tributarias en América Latina y el Caribe 2023.

(3) Tax Foundation (2022).

(4) As of 2020, MFN Applied Tariff: Trade-Weighted Average by import data. Source: World Tariff Profiles 2022. World Tariff Profiles 2022. World Trade Organization.

(5) Social Security Contribution is the sum of the contribution to the social security system of the employer and the employee, and assumes contribution level for the highest wage brackets. Source for Argentina, Brazil and Chile: "Pensions at a Glance – Country Profiles – OECD Publishing, 2019." Source for Paraguay: "IPS, Legal Statutes, 2013."

Paraguay has the second lowest electricity costs in South America, as well as both the lowest indirect and corporate tax rates in South America, at 10% each. In addition, labor costs in Paraguay are also low, with a minimum wage of approximately US$1.8 per hour, and Paraguay has a youthful labor force, with approximately 25.4% of its population between the ages of 20 and 34.

BALANCE OF PAYMENTS AND FOREIGN TRADE

Balance of Payments

In 2018, Paraguay registered balance of payment deficit of US$ 183 million (0.4% of GDP) mainly as a result of a deficit in the current account due to a lower trade surplus. In 2019, Paraguay recorded a balance of payments deficit of US$54.9 million (0.1% of GDP), mainly as a result of a deficit in the current account due to a lower trade surplus. The lower trade surplus in 2019 was mainly due to adverse weather conditions, which negatively influenced agricultural production and electricity generation, coupled with a decrease in the price of Paraguay's main export commodities.

In 2020, Paraguay recorded a balance of payments surplus of US$1,805.2 million (5.0% of GDP), resulting primarily from a higher surplus in the current account due to a sharp decrease in net imports that exceeded the decrease in exports. Imports and exports in 2020 decreased compared to 2019 due to a combination of internal and external factors, including, but not limited to, a decrease in the electricity sector due to adverse weather conditions, a decrease in imports of goods for domestic consumption as a result of the COVID-19 pandemic and lower international oil prices.

In 2021, Paraguay recorded a balance of payments surplus of US$593.0 million (1.5% of GDP). A sharp increase in imports that exceeded the increase in exports in 2021 led to a deficit in the current account, with a lower trade surplus, as well as a deficit in the service sector.

In 2022, Paraguay recorded a balance of payments deficit of US$134.3 million (0.3% of GDP), mainly as a result of a deficit in the current account due to a deficit in both the trade balance and the service sector. The deficit in the trade balance was driven by a sharp increase in imports and a decrease in exports.

The Central Bank's international reserves increased by US$1.9 billion from 2018 through 2022, which resulted in total international reserves of US$9.8 billion as of December 31, 2022.

The total international reserves of Paraguay in December 2021 represented 24.7% of GDP and provided approximately 11.6 months of coverage for imports of goods and services (excluding goods imported for re-export). As of December 31, 2022, international reserves represented 23.5% of total GDP and provided approximately 9.8 months coverage for imports of goods and services (excluding goods imported for re-export).

As of December 2022, the Central Bank of Paraguay published data for the Balance of Payments in accordance with the fifth and sixth edition of the IMF's Balance of Payments and International Investment Position Manual (BPM5 and BPM6). The following data and descriptions are presented according to the methodology set by the BPM6.

Balance of Payments[1]

	12-month period ended December 31,				
	2018	2019	2020	2021[1]	2022[1]
	(in millions of US$)				
Current account	**(97.3)**	**(218.9)**	**691.7**	**(305.2)**	**(2,713.0)**
Trade balance[2]	573.1	203.5	1,225.8	628.8	(1,909.8)
Exports	13,181.6	12,116.3	10,954.9	13,223.0	12,815.4
Imports	12,608.6	11,912.8	9,729.2	12,594.3	14,725.3
Services balance	93.1	161.3	131.4	(124.2)	(198.4)
Manufacturing services on physical inputs owned by others	238.3	246.6	223.3	364.1	517.4
Transportation	(268.8)	(239.5)	(114.2)	(411.4)	(602.8)
Travel	112,0	136.4	(10.7)	(114.9)	(202.3)
Other services[3]	11.7	17.9	33.0	38.0	89.2
Primary income	(1,403.9)	(1,161.0)	(1,188.7)	(1,343.8)	(1,146.3)
Secondary income [4]	640.4	577.3	523.2	534.0	541.5
Capital account	**152.6**	**151.1**	**171.7**	**217.5**	**159.0**
Net lending (+) / net borrowing (-)	**55.3**	**(67.8)**	**863.4**	**(87.8)**	**(2,554.0)**
Financial account	**(664.3)**	**(321.3)**	**(1,411.9)**	**(1,256.3)**	**(2,075.9)**
Direct investment[5]	(218.5)	(532.2)	(119.6)	(94.9)	(222.7)
Direct investment assets	(0.8)	(129.8)	(24.4)	112.2	250.9
Direct investment liabilities	217.7	402.4	95.2	207.1	473.5
Portfolio investment	(520.0)	(409.0)	(2,168.9)	(481.0)	(214.8)
Financial derivatives (other than reserves)	0.0	0.0	0.0	0.0	0.0
Other investment	74.2	619.9	876.6	(680.4)	(1,638.4)
Assets	(44.3)	168.4	1,292.3	(739.3)	(529.1)
Other equity	0.0	0.0	0.0	0.0	0.0
Currency and deposits	(78.3)	140.8	1,210.1	(732.9)	(669.8)
Loans	2.3	(20.4)	43.7	(44.6)	(1.5)
Insurance, pension entitlements and provisions for calls under standardized guarantees	0.0	0.0	0.0	0.0	0.0
Trade credit and advances	28.4	33.0	38.2	41.2	32.3
Other accounts receivable	3.2	15.0	0.4	(3.0)	110.0
Liabilities	(118.5)	(451.5)	415.7	(58.9)	1,109.2
Other equity	0.0	0.0	0.0	0.0	0.0
Currency and deposits	4.2	4.2	4.2	4.2	4.2
Loans	(97.2)	(467.8)	447.2	(262.2)	1,069.9
Insurance, pension entitlements and provisions for calls under standardized guarantees	0.0	0.0	0.0	0.0	0.0
Trade credit and advances	41.9	22.0	35.5	34.9	32.1
Other accounts payable	(67.4)	(9.9)	(71.1)	(108.0)	3.0
SDR allocations	0.0	0.0	0.0	272.2	0.0
Errors and omissions	**(902.6)**	**(308.4)**	**(470.1)**	**(575.5)**	**343.9**
Total balance of payments	**(183.0)**	**(54.9)**	**1,805.2**	**593.0**	**(134.3)**

(1) Preliminary data.
(2) Includes Itaipú Binational and Yacyretá Binational electricity exports.
(3) Other services include diplomatic services, banking and insurance commissions (including insurance and reinsurance premiums) from commercial transactions outside of Paraguay and communications services.
(4) Net debits and credits of worker remittances and donations.
(5) Includes private sector and National Treasury.
Source: Central Bank.

Current Account. In 2022, Paraguay recorded a current account deficit of US$2,713.0 million (6.5% of GDP) compared to a current account deficit of US$305.2 (0.8% of GDP) in 2021, mainly attributable to the deficit in the trade balance. In 2020, Paraguay recorded a current account surplus of US$691.7 million (1.9% of GDP) compared to a current account deficit of US$218.9 million (0.6% of GDP) in 2019, mainly attributable to a large surplus in the trade balance. In 2018, Paraguay recorded a current account deficit of US$97.3 million (0.2% of GDP).

Trade. The trade balance includes electricity exports made by Itaipú Binational and Yacyretá Binational, drawn from unutilized production capacity.

Services. The services balance of Paraguay's current account comprises three components, namely transportation, travel and other services. Transportation makes up the key component of the services balance. The transportation component of Paraguay's services balance reflects payments made for the use of foreign vessels and ground transportation to move merchandise into and out of Paraguay. The net travel component of the services balance records the difference in the expenditures incurred by inbound and outbound tourists travelling to and from Paraguay.

Primary income. The primary income component of the current account consists primarily of: (i) income associated with the production process such as the compensation of employees (income for the contribution of labor inputs to the production process), (ii) taxes and subsidies on products and production (income related to production) and (iii) income associated with the ownership of financial and other non-produced assets such as property income (return for providing financial assets and renting natural resources), investment income (the return for providing financial assets consisting of dividends and withdrawals from income of quasi-corporations, reinvested earnings, and interest). Primary income maintained a deficit from 2018 to 2022. This was mainly the result of debt service payments by the binational entities, and remittances and dividend payments by majority foreign-owned companies to their foreign shareholders and affiliates.

Secondary income. Secondary income is mainly comprised of workers' remittances and donations submitted and received from abroad and from the public and private sectors. In 2021, accumulated remittances represented 4.9% of Paraguay's total international reserves. In 2022, accumulated remittances represented 5.0 % of Paraguay's total international reserves.

Capital account. In 2022, the capital account recorded a surplus of US$159.0 million (0.4% of GDP) compared to a surplus of US$ 217.5 million (0.5% of GDP) in 2021. During the 2018-2022 period, the capital account registered successive surpluses due to the entry of capital transfers.

Financial Accounts. The private sector is a large recipient of capital inflows, mainly through FDI and returns on deposits and loans. FDI is the main long-term source of funds for the private sector. The public sector received a large portion of the capital inflows since 2013 and through 2022, derived from the issuance of sovereign bonds in the international capital markets. In 2018, the financial account recorded net inflows of US$664.3 million (1.6% of GDP). In 2019 and 2020, the financial account recorded a net inflow of US$321.3 million (0.8% of GDP) and US$1,411.9 million (3.9% of GDP), respectively, in each case, as a result of sovereign bonds issued in the international capital markets and larger FDI inflows, as compared to the previous years. In 2021, the financial account recorded net inflows of US$1,256.3 million (3.1% of GDP) and, in 2022, the financial account recorded net inflows of US$2,075.9 million (5.0% of GDP). This increase in net inflows in 2022 compared to 2021 was mainly a result of an increase in net inflows provided by of loans from both public and private sectors.

Foreign Trade

Paraguay's cumulative exports (excluding electricity exports) in the 12-month period ended December 31, 2022 totaled US$8,285.9 million, a decrease of 7.3% compared to the 12-month period ended December 31, 2021. The main destination for Paraguayan exports is MERCOSUR, and exports to this region (excluding electricity exports) decreased to US$4,120.9 million in the 12-month period ended December 31, 2022 from US$4,683.5 million during the 12-month period ended December 31, 2021. Exports to MERCOSUR accounted for almost 49.7%

of Paraguay's total exports in the 12-month period ended December 31, 2022. Other major destinations for Paraguayan exports are the rest of Latin American Integration Association (the "LAIA"), the EU and Russia.

The second largest destination of Paraguayan exports is the rest of the LAIA, primarily Chile and Peru. Exports to the rest of the LAIA countries increased to US$1,438.3 million in the 12-month period ended December 31, 2022 from an annual average of US$995.1 million during the preceding four years. In the 12-month period ended December 31, 2022, exports to Chile accounted for 80.2% of exports to the rest of the LAIA countries, while exports to Peru accounted for 9.4% of exports to the rest of the LAIA countries.

In the 12-month period ended December 31, 2022, exports to the EU totaled US$436.1 million, accounting for approximately 5.3% of total exports. Compared to the 12-month period ended December 31, 2021, the value of exports to the EU decreased by approximately 12.2% during the 12-month period ended December 31, 2022. The EU also allows Paraguay to export 1,000 tons of beef with a preferential tariff under the Hilton quota arrangement. According to the European Union Meat Market Observatory, Paraguay used 96.2% of the 2017/2018 quota and through October 31, 2019, 93.5% of the 2018/2019 quota, 68.04% of the 2019/2020 quota and 63.1% of the 2020/2021 quota. The underutilization of the 2020/2021 quota has been driven by a reduction in exported beef to the EU, largely due to COVID-19 restrictions. As of the date of this Offering Memorandum, Paraguay had used 94.7% of its 2022/2023 quota.

In the 12-month period ended December 31, 2022, exports to Russia decreased by 52.9%, to US$356.4 million from US$756.7 million in the 12-month period ended December 31, 2021. Exports to Russia represented 4.3% of total exports in the 12-month period ended December 30, 2022.

Paraguay's main import trade partners are MERCOSUR members, which accounted for US$5,157.3 million, or 32.5% of total imported goods in the 12-month period ended December 31, 2022, and China, which accounted for US$4,690.2 million, and represented 29.6% of total imported goods in the same year.

According to the IMF, the impact of Argentina's exchange rate volatility on trade with neighboring countries remain uncertain. Foreign exchange controls in Argentina had previously led to a surge in non-declared imports. Businesses involved in the formal distribution and retail chain had been negatively affected by contraband trade. Exports from Paraguay to Argentina increased since December 2015. Argentina's former president, Mauricio Macri, removed export taxes on agricultural products such as wheat, beef and corn and reduced taxes on soybeans. Although President Macri's administration lifted exchange controls in December 2015, allowing the Argentine peso to float freely, exchange controls were reinstated in September 2019, in anticipation of the October presidential elections, and have been maintained since then.

In September 2020, the Central Bank of Argentina (the "BCRA") tightened conditions for the purchase of foreign currency to prevent hoarding, preserve reserves and discourage demand for the U.S. dollar. The BCRA announced new measures, including a 35% tax on U.S. dollar purchases by retail savers which will apply on top of the existing 30% 'solidarity tax.' This additional levy also affects credit card purchases in U.S. dollars. The existing quota of US$200 per citizen per month, implemented by President Macri's administration in 2019 to exchange currency for the formation of external capital and to transfer funds abroad, remains in place. Exports to Argentina from Paraguay decreased by 36.7% as of December 31, 2022 on a year-on-year basis, primarily due to the negative performance of soya beans.

Geographical Distribution of Merchandise Trade

The following table sets forth Paraguay's exports and imports by geographical distribution for the periods indicated.

Exports by geographical distribution

Trade Blocs	12-month period ended December 31, 2018	2019	2020	2021[1]	2022[1]	% Change[1] 2021 - 2022	% of Total Exports[1] 2022
	Exports by geographical distribution (in millions of US$, FOB value of exports)						
Exports							
LAIA	$ 878.3	$ 881.2	$ 957.9	$ 1,263.1	$ 1,438.3	13.9	17.4
Chile	626.2	625.9	769.7	998.5	1,153.5	15.5	13.9
Peru	121.6	139.1	99.6	172.9	135.5	(22.2)	1.6
Bolivia	54.5	50.7	47.0	58.4	96.2	64.7	1.2
Venezuela	18.6	2.5	9.7	1.4	5.6	312.0	0.1
Ecuador	44.5	43.8	9.3	13.6	14.1	3.3	0.2
Colombia	10.7	17.6	22.1	17.5	33.8	92.7	0.4
Cuba	2.2	1.6	0.5	0.7	0.6	(22.2)	0.0
MERCOSUR	3,021.6	2,697.8	3,515.5	4,683.5	4,120,9	(12.0)	49.7
North America Free Trade Agreement (NAFTA)	157.7	180.0	232.9	245.8	317.9	29.3	3.8
Central American Integration System (SICA)	53.3	27.6	34.7	24.8	28.9	16.9	0.3
Caribbean Community (CARICOM)	1.6	0.6	4.5	0.6	4.7	756.3	0.1
Rest of the Caribbean	4.3	12.4	12.3	12.2	12.7	3.9	0.2
European Union[2]	823.4	587.8	508.7	496.6	436.1	(12.2)	5.3
Russia	783.8	615.1	479.0	756.7	356.4	(52.9)	4.3
Rest of Europe	25.1	32.2	24.9	132.9	135.8	2.2	1.6
East Asia	151.4	211.4	275.1	306.6	391.8	27.8	4.7
China	26.0	10.7	13.8	30.6	21.8	(28.6)	0.3
South Korea	29.6	84.3	25.4	24.5	90.3	269.3	1.1
Japan	31.0	30.4	59.8	46.1	15.8	(65.7)	0.2
Rest of East Asia	64.9	85.9	176.0	205.5	263.9	28.4	3.2
Association of Southeast Asian Nations (ASEAN)	212.0	140.1	81.6	128.8	228.8	77.7	2.8
Western Asia	328.8	305.4	261.4	336.5	429.6	27.7	5.2
Gulf Cooperation Council (GCC)	88.7	88.3	76.9	59.0	135.4	129.6	1.6
Other countries of Western Asia	240.1	217.0	184.5	277.6	294.2	6.0	3.6
Rest of Asia	340.8	253.6	205.2	353.1	200.3	(43.3)	2.4
Africa	131.5	116.3	125.9	163.1	145.0	(11.1)	1.7
Southern Africa Custom Union (SACU)	2.3	2.6	2.1	2.1	2.3	9.9	0.0
Other countries of Africa	129.2	113.7	123.8	161.0	142.7	(11.4)	1.7
Closer Economic Relations (CER)	2.4	3.9	1.8	3.1	8.1	158.4	0.1
Rest of the World	17.5	17.9	61.1	34.3	30.6	(10.6)	0.4
Total	**$6,933.5**	**$6,083.3**	**$6,782.2**	**$8,941,6**	**8,285.9**	**(7.3)%**	**100.0%**
% Change	5.4%	(12.3%)	11.5%	31.8%	(7.3%)		

(1) Preliminary data.
(2) For purposes of this table, the United Kingdom is excluded from the European Union category and included in the "Rest of Europe" category for the data corresponding since 2020.

Source: Integration Division; Ministry of Finance, including data from the Central Bank of Paraguay

Paraguay is the largest exporter of electricity in South America, with electricity accounting for approximately 16.7% of Paraguay's total exports in in the 12-month period ended December 31, 2022. The primary destinations for Paraguayan electricity are Brazil and Argentina.

Total Exports and Exports of Electricity

Trade Blocs	2018	2019	2020	2021(1)	2022(1)	% Change(1) 2021-2022	% of Total Exports(1) 2022
	12-month period ended December 31,						
	Exports including binational energy sales (in millions of US$, FOB value of exports)						
Exports							
Mercosur	$ 5,130.2	$ 4,582.3	$ 5,251.3	$ 6,312.8	$ 5,783.4	(8.4)%	58.1%
Argentina	2,176.0	1,643.3	2,122.7	2,639.5	1,914.1	(27.5)	19.2
Brazil	2,808.9	2,836.1	3,023.9	3,557.5	3,666.6	3.1	36.9
Uruguay	145.3	102.9	104.6	115.8	202.6	74.9	2.0
Rest of the world	3,911.9	3,385.5	3,266.7	4,258.1	4,165.0	(2.2)	41.9
Total	$ 9,042.2	**$ 7,967.8**	**$ 8,517.9**	**$ 10,571.0**	**$ 9,948.3**	**(5.9)%**	**100.0%**

Exports of Electricity

12-month period ended December 31,

Trade Blocs	2018	2019	2020	2021(1)	2022(1)
	% of Electricity of Total Export				
MERCOSUR	41.1%	41.1%	33.1%	25.8%	28.7%
Argentina	21.5%	23.4%	13.8%	9.7%	21.1%
Brazil	58.4%	52.9%	47.7%	38.6%	34.3%
Uruguay	-	-	-	-	-
Rest of the world	-	-	-	-	-
Total	**23.3%**	**23.7%**	**20.4%**	**15.4%**	**16.7%**

(1) Preliminary data.
Source: Integration Division; Ministry of Finance, including data from the Central Bank of Paraguay.

Imports by Geographical Distribution

Trade Blocs	2018	2019	2020	2021(1)	2022(1)	% Change 2021-2022(1)	% of Total Imports 2022(1)
	12-month period ended December 31,						
	Imports by geographical distribution (in millions of US$. CIF value of imports)						
LAIA	$249.8	$253.6	$213.4	$263.3	$299.6	13.8%	1.9%
Chile	142.1	131.7	117.8	117.7	126.7	7.7	0.8
Bolivia	57.4	70.3	43.4	72.2	78.9	9.4	0.5
Colombia	27.6	28.9	34.9	47.5	58.2	22.6	0.4
Peru	13.7	14.1	11.7	18.9	25.2	33.4	0.2
Ecuador	8.2	7.2	5.2	6.9	9.7	41.9	0.1
Cuba	0.6	0.9	0.4	0.1	0.3	277.4	0.0
Venezuela	0.2	0.5	0.1	0.2	0.6	210.1	0.0
MERCOSUR	4,454.0	3,855.5	3,445.3	4,680.6	5,157.3	10.2	32.5
North America Free Trade Agreement (NAFTA)	1,390.2	1,292.8	871.9	1,219.8	1,760.2	44.3	11.1
Central American Integration System (SICA)	139.4	99.4	17.0	15.1	16.8	10.9	0.1
Caribbean Community (CARICOM)	1.2	0.9	0.3	0.4	0.4	5.9	0.0
Rest of the Caribbean	4.6	0.8	0.5	1.3	1.1	(12.6)	0.0
European Union(2)	1,476.2	864.5	829.4	1,006.1	1,145.1	13.8	7.2
Russia	100.8	135.7	124.8	183.8	271.2	47.6	1.7
Rest of Europe	105.1	126.0	148.7	171.4	220.9	28.9	1.4
East Asia	4,490.9	4,762.8	3,483.7	4,606.1	5,233.0	13.6	33.0
China	3,764.2	4,172.1	3,013.6	4,080.2	4,690.2	15.0	29.6
South Korea	237.9	200.7	151.9	186.7	211.4	13.2	1.3
Japan	372.9	286.1	236.3	264.0	245.5	(7.0)	1.6
Rest of East Asia	115.9	104.0	82.0	75.3	85.9	14.2	0.5
Association of Southeast Asian Nations (ASEAN)	294.6	646.2	529.3	515.2	632.3	22.7	4.0
Western Asia	550.0	407.1	480.4	841.9	990.3	17.6	6.3
Gulf Cooperation Council (GCC)	241.5	119.1	162.3	260.8	447.5	71.6	2.8
Other countries of Western Asia	94.4	80.1	79.2	119.3	137.0	14.9	0.9
Rest of Asia	214.1	208.0	239.0	461.8	405.8	(12.1)	2.6
Africa	37.7	44.6	33.2	72.0	87.0	20.8	0.6
Southern African Custom Union (SACU)	10.1	6.8	1.4	2.6	6.9	162.5	0.0
Other countries of Africa	27.6	37.8	31.8	69.4	80.1	15.4	0.5
Australia & New Zealand (Closer Economic Relations (CER))	4.4	2.2	8.0	6.5	4.1	(37.4)	0.0
Rest of the World	35.7	51.9	31.1	29.3	33.5	14.2	0.2
Total	**$13,334.5**	**$12,544.0**	**$10,217.1**	**$13,612.9**	**$15,852.7**	**16.5%**	**100.0%**
% Change	12.3%	(5.9)%	(18.5)%	33.2%	16.5%		

(1) Preliminary data.
Source: Integration Division; Ministry of Finance, including data from the Central Bank of Paraguay.

Paraguay's exports (in addition to electricity) have historically been dominated by agricultural products such as soybeans, meat, fats and oils, and wheat and other cereals. Revenues from exports are therefore highly dependent on international commodity prices and weather conditions. In the 12-month period ended December 31, 2022, exports of soya beans, maize or corn and bovine meat products (fresh, chilled or frozen) totaled US$4.0 billion, and accounted for 48.9% of Paraguay's total exports, a decrease of 18.1% for these products from US$4.9 billion in the 12-month period ended December 31, 2021.

In the 12-month period ended December 31, 2022, electricity exports increased by 2.0%, compared to the 12-month period ended December 31, 2021.

Exports of soybeans decreased by 58.8% in the 12-month period ended December 31, 2022, compared to the 12-month period ended December 31, 2021. This decrease in soya beans exports is due to severe droughts in the 2021-2022 harvest period. Maize or corn exports increased by 166.1% in the 12-month period ended December 31, 2022, compared to the 12-month period ended December 31, 2021. This change was mainly due to the rise of prices paid for the shipments of corn. The value of bovine meat (fresh or chilled) exports in the 12-month period ended December 31, 2022 increased by 12.0% compared to the 12-month period ended December 31, 2021. Finally, the value of bovine meat frozen exports increased by 10.1% for 2022.

The following tables set forth the amount and percentage of total exports by products for the periods indicated.

Total Exports by Products

Products[(1)]	12-month period ended of December 31, 2018	2019	2020	2021[(2)]	2022[(2)]	% of Change 2021- 2022
	(in millions of US$ in FOB prices)					
Soya beans	$ 2,205.0	$ 1,576.1	$ 2,146.5	$ 2,975.1	$ 1,226.8	(58.8)%
Maize or corn	222.8	399.8	322.3	409.1	1,088.7	166.1
Meat of bovine animals, fresh or chilled	448.3	467.7	526.4	788.7	883.5	12.0
Meat of bovine animals, frozen	650.9	555.5	591.3	772.6	850.4	10.1
Oilcake and residues from the extraction of soya-bean oil	944.3	689.3	682.3	764.2	586.3	(23.3)
Soya-bean oil and its fractions	469.2	388.7	416.8	621.4	534.2	(14.0)
Rice	219.2	226.7	295.0	273.9	293.4	7.1
Insulated wire, optical fibre cables	264.3	271.1	179.7	235.3	277.3	17.8
Other oil seeds and oleaginous fruits	70.1	86.4	111.8	117.0	148.3	26.7
Undenatured ethyl alcohol	25.4	66.4	92.0	92.1	144.0	56.3
Insecticides, rodenticides	69.8	49.2	23.2	68.0	132.4	94.6
Wheat and meslin	83.5	82.6	60.9	89.2	108.1	21.3
Edible offal of animals, fresh, chilled or frozen	61.9	54.3	53.2	78.3	82.4	5.3
Fats of bovine animals, sheep or goats	21.6	22.8	29.4	54.9	70.5	28.4
Tanned or crust hides and skins of bovine	71.9	45.5	34.6	77.1	64.6	(16.1)
Medicaments	38.1	39.9	44.2	53.5	61.9	15.7
Other paper and paperboard	32.9	36.9	35.2	48.5	61.1	26.0
Waste and scrap, of aluminium	26.3	21.7	20.8	41.5	61.0	46.9
Wood charcoal	38.8	35.8	34.7	47.9	61.0	27.2
Stoppers, caps and lids, screw caps and pouring stoppers	0.1	0.0	19.3	37.3	59.5	59.8
Articles of aluminium, n.e.s.	0.6	1.1	26.6	61.4	56.8	(7.5)
Articles for the conveyance or packaging of goods, of plastics	71.9	80.2	65.6	63.2	56.5	(10.6)
Cane or beet sugar and chemically pure sucrose	59.6	48.2	56.6	62.0	49.3	(20.6)
Guts, bladders and stomachs of animals	61.2	46.3	48.6	57.1	44.2	(22.7)
Ferro-alloys	7.4	28.3	24.3	28.2	41.4	47.1
Bran, sharps and other residues	30.1	17.7	16.5	46.3	40.6	(12.4)
Waste and scrap, of copper	20.2	20.6	19.1	16.5	35.4	114.5
Starches; inulin	17.8	18.2	18.3	28.0	40.6	45.1
Blankets and travelling rugs	52.3	50.5	50.1	27.0	39.9	47.7
Milk and cream	9.7	21.3	22.7	22.5	38.2	69.7
Cigars and cigarettes of tobacco	15.9	25.3	37.1	26.1	34.1	30.7
Other	622.3	616.2	687.2	857.3	1005.7	17.3
Total	**$6,933.5**	**$6,083.3**	**$6,782.2**	**$8,941.6**	**$8,285.9**	**(7.3)%**
% Change	5.4%	(12.3)%	11.5%	31.8%	(7.3%)	

(1) Products are classified according to the Harmonized Commodity Description and Coding System.
(2) Preliminary data.
Source: Integration Division; Ministry of Finance, including data from the Central Bank of Paraguay

Percentage of Total Exports by Products

Product(1)	2018	2019	2020	2021(2)	2022(2)
	12-month period ended December 31, (in percentages)				
Soya beans	31.8%	25.9%	31.6%	33.3%	14.8%
Maize or corn	3.2	6.6	4.8	4.6	13.1
Meat of bovine animals, fresh or chilled	6.5	7.7	7.8	8.8	10.7
Meat of bovine animals, frozen	9.4	9.1	8.7	8.6	10.3
Oilcake and residues from the extraction of soya-bean oil	13.6	11.3	10.1	8.5	7.1
Soya-bean oil and its fractions	6.8	6.4	6.1	6.9	6.4
Rice	3.2	3.7	4.3	3.1	3.5
Insulated wire, optical fibre cables	3.8	4.5	2.6	2.6	3.3
Other oil seeds and oleaginous fruits	1.0	1.4	1.6	1.3	1.8
Undenatured ethyl alcohol	0.4	1.1	1.4	1.0	1.7
Insecticides, rodenticides	1.0	0.8	0.3	0.8	1.6
Wheat and meslin	1.2	1.4	0.9	1.0	1.3
Edible offal of animals, fresh, chilled or frozen	0.9	0.9	0.8	0.9	1.0
Fats of bovine animals, sheep or goats	0.3	0.4	0.4	0.6	0.9
Tanned or crust hides and skins of bovine	1.0	0.7	0.5	0.9	0.8
Medicaments	0.5	0.6	0.7	0.6	0.7
Other paper and paperboard	0.5	0.6	0.5	0.5	0.7
Waste and scrap, of aluminium	0.4	0.4	0.3	0.5	0.7
Wood charcoal	0.6	0.6	0.5	0.5	0.7
Stoppers, caps and lids, screw caps and pouring stoppers	0.0	0.0	0.3	0.4	0.7
Articles of aluminium, n.e.s.	0.0	0.0	0.4	0.7	0.7
Articles for the conveyance or packaging of goods, of plastics	1.0	1.3	1.0	0.7	0.7
Cane or beet sugar and chemically pure sucrose	0.9	0.8	0.8	0.7	0.6
Guts, bladders and stomachs of animals	0.9	0.8	0.7	0.6	0.5
Ferro-alloys	0.1	0.2	0.1	0.2	0.5
Bran, sharps and other residues	0.4	0.5	0.4	0.3	0.5
Waste and scrap, of copper	0.3	0.3	0.2	0.5	0.5
Starches; inulin	0.3	0.3	0.3	0.3	0.5
Blankets and travelling rugs	0.8	0.8	0.7	0.3	0.5
Milk and cream	0.1	0.3	0.3	0.3	0.5
Cigars and cigarettes of tobacco	0.2	0.4	0.5	0.3	0.4
Other	9.0	10.1	10.1	9.6	12.1
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

(1) Products are classified according to the Harmonized Commodity Description and Coding System.
(2) Preliminary data.
Source: Ministry of Finance and Central Bank.

The leading imports in recent years have been telephone sets and equipment, petroleum, petroleum oils and motor vehicles for the transport of persons, which together generated 26.5% of the import bill in the 12-month period ended December 31, 2022 and accounted for approximately US$4.2 billion of total imports. As compared to the 12-month period ended December 31, 2021, imports of these goods increased by 29.2%. In the 12-month period ended December 31, 2022, the most significant increase in imports were in mineral or chemical phosphatic fertilizers (112.8%), mineral or chemical potassic fertilizers (57.6%) and petroleum oils (49.3%). The growth of imports in general is in line with the improvement of the economic activity in the country.

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The following table sets forth Paraguay's imports by product for the periods indicated.

Total Imports by Product

Products (1)	2018	2019	2020	2021(2)	2022(2)	% of Change 2021-2022(2)
	12-month period ended December 31,					
	(in millions of US$ in CIF prices)					
Petroleum oils	$1,730.7	$1,528.7	$1,143.9	$1,619.5	$2,418.4	49.3%
Telephone sets	918.6	1,705.1	1,159.0	1,156.7	1,201.2	3.8
Motor vehicles for the transport of persons	670.4	531.4	410.6	467.6	570.2	21.9
Insecticides, rodenticides	392.0	391.7	356.3	358.7	481.2	34.2
Automatic data-processing machines	258.0	257.9	145.9	320.1	399.6	24.8
Mineral or chemical fertilizer	282.5	225.1	225.4	348.3	357.1	2.5
New pneumatic tires, of rubber	224.5	202.4	160.9	291.7	348.3	19.4
Motor vehicles for the transport of goods	288.2	205.3	154.0	251.7	248.4	(1.3)
Immunological products	68.2	76.6	98.0	177.6	206.9	16.5
Medicaments	157.6	168.3	161.9	199.8	203.2	1.7
Mineral or chemical potassic fertilizers	92.3	107.0	83.1	116.7	184.0	57.6
Insulated wire	110.6	118.8	93.5	146.6	163.9	11.8
Plates, sheets and strip, of aluminum	2.5	15.0	53.4	110.5	153.3	38.8
Monitors and projectors	230.4	187.1	112.7	135.5	150.0	10.7
Tractors	126.2	84.8	81.0	145.9	148.2	1.6
Beer made from malt	138.6	133.4	115.2	154.3	147.9	(4.1)
Harvesting or threshing machinery	112.5	62.0	57.0	103.4	145.5	40.7
Mineral or chemical nitrogenous fertilizers	52.8	60.7	56.5	86.0	119.5	39.0
Heterocyclic compounds	89.6	71.1	59.3	95.7	117.9	23.2
Parts and accessories for tractors	104.4	90.1	69.2	95.5	111.2	16.4
Mineral or chemical phosphatic fertilizers	48.4	53.4	36.5	48.4	103.0	112.8
Polyacetals	97.6	90.3	73.4	81.1	102.7	26.6
Freezing equipment	85.2	65.8	62.4	101.5	99.9	(1.6)
Motorcycles	139.8	86.6	59.1	96.5	99.4	3.0
Office machines parts	194.6	53.1	38.3	95.5	98.2	2.8
Other	6,718.4	5,972.3	5,150.6	6,807.9	7,473.7	9.8
Total	**$13,334.5**	**$12,544.0**	**$10,217.1**	**$13,612.9**	**$15,852.7**	**16.5%**
% Change	12.3%	(5.9)%	(18.5)%	33.2%	16.5%	

(1) Products are classified according to the Harmonized Commodity Description and Coding System.
(2) Preliminary data.
Source: Ministry of Finance and Central Bank.

The following table sets forth the percentage of total imports by products for the periods indicated.

Percentage of Total Imports by Products

Products [1]	2018	2019	2020	2021[2]	2022[2]
	12-month period ended December 31,				
			(in percentages)		
Petroleum oils	13.0%	12.2%	11.2%	11.9%	15.3%
Telephone sets	6.9	13.6	11.3	8.5	7.6
Motor vehicles for the transport of persons	5.0	4.2	4.0	3.4	3.6
Insecticides, rodenticides	2.9	3.1	3.5	2.6	3.0
Automatic data-processing machines	1.9	2.1	1.4	2.4	2.5
Mineral or chemical fertilizer	2.1	1.8	2.2	2.6	2.3
New pneumatic tires, of rubber	1.7	1.6	1.6	2.1	2.2
Motor vehicles for the transport of goods	2.2	1.6	1.5	1.8	1.6
Immunological products	0.5	0.6	1.0	1.3	1.3
Medicaments	1.2	1.3	1.6	1.5	1.3
Mineral or chemical potassic fertilizers	0.7	0.9	0.8	0.9	1.2
Insulated wire	0.8	0.9	0.9	1.1	1.0
Plates, sheets and strip, of aluminum	0.0	0.1	0.5	0.8	1.0
Monitors and projectors	1.7	1.5	1.1	1.0	0.9
Tractors	0.9	0.7	0.8	1.1	0.9
Beer made from malt	1.0	1.1	1.1	1.1	0.9
Harvesting or threshing machinery	0.8	0.5	0.6	0.8	0.9
Mineral or chemical nitrogenous fertilizers	0.4	0.5	0.6	0.6	0.8
Heterocyclic compounds	0.7	0.6	0.6	0.7	0.7
Parts and accessories for tractors	0.8	0.7	0.7	0.7	0.7
Mineral or chemical phosphatic fertilizers	0.4	0.4	0.4	0.4	0.6
Polyacetals	0.7	0.7	0.7	0.6	0.6
Freezing equipment	0.6	0.5	0.6	0.7	0.6
Motorcycles	1.0	0.7	0.6	0.7	0.6
Office machines parts	1.5	0.4	0.4	0.7	0.6
Other	50.4	47.6	50.4	50.0	47.1
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

(1) Products are classified according the Harmonized Commodity Description and Coding System.
(2) Preliminary data.
Source: Integration Division; Ministry of Finance, including data from the Central Bank of Paraguay.

MERCOSUR

MERCOSUR is the most important of Paraguay's preferential trade agreements. It was established in 1991 by the governments of Argentina, Brazil, Uruguay and Paraguay pursuant to the Treaty of Asunción. MERCOSUR's objective is to create a common market and ensure the free movement of goods, services, capital and labor among member countries.

In 1995, MERCOSUR established a common external tariff ("CET"), aimed at unifying tariff policies of the member states in order to facilitate trade exchanges. In 2004, MERCOSUR established an origin status for products imported from outside MERCOSUR that complies with MERCOSUR's common tariff policy. The aim was to achieve the free movement of goods and eliminate the double charging of a CET. The first stage in this process, which began in January 2006, refers to goods with a 0% rating in all the member countries or with a tariff preference of 100% within the framework of the agreements concluded by MERCOSUR with third parties. The second stage, which is expected to cover all the goods subject to the CET, has not been implemented yet, although a first step, the entry into force of a MERCOSUR Customs Code, has already been initiated.

As of the date of this Offering Memorandum, the CET has not been fully implemented by the MERCOSUR member states due to the continuous application of exceptions. Each member state maintains a list of CET exceptions that, in Paraguay's case, cover 22.4% of all tariff lines and establish an average tariff that is lower than MERCOSUR's average CET. The modification of CET rates requires the consent of all MERCOSUR members. The MERCOSUR member states recognize the need to revise the CET in order to achieve greater competitiveness for the bloc.

During Paraguay's Pro Tempore Presidency in the first half of 2022, the MERCOSUR Member States approved a 10% horizontal reduction in CET rates for a broad set of tariff codes. The reduction is in force in Paraguay as from February 2023.

The following table sets forth the exceptions to the CET and tariff averages as of December 31, 2022.

Exceptions to the Common External Tariff and Tariff Averages
As of December 31, 2022

Tariff Lines NCM (8 digits)	Total Simple Average			List of Exceptions	
	Total	Agricultural goods	Non-agricultural goods	Nº of Tariff Lines (*)	% over total Tariff lines
10,436	8.14	9.9	7.9	2,340	22.4

(*) List of National Exceptions, Capital, Computing and Telecommunication Goods
Source: Direction of Integration, Ministry of Finance

With respect to services, the Protocol of Montevideo on Trade in Services in MERCOSUR became effective in 2005, following ratification by Argentina, Brazil and Uruguay. Paraguay ratified the Protocol in July 2014. The Protocol is for an indefinite term and is intended to implement the provisions of the Treaty of Asunción relating to services by establishing a program for the liberalization of intra-MERCOSUR trade in services.

MERCOSUR, as a group, acceded to the Global System of Trade Preferences among developing countries in 2006. Free-trade agreements have been signed by MERCOSUR with Israel (2007), Egypt (2010), Palestine (2011) and SACU (2008), which includes Botswana, Lesotho, Namibia, South Africa, and Swaziland. With the exception of Palestine, all these agreements have been ratified and are in force.

MERCOSUR has also signed framework agreements to formally initiate preferential trade negotiations with Jordan (2008), which has been ratified by all parties and is in full force; Turkey (2008), which is pending ratification by the Paraguayan and Turkish governments; Pakistan (2006), which is pending ratification by the Paraguayan and Turkish governments; the GCC (which includes the United Arab Emirates, Bahrain, Saudi Arabia, Oman, Qatar and Kuwait) (2005), which is pending ratification by the GCC; and Morocco (2004), which has been ratified by all parties and is in full force. These framework agreements generally involve the establishment of a negotiating committee, composed of the respective parties, to exchange information and propose measures, inter alia.

In addition, Memoranda of Understanding on the promotion of trade and investment have been signed by MERCOSUR with Trinidad and Tobago (1999), Guyana (1999), Syria (2010), Tunisia (2014), Suriname (2015) and the Eurasian Union (2018). These cover, inter alia, exchange of information, identification of areas of mutual interest and measures for expanding trade and investment.

On July 17, 2015 MERCOSUR's State Parties approved the accession protocol of the Plurinational State of Bolivia and the status of partner-states of MERCOSUR of the Republic of Surinam and Cooperative Republic of Guyana. Both treaties are pending ratification.

In September 2016, MERCOSUR's coordinators imposed on the Bolivarian Republic of Venezuela a deadline for compliance with the incorporation of legal instruments listed in the Protocol of Accession to MERCOSUR, which signed on July 4, 2006. In August 2017, Argentina, Brazil, Paraguay and Uruguay decided to suspend the Bolivarian Republic of Venezuela in all rights and obligations to its status as a MERCOSUR member state for its failure to comply with the Ushuaia Protocol regarding commitment to democracy.

In 2017, the MERCOSUR members executed (i) the MERCOSUR Investment Agreement, a common instrument that intends to promote the growth of investment at the regional level, (ii) the MERCOSUR Public Procurement Agreement, which intends to allow companies established in any MERCOSUR country to participate in national public procurement bidding without having a domicile in the country that requests proposals, and (iii) the new MERCOSUR-Colombia Agreement, which refers to the Economic Complementation Agreement (ACE No. 72) which replaces the ACE 59 signed in 2004 by MERCOSUR with Colombia, Ecuador and Venezuela, creating a free trade zone in 2018, and includes special rules agreed by Argentina and Brazil with Colombia for the automotive, chemical and plastics sectors. The legal regulation to implement the MERCOSUR-Colombia Agreement was approved by Congress in January 2019; however, the MERCOSUR Investment Agreement and the MERCOSUR Public Procurement Agreement have not yet been ratified.

On June 28, 2019, after more than 20 years of longstanding negotiations, MERCOSUR and the EU reached a landmark agreement regarding economic cooperation and integration. Such agreement is intended to grant MERCOSUR access to the EU's market, of strategic importance for MERCOSUR members, with lower costs and trade restrictions, and it is expected to increase exports from regional economies, consolidate the participation of local companies in the global economy, promote investment, foster technological transfers and increase competiveness. During the 57th Annual MERCOSUR Presidential Summit, the MERCOSUR member states reiterated their willingness to ratify the EU-MERCOSUR Free Trade Agreement. However, as of the date of this Offering Memorandum, the EU-MERCOSUR Free Trade Agreement is still pending ratification by each of the EFTA and MERCOSUR member states, and ratification of the agreement has been met with resistance from certain EFTA member states.

On August 23, 2019, MERCOSUR and members of the European Free Trade Association ("EFTA") substantially concluded the negotiations for a comprehensive free trade agreement, intended to increase the flow of MERCOSUR's exports to the members of EFTA.

In addition, during the 57th Annual MERCOSUR Presidential Summit, the member states of the MERCOSUR confirmed the importance of continuing the work with the Pacific Alliance for the implementation of the Puerto Vallarta Action Plan. The Puerto Vallarta Action Plan was established in 2018 with the firm goal of continuing to promote sustainable and inclusive economic development, and the competitiveness of Pacific Alliance members by supporting free trade and regional integration.

As of the date of this Offering Memorandum, negotiations between MERCOSUR and each of Canada, South Korea, Singapore, and Lebanon are in progress. In addition, MERCOSUR has initiated efforts to present free trade agreement proposals to various Central American countries and has commenced exploratory meetings with Vietnam and Indonesia. During the second half of 2020, MERCOSUR also submitted proposals for free trade agreements to various Central American countries and the Dominican Republic with a view to strengthening regional integration through deeper business ties.

In 2021, MERCOSUR has continued to hold exploratory meetings with Vietnam and Indonesia as well as with Ecuador. In addition, the organization continues to endeavor to expand the existing commercial agreement in place with Israel, India, Egypt, SACU and the various ALADI members (i.e., Chile, Colombia and Peru). During this past year, MERCOSUR has submitted proposals of free trade agreements to other Central American and Caribbean countries such as El Salvador and the Dominican Republic. It has also submitted a proposal for a memorandum of understanding with the Pacific Alliance with the intention of strengthening regional integration through deeper business and commercial ties.

During the Annual MERCOSUR Presidential Summit under the Paraguayan Pro Tempore Presidency in July 2022, the member states of the MERCOSUR and Singapore concluded negotiations for a Free Trade Agreement after six rounds of negotiations which began in 2019.

This agreement constitutes MERCOSUR's first instrument with a Southeast Asian country and will allow expanded trade flows and increase predictability through modern disciplines and better conditions for investment.

Currently, the parties are in the process of legal revision of the Singapore Free Trade Agreement with a view to its prompt signing and entry into force.

Other Preferential Trade Relationships

Paraguay offers preferential access to imports from a total of 13 countries: Argentina, Brazil, Uruguay, Venezuela, Bolivia, Chile, Colombia, Cuba, Ecuador, Mexico, Peru, India and Israel (the first four being MERCOSUR member states). These preferences are granted through its participation in MERCOSUR, MERCOSUR agreements with countries outside the region and preferences negotiated in the context of Paraguay's membership of the LAIA, including preferences granted under the Regional Tariff Preference Agreement No. 4, Economic Complementary Agreements and Regional Scope Agreements.

The arithmetic mean of applied most favored nation ("MFN") tariff in 2022 was 9.9% for agricultural products (WTO definition) and 7.9% for non-agricultural products. Paraguay grants at least MFN treatment to all of its trading partners. All rates are levied on the CIF value of the product imported. Paraguay did not make use of temporary or variable levies on imports between 2009 and 2022.

In the Uruguay Round, the eighth round of multilateral trade negotiations conducted under the General Agreement on Tariffs and Trade (the "GATT"), Paraguay bound its tariff rate at a ceiling of 35%. When it joined the GATT, Paraguay had bound its tariffs at rates ranging from 10% to 35%, giving Paraguay an average bound tariff of 33.5%. The gap between applied and bound tariff remains relatively wide. Market access commitments on agricultural products are not subject to tariff-quota-based limitations.

In addition to tariffs, imports are subject to other duties and taxes, including a "valuation fee" of 0.5% of the transaction value, a consular fee for endorsing documents, and a duty equivalent to 7% of the consular fee to finance the National Indigenous Institute. Value-added tax ("VAT") is imposed on sales of imported and domestic goods and services alike. In 2022, VAT applied at a general flat rate of 10%, with the exception of certain household necessities, pharmaceuticals and books, to which a reduced rate of 5% applies. Sales of agricultural products in their natural condition are subject to VAT at a rate of 5%. Excise taxes apply to a group of products, whether imported or domestically produced, including mainly tobacco, alcoholic beverages, perfumes and petroleum fuels at rates ranging from 1% to 38%.

In 2020, Paraguay's automotive trade agreements with Brazil and Argentina became effective, marking a key step in advancing the establishment of the MERCOSUR automotive policy and imposing predictability and legal certainty to attract investment in the automotive sectors in the relevant countries. These agreements determine the liberalization of trade in products originating from the member countries, the regional index content for automobiles and auto parts (rules of origin), the treatment of used vehicles, as well as the treatment of new products.

Foreign Direct Investment

Paraguayan law grants equal treatment to foreign and domestic investment, except for the ownership of land near borders by foreigners. Sectors reserved to the Paraguayan state are not open to private investment (either domestic or foreign). Pursuant to the Paraguayan Constitution, Paraguay owns all deposits of hydrocarbons and solid, liquid or gaseous minerals, with the exception of rocky, earthy or calcareous substances, and may grant concessions for their exploitation.

The National Development Plan - Paraguay 2030 (NDP) adopted in 2014 is a strategic document aimed to coordinate actions among the different sectors of the economy and contains Paraguay's economic development goals. The NDP has three main purposes: to reduce poverty and to increase social development, to seek inclusive economic growth, and to insert Paraguay properly into the global economy. Compliance with the NDP is part of the guidelines for the development of budget proposals put forward by the Ministry of Finance. The NDP recognizes that public infrastructure and public services are key factors to achieve its goals. The approval of the PPP law in October 2013 and the issuance of its regulations in March 2014 evidenced the commitment of the Paraguayan Government to overcome the public infrastructure deficit by providing a framework for the formation of partnerships between the public and the private sectors (including foreign investment) to finance and provide services required for building infrastructure. The first PPP initiatives may include management of infrastructure projects and services, including improvement and expansion of routes, development of water distribution systems, dredging and signaling of the Paraguay-Parana waterway and modernization of the main airports. Other initiatives are meant to broaden the existent sewage system, establish wastewater treatment plants and improve electricity transmission lines.

Paraguay has entered into 24 (twenty-four) agreements on Reciprocal Investment Promotion and Protection, including agreements with South Africa, France, UK, Switzerland, Taiwan, Belgium, Luxembourg, the Netherlands, Korea, Hungary, Germany, Austria, Spain, Peru, Romania, Chile, Venezuela, Costa Rica, El Salvador, Czech Republic, Portugal, Cuba, Italy, the United Arab Emirates and the State of Qatar. These agreements establish favorable conditions and provide a framework of legal certainty to investors and their investments.

Paraguay has agreements to Avoid Double Taxation and Prevent Tax Evasion with Germany (air transport, 1985), Belgium (air transport, 1987), Uruguay (air transport, 1993), Chile (air and land transport, 1995 and tax on the income and wealth, 2008), Argentina (air, river and land transport, 2000) and China (Taiwan) (income tax, 2010). The latest such agreements have been entered into with the United Arab of Emirates (subscribed in January 2017), Uruguay (signed in September 2017) and State of Qatar (signed in February 2018). Paraguay signed but has not yet ratified an agreement to avoid double taxation with Spain. These agreements aim to promote, through the elimination of double taxation, the exchange of goods and services and the movement of capital and persons, while also preventing tax avoidance and tax evasion. In order to improve the business and investment environment, Paraguay has developed and implemented reforms of its judicial system, including the introduction of amendments to the Criminal Code (made effective in 2009), with stricter provisions on money laundering, human trafficking and intellectual property rights.

Paraguay is also a member of the Multilateral Investment Guarantee Agency ("MIGA"), which offers foreign investment guarantees for non-commercial risks in developing countries, as well as dispute settlement services for the investments covered. Paraguay has also accepted the terms and conditions of the Overseas Private Investment Corporation of the United States of America, which finances and insures investment projects against risks such as the non-convertibility of currency, expropriation and political violence, inter alia.

FDI is the main long-term source of funds for the private sector, accounting for 0.53% of nominal GDP as of December 31, 2022. FDI flows totaled US$1.0 billion between 2018 and 2022. FDI flows totaled US$164.3 million in 2018, US$331.7 million in 2019, US$110.1 million in 2020, US$191.6 million in 2021. As of December 31, 2022, FDI flows totaled US$222.7 million, an increase of 16.2% compared to the 12-month period ended December 31, 2021. The decrease in FDI flows in 2020 and 2021 is the result of the worldwide economic crisis due to the COVID-19 pandemic, which led to lower flows in the form of reinvested earnings and debt instruments. From 2018 to 2022, the largest source of FDI in Paraguay was Brazil, accounting for 43.7% of FDI flows, while the second largest source was the United States, accounting for 37.7% of FDI flows.

The following table sets forth annual FDI flows by country for the periods indicated.

Annual FDI Flows by Country of Origin
(in millions of US$)

Country	12-month period ended December 31,				Nine-month period ended September 30,
	2018[1]	2019[1]	2020[1]	2021[1]	2022[1]
Brazil	53.3	92.9	73.0	138.6	87.9
United States	126.4	165.0	26.2	7.1	60.0
Colombia	22.1	24.9	15.5	86.6	33.2
Chile	9.1	57.6	17.9	44.0	25.1
Netherlands	63.5	158.2	(68.0)	(35.4)	25.2
Cayman Islands	34.1	20.2	9.1	5.3	17.3
Ireland	5.9	18.3	23.3	17.4	14.2
Germany	15.0	37.1	9.5	3.2	13.1
Uruguay	21.5	5.9	2.3	23.0	16.4
Curaçao	(28.6)	(63.1)	151.2	6.7	(3.8)
Mexico	7.9	9.6	(0.1)	29.2	12.9
Switzerland	(11.7)	25.6	(2.4)	28.7	6.6
Sweden	(1.4)	19.6	(5.2)	1.4	2.8
Guatemala	(0.0)	(0.0)	(1.1)		17.7
Others[2]	(152.8)	(240.0)	(141.3)	(164.2)	(105.9)
Total	**164.3**	**331.7**	**110.1**	**191.6**	**222.7**

(1) Preliminary data.
(2) Includes Portugal, China, Hong Kong, Taiwan, Panama, South Korea, India, Bolivia, Peru, Ukraine, Jersey, Italy, Puerto Rico, Isle of Man, Ecuador, Marshall Islands, Cyprus, Belgium, Philippines, Venezuela, Bahamas, Costa Rica, Bermuda, Austria, Australia, Canada, France, Japan, Norway, Argentina, Luxembourg, UK, British Virgin Islands and Spain.
Source: Central Bank.

MONETARY SYSTEM

The Central Bank

The Central Bank was established in 1952 and works together with the government on monetary, credit and foreign exchange policies. The Central Bank is also responsible for the supervision and regulation of the financial system. Congress approved a new charter of the Central Bank in 1995 to define more clearly the Central Bank's monetary and foreign exchange management capacity and to enhance its supervisory powers. The Central Bank also serves as a financial agent and economic advisor of the government.

The Central Bank is governed by a five-member board of directors, including the president of the Central Bank. All board members are appointed by the president and ratified by the Senate. Board members serve five-year terms with no limit on the number of terms a member may serve. The Central Bank, acting through the Superintendence of Banks, exercises supervision, reorganization and regularization powers over all banks, financial companies, warehousing companies and foreign exchange trading institutions in Paraguay, which together comprise the financial sector. Acting through the Superintendence of Insurance, the Central Bank also exercises supervision powers over all insurance and reinsurance entities.

The principal law governing the financial sector is Law No. 861/96 as amended by Law No. 5787/16. This law, as amended, provides rules for the creation and supervision of financial entities, as well as for the protection of the financial system as a whole. Law No. 861/96 incorporates the Basel Committee on Banking and Supervision ("Basel") provisions relating to the supervision of banks and minimum capital requirements. The Board of the Central Bank must authorize the opening of banks, finance companies and other credit institutions. There are no limits on the participation of foreign capital in financial entities or requirements with respect to the nationality of the members of the board of directors or the shareholders. Law No. 861/96 establishes that foreign investment in financial entities will receive the same treatment as domestic capital. According to Article 23 of Law No. 861/96, owners of shares in a bank that allow them to exercise shareholder control or decisively influence the corporate actions of the bank may not hold more than 20% of the shares of another bank, finance company or credit institution. On the other hand, a bank is permitted to be the principal shareholder of an insurance company.

In 2003, Paraguay enacted Law No. 2334/03, which created the concept of a deposit guarantee fund and set up a procedure for winding down companies based on a system of asset and liability transfers intended to ensure rapid and efficient liquidation. See "— Reorganization Regime" and "—Deposit Guarantee Fund." In 2005, the Central Bank and the central government proposed reforms to the legislation of the financial system, including a reform to the Central Bank's Organic Law (Law No. 489/95), intended to provide the Central Bank with greater powers, tools and effective instruments in order to supervise the financial sector.

In 2018, Congress enacted Law No. 6104/18 further amending the Central Bank's Organic Law, enhancing the Central Bank's powers and instruments to supervise the financial sector and providing greater autonomy to the Superintendence of Banks, thus enabling it to adapt its supervision in response to increasingly sophisticated international financial practices. These measures were, in addition to other reforms, promulgated in December 2016, which aimed at strengthening the adoption of a risk-based regulatory and prudential supervision.

As of April 30, 2023, the Central Bank had an equity of G. 2,774 billion (approximately US$382,29 million), mainly explained by the increase in the revaluation account of the international monetary reserves. The negative equity of the Central Bank observed in previous years is explained by a legacy of non-performing claims related to loans to the public and to the financial sector that were largely incurred before the Central Bank's 1995 charter prohibited such practices. In 1992, the Central Bank paid US$350 million on behalf of the government to certain commercial banks and foreign governments to cover arrears accumulated with respect to certain external borrowings. The Central Bank's balance sheet deteriorated further in the mid-1990s, when it confronted a series of problems in the financial system, including liquidating financial institutions. In August 1998, under the domestic debt restructuring law enacted in March 1997, the government issued US$425 million in domestic bonds to restructure the principal plus accrued interest and other lines of credit extended by the Central Bank to the government. In 2012, this debt was included in the recapitalization agreement between the Central Bank and the Ministry of Finance. Since the 1998 restructuring, the Central Bank has recorded losses, which have been exacerbated by the need to conduct large sterilization operations.

As part of a strategy of providing a framework for medium- and long-term macroeconomic stability, over the past decade, the government began to address the Central Bank's negative equity and adopted measures to strengthen the financial position of the Central Bank. In April 2010, Congress enacted Law No. 3974/10, which authorized the Ministry of Finance to issue and transfer to the Central Bank securities in an aggregate principal amount of up to 6.25% of the 2009 GDP (approximately US$1 billion) in exchange for the irrevocable cancellation and discharge of all debt and nonperforming legacy claims held by the Central Bank against public entities and the assignment to the Ministry of Finance of any remaining legal claims on guarantees by third parties. Interest rates and maturities on the bonds to be transferred were to be agreed between the Central Bank and the Ministry of Finance. On December 19, 2012, both institutions signed an agreement defining the financial conditions and the agreement was ratified by the President of the Republic on the same date. As a result, the Ministry of Finance issued a perpetual bond to the Central Bank, having a principal amount of G.3,927.5 billion (about US$0.9 billion) initially carrying a 0.25% annual interest rate. Pursuant to a request by the Central Bank to the Ministry of Finance, the interest rate can be adjusted to offset losses the Central Bank may incur in connection with the implementation of its monetary policy.

Financial Supervision

The Superintendence of Banks has the authority to establish the accounting principles under which banks, financial companies, warehousing companies and foreign exchange trading institutions must prepare their books and records. These books and records must be audited annually by external independent auditors. As part of its supervisory powers, the Superintendence of Banks also requires these institutions to submit to the Central Bank daily and monthly reports regarding their operations. In addition, the Superintendence of Banks requires banks to publish annual and quarterly financial statements together with the names of directors and managers in a national newspaper. The Superintendence of Banks may also require the disclosure of any other financial information that it deems necessary to present to the public. In 2014, the regulation of Electronic Payment Methods was issued in order to regulate the Mobile Money Providers (E-Wallets). In 2019, through resolutions issued by each of the Central Bank and the Superintendence of Banks, non-deposit holding companies that lend money solely from their own capital were included under the supervision of the Superintendence of Banks, and in 2020, through the enactment of Law No. 6534/20, credit bureaus were also included under the supervision of the Superintendence of Banks.

As of the date of this Offering Memorandum, the Superintendence of Banks requires financial institutions to maintain a minimum core capital (Tier 1) to risk-weighted assets ratio of 8.0% and a minimum total capital (including Tier 2) to risk-weighted assets ratio of 12.0%. The Superintendence of Banks has the regulatory authority to increase this ratio to 14.0%. As of April 30, 2023, all Paraguayan banks and financial companies were in compliance with the Central Bank's capital adequacy requirements.

In addition to accounting standards and capital adequacy requirements, the Central Bank imposes cash and liquidity reserve requirements. In determining their compliance with various Central Bank standards and requirements, financial institutions must classify loans according to specific categories. On the one hand, the category used for classification depends on the debtors' ability to pay, and on the other hand, the category used for classification depends on the length of time a loan obligation has been past due. The most recent regulation provides a new scale of provisions and terms of past due loans. A loan is deemed non-performing after obligations under the loan have been past due for more than 60 days.

The following table sets forth the categories used to classify past due loans and the provisions made according to each category.

Category	Obligations past due between	Provisions
1.a	1 to 30 days	0.5%
1.b	31 to 60 days	1.5%
2	over 60 to 90 days	5.0%
3	over 90 to 150 days	25.0%
4	over 150 to 180 days	50.0%
5	over 180 to 270 days	75.0%
6	over 270 days	100.0%

Source: Central Bank.

The following table sets forth the classification of aggregate loan assets of the Paraguayan banking system by categories as of April 30, 2023.

Classification of Aggregate Loan Assets of the Paraguayan Banking System

	As of April 30, 2023							
	1	**1a**	**1b**	**2**	**3**	**4**	**5**	**6**
	(in percentages of total loan assets)							
Stated-owned bank (BNF).........................	90.44%	2.39%	1.41%	0.70%	0.90%	0.34%	0.98%	2.84%
Branches of foreign banks.........................	91.98%	1.41%	0.48%	3.95%	0.17%	0.15%	0.28%	1.58%
Majority Foreign Participation..................	90.97%	4.22%	1.77%	0.48%	0.72%	0.17%	0.38%	1.29%
Private domestic local majority property ..	87.09%	5.98%	1.67%	1.43%	1.14%	0.34%	0.51%	1.82%
Total Banks	**88.89%**	**4.95%**	**1.67%**	**1.05%**	**0.95%**	**0.28%**	**0.50%**	**1.72%**
Total Financial companies	**77.44%**	**10.53%**	**5.16%**	**2.06%**	**1.54%**	**0.87%**	**0.98%**	**1.43%**

Source: Central Bank.

The Superintendence of Banks may conduct inspections of the institutions it supervises at its discretion. In practice, these inspections are conducted according to an inspection plan approved by the Superintendence of Banks the risk profile of the financial institution and the supervision cycle. Based on the findings of these inspections or daily reports submitted by the institutions, as well as on warnings provided by the on-site supervision management, if the Superintendence of Banks believes that the operations of an institution it supervises require further investigation, the Superintendence of Banks may send inspectors to the institutions to monitor their day-to-day operations. Alternatively, the Superintendence of Banks may conduct a full audit. All financial institutions are required to give access to the Superintendence of Banks to conduct such investigations. If the Superintendence of Banks finds management deficiencies or liquidity problems, it may make specific recommendations, including a change of senior management and/or the board of directors.

Reorganization Regime

Law No. 2334/03 provides that all financial sector entities must submit a reorganization plan that must be approved by the Superintendence of Banks in case any one or more of the following situations arise:

(i) legal reserve deficiency larger than the level determined by regulation of the Central Bank;

(ii) excesses in the legal or regulatory prudential limits set by the Superintendence of Banks for a period exceeding 10 consecutive calendar days;

(iii) recorded losses for two consecutive quarters, which forecast for the next quarter will affect the capital of the entity and, given the continuity of this trend, reduce the capital ratio below the minimum level required by law;

(iv) deficit in the capital ratio below the limit legally required, for a period of at least five working days;

(v) when the entity requires use of facilities provided by the Central Bank as a lender of last resort, except for those facilities which terms and amounts were determined by the Central Bank;

(vi) repeated infringement of recommended measures or mandatory resolutions issued by the Superintendence of Banks and/or the board of Central Bank, according to current laws and regulations;

(vii) when the Superintendence of Banks proceeds to reclassify the credit risk classification made by the financial institution in a higher percentage than the level prescribed by regulations; and

(viii) when reorganization is determined by the Superintendence of Banks, provided a well-founded decision is given that the entity is acting in a way that endangers the safety of public deposits or the liquidity and capital situation of the entity.

Moreover, the Superintendence of Banks will oversee the reorganization process, having the authority to require immediate correction of other abnormalities presented by the entity under reorganization, without the need to require a new reorganization plan. The decision to put an entity of the financial system into the reorganization process will be kept under strict confidentiality, communicating it only to the concerned institution. During reorganization, the competence and authority of governing bodies of the entity will remain, with no other restrictions than those resulting from provisions of other articles of the law.

Deposit Guarantee Fund

Confidence in the Paraguayan banking sector was bolstered in 2003 by the establishment, through Law No. 2334/03, of the Deposit Guarantee Fund and a special liquidation procedure for financial companies, intended to ensure efficient liquidation and guarantee deposits.

The Deposit Guarantee Fund is administered by the Central Bank and functions as a bank deposit insurance program. It is financed by contributions from financial institutions (including the subsidiaries of foreign banks) and the Central Bank. Under Law No. 2234/03, financial institutions are required to make mandatory quarterly contributions to the bank deposit insurance program in an amount equal to 0.12% of the quarterly average balance of their deposits.

The deposit insurance system guarantees deposits up to an amount equivalent to 75 times the minimum wage, per natural or legal person, in the event that a financial institution is liquidated, and is broadly consistent with international standards. The agency works as a paybox and can contribute to the bank liquidation process under the "least-cost solution." As of April 30, 2023, coverage amounted to US$26,362 or 4.4 times GDP per capita, and 16.4% of deposits were fully covered. Accordingly, the risk premium is also among the highest in South America. The large coverage was believed necessary to promote confidence in the banking system after the banking crisis of 1995-2003.

Financial Sector

In 1989, Paraguay embarked on a process of financial liberalization, which continued through the mid-1990s. The authorities introduced a unified, managed floating exchange rate regime, liberalized interest rates, reduced reserve requirements, gradually eliminated the discount facility at the Central Bank and released public sector deposits from the Central Bank to the banking system. Financial liberalization, however, which led to a rapid expansion of the financial sector, was not accompanied by the strengthening of prudential regulations and supervision. Banking regulations did not determine prudential norms for asset classification and did not require arms' length lending. Relaxed reserve requirements failed to reflect the true risks of banks' assets. In addition, lax licensing requirements and low required capitalization levels permitted a proliferation of new financial institutions. On June 25, 1992, the Central Bank issued Resolution No. 2, which was the first attempt by the Paraguayan authorities to regulate credit risk and asset classification in the Paraguayan banking system. The 1995 crisis was the byproduct of a rapid financial liberalization without adequate safeguards in terms of sound prudential regulations and enforcement.

Paraguay experienced five financial crises during the 1995-2003 period. The response to the first three crises (1995, 1997 and 1998) was generally inadequate, and the remedial action taken by the public sector resulted in a cost of approximately 15% of GDP. The lack of legislation governing banking insolvency procedures and the absence of protections for local deposits aggravated the financial crises throughout this period.

The 1995 crisis was triggered when two large banks failed to meet their clearing obligations. The inadequate response to the 1995 crisis was mainly responsible for the 1997 crisis. Lack of regulatory capacity and generous de facto deposit guarantees allowed financial institutions to pay insufficient attention to risk. In 1998, the failure of the fourth largest bank that held approximately 6% of total deposits and whose liquidity dried up while depending increasingly on public sector deposits had consequences for the financial system as a whole.

The 1995 crisis resulted in the adoption of new banking regulations, intended to overhaul the country's financial system. Law No. 489/95 and Law No. 861/96, which were adopted in 1995 and 1996, respectively, continue to be in force with a few amendments. These statutes, which were fully implemented by 1999, were aimed at increasing supervision powers of the Central Bank and strengthening the stability of the banking sector by improving internal banking procedures and enforcing minimum capitalization ratios, limitations on related party transactions, risk weighted asset rules and risk control management.

In 2002, further to the effects of the economic downturn and the volatility in South America following Argentina's default, the freeze of deposits in Argentina led to a run on a Paraguayan subsidiary of an Argentine bank, which held approximately 11% of total deposits in the Paraguayan financial system. This led to a loss of confidence in the banking system as a whole and resulted in a run on several banks, which in combination with the depreciation of the Guaraní against major currencies, resulted in a system-wide financial crisis. Finally, in 2003, the Paraguayan monetary authorities were confronted with an isolated case of fraud in a medium-sized locally-owned bank that did not have systemic repercussions. The Superintendence of Banks responded more appropriately and timely to the 2002 and 2003 crises by closing the failing banks, with a cost to the public sector equivalent to approximately 1% of GDP.

Economic performance stabilized in 2003, albeit at a lower level, as a result of improved performance of the agricultural sector and improved regional conditions. However, there were significant difficulties in financing the fiscal deficit which resulted in continued shortfalls and delays in covering of fixed costs of the public sector, including wages, pensions and debt service, which together represented more than 90% of total spending.

In 2003, Paraguay enacted Law No. 2334/03 to provide additional protection to depositors and establish a new liquidation procedure for insolvent entities. The main purpose of this law was to give additional certainty to depositors by preserving public confidence, maintaining stability of the banking sector and providing incentives to encourage the banking sector's discipline.

Paraguay continues to strengthen its regulatory framework and supervision of the financial sector, evidenced by its Financial Sector Assessment Program. Reforms include more stringent information requirements for the granting of loans, stricter conditions for classifying assets and a higher level of reserves requirement. In 2007, a new regulation was introduced that provides for improved risk assessment and the establishment of an assets/reserves ratio that provides better coverage for credit risks. The scale provided in the 2007 regulation for past due terms and provisions was changed in 2011. In addition, further regulation introduced in 2007 established stricter prudential rules for the classification of assets, credit risk and reserves.

Other institutional reforms introduced include the adoption of new regulations on the opening of financial institutions and the strengthening of on-site and off-site supervision and the supervisory capacity of the Superintendence of Banks through the creation of various intendancies. With respect to forward strategy for supervision, financial institutions continue to improve compliance with Basel principles. According to the IMF and the World Bank report, the degree of compliance with Basel principles, which stood at 17% in 2005, had increased to 63% by the end of 2010.

As of April 30, 2023, Paraguay's financial sector consisted of 17 banks (including one state-owned bank, ten private domestic banks and six branches of foreign banks), six financial companies, 55 savings and loan cooperative type A, three warehousing companies, 26 foreign exchange trading institutions and 35 insurance companies.

Paraguay's banking sector is regulated by Law No. 861/96 and supervised by the Superintendence of Banks. Under Law No. 861/96, banks are authorized to provide a full range of banking services. Banks account for the largest portion of loans and deposits in the financial system.

As of April 30, 2023, the assets of banks operating in Paraguay totaled G.192,768 billion (US$26.6 billion), equivalent to approximately 63.6% of the 2022 GDP (compared to 63.0% of GDP in 2021), while bank deposits totaled G.136,729 billion (US$18.8 billion). As of April 30, 2023, the finance companies were holding G.7,418 billion (US$1.02 billion) in assets and G.4,973 billion (US$ 685 million) in deposits. Bank loans to clients represent about 65.8% of bank assets. The remaining bank assets are predominantly liquid resources held in Central Bank accounts. Approximately 81.2% of bank liabilities are deposits, while the balance is represented by liabilities to the public sector, to foreign creditors and a small amount of subordinated bonds.

The following table sets forth the aggregate balance sheet of Paraguayan banks as of April 30, 2023.

Aggregate Balance Sheet of Banks

As of April 30, 2023			
(in percentage of total assets and liabilities)			
Assets		**Liabilities**	
Cash	*5.0%*	Deposits	*70.9%*
In Guaraníes	*1.9%*	*In Guaraníes*	*37.2%*
In U.S. dollars	*3.0%*	*In U.S. dollars*	*33.8%*
Legal Reserves	8.9%	Liabilities of the Central Bank	0.3%
Free Reserves	4.1%	International Financial Liabilities	5.8%
Total Investment	9.0%	Other Liabilities	10.4%
Public Instruments	8.9%	Net Worth	12.6%
Others	0.1%		
Credits (Net of Provisions)	*65.8%*		
Financial Sector	*6.0%*		
Banking Sector	*0.0%*		
Non-Financial Sector	*60.3%*		
NPL	*2.1%*		
Provisions	*-2.6%*		
Other Assets	7.2%		
Total Assets	**100.0%**	**Total Liabilities**	**100.0%**

Source: Central Bank.

Banks are classified according to the origin of their capital as follows:

(i) if its capital is fully foreign-owned, a bank is considered a direct foreign subsidiary;

(ii) if the majority of its capital is foreign-owned, a bank is considered a branch of a foreign bank;

(iii) if the majority of its capital is locally-owned, a bank is considered a local bank; and

(iv) if the majority of its capital is owned by the state, a bank is considered state-owned. There is only one state-owned bank in Paraguay, the National Development Bank (*Banco Nacional de Fomento* - the "BNF").

Foreign capital continues to maintain a substantial presence in the Paraguayan banking sector. Foreign banks are allowed to set up branches in Paraguay with the authorization of the Central Bank. They enjoy the same operating privileges as domestic banks, but are also subject to the same obligations applicable to them under the Law No. 861/96. Branches of foreign banks are not required to have a board of directors; however, each branch must have at least two officers with full authority to operate such branches. In addition, branches of foreign banks are required to provide to the Central Bank letters of guarantee from their parent bank for all aspects of their foreign branch operations in Paraguay. As of April 30, 2023, direct foreign subsidiaries and banks with majority foreign participation held 39.6% of bank assets and 39.9% of deposits, while the majority locally-owned banks had 50.7% of assets and 49.6% of deposits.

As of April 30, 2023, the four largest banks (one of them with majority foreign participation) controlled 52.9% of total bank assets; these were Banco Itaú Paraguay S.A. (15.8% of the total assets of the financial system), Banco Continental S.A.E.C.A. (15.6%), GNB Paraguay S.A. (11.7%) and Sudameris Bank S.A.E.C.A. (9.8%).

The BNF acts primarily as a first-tier development bank for the activities of the agricultural and manufacturing sectors, but also conducts regular commercial banking activities. In 2003, the government recapitalized the BNF and imposed limits on the loans granted by the bank, assigning it the role of assisting small- and medium-sized enterprises. In addition, Law No. 5800/17 enacted in 2017, which reforms its Organic Law, provided the BNF more independence and ability to operate on equal conditions as the private sector entities. As of April 30, 2023, the BNF held 9.7% of banking system assets and 10.5% of deposits.

Financial companies (*empresas financieras*) are also regulated by Law No. 861/96, as amended, and supervised by the Superintendence of Banks. Financial companies generally concentrate their operations on providing short-term loans and holding deposits, but are not allowed to offer current or checking accounts. As of April 30, 2023, financial companies were the third most important providers of loans and holders of deposits in the Paraguayan financial system, accounting for G.5,467 billion (approximately US$ 753 million) in loans, and G.4,973 billion (approximately US$ 685 million) in deposits. The Central Bank also supervises financial leasing companies, mutual funds, securitization companies and financial trusts.

Savings and loan cooperatives ("Cooperatives") are regulated by the Savings and Loan Cooperatives Law (Law No. 438/94), enacted in October 1994 and amended in 2015 (Law No. 5501/15) and in 2020 (Law No. 6608/2020), and are supervised by the National Institute of Cooperatives. Cooperatives provide loans and hold deposits exclusively for their members, and their business services cover a majority of micro-loans and small-business financing, which is the reason why they have progressively expanded their participation in Paraguay's financial system.

Reforms to the General Regulatory and Supervisory Framework for Cooperatives (adopted in 2004), which establishes the minimum capital, liquidity and provisioning requirements and the loan classification that cooperatives must follow, have also been introduced, together with a basic framework for supervision, which is starting to be implemented in the country, demonstrating a commitment to long-term stability in the sector. In 2017, the National Institute of Cooperatives issued Resolution 16.847/17, which approved the Regulatory and Supervisory Framework for Saving and Loan Cooperatives, updating and strengthening the regulatory and supervisory framework for Cooperatives.

Warehousing companies and foreign exchange trading institutions are also supervised by the Superintendence of Banks. Warehousing companies act as depositaries for commodities and other agricultural products, and they issue property titles known as "commodity warrants" over the deposited commodities. The commodity warrants can be pledged to banks and financial companies as collateral for financing. Foreign exchange trading institutions purchase and sell foreign currencies on the spot market.

Insurance companies offer life, property and casualty insurance and reinsurance and invest their funds subject to compliance with applicable regulations. They are not permitted to grant loans or take deposits. The principal law governing insurance companies and insurance activity provides the procedures for establishing, operating and winding down insurance companies, requirements that are imposed on insurance companies, including, among others, reserves, solvency margins and their investment regime, as well as the responsibilities and obligations of the supervisory authority and the provisions applicable to its operation and the appointment of its members. The Superintendence of Insurance is responsible for supervising insurance and reinsurance entities. Its main objective is to ensure the financial and technical capacity of the market operators and the proper administration of the sector's risks and resources. Its responsibilities include framing sectorial policies, regulating, supervising and ensuring compliance with all the corresponding legal provisions, and intervening in those companies in which serious irregularities are detected.

The AFD, established in 2005, serves as a second-tier bank and makes credit lines available through authorized financial institutions, which include BNF, the Livestock Fund (*Fondo Ganadero*), finance companies, Cooperatives and private banks. In 2006, the AFD began channeling long-term loans from multilateral international financial institutions to local banks and other financial entities, particularly in the area of mortgage lending.

The following table sets forth the loans and deposits of financial institutions as of April 30, 2023.

Financial Sector of Paraguay

	As of April 30, 2023			
	Loans	**% of Total**	**Deposits**	**% of Total**
	(in millions of US$ and percentages)			
Private domestic local majority property	$9,209	44.6%	$9,342	43.0%
Majority Foreign Participation	$6,412	31.1%	$7,144	32.9%
BNF (state-owned)	$1,636	7.9%	$1,977	9.1%
Branches of foreign banks	$221	1.1%	$382	1.8%
Financial Companies	$753	3.7%	$685	3.2%
Saving and loans associations*	$2,411	11.7%	$2,211	10.2%
Total	**$20,642**	**100%**	**$21,741**	**100%**

* Data provided by the INCOOP (Instituto Nacional de Cooperativismo, April 30, 2023).
Source: Central Bank.

The following table sets forth total deposits in the Paraguayan financial sector as of the dates indicated.

Deposits in the Financial Sector

	As of December 31,					As of April 30,	
	2018	**2019**	**2020**	**2021**	**2022**	**2022**	**2023**
				(in millions of US$)			
Private domestic local majority property	7,831	8,016	8,431	9,142	9,784	8,815	9,342
Direct foreign subsidiaries	5,995	6,280	6,697	7,171	6,559	7,033	7,144
BNF (state-owned)	1,430	1,370	2,025	2,090	1,616	1,926	1,977
Branches of foreign banks	371	366	254	385	230	316	382
Financial Companies	757	602	650	818	761	839	685
Savings and loans cooperatives *	1,989	1,972	2,006	2.228	2.146	2.207	2.211
Total	18,373	18,606	20,064	21.835	21.096	21.135	21.741

* Data provided by the INCOOP (Instituto Nacional de Cooperativismo, April 30, 2023).
Source: Central Bank.

The following table sets forth the allocation of deposits in the financial sector as of the dates indicated.

Deposits in the Financial Sector as a Percentage of Total

	As of December 31,					As of April 30,	
	2018	**2019**	**2020**	**2021**	**2022**	**2022**	**2023**
				(in percentages)			
Private domestic local majority property	42.6%	43.1%	42.0%	41,9%	46,4%	41,7%	43,0%
Direct foreign subsidiaries	32.6%	33.8%	33.4%	32,8%	31,1%	33,3%	32,9%
BNF (state-owned)	7.8%	7.4%	10.1%	9,6%	7,7%	9,1%	9,1%
Branches of foreign banks	2.0%	2.0%	1.3%	1,8%	1,1%	1,5%	1,8%
Financial Companies	4.1%	3.2%	3.2%	3,7%	3,6%	4,0%	3,2%
Savings and loans cooperatives*	10.8%	10.6%	10.0%	10,2%	10,2%	10,4%	10,2%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

* Data provided by the INCOOP (Instituto Nacional de Cooperativismo, April 30, 2023).
Source: Central Bank.

The following table sets forth total loans in the Paraguayan financial sector as of the dates indicated.

Loans in the Financial Sector

	As of December 31,					As of April 30,	
	2018	**2019**	**2020**	**2021**	**2022**	**2022**	**2023**
				(in millions of US$)			
Private domestic local majority property	8,196	8,400	8,016	8,919	9,784	8,805	9,209
Direct foreign subsidiaries	5,466	5,458	5,455	5,934	6,559	6,013	6,412
Branches of foreign banks	254	244	192	228	230	236	221
Financial Companies	867	662	678	877	761	909	753
BNF (state-owned)	834	980	1,242	1,349	1,616	1,368	1,636
Savings and loans cooperatives*	2,143	2,155	2,081	2.311	2.386	2.365	2.411
Total	**17,760**	**17,899**	**17,663**	**19,618**	**21,336**	**19,696**	**20,642**

* Data provided by the INCOOP (Instituto Nacional de Cooperativismo. April 30, 2023).
Source: Central Bank.

The following table sets forth the allocation of total loans in the Paraguayan financial sector as of the dates indicated.

Loans in the Financial Sector as a Percentage of Total

	As of December 31,					As of April 30,	
	2018	**2019**	**2020**	**2021**	**2022**	**2022**	**2023**
				(in percentages)			
Private domestic local majority property	46.1%	46.9%	45.4%	45.5%	45.9%	44.7%	44.6%
Direct foreign subsidiaries	30.8%	30.5%	30.9%	30.2%	30.7%	30.5%	31.1%
Branches of foreign banks	1.4%	1.4%	1.1%	1.2%	1.1%	1.2%	1.1%
Financial Companies	4.9%	3.7%	3.8%	4.5%	3.6%	4.6%	3.7%
BNF (state-owned)	4.7%	5.5%	7.0%	6.9%	7.6%	6.9%	7.9%
Savings and loans cooperatives *	12.1%	12.0%	11.8%	11.8%	11.2%	12.0%	11.7%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

* Data provided by the INCOOP (Instituto Nacional de Cooperativismo, April 30, 2023).
Source: Central Bank.

The following table sets forth the number of financial institutions of Paraguayan financial sector as of the dates indicated.

Number of Financial Institutions

	As of December 31,					As of April 30,	
	2018	**2019**	**2020**	**2021**	**2022**	**2022**	**2023**
Insurance companies	35	36	34	35	35	35	35
Foreign exchange trading	29	26	26	26	26	26	26
Private Banks	16	16	16	16	16	16	16
Financial companies	9	8	8	8	8	8	6
Warehousing companies	3	3	3	3	3	3	3
Public Banks	1	1	1	1	1	1	1

Source: Central Bank.

Indicators of Financial System Efficiency

The following table sets forth main efficiency indicators of Paraguay's financial sector as of the dates indicated.

Indicators of Banks Efficiency

	As of December 31,					As of April 30,	
	2018	**2019**	**2020**	**2021**	**2022**	**2022**	**2023**
				(in percentages)			
Return on assets	2.2%	2.4%	1.6%	1.7%	2.0%	2.1%	2.2%
Return on equity	22.5%	23.7%	15.5%	15.3%	18.4%	16.5%	18.1%
Non-Performing Loans as a percentage of total loans	2.4%	2.4%	2.3%	2.2%	2.9%	2.8%	3.3%
Gross Operational Margin/Assets	4.6%	4.8%	3.9%	3.7%	4.4%	1.4%	1.7%
Operating Expenses/Operating Revenues	84.9%	88.9%	88.3%	93.0%	91.2%	90.2%	92.1%
Operating Expenses/Total Assets	25.9%	37.9%	39.6%	66.3%	59.8%	16.8%	24.8%
Regulatory capital to risk weighted assets	17.6%	17.2%	19.1%	18.8%	17.3%	20.5%	19.5%

Source: Central Bank.

Indicators of Financial Companies Efficiency

	12-month period ended December 31,					Four-month period ended April 30,	
	2018	**2019**	**2020**	**2021**	**2022**	**2022**	**2023**
					(in percentages)		
Return on assets	2.1%	2.1%	1.4%	1.6%	1.3%	1.1%	1.3%
Return on equity	17.7%	16.1%	11.6%	14.6%	12.0%	9.1%	11.1%
Non-Performing Loans as a percentage of total loans	4.7%	5.1%	4.0%	4.4%	3.8%	6.6%	5.1%
Gross Operational Margin/Assets	7.5%	7.8%	6.1%	5.8%	5.1%	2.1%	1.6%
Operating Expenses/Operating Revenues	73.2%	77.6%	78.2%	83.7%	77.5%	76.4%	74.8%
Operating Expenses/Total Assets	20.4%	27.2%	37.6%	54.7%	31.5%	11.6%	9.9%
Regulatory capital to risk weighted assets	16.1%	16.3%	18.3%	15.6%	15.4%	16.2%	15.6%

Source: Central Bank.

Anti-Money Laundering

With respect to the prevention and combat of money-laundering and terrorist financing, Paraguay has strengthened its three subsystems (preventive, intelligence and repressive). It has strengthened the regulatory framework as well as the supervision and control of financial and non-financial subjects, as was pointed out by the Financial Action Task Force (the "FATF") in February 2012, who expressed their view that Paraguay had largely met its commitments in its action plan regarding the strategic deficiencies that the FATF had identified in its 2010 evaluation.

Paraguay has recently placed special emphasis on implementing adequate mechanisms to allow for the control of transactions carried out through its financial system, and transparent, accurate and timely information regarding the final beneficiaries of such transactions. Measures taken in this regard have included mandating that all electronic transfers be reported to the Central Bank in order to facilitate its supervisory responsibilities and requiring that all non-electronic remittances abroad be reported to the Central Bank and be made only through legally authorized banks that meet the requirements for the identification of foreign counterparts.

The supervision of the country's financial and exchange system migrated to a risk-based approach. The Legislative Power approved the draft amendment of Law No. 861/96 in 1996 while maintaining the Law of Modernization and Strengthening of the norms that regulate Paraguayan financial system operations (Law No. 5787/16) in force.

In 2017, Congress enacted Law No. 5895/17, which established transparency standards for corporate governance and imposes the mandatory conversion of bearer shares to registered shares. In 2019, the enactment of Law No. 6446/19 further strengthened transparency standards for corporate governance, imposing mandatory obligations on Paraguayan corporations to disclose ultimate beneficial ownership to the Ministry of Finance. Both laws were enacted in order to comply with FATF Recommendation No. 24.

The Central Bank has broad powers to control beneficiaries of Paraguayan financial entities, including powers to prevent persons under investigation for or criminals convicted for money laundering and/or terrorism financing from becoming beneficiaries of financial institutions. Additionally, the Central Bank and SEPRELAD issue rules on anti-money laundering and counter financing of terrorism ("AML / CFT") in Paraguay, provide for their enforcement, and maintain continuous communication with the financial system.

Progress has also been made in the implementation of the Paraguayan Strategic Plan, which has strengthened the AML / CFT regime (Presidential Decree No. 507/18). Through the same decree, the National Risk Assessment was updated to identify new vulnerabilities and threats. Moreover, Presidential Decree No. 2209/19 launched a national risk assessment on the financing of terrorism.

Congress is considering the legal reforms proposed by the SEPRELAD, aimed at revamping the AML / CFT prevention system for the mitigation of money laundering, financing of terrorism and other similar acts that threaten to destabilize the economic order.

The GAFILAT (*Grupo de Acción Financiera de Latinoamericana*) began the evaluation of Paraguay's compliance with the international ALA / CFT standards system regarding the recommendations of GAFI (*Grupo de Acción Financiero Internacional*). In December 2019, following GAFI-FATF recommendations, Paraguay enacted a number of laws aimed at reinforcing money laundering and crime prevention rules, which created a special procedure for the seizure of assets representing the proceeds of crime. In addition, rules for the freezing of assets pertaining to persons linked with terrorism and financing of mass destruction weapons were also introduced. In line with the adoption of these regulations, the criminal code was modified to introduce stricter rules and more severe sanctions.

In an evaluation conducted by GAFILAT and the Financial Action Task Force (FATF) in 2022, Paraguay achieved 93% implementation of the 40 recommendations of FATF, positioning it as one of the most notable countries in the region in terms of technical compliance. The evaluation report published by the FATF Global Network confirms that Paraguay has successfully completed the evaluation process, both at the level of compliance with the recommendations and the effectiveness of its National Anti-Money Laundering and Counter-Terrorist Financing System (AML/CFT). Paraguay achieved these favorable results despite the challenges of the COVID-19 pandemic.

In addition, Paraguay has adequately passed the "system effectiveness examination" and is considered a cooperating country in the region in the fight against money laundering, terrorist financing, and the proliferation of weapons of mass destruction. These achievements demonstrate Paraguay's efforts and commitment to strengthening its legal framework and systems to prevent and combat these financial and criminal threats.

One of the priority actions taken by the executive branch involves updating the National Risk Assessment (NRA). This work is currently ongoing with support from the Inter-American Development Bank (IDB) and various departments within the Anti-Money Laundering and Counter-Terrorist Financing (AML/CFT) system. Additional actions have been established based on findings from each area of the system. These efforts aim to enhance the precise identification and assessment of Money Laundering and Terrorist Financing (ML/TF) risks present in Paraguay. By doing so, they facilitate a clearer and more accurate understanding of various risk levels and how illicitly obtained assets, stemming from diverse threats, are linked to the AML/CFT system.

Anti-Corruption

Paraguay has ratified the United Nations Convention against Corruption, and the Interamerican Convention against Corruption (together, the "Anticorruption Conventions"), and created the National Anticorruption Secretariat (the "SENAC") as the enforcing authority for the Anticorruption Conventions and other anticorruption matters. Specifically, the SENAC is in charge of monitoring complaints relating to bribery, graft, and/or other unwarranted benefits provided to public officials, and designs anticorruption policies for the Paraguayan government. In 2017, the SENAC set up an anti-corruption whistleblowing portal for reporting alleged acts of corruption committed by government officials, representatives of private entities or individuals. However, the SENAC has no power to prosecute private parties or public agents.

Over the past decade, Paraguay has enacted a number of laws promoting transparency, publicizing information concerning public tenders, publicly-owned corporations, public officials, annual budgets, and information concerning the three branches of the Paraguayan government. Moreover, Paraguayan banking regulation promotes the transparency of financial operations and requires financial institutions to inform clients and banking authorities (the Central Bank, the SIB and/or the SEPRELAD) of credit card interest rates, banking commissions, shareholders' equity, the identity of members of boards of directors and internal balance sheets.

Under Law No. 1160/97, as amended (the "Paraguayan Criminal Code"), solicitation of gifts or favors or any type of "benefit" by or on behalf of public officials is a criminal offense. Additionally, in November 2019, Paraguay enacted Law No. 6452/19 which criminalizes solicitation of gifts or favors or any type of "benefit" by or on behalf of private parties acting as representatives or agents of private entities in exchange of accepting offers of goods or services in conditions disadvantageous to other competitors in the market.

Paraguay's ranking in Transparency International's Corruption Perceptions Index has materially improved throughout the last decade, with Paraguay moving from the 150th position in the rankings in 2014 to the 137th position in 2019. This 13-position improvement in the ranking is largely attributable to the enactment and implementation of Law No. 5282/14 on Access to Public Information and Government Transparency. Law No. 5282/14 became a platform for promoting transparency, contributing to the fight against corruption and building bridges between the public sector and citizens, which has led to an improvement in the perception of corruption in the Paraguay public sector.

Securities Markets

The Asunción Stock Exchange (the "BVPASA"), established in 1993, is the only securities exchange in Paraguay. As of December 2022, the total trading volume was composed primarily of non-governmental securities offerings (78.43%). There has been a large increase in the volume of public-sector securities trading in recent years, with public sector securities representing 25.16% of the total trading volume as of December 31, 2022, compared to 25.44% as of December 31, 2021. The total volume traded on the BVPASA in 2022 represented a slight decrease of approximately -12,9% compared to 2021.

During the months of March and April 2020, despite the strictest stage of the COVID-19 lockdown, BVPASA experienced high-volume growth, as it had already been operating virtually prior to the pandemic as required by National Securities Commission (CNV). In March 2020, Paraguay became the first country in South America to classify and incorporate guidelines for the issuance of Sustainable Development Goal (SGD) bonds, consistent with the 2030 agenda. Beginning in 2021, issuing companies will be obligated to apply the financial information standards issued by the Council of Accountants and Auditors of Paraguay, as a transition to the application of the International Financial Reporting Standards (IFRS).

The Paraguayan equity and bond market is governed by the capital markets law adopted in 2017 (the "Capital Markets Law"). The Capital Markets Law governs, among other things, public offerings of equity and fixed income securities, and financial intermediaries in the stock exchange. The Paraguayan securities regulatory agency, the National Stock Commission, has the authority to regulate and supervise the securities markets, including the formulation of professional ethical standards, the promotion of corporate disclosure such as annual and interim reporting by listed companies, the establishment of compliance regulations, controls and penalties and the regulation of the relationships between securities issuers and investors in the securities market.

The implementation of an electronic trading system for securities in the third quarter of 2010 and the first issue of Treasury Bonds (medium- and long-term) through BVPASA of approximately US$5 million in 2012 demonstrates Paraguay's commitment to providing transparent and secure securities markets.

The following table summarizes the listed companies and trading volume in the BVPASA for the periods indicated.

Asunción Stock Exchange: Listed Companies and Trading Volume

	12-month period ended December 31,				
	2018	**2019**	**2020**	**2021**	**2022**
	(in thousands of US$)				
Number of listed companies (end of period)	78	85	90	94	113
Private sector securities					
Equities	$39,666	$44,219	$21,996	$24,522	$33,745
Certificates of deposit and others	481,766	750,675	1,536,376	2,543,280	2,133,909
Public Sector Securities					
Bonds	129,181	88,196	362,387	789,667	553,295
Total	**$650,614**	**$883,089**	**$1,920,759**	**$3,357,469**	**$2,720,949**

Source: Central Bank and Paraguayan National Securities Commission.

Monetary Policy

The fundamental objectives of the Central Bank are to preserve and safeguard the stability of the currency and to promote efficiency, integrity and stability of the financial system. In July 2018, Congress passed the Central Bank's new organic law (Law No. 6104/18), updating a twenty-year-old law as part of a series of reforms in Paraguay's financial system. The new law expands the Central Bank's oversight to certain institutions (for example, credit and money transfer institutions) that were previously beyond its purview and gives the Central Bank greater authority to intervene and sanction noncomplying financial entities. In addition, the law strengthens the autonomy of the Central Bank.

In May 2011, the Central Bank adopted an inflation targeting scheme to manage monetary policy. The Central Bank focuses its efforts on maintaining a low, stable and predictable level of inflation. The main instrument to develop the inflation targeting system in Paraguay is the benchmark short-term interest rate, which allows the Central Bank to influence aggregate demand and inflation.

To implement its inflation targeting scheme, the Central Bank develops and releases Monetary Policy Reports, which were initially published semi-annually, and have been published quarterly since September 2014. The objectives of the Monetary Policy Report are to:

(i) inform and explain the views of the Central Bank on recent and expected inflation and its consequences for monetary policy;

(ii) make public the analytical framework used in the formulation of the monetary policy's horizon; and

(iii) provide useful information to the market to build economic agents' expectations about the future path of inflation and economic activity.

The Central Bank has introduced operational instruments to manage liquidity and develop the money market, in order to increase efficiency and deepen the transmission of its monetary policy decisions. As of the date of this Offering Memorandum, the operational instruments used by the Central Bank are:

(i) the short-term liquidity facility;

(ii) the short-term liquidity deposit;

(iii) central bank bills ("LRM", by its Spanish acronym);

(iv) legal reserves; and

(v) market operations in the money market.

The Central Bank makes liquidity projections on the overall balance of the banks' current accounts in the Central Bank to determine the liquidity request of the system in order to guide the interbank rate to its target rate. The Central Bank extracts from or injects liquidity into the banking system in order to align the interbank rate to its target rate. These operations are made by auctions of overnight deposits or intra-day repos, LRM and other open market operations.

The Central Bank manages its financial liabilities by placing long-term bills, the LRM, which are issued with monthly expiration dates. The auctions are held at least once a month and the expiration date of the LRM is, generally, the last Friday of each month that is a business day.

The purpose of the LRM loans is to manage financial system liquidity in the long term, as well as certain legacy liabilities of the Central Bank incurred in the 1990s in connection with financial crises that affected Paraguay.

As a result of the various measures taken in the 2018-2020 period and in response to the internal and external macroeconomic environment, the profile of monetary policy during this period adjusted from a more contractive profile to a more expansive one. However, in August 2021, the Central Bank decided to move from a highly expansionary monetary policy to a more neutral one. As a result, the Central Bank increased the MPR by 450 basis points between August and December 2021, reaching 5.25% as of December 31, 2021. In 2022, the Central Bank raised its reference interest rate by 325 basis points, reaching 8.50% as of December 31. These decisions were taken due to the external shocks that occurred because of the war between Russia and Ukraine and its repercussions on local food and fuel prices. Also, the scenario of high uncertainty caused the medium-term inflation expectations remained slightly above the Central Bank's target. Thus, the weighted average of LRM rate was 5.7% in 2018 and 2019, 1.5% in 2020, 1.9% in 2021 and 8.3% in 2022. In April 2023, the weighted average LRM rate was 9.2%, 1.8% higher than the average observed in April 2022 (7.4%).

The following table sets forth the weighted average interest rate of the LRM for the periods indicated.

Weighted Average Interest Rate of LRM

	(in percentages)
2018	5.7
2019	5.7
2020	1.5
2021	1.9
2022*	7.4
2022	8.3
2023*	9.2

*As of April 30, 2022
Source: Central Bank

The following table sets forth the composition of Paraguay's monetary base (expressed in terms of the Central Bank's monetary liabilities) and the Central Bank's international reserves (net), as of the dates indicated.

Monetary Base and the Central Bank's International Reserves (Net)
(in millions of US$)

	12-month period ended December 31,					Four-month period ended April 30,	
	2018	**2019**	**2020**	**2021**	**2022**	**2022**	**2023**
Currency in circulation, including cash in vaults at banks in US$......................	$ 2,400	$ 2,299	$ 2,527	$ 2,667	$ 2,653	$ 2,351	$ 2,431
Banks' reserves at the Central Bank	1,037	971	693	982	1,005	934	993
Monetary Base	3,437	3,270	3,221	3,649	3,658	3,284	3,424
International reserves (net)	7,970	7,675	9,490	9,947	9,825	9,344	9,848

Source: Central Bank.

The ratio of the Central Bank international reserves (net) to the monetary base was approximately 2.50 to 1 as of December 31, 2017, remaining at the same level as of November 30, 2021.

The following table sets forth liquidity and credit aggregates as of the dates indicated.

Liquidity and Credit Aggregates

	12-month period ended December 31,					Four-month period ended April 30,	
	2018	**2019**	**2020**	**2021**	**2022**	**2022**	**2023**
				(in millions of US$)			
Liquidity aggregates							
Currency in circulation, excluding cash in vaults at banks....................................	$ 1,939	$ 1,837	$ 2,068	$ 2,170	$ 2,224	$ 1,927	$ 2,044
Add: Deposits in current accounts..............	3,322	3,370	3,794	4,127	3,836	3,717	3,564
M1...	5,261	5,207	5,862	6,296	6,060	5,644	5,608
Add: Savings and term deposits	3,410	3,327	3,507	3,705	3,934	3,506	3,870
M2...	8,671	8,534	9,369	10,001	9,994	9,150	9,478
Add: Deposits in foreign currency..............	6,107	6,377	7,089	7,767	7,799	7,684	8,152
M3	**$14,778**	**$14,911**	**$16,458**	**$17,768**	**$17,792**	**$16,835**	**$17,630**
Credit aggregates							
Private sector credit	$14,099	$14,371	$14,269	$15,617	$17,116	$15,639	$16,423
Public sector credit	358	423	645	896	921	856	1,002
Total domestic credit	**$14,456**	**$14,794**	**$14,914**	**$16,513**	**$18,037**	**$16,495**	**$17,424**

Source: Central Bank.

The following table sets forth the percentage changes in nominal value in money supply and credits as of the dates indicated.

Selected Monetary Indicators

	As of December 31,					Four-month period ended April 30,	
	2018	2019	2020	2021	2022	2022	2023
	(percentage change from previous year in Guaraníes)						
Currency in circulation. including cash in vaults at banks	6.2%	4.3%	19.3%	5.6%	2.5%	3.4%	8.1%
M_1(1)	3.9	7.8	22.1	7.5	(0.8)	(0.5)	3.9
M_2(2)	6.2	7.2	19.1	6.8	3.0	0.7	8.3
M_3(3)	6.0	9.9	19.7	8.0	3.2	2.1	9.5
Credit from the financial system(4)	14.7	9.8	9.5	11.7	11.4	13.9	9.2
Deposit in the financial system(4)	7.1	10.4	18.3	7.2	2.4	3.0	7.7

(1) Currency in circulation, excluding cash in vaults at banks, plus Guaraníes-denominated current accounts.
(2) M_1 plus Guaraníes-denominated savings and term deposits.
(3) M_2 plus foreign currency deposits.
(4) Includes banks and financial companies. Excludes Cooperatives.
Source: Central Bank.

From 2018 through 2022, the average annual change in Paraguay's monetary aggregate M2 was 8.4% while average GDP growth was 1.21%. As of April 30, 2023, the M2's interannual percentage change was 8.3% when compared to the same period of the previous year.

From December 2018 through the same month in 2022, M2 grew by 40.4% because the Central Bank increased the amount of currency in circulation to provide adequate liquidity consistent with non-inflationary growth. Further, from 2018 through December 2022, M3 increased by 46.7% because of growth in foreign currency deposits.

Private sector credit consists primarily of trade, consumer, and service/financial sector credit. From 2018 through 2022, credit extended to private sector borrowers increased by 47.9% because of general economic growth and the increase in imports and domestic consumption. During the same period, public sector credit increased by 213.8% because of a 318.5% increase in credits in foreign currency and a 188.9% increase in credits in national currency.

As of April 30, 2023, total outstanding loans in the financial system, which includes loans by banks and other financial companies to the non-financial system, totaled G.131,786.8 billion or US$ 18.2 billion, which represents an increase of US$ 0.8 billion from the level of outstanding loans on April 30, 2022. These figures exclude inter-bank loans. Total deposits in the financial system increased by 7.7% in Guaraníes terms from April 2022 to April 2023 and totaled US$18.7 billion as of April 30, 2023.

Inflation

The following table shows changes in the CPI for the periods indicated.

Percentage Change of Consumer Price Index from Previous Year

	CPI % change
2018	3.2%
2019	2.8%
2020	2.2%
2021	6.8%
2022	8.1%

Source: Central Bank.

The Central Bank has adopted an inflation targeting scheme in order to maintain relatively low rates of inflation. In December 2014, the Central Bank set the target annual inflation rate at 4.5% within a range of 2.5% and 6.5%. This reduction was implemented as of January 1, 2015. In January 2017, the Central Bank reduced the inflation target to 4% within a range of 2.0% and 6.0%. Maintaining low inflation, as compared to Paraguay's historical average, is closely related to the Central Bank's commitment to developing a monetary policy that focuses primarily on achieving price stability.

During the 2018-2020 period, the annual inflation rate, CPI, remained within the government's target range. However, in December 2021 and December 2022, the annual inflation rate, CPI, exceeded the government's target range by 0.8% and 2.1%, respectively. Inflation was 3.2% in 2018, 2.8% in 2019, and 2.2% in 2020. In December 2021, inflation increased by 4.7% compared to the same period in the previous year, standing at 6.8%. In December 2022, inflation reached 8.1%, mainly driven by rises in food and fuel prices, which have been influenced by high commodity prices that have been exacerbated by the prolongation of the conflict between Russia and Ukraine. Similarly, this higher inflation has triggered increases in the costs of various services.

Recently, numerous factors have contributed to the price slowdown, including decreasing commodity prices, which impact food and fuel prices as well as a relatively stable exchange rate in recent years, and a monetary policy that has reacted to restrain inflationary pressures, align expectations, and promote inflation convergence to the target. As a result, inflation fell from 11.8% in April 2022 to 5.3% in April 2023.

Foreign Exchange and International Reserves

Foreign Exchange

Paraguay has maintained a managed free floating exchange rate system since 1989. Paraguay has also maintained free capital flows; there are no restrictions on the purchase or sale of foreign exchange by Paraguayan residents or on the repatriation of funds in foreign currency by foreign investors in Paraguay. Government revenues from Itaipú and Yacyretá are denominated in U.S. dollars whereas most of the government's expenses are denominated in local currency. The Central Bank buys the government's U.S. dollar revenues in return for local currency and conducts compensatory operations selling those U.S. dollars back into the market through planned and pre-announced auctions.

Exchange Rates

Paraguay has a floating exchange rate regime. From time to time, the Central Bank intervenes in the foreign exchange market to stabilize the Guaraní, without changing the market trend. During the first quarter of 2017, the Guaraní appreciated, although the trend decelerated slightly in the second quarter of 2017. Appreciation in 2017 was due to external factors, such as the weakening of the dollar due to uncertainty surrounding the economic policies of the United States, and, in part, due to internal factors, including Paraguay's macroeconomic performance. In 2018, exchange rate depreciation followed the larger global trend due to a better economic outlook in the United States that led to increases in the federal funds rate. In 2019, the exchange rate depreciation followed the global and regional trends of the U.S. dollar. Despite the reduction of the federal funds rate, global commercial, technological and political developments strengthened the U.S. dollar. In addition, at the domestic level, lower agricultural production and the decrease of commodity prices resulted in a significant reduction in exports income, which also contributed to the depreciation of the Guaraní. In 2020, during the beginning of the COVID-19 pandemic, the Guaraní exhibited a significant depreciation against the U.S. dollar consistent with the South American regional trend. However, towards the end of 2020, the U.S. dollar weakened against the Guaraní, as well as against most currencies in South America, in the context of optimism related to COVID-19 vaccines, mitigating the cumulative depreciation in 2020.In 2021, the Guaraní appreciated against the U.S. dollar in the first quarter of the year because of a large inflow of U.S. dollars from agricultural exports. A subsequent decrease in agricultural exports between the second and third quarters of 2021 resulted in the depreciation of the Guaraní against the U.S. dollar. The exchange rate remained relatively stable from August 2021 to the end of 2021. In 2022, the cumulative depreciation of the Guaraní against the U.S. dollar was 3.08%. Although the nominal exchange rate remained relatively stable during the first half of 2022, the Guaraní depreciated rapidly from the third quarter onward. This depreciation was driven by the strengthening position of the U.S. dollar within the global market, triggered by adjustments to the Federal Reserve's interest rates and the heightened likelihood of a global recession. The average exchange rate as of December 31, 2022, was 7,331.3 Guaraníes per US$1.00.

The following table sets forth the high, low, average and period end Guaraníes to U.S. dollar exchange rates for the dates and periods indicated.

Exchange Rates[(1)]

	High[(2)]	Low[(2)]	Average[(3)]	Period End[(4)]
	(Guaraníes per US$)			
2018	6,018.8	5,488.8	5,732.1	5,960.5
2019	6,496.2	5,961.8	6,241.7	6,453.1
2020	7,061.0	6,463.7	6,771.1	6,916.8
2021	6,993.7	6,092.7	6,774.2	6,879.1
2022*	7,097.8	6,794.1	6,942.0	6,819.2
2022	7,370.1	6,794.1	6,982.8	7,331.3
2023*	7,440.5	7,166.6	7,255.7	7,224.0

(1) Exchange rates for transactions between financial institutions and non-financial clients.
(2) Daily Bid and Offer exchange rates for transactions between financial institutions and non-financial clients.
(3) Annual simple average of monthly average bid/offer exchange rates.
(4) Average bid/offer US$/G. exchange rate as of the close of business for the last business day of December each year.
* As of April 30.
Source: Central Bank.

International Reserves

The following table sets forth the international net reserves of the Central Bank for the periods indicated.

International Reserves (Net) of the Central Bank

	December 31,					April 30,	
	2018	2019	2020	2021	2022	2022	2023
	(In millions of U.S. dollars)						
Gold[(1)]…………………	336.8	399.1	496.6	475.6	478.3	502.5	524.4
Foreign Exchange[(2)]……….	7,433.9	7,077.1	8,786.6	9,269.3	9,156.4	8,647.7	9,131.4
Subtotal………………….	7,770.6	7,476.2	9,283.2	9,744.9	9,634.7	9,150.2	9,655.8
Special Drawing Rights…	133.9	133.7	139.5	136.1	128.0	130.7	129.4
Reserve Position at IMF	65.2	64.8	67.5	65.6	62.4	63.0	63.1

Subtotal…………………	199.0	198.5	206.9	201.7	190.3	193.7	192.5
Total……………………	7,969.6	7,674.7	9,490.1	9,946.6	9.825.0	9,343.9	9,848.3

(1) Gold valued for each period at London market prices at the end of each year.

Source: Central Bank

Under the charter of the Central Bank, international reserves are earmarked to maintain the stability of the free exchange rate system, to solve transitory difficulties of the balance of payments and preserve the value of the Guaraní.

The international reserves of the Central Bank increased, on average, between 2017 and 2021. In 2017, international reserves increased, primarily because of current account surpluses, while during 2018 and 2019, international reserves decreased mainly because of current account deficits, explained by a reduction in trade balance surpluses and decreased FDI inflows. In 2020, international reserves increased primarily as a result of record levels of bond issuances by the public and private sectors, directly impacting international reserves and creating a current account surplus. As of April 30, 2023, international reserves were US$ 9.8 billion, an increase of 5.4% compared to April 30, 2022, due to a comparison effect, meaning this increase looks more significant due to the lower base from the same period in the previous year.

To a lesser extent, the current account surplus, and the expected moderate increase of FDI flows also support the increase.

PUBLIC SECTOR FINANCES

General

Paraguay's public sector consists of the central government, financial public institutions (including the Central Bank and the BNF), non-financial public institutions (including SOEs) and other general government agencies (including the social security system, departments, national universities, and the custom department and other decentralized government entities). Central government revenues are derived mainly from tax collection (VAT, excise taxes, corporate income tax and personal income tax since 2013) and non-tax revenue (royalty payments from Itaipú Binational and Yacyretá Binational, compensation payments from the Brazilian and Argentine governments for sales of capacity generated in Itaipú and Yacyretá, respectively, and unused by Paraguay, and social security contributions). Central government expenditures consist mainly of compensation of employees, payments for goods and services, interest paid on public debt and transfer payments to other public sector institutions. Other public sector institutions derive revenue from operating income or transfers from the central government. The budgets of all public sector institutions (including SOEs) are included in the government's annual budget for each year. Public sector institutions must obtain authorization from both the government and Congress to incur medium-and long-term financing, and the amount and sources of such financing must be contemplated in the annual budget. For more information see "Public Sector Debt."

Municipalities are not included in the government's annual budget and do not require authorization from the government to obtain financing. However, there would be no recourse to the central government for any such financing. Accordingly, all information regarding the consolidated public sector finances excludes any finances related to municipalities.

The following table sets forth consolidated public sector finances for the periods indicated below.

Consolidated Public Sector

	12-month period ended December 31,				
	2018	2019	2020	2021	2022
	(in millions of US$)				
Revenue	**$9,434.5**	**$8,920.9**	**$7,749.9**	**$8,849.6**	**$9,807.5**
Taxes	4,161.9	3,939.7	3,497.3	4,061.6	4,463.6
On income, profits and capital gains	917.7	963.5	881.7	1,023.6	1,253.6
On goods and services	2,618.0	2,358.2	2,136.1	2,453.4	2,561.7
Value-added taxes	2,060.7	1,873.2	1,725.8	2,012.3	2,169.8
Excises	557.3	484.9	410.3	441.2	391.9
Other taxes on goods and services	7.5	1.7	1.7	1.9	2.0
On international trade and transactions	439.8	387.9	295.3	357.6	409.3
Other taxes	178.9	228.4	182.4	225.0	237.0
Social Contributions	1,442.0	1,407.4	1,331.9	1,525.7	1,694.9
Grants	48.3	41.3	57.2	58.4	43.4
Other revenue	3,782.3	3,532.5	2,863.4	3,203.9	3,605.6
Property income	903.7	1,044.6	893.3	1,019.2	1,029.4
Royalties(1)	259.5	334.0	229.0	245.3	258.5
Sales of goods and services	2,536.3	2,189.3	1,727.8	1,907.6	2,292.9
Compensation transfer of energy(2)	304.4	324.8	214.2	110.4	141.6
Miscellaneous revenue	342.3	298.5	242.4	277.0	283.3
Expense	8,196.5	7,935.0	8,022.6	8,556.3	9,040.7
Compensation of employees	3,693.0	3,560.0	3,491.5	3,586.9	3,690.9
Use of goods and services	2,010.0	1,829.9	1,756.6	2,189.1	2,348.8
Interest	359.7	410.9	484.8	563.3	654.2
Subsidies	0.0	0.0	0.0	0.0	0.0
Grants	3.6	0.6	(234.5)	(3.2)	(74.1)
Social Benefits	1,652.1	1,637.8	2,060.8	1,755.7	1,976.0
Other Expense	478.1	495.8	463.5	464.5	444.9
Net Operating Balance(3)	1,238.0	985.9	(272.7)	293.3	766.8
Net Acquisition of Nonfinancial Assets	1,416.1	1,627.2	1,844.9	1,787.1	1,903.8
Net Lending (Borrowing)	**$(178.1)**	**$(641.2)**	**$(2,117.7)**	**$(1,493.7)**	**$(1,137.0)**

(1) Includes royalty payments from Itaipú and Yacyretá binationals.
(2) Includes compensation payments by Brazil and Argentina for sales of unused capacity generated by Itaipú and Yacyretá, respectively.
(3) Revenue minus expense.
Source: Ministry of Finance.

During the 1980s, the public sector ran significant deficits. A complex tax regime lacking consistency and clarity resulted in weak enforcement and an increasing deterioration of central government revenues. In 1991, Congress passed a comprehensive tax reform that reduced the number of taxes, eliminated complexity, and introduced VAT. These developments translated into an improvement of central government balances.

In 2000, 2001 and 2002, public sector finances once again deteriorated materially. During 2003, in the aftermath of the economic and financial crisis of 2002, measures were adopted to improve central government efficiency by streamlining public procurement procedures and further simplifying the tax regime. The combined effect of these initiatives, the economic growth experienced during the period, and the efforts undertaken to control central government expenditures resulted in central government primary surpluses from 2004 through 2011.

Central Government Fiscal Balance

In 2018, central government primary expenditures totaled US$5.1 billion, an increase of 6.7% compared to 2017, with central government revenues in 2018 totaling US$5.7 billion, an increase of 2.7% compared to 2017, and an overall central government deficit of US$526.4 million (1.3% of GDP). The central government's primary balance in 2018 showed a deficit equivalent to 0.6% of GDP.

In 2019, central government primary expenditures totaled US$5.0 billion, a decrease of 1.6% compared to 2018, with central government revenues totaling US$5.4 billion, a decrease of 5.0% compared to 2018, a net operating surplus (revenue minus expense) of G. 304.0 billion (US$48.7 million) and an overall central government deficit of US$1.07 billion (2.8% of GDP). The central government's primary balance in 2019 showed a deficit equivalent to 2.0% of GDP for that period.

In 2020, central government primary expenditures totaled US$5.3 billion, an increase of 5.6% compared to 2019, with central government revenues totaling US$4.8 billion, a decrease of 11.0% compared to 2019, a net operating deficit (revenue minus expense) of G. 6,016 billion (US$888.5 million) and an overall central government deficit of US$2.18 billion (6.1% of GDP). The central government's primary balance in 2020 showed a deficit equivalent to 5.1% of GDP for that period.

In 2021, central government primary expenditures totaled US$5.3 billion, an increase of 0.3% compared to 2020, with central government revenues totaling US$5.5 billion, an increase of 14.1% compared to 2020, a net operating deficit (revenue minus expense) of G. 1,949 billion (US$287.8 million) and an overall central government deficit of US$1.45 billion (3.6% of GDP). The central government's primary balance in 2021 showed a deficit equivalent to 2.5% of GDP for that period.

In 2022, central government primary expenditures totaled US$5.4 billion, an increase of 1.4% compared to 2021, with central government revenues totaling US$5.9 billion, an increase of 7.5% compared to 2021, a net operating deficit (revenue minus expense) of G. 242.2 billion (US$34.7 million) and an overall central government deficit of US$1.23 billion (3.0% of GDP). The central government's primary balance in 2022 showed a deficit equivalent to 1.7% of GDP for that period.

As of May 31, 2023, central government primary expenditures totaled US$2.2 billion, an increase of 11.1% compared to the same period in 2022, with central government revenues totaling US$2.3 billion, a decrease of 2.9% compared to the same period in 2022, and an overall central government deficit of US$587.7 million (1.3% of GDP). The central government's primary balance as of May 31, 2023, showed a deficit equivalent to 0.7% of GDP for that period.

The FRL governs the preparation and approval of budgets, but not their execution, and is intended to prevent discretionary increases in expenditures, setting targets for the central government's overall balance. Ultimately, the FRL pursues the adoption of balanced budgets that conform to the financial capacity of the government. Although the 2023 budget complies with the parameters established in the Fiscal Responsibility Law (LRF) as part of the gradual convergence process following the consecutive shocks experienced due to the drought in 2019 and 2022, as well as the impacts of the COVID-19 pandemic in 2020, the National Congress has approved the suspension of the fiscal deficit limit for the fiscal year 2023. This approval includes an expansion of the deficit ceiling from 1.5% of GDP to 2.3% of GDP. Additionally, the executive branch has presented the Proposed New FRL to Congress which aims to repeal and replace the existing FRL. See "The Paraguayan Economy—Current Economic Policy—Proposed New Fiscal Responsibility Law" for more information.

The following table sets forth a summary of the central government's overall balance for the periods indicated below.

Central Government Fiscal Balance

	12-month period ended December 31,					Five-month period ended May 31,	
	2018	**2019**	**2020**	**2021**	**2022**	**2022**	**2023**
Net Lending (Borrowing) (in millions of US$)	(526.4)	(1,065.7)	(2,175.3)	(1.450,6)	(1.234,7)	(215.0)	(587.7)
Net Lending (Borrowing)/GDP (%).......	(1.3)	(2.8)	(6.1)	(3.6)	(3.0)	(0.5)	(1.3)

Source: Ministry of Finance.

Economic reforms aimed at increasing the formality of the Paraguayan economy have been a priority for the government. A broader tax base with improved collection initiatives has generated increases in tax revenue. VAT collection, the central government's main source of tax revenues, averaged a growth rate of 6.5% for the period from 2018 through 2022. The number of registered taxpayers during the 5-month period ended May 31, 2023, totaled 1,069,445, a 24.1% decrease compared to 1,408,447 registered taxpayers at the end of 2022. In 2020, the increase in registered taxpayers was mainly driven by the subsidies granted by the Paraguayan government to informal workers during the COVID-19 pandemic, which were contingent upon their registration to tax and social security authorities. The decrease observed as of May 2023 is the result of those same taxpayers being removed from the register, because of showing no movements in their accounts.

The following table sets forth the increase in the number of registered taxpayers (as a percentage) from the previous year.

Registered Taxpayers

	As of December 31,					As of May 31,
	2018	**2019**	**2020**	**2021**	**2022**	**2023**
Taxpayers (percentage increase from the previous year)...............................	6.9	(0.3)	59.5	3.1	3.9	-24.1

Source: Ministry of Finance

From 2018 to 2022, tax revenue increased by an average of 6.9% per year. Tax revenues as of May 31, 2023, totaled G.12.9 billion (approximately US$1.8 billion), equivalent to a tax burden of 4.1% of GDP, a decrease of 0.3% of GDP the same period in 2022.

The central government's policy for public spending since 2008 has prioritized social services to focus on effective reduction of poverty and inequality. The government regards social spending as a key component of public spending. In recent years, there has been a steady increase in social spending measured in relation to total central government expenditure. In 2010, social spending accounted for 50.1% of total central government expenditure and by May 2023, social spending increased to 68.0% of total central government expenditure. In 2017, the composition of government spending was dominated by public-sector salaries (49.3%), followed by transfers to other government entities such as municipalities (16.6%) and social services (16.4%). More recently, government spending has been characterized by a significant decrease in transfers and public-sector salaries, which in the five-month period ended May 31, 2023, represented 10.9% and 42.3%, respectively, of spending. This has been accompanied by increases in investment (net acquisition of non-financial assets), which in the period from 2018 through May 31, 2023, increased 10.2% on average.

The following table sets forth a summary of central government finances for the periods indicated below.

Central Government Finances

	12-month period ended December 31,					Five-month period ended May 31,	
	2018	**2019**	**2020**	**2021**	**2022**	**2022**	**2023**(1)
			(in millions of US$)				
Revenue	$5,675.7	$5,389.2	$4,798.9	$5,477.0	$5,885.1	$2,399.4	$2,330.3
Taxes	4,036.4	3,778.0	3,358.3	3,898.5	4,290.8	1,832.0	1,801.0
On income, profits and capital gains	917.7	963.5	881.7	1,023.6	1,253.6	610.9	341.0
On goods and services	2,618.0	2,358.1	2,135.6	2,452.9	2,561.6	1,037.0	952.0
Value-added taxes	2,060.8	1,874.0	1,725.8	2,012.3	2,169.8	870.5	795.9
Excises	557.2	484.1	409.8	440.6	391.8	166.5	156.1
Other taxes on goods and services	0.0	0.0	0.0	0.0	0.0	0.0	0.0
On international trade and transactions	439.8	387.9	295.3	357.6	409.3	159.8	160.1
Other taxes	61.0	68.4	45.6	64.5	66.3	24.3	347.9
Social Contributions	368.8	340.7	360.8	410.0	515.9	156.7	108.4
Grants	304.8	244.3	213.0	270.5	229.9	79.0	96.4
Other revenue	965.8	1,026.3	866.8	898.0	848.5	331.7	324.5
Property income	342.1	399.8	325.9	394.6	368.5	147.6	170.5
Royalties(2)	259.5	334.0	228.0	245.3	258.5	111.8	118.5
Sales of goods and services	518.6	536.8	367.8	309.8	372.8	151.2	141.0
Compensation transfer of energy(3)	304.4	324.8	214.2	110.4	141.6	66.2	54.4
Miscellaneous revenue	105.1	89.7	173.1	193.5	107.2	33.0	13.0
Expense	5,377.3	5,340.5	5,687.4	5,764.7	5,919.8	2,225.0	2,526.0
Compensation of employees	2,656.6	2,633.0	2,586.3	2,633.7	2,720.0	1,026.4	1,068.1
Use of goods and services	508.0	499.9	511.1	799.3	643.9	229.0	301.5
Interest	270.3	314.3	377.3	437.3	517.5	218.8	298.1
Subsidies	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	836.6	756.9	673.7	704.1	678.6	243.3	276.1
Social Benefits	916.4	916.3	1,341.4	958.9	1,109.8	418.2	491.4
Other Expense	189.3	220.2	197.6	231.5	250.1	89.3	90.9
Net Operating Balance(4)	298.5	48.7	(888.5)	(287.8)	(34.7)	174.4	(195.7)
Net Acquisition of Non-financial Assets	824.9	1114.4	1,286.8	1,162.8	1,200.0	389.4	391.9
Net Lending (Borrowing)	**$(526.4)**	**$(1,065)**	**$(2,175)**	**$(1,450.6)**	**$(1,234.7)**	**$(215.0)**	**$(587.7)**

(1) Preliminary data.
(2) Includes royalty payments from Itaipú and Yacyretá binationals.
(3) Includes compensation payments by Brazil and Argentina for sales of unused capacity generated by Itaipú and Yacyretá, respectively.
(4) Revenues minus expenses.
Source: Ministry of Finance

The following table sets forth a summary of central government sector finances expressed as a percentage of nominal GDP for the periods indicated below.

Central Government Finances as a Percentage of GDP

	12-month period ended December 31,					Five-month period ended May 31,	
	2018	2019	2020	2021	2022	2022	2023(1)
	(as a percentage of GDP)						
Revenue	14.1%	14.2%	13.5%	13.7%	14.1%	5.8%	5.3%
Taxes	10.0	10.0	9.5	9.8	10.3	4.4	4.1
On income, profits and capital gains	2.3	2.5	2.5	2.6	3.0	1.5	0.8
On goods and services	6.5	6.2	6.0	6.1	6.1	2.5	2.2
Value-added taxes	5.1	4.9	4.9	5.0	5.2	2.1	1.8
Excises	1.4	1.3	1.2	1.1	0.9	0.4	0.4
Other taxes on goods and services	0.0	0.0	0.0	0.0	0.0	0.0	0.0
On international trade and transactions	1.1	1.0	0.8	0.9	1.0	0.4	0.4
Other taxes	0.2	0.2	0.1	0.2	0.2	0.1	0.8
Social Contributions	0.9	0.9	1.0	1.0	1.2	0.4	0.2
Grants	0.8	0.6	0.6	0.7	0.6	0.2	0.2
Other revenue	2.4	2.7	2.4	2.2	2.0	0.8	0.7
Property income	0.8	1.0	0.9	1.0	0.9	0.4	0.4
Royalties(2)	0.6	0.9	0.6	0.6	0.6	0.3	0.3
Sales of goods and services	1.3	1.4	1.0	0.8	0.9	0.4	0.3
Compensation transfer of energy(3)	0.8	0.9	0.6	0.3	0.3	0.2	0.1
Miscellaneous revenue	0.3	0.2	0.5	0.5	0.3	0.1	0.0
Expense	13.4	14.1	16.1	14.4	14.2	5.3	5.7
Compensation of employees	6.6	6.9	7.3	6.6	6.5	2.5	2.4
Use of goods and services	1.3	1.3	1.4	2.0	1.5	0.5	0.7
Interest	0.7	0.8	1.1	1.1	1.2	0.5	0.7
Subsidies	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	2.1	2.0	1.9	1.8	1.6	0.6	0.6
Social Benefits	2.3	2.4	3.8	2.4	2.7	1.0	1.1
Other Expense	0.5	0.6	0.6	0.6	0.6	0.2	0.2
Net Operating Balance(4)	0.7	0.1	(2.5)	(0.7)	(0.1)	0.4	(0.4)
Net Acquisition of Non-financial Assets	2.1	2.9	3.6	2.9	2.9	0.9	0.9
Net Lending (Borrowing)	(1.3)%	(2.8)%	(6.1)%	(3.6)%	(3.0)%	(0.5)%	(1.3)%

(1) Preliminary data.
(2) Includes royalty payments from Itaipú and Yacyretá binationals.
(3) Includes compensation payments by Brazil and Argentina for sales of unused capacity generated by Itaipú and Yacyretá, respectively.
(4) Revenues minus expenses.
Source: Ministry of Finance

Revenues

The following table sets forth the composition of central government revenues as a percentage of total central government revenues for each of the periods indicated below.

Central Government Revenue

	12-month period ended December 31,					Five-month period ended May31,	
	2018	**2019**	**2020**	**2021**	**2022**	**2022**	**2023**(1)
	(as percentage of total revenue)						
Taxes	71.1%	70.1%	70.0%	71.2%	72.9%	76.4%	77.3%
On income, profits and capital gains	16.2	17.9	18.4	18.7	21.3	25.5	14.6
On goods and services	46.1	43.8	44.5	44.8	43.5	43.2	40.9
Value-added taxes	36.3	34.8	36.0	36.7	36.9	36.3	34.2
Excises	9.8	9.0	8.5	8.0	6.7	6.9	6.7
Other taxes on goods and services	0.0	0.0	0.0	0.0	0.0	0.0	0.0
On international trade and transactions	7.7	7.2	6.2	6.5	7.0	6.7	6.9
Other taxes	1.1	1.3	0.9	1.2	1.1	1.0	14.9
Social Contributions	6.5	6.3	7.5	7.5	8.8	6.5	4.7
Grants	5.4	4.5	4.4	4.9	3.9	3.3	4.1
Other revenue	17.0	19.0	18.1	16.4	14.4	13.8	13.9
Property income	6.0	7.4	6.8	7.2	6.3	6.2	7.3
Royalties(2)	4.6	6.2	4.8	4.5	4.4	4.7	5.1
Sales of goods and services	9.1	10.0	7.7	5.7	6.3	6.3	6.0
Compensation transfer of energy(3)	5.4	6.0	4.5	2.0	2.4	2.8	2.3
Miscellaneous revenue	1.9	1.7	3.6	3.5	1.8	1.4	0.6
Total Revenue	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

(1) Preliminary data.
(2) Includes royalty payments from Itaipú and Yacyretá binationals.
(3) Includes compensation payments by Brazil and Argentina for sales of unused capacity generated by Itaipú and Yacyretá, respectively.

Source: Ministry of Finance

Tax Revenue

Tax revenues increased steadily from 2004 through 2022 as a result of reforms in tax legislation and improved management of tax administration. Two key tax laws were approved in 2013, the Agricultural Activities Income Tax and the extension of VAT to agricultural products at a rate of 5%, which were previously exempted from VAT. In 2019, a new tax law was enacted implementing a modernized and simplified tax system.

Tax revenues averaged 71.1% of total central government revenues for the 2018-2022 period. However, the COVID-19 pandemic had a strong effect on the central government's tax revenue in 2020. In the five-month period ended May 31, 2023, tax revenues accounted for 77.3% of the total central government revenues, an increase of 1.5% compared to the same period in 2022.

Taxes on income, profits and capital gains. Revenues from personal, corporate, and agricultural income taxes represented 14.6% of total central government tax revenues in the five-month period ended May 5, 2023. Since the enactment of the new tax law in 2019, corporate income is taxed at a rate of 10.0% for commercial and industrial activity and services sectors, with no distinctions between agricultural and non-agricultural activities, but gross profits distributions are taxed at 8.0% for distributors and a 15.0% withholding tax applies on any payments to non-residents if such dividends are remitted abroad.

The Personal Income Tax ("PIT") is assessed at a rate that ranges from 8% to 10% for personal income, capital income, capital gains and other income after certain exemptions and deductions. In 2019, PIT was assessed separately for personal income and capital gains income. For personal income, a rate of 10% is applied over the difference between revenues and expenditures. For capital gains income, a rate of 8% is applied over revenues and expenditures.

Taxes on goods and services. In the five-month period ended May 31, 2023, taxes on goods and services (VAT and excise taxes) represented 40.9% of total tax revenues. Tax rates are moderate with the general VAT rate being 10.0%, and a reduced rate of 5% applying to certain household necessities, pharmaceuticals and books. Commencing in 2013, livestock, soybeans and other agricultural products in their natural state ceased to be exempt from VAT and became subject to VAT at a rate of 5.0%. Excise tax is levied primarily on fuel, beverages and cigarettes. As of the date of this Offering Memorandum, cigarettes are taxed at 18.0%, after a 2% increase in September 2018, and are expected to gradually increase to a maximum rate of 24%; alcoholic beverages are taxed at 11% and 13% respectively; and non-essential goods are taxed at a range between 1% and 5%. Fuel is subject to a special tax levied at a rate of up to 50.0%.

Taxes on international trade and transactions. Revenue from international trade and transactions, which corresponds entirely to import duties, represented approximately 6.9% of total tax revenues in the five-month period ended May 31, 2023. A significant part of VAT and excise taxes are derived from foreign trade and is collected by customs.

Modernization and Simplification of the National Tax System. In September 2019, the Modernization and Simplification of the National Tax System Law was enacted. The main objective of the Modernization and Simplification of the National Tax System Law is to improve the current tax system by making it simpler, more efficient, equitable and competitive. The Modernization and Simplification of the National Tax System Law reflects certain principles that prevail in modern tax systems, aiming to reduce tax avoidance and tax evasion.

The Modernization and Simplification of the National Tax System Law seeks to raise revenue with an emphasis on fairness and direct taxation, implementing a more progressive tax system, in which the tax rate increases in line with the taxable amount.

The Modernization and Simplification of the National Tax System Law became effective in January 2020 and is expected to increase tax revenue for 0.7% of GDP (approximately US$300 million) upon full implementation by 2024. The expected increase in revenues will be applied to increase public expenditure in education, public health, infrastructure and social protection. The implementation of the Law has so far achieved an additional revenue of US$ 159 million, which represents 0.4% of GDP.

Non-tax Revenue. Non-tax revenues (social contributions, grants and other revenue) represent, on average, 27.9% of the total central government revenues for the period from 2018 through May 2023. The largest contribution is derived from royalty payments from Itaipú Binational and Yacyretá Binational and compensation payments by Brazil and Argentina, which in the period from 2018 through May 2023 accounted for an average of 8.7% of total central government revenues. Social security contributions also represent a significant source of non-tax revenue, accounting for 6.9% on average for the period from 2018 through May 2023.

Pursuant to the Itaipú Treaty, Paraguay is entitled to receive (i) an annual royalty from Itaipú Binational in an amount determined on the basis of a formula set forth in the Treaty and (ii) compensation from the Brazilian government for the unused portion of Paraguay's share of electricity produced by Itaipú that must be sold to Eletrobras at cost in accordance with the Treaty. The amount of the compensation is negotiated between both governments and is US$9.2 per GW/hour as of the date of this Offering Memorandum.

In the four-month period ended April 30, 2023, Paraguay received royalty and compensation payments of US$153.5 million (equivalent to 0.3% of GDP), an increase of 30.1% compared to royalty and compensation payments of US$118.0 million (equivalent to 0.3% of GDP) during the same period in 2022. This increase in royalty and compensation payments was mainly due to the improvement in electricity production as a result of the increase in water flow in the Parana River. In 2022, a total of US$ 386.1 million (0.9% of GDP) was received. In 2021, income from royalties and compensation represented 1.0% of GDP, about US$ 404.2 million. Paraguay received royalty and compensation payments of US$444.8 million in 2020 (1.2% of GDP), US$520.0 million in 2019 (1.3% of GDP) and US$566.1 million in 2018 (1.4% of GDP). Revenues fluctuate from year to year as a result of the total production of electricity, which in turn depends on the flow of water from the Paraná River, as well as the receipt of amounts due in a year that correspond to previous years. In addition, while compensation payments have increased as a result of negotiations with the Brazilian government, they would decrease to the extent that the energy generated by Itaipu is consumed in the country. For more information regarding Itaipú see "The Paraguayan Economy—Principal Sectors of the Economy—Binational Entities (Binationals)—Electricity Production at Itaipú and Yacyretá Hydroelectric Plants" and "Republic of Paraguay—History, Government and Political Parties."

According to the Yacyretá Treaty, Paraguay receives (i) royalty payments and (ii) compensation payments based on revenues from the sale of Paraguay's unused electricity to Argentina. The latter is paid by the government of Argentina directly to Paraguay. The construction of Yacyretá was largely financed by loans from the World Bank and the IDB to Yacyretá Binational, which were guaranteed by Argentina.

In 1992, the governments of Paraguay and Argentina signed notes related to the Yacyretá Treaty to amend its provisions concerning the cost of the project. Paraguay and Argentina agreed in January 1992 to defer the payment of accumulated royalties and compensation (for the electricity Paraguay sold to Argentina) for the 1994 to 2004 period until 2019, and to reinvest such deferred amounts in construction and operational improvements. The deferred amounts shall be paid in equal, monthly installments over eight years, and without interest beginning in 2019. Despite the agreement, since Yacyretá commenced operations in 1994, Paraguay has received advances on deferred royalties and compensation.

However, a substantial part of the early payments due to Paraguay for the periods prior to 2004 is at Yacyretá Binational's discretion and is agreed to on an annual basis by Argentina and Paraguay. Revenues received by Paraguay from Yacyretá Binational totaled US$124 million in 2012, US$105 million in 2013 and US$37 million in 2014. Beginning in 2014, the Argentine government halted the transfer of any revenue from Yacyretá to Paraguay. However, in 2016, Argentina promised to honor the royalties and compensation payments for 2014 and 2015 due to Paraguay from the Yacyretá hydroelectric plant. In 2018, 2019, 2020, 2021 and 2022, Paraguay received US$46.2 million, US$125.1 million, US$46.0 million, US$45.8 and US$78.9 million, respectively on account of royalties and compensation due for prior years. In the four-month period ended April 30, 2023, transfers received from Yacyretá Binational totaled US$11.3 million.

Expenditures

Central government expenditures consist primarily of compensation of employees, use of goods and services, interest payments, subsidies, grants, social benefits and other expenses. The main component of expenditures is compensation of employees, representing an average of 46.3% of total expenditures for the period from 2018 through May 2023. Grants also represent an important component of expenditures, accounting for an average of 12.7% of total expenditures for the period from 2018 through May 2023. Grants include the current and capital transfers to foreign governments, international organizations and local governments units. The provision of social benefits, including social security, social assistance and social benefits from employer is another significant component of central government expenditures, representing, on average, approximately 18.8% of total expenditures for the period from 2018 through May 2023.

Analysis of Public Spending. The government has promoted the creation of a Public-Private Inter-Institutional Commission for the Analysis of Public Spending. This commission aims to work on an analysis and proposal for the implementation of best practices in planning, management, budget and control, which will allow responding to the needs of citizens through the generation of more efficient goods and services, through an improvement in the quality of public expenditure.

The following table sets forth central government expenditures by category for the periods indicated below.

Central Government Expenditures

	12-month period ended December 31,					Five-month period ended May 31,	
	2018	**2019**	**2020**	**2021**	**2022**	**2022**	**2023**(1)
	(as percentage of total central government expenditure)						
Compensation of employees	49.4%	49.3%	45.5%	45.7%	45.9%	46.1%	42.3%
Use of goods and services	9.4	9.4	9.0	13.9	10.9	10.3	11.9
Non-personal services	4.7	4.6	3.6	4.9	4.5	4.8	4.2
Consumer goods	4.4	4.4	4.9	8.6	6.0	4.8	6.9
Commissions	0.1	0.2	0.2	0.2	0.2	0.2	0.2
Other use of goods and services	0.3	0.3	0.2	0.2	0.2	0.6	0.6
Interest	5.0	5.9	6.6	7.6	8.7	9.8	11.8
Subsidies	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	15.6	14.2	11.8	12.2	11.5	10.9	10.9
To foreign governments	0.0	0.0	0.0	0.0	0.0	0.0	0.0
To international organizations	0.2	0.2	0.1	0.1	0.1	0.2	0.1
To local governments	15.4	14.0	11.7	12.1	11.3	10.8	10.8
Social Benefits	17.0	17.2	23.6	16.6	18.7	18.8	19.5
Other Expense	3.5	4.1	3.5	4.0	4.2	4.0	3.6
Current	1.5	1.3	1.5	1.1	1.2	0.8	1.1
Capital	2.0	2.8	2.0	3.0	3.1	3.2	2.5
Total Expenditures	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

(1) Preliminary data.
Source: Ministry of Finance

Capital expenditures (Net Acquisition of Non-financial Assets)

Central Government Finance

	12-month period ended December 31,					Five-month period ended May 31,	
	2018	**2019**	**2020**	**2021**	**2022**	**2022**	**2023**(1)
	(in millions of US$)						
Net acquisition of non-financial assets	824.9	1,114.4	1,286.8	1,162.8	1,200.0	389.4	391.9

(1) Preliminary data.
Source: Ministry of Finance

Net acquisition of non-financial assets comprises payments for the construction of infrastructure such as roads, buildings, hospitals and schools, as well as research laboratories, computers and modern equipment. During the 2018-2022 period, net acquisition of non-financial assets has increased on average 11.5% per year. In the five-month period ended May 31, 2023, net acquisition of non-financial assets represented 0.9% of GDP, an increase of 4.0% compared to the same period of 2022, which results from the government measures taken to achieve fiscal convergence in the medium term.

The following table sets forth government expenditures by purpose for the periods indicated. The table includes the amortization of public debt and all expenses related to public debt, including the issuance, management and cancellation of public debt, and service.

Government Expenditures by Purpose

		12-month period ended December 31,				Five-month period ended May 31,	
	2018	2019	2020	2021	2022	2022	2023(1)
	(in millions of U.S. dollars)						
Social Services	$3,750.4	$ 3,898.5	$ 4,212.6	$ 4,167.5	$ 4,229.7	$1,467.2	$1,632.6
Health	779.2	809.8	925.0	1,213.4	1,088.9	377.1	454.4
Promotion and social action	880.9	852.6	1,231.7	804.7	804.3	301.7	329.6
Social security	639.7	768.1	635.7	684.4	768.5	246.2	278.4
Education and culture	1,302.2	1,303.1	1,282.8	1,282.8	1,396.1	487.1	514.2
Science, technology and dissemination	29.5	31.5	31.1	31.1	34.2	10.8	10.9
Labor	43.5	44.3	37.5	43.6	46.6	13.1	15.7
Housing and community	75.2	88.4	68.3	106.5	89.9	30.9	29.0
General Services	1,516.2	1,443.7	1,351.7	1,400.6	1,504.6	0.0	0.0
Public services	737.5	694.0	628.5	678.0	747.6	0.0	0.0
Defense and security services	778.7	749.7	723.2	722.6	757.0	0.0	0.0
Economic Services	794.6	919.3	1,489.2	1,042.0	1,021.6	353.8	361.4
Energy, fuels and mining	0.5	0.6	0.3	0.7	0.4	0.1	0.1
Transport	25.3	33.1	20.5	10.2	17.6	4.3	6.2
Ecology and environment	0.0	7.4	6.7	7.5	8.3	2.7	3.1
Agriculture, livestock and fishing	100.8	95.9	113.5	103.6	85.5	26.0	27.5
Manufacturing/Industry	2.5	3.7	2.1	2.7	2.8	0.9	1.1
Commerce, storage and tourism	30.2	29.5	20.1	19.8	23.3	8.2	8.9
Economic services and public work	626.0	749.2	1,326.0	897.6	883.8	311.5	314.6
Public debt service	566.1	589.4	675.5	740.9	1,018.6	305.4	389.7
Regulation and control services	6.7	9.8	12.9	18.8	39.1	12.0	16.8
Total	**$ 6,634.1**	**$ 6,860.7**	**$ 7,741.8**	**$ 7,369.7**	**$ 7,813.5**	**$ 2,138.4**	**$ 2,400.5**

(1) Preliminary data.
Source: Ministry of Finance.

The following table sets forth government expenditures by purpose as a percentage of total expenditures for the periods indicated below.

Percentage Distribution of Central Government Expenditures by Purpose

	12-month period ended December 31,					Five-month period ended May 31,	
	2018	**2019**	**2020**	**2021**	**2022**	**2022**	**2023**(1)
	(as percentage of central government total expenditure)						
Social Services	56.5%	56.8%	54.4%	56.5%	54.1%	68.6%	68.0%
Health	11.7	11.8	11.9	16.5	13.9	17.6	18.9
Promotion and social action	13.3	12.4	15.9	10.9	10.3	14.1	13.7
Social security	9.6	11.2	8.2	9.3	9.8	11.5	11.6
Education and culture	19.6	19.0	16.6	17.4	17.9	22.8	21.4
Science, technology and dissemination	0.4	0.5	0.4	0.4	0.4	0.5	0.5
Labor	0.7	0.6	0.5	0.6	0.6	0.6	0.7
Housing and community	1.1	1.3	0.9	1.4	1.2	1.4	1.2
General Services	22.9	21.0	17.5	19.0	19.3	0.0	0.0
Public services	11.1	10.1	8.1	9.2	9.6	0.0	0.0
Defense and security services	11.7	10.9	9.3	9.8	9.7	0.0	0.0
Economic Services	12	13.4	19.2	14.1	13.1	16.5	15.1
Energy, fuels and mining	0	0.0	0.0	0.0	0.0	0.0	0.0
Transport	0.4	0.5	0.3	0.1	0.2	0.2	0.3
Ecology and environment	0	0.1	0.1	0.1	0.1	0.1	0.1
Agriculture, livestock and fishing	1.5	1.4	1.5	1.4	1.1	1.2	1.1
Manufacturing/Industry	0	0.1	0.0	0.0	0.0	0.0	0.0
Commerce, storage and tourism	0.5	0.4	0.3	0.3	0.3	0.4	0.4
Economic services and public work	9.4	10.9	17.1	12.2	11.3	14.6	13.1
Public debt service	8.5%	8.6	8.7	10.1	13.0	14.3	16.2
Regulation and control services	0.1	0.1	0.2	0.3	0.5	0.6	0.7
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

(1) Preliminary data.
Source: Ministry of Finance

A significant portion of the increases in non-discretionary current expenditures have resulted from the introduction of new laws that increased compensation for public sector employees without generating additional revenue. However, the approval of the FRL was intended to avoid future discretionary increases in compensation of employees. Although non-discretionary government expenditures continue to represent a high percentage of total expenditure, a lower increase in compensation of public sector employees has resulted in an improvement in the ratio of non-discretionary expenditures to total expenditures. In 2018 and 2019, non-discretionary expenditures totaled US$4.4 for both years, representing 70.2% and 66.3% of total expenditures, respectively. In 2020 and 2021, non-discretionary expenditures totaled US$4.9 billion and US$4.6 billion, representing 69.2% and 65.1% of total expenditures, respectively. In 2022, non-discretionary expenditures totaled US$4.9 billion, representing 67.2% of total expenditures. In the five-month period ended May 31, 2023, non-discretionary expenditures totaled US$2.1 billion, representing 71.5% of total expenditures, compared to the same period in 2022, when non-discretionary expenditures totaled US$1.8 billion, also representing 71.5% of total expenditures.

Budget Process

The government's fiscal year runs from January to December. Pursuant to applicable regulation, the Ministry of Finance prepares the annual government budget, where it presents the goals and specific characteristics of the budget (including estimates of revenues and expenses for the budget year), implementation of the government's social and economic development policies and the provision of public services.

The budget bill process begins with the submission by each governmental agency of its proposed budget to the Ministry of Finance, which in turn then drafts the initial annual budget. The Ministry of Finance may revise, modify or amend each agency's proposed budget prior to presenting the annual budget to the president for approval. The president is required to submit a bill setting forth the annual budget for the following year to the Chamber of Deputies by September 1 of each year that meets the requirements of the FRL.

A special commission composed of members of the Senate and the Chamber of Deputies then convenes for 60 days to review the proposed annual budget. At the completion of this period, the proposed annual budget is submitted to the Senate and the Chamber of Deputies for an additional 15-day review period. The budget process is subject to the rules and limitations set forth in the Fiscal Responsibility Law. If Congress, for example, decides to modify the annual budget by increasing expenditures, it must comply with the Fiscal Responsibility Law's requirement that the source of each additional expenditure be identified. The president may veto the congressionally amended budget, but following such a veto, the annual budget from the preceding year remains in effect. In no event is the government required to spend all the amounts that are provided in the annual budget. In addition, Paraguay includes in its annual budget the external borrowings it needs according to estimates of payments for projects underway and projects pending approval by Congress.

As part of the budget implementation process, the Ministry of Finance prepares a financial plan based on actual revenue flows and the actual ability of governmental agencies and institutions to implement the budget. The financial plan may adjust the budget if necessary, including the reduction of expenditures to the extent that revenues contemplated in the budget do not materialize, and such budget, as modified, is the one that is implemented. In addition to the financial plan, the treasury's *Plan de Caja* allows for monthly adjustments to expenditures depending on the treasury's ability to finance particular expenditures. Governmental entities use the *Plan de Caja* to conform their execution of the budget to the resources they actually have available. Through the financial plan and the *Plan de Caja*, the Ministry of Finance is able to adjust expenditures subject always to the maximum amounts approved in the budget.

The government can cover a shortfall of forecasted revenues by transferring credits, changing funding sources or through short-term loans from the Central Bank. If the deficit at the end of the first quarter exceeds 3% of the budget, the government must submit to Congress a revised national budget by no later than June 30th of that year. Congress can transfer or reduce expenditures, change funding sources or remove budgetary expenditures that do not affect budgetary commitments under special laws. In addition, Congress can also authorize the issuance of treasury bonds to cover the projected deficit, which would be recorded as public debt of the next fiscal year.

2023 Annual Budget

Following the approval by both chambers of Congress in December 2022, the executive branch enacted the 2023 Budget on January 4, 2023. The bill includes aggregate expenditures totaling US$14.8 billion, representing a 7.2% increase compared to December 2022. The 2023 Budget allocates 56% of total resources to the central government and 44% to decentralized entities. In terms of funding resources, 34% of the Budget is financed through resources from the Public Treasury (part of the budget that is financed by tax revenues), 15% form Public Credit (part of the budget that is financed with public debt), and 51% from Institutional Resources (part of the budget that is financed with resources generated by public sector entities).

The objective of the 2023 budget is to maintain macroeconomic stability and pave the way for economic recovery. It adheres to the maximum limit of the Central Administration's fiscal deficit, which is set at 2.3% of GDP. This prudent fiscal approach allows for the continuation of ongoing investment projects and the reinforcement of traditional social programs aimed at supporting the vulnerable population.

Although the 2023 budget complies with the parameters established in the Fiscal Responsibility Law (LRF) as part of the gradual convergence process following the consecutive shocks experienced due to the drought in 2019 and 2022, as well as the impacts of the COVID-19 pandemic in 2020, the National Congress has approved the suspension of the fiscal deficit limit for the fiscal year 2023. This approval includes an expansion of the deficit ceiling from 1.5% of GDP to 2.3% of GDP.

In 2023, key priorities will be given to sectors such as health, education, investment, housing, security, and the fight against organized crime. Additionally, there will be a focus on social protection programs, including the assistance program for the elderly, which aims to reach 300,000 beneficiaries, and Tekoporã aims to address the specific needs of vulnerable households, offering assistance and resources to help improve their quality of life and break the cycle of poverty, with plans to benefit 175,000 families.

In preparation for the 2024 budget, the executive branch issued a decree in April 2023 that establishes the general guidelines for programming, formulation, and presentation of institutional budget projects. These draft projects will serve as the basis for the preparation of the general budget for the fiscal year 2024. The decree emphasizes the need for congruence between public expenditure and the generation of fiscal resources, promoting rationality and austerity in resource planning. Priority areas for the 2024 budget include education, health, security, social protection, connectivity, and public investment. Austerity measures will continue to be implemented in various budget categories.

Furthermore, the decree introduces regulatory provisions related to budget programming and formulation in line with Law No. 7021/2022 on Public Procurement and Contracts. This will facilitate the gradual implementation of the law based on the different stages of the supply chain, starting with needs planning and budget programming.

The guidelines emphasize the importance of in-depth analysis and prioritization in the distribution of budget allocations to address the government's priorities and strategic objectives outlined in the National Development Plan (PND) Paraguay 2030. The aim is to strengthen public expenditure in priority sectors, maintain austerity measures, and ensure the sustainability of public policies in the medium term through the multi-year budget.

The following table sets forth a comparison between the main macroeconomic assumptions used in September 2021 for the preparation of the 2022 budget and the main macroeconomic assumptions used in September 2022 for the preparation of the 2023 draft budget.

Main Macroeconomic Assumptions for 2023

	2022 Budget Assumptions[(1)]	2023 Budget Assumptions[(2)]
Real GDP Growth	3.8%	4.5%
Domestic inflation CPI	4.0%	4.1%
Imports (US$ million)	$12,476	$14,468
Average Nominal G./US$ Exchange Rate	G.7,132	G.7,098

Source: Ministry of Finance
(1) Public Finance Report (2022 budget)
(2) Public Finance Report (2023 budget)

The following table sets forth a comparison between the macroeconomic assumptions used in preparation of the 2022 budget and the final macroeconomic indicators for 2022.

Main Macroeconomic Assumptions for 2022 vs. Actual 2022[(1)]

	Assumptions	**Actual 2022**
Real GDP Growth	3.8%	0.1%
Domestic Inflation CPI	4.0%	8.1%
Imports (US$ million)	$11,799	$14.587
Average Nominal G./US$ Exchange Rate	G.6,992	G.6,983

(1) The macroeconomic assumptions included in this table were published in the notice of public finance that accompanied the 2022 budget presented to Congress in September 2021.

Source: Ministry of Finance, Central Bank of Paraguay.

In December 2021, the main projections of macroeconomic indicators were revised, adjusting the projected GDP growth to 3.7% for 2022. However, the revision by the Central Bank, presented in December 2021 adjusted the projected growth rate for 2021 to 5.0%. The most recent review, presented in March 2023, made an adjustment to the economic growth for 2022, lowering it to 0.1%.

In 2022, the economic conditions were challenging due to both external and internal factors. The global economy encountered significant challenges, primarily associated with the impact of the conflict between Russia and Ukraine, the food crisis caused by persistent inflationary pressures, and the slowdown in China. These conditions have adversely affected the economic outlook. Furthermore, internal factors also contributed to the challenging economic conditions. At the beginning of the year, the Paraguayan economy was severely affected by a drought, which had a negative impact. However, later in the year, there was an improvement in weather conditions, leading to a reversal of these effects.

Throughout 2022, the economy experienced significant inflationary pressures, primarily driven by rising food and fuel prices, which were in turn influenced by the increase in commodity prices. The inflation rate for 2022 reached 8.1%. In response to this scenario, the Monetary Policy Committee implemented a series of interest rate hikes over the course of the year, ultimately setting the rate at 8.50% per year by December 2022.

In relation to the average exchange rate, for the 12-month period ending in December, 2022, it averaged G. 6,983 per U.S. dollar, reflecting a depreciation of 3.1% compared to the average for the same period of the previous year. As of May, 2023, the average exchange rate was G. 7,208 per U.S. dollar, indicating a depreciation of 5.2% compared to the same period in 2022. Despite a turbulent scenario and international shocks affecting prices, the currency remained stable. Paraguay maintains a flexible exchange regime, with occasional intervention in the exchange market during periods of excessive short-term volatility of the Guaraní. This approach has proven beneficial for the country. However, the currency remains exposed to financial and real shocks.

Social Security

Paraguay's social security system is a government-administered system, financed by a combination of contributions from employees, employers and the government. The current contributions to the social security system are used to finance the retirement funds and services provided to current users. Paraguay's social security system is composed of eight entities according to the type of employees to which they relate:

(i) the Institute of Social Welfare for private sector workers;

(ii) the General Bureau for Retirement Funds (the "Caja Fiscal") for public sector workers;

(iii) railroad workers;

(iv) bank employees;

(v) electricity workers;

(vi) members of parliament;

(vii) municipal employees; and

(viii) Itaipú workers.

The Caja Fiscal has a direct impact on the central government's fiscal balance because it is responsible for payments to central government employees.

Paraguay's social security system provides coverage to approximately 44.8% of the total population that receive a salary or work as employees. The IPS and the Caja Fiscal are the largest entities of the social security system. The IPS is the main component of Paraguay's social security system covering retirement and pensions, as well as health insurance. Coverage extends to all employees in the formal private sector, non-government entities and mixed private-public enterprises, public and private school teachers, domestic services employees, retirees and veterans of the Chaco War. Benefits can generally be made available to dependents.

Under the IPS, the ordinary retirement age is 60, together with a minimum of 25 years of contributions. In such a case, an individual receives 100% of the average salary during the last 36 months.

The Caja Fiscal is run by the Ministry of Finance and administers the pension system for public sector employees. It is divided into two broad schemes: the civil servants and the non-civil servants' schemes. The civil servants scheme covers university professors, national teachers, judicial magistrates and public officials and employees. The non-civil scheme covers the armed forces and the police forces.

In the 12-month period ended December 31, 2022, the contributive scheme of Caja Fiscal ran a deficit of G. 880,7 billion (approximately US$126 million, representing 0.302% of GDP), lower than the deficit of G.1,132.9 billion recorded in December 2021 (approximately US$167 million, representing 0.419% of GDP), primarily due to payments to military, police, and teachers, the covered sectors with the highest deficits.

Any individual covered by the Caja Fiscal who has worked for at least 20 years and reaches 62 years of age may retire. Individuals of 50 years or older who have worked for at least 20 years are eligible for retirement benefits.

In addition, the Ministry of Finance administers a non-contributory pension scheme. In 2022, the non-contributory pensions paid G.1,977 billion (approximately US$283 million, representing 0.9% of GDP), exceeding amounts paid in 2021 of G.1,707 billion (approximately US$252 million, representing 0.8% of GDP) and amounts paid in 2020 of G.1,566 million (approximately US$ 231 million, representing 0.8% of GDP).

The non-contributory pensions cover veterans of the Chaco War and gratuitous pensions granted to individuals who have no retirement funds. The non-contributory scheme is composed mainly of pensions defined by the parliament and has significantly influenced overall results of public finance, because it represents only expenditures without any contribution in return.

Paraguay's pension system faces significant structural challenges, such as heterogeneity in terms of benefit payments despite homogeneity across sectors in terms of contributions. Additionally, the results of a July 2017 actuarial study by the IMF indicate that the accumulated 50-year deficit of the Caja Fiscal has a present value of 28% of GDP. According to the latest projections available from the Finance Ministry, the Caja Fiscal shows a discounted present value of unfunded liability of approximately 28.5% of GDP as of 2019.

The strengthening of the institutional framework of the entire Paraguayan pension system and the supervision and regulation of the management and investment of pension funds, through the creation of an independent, technical and specialized regulatory institution, with appropriate standards of regulation and supervision, will be essential to keep the system in balance and improve the efficiency and transparency of pension savings management.

In April 2017, the executive branch proposed a bill to Congress, suggesting pivotal reforms in Paraguay's pension system. The bill called for the establishment of a Pension Superintendence, equipped with the authority to regulate, supervise, and intervene in the management of pension savings, applicable to both public and private entities. Furthermore, the bill proposed the formation of a Pension Advisory Council, chaired by the Ministry of Labor, Employment, and Social Security. The council would include representatives from the Ministry of Finance and the Central Bank. The principal responsibility of this council was to develop guidelines for designing and implementing reforms in the national retirement and pension system. However, in 2018, Congress rejected this bill.

Currently, the government is in the process of crafting a new bill, which is an integral part of the commitments assumed under the Policy Coordination Instrument (PCI) signed with the International Monetary Fund (IMF). The goal is to present a draft bill to Congress in the second semester of 2023. The bill is expected to propose the establishment of a Superintendence of Retirements and Pensions as a technically equipped and regulatory body, integrated into the BCP. This body is intended to have functional autonomy, and its primary objective would be to supervise and control the administrative, financial, actuarial, and patrimonial operations of the Retirement and Pension Entities.

Paraguay is seeking to reestablish its trajectory towards fiscal consolidation and economic recovery through a plan of structural reforms. To achieve this, the nation has requested support and oversight from the IMF through the PCI, a non-financial tool that the IMF makes available to its member countries. Paraguay’s request was approved by the IMF on November 21, 2022. The IMF’s support through the PCI is expected to serve as a tool to stimulate economic growth, strengthen the foundations of macroeconomic stability, and sustain social policies. The program is scheduled to extend over a two-year period until November 2024 and is expected to promote reforms to improve domestic revenue collection, formalize workers in SMEs and self-employed professionals, enhance the efficiency of government operations, strengthen financial supervision, reform the civil service, rationalize public expenditure, reform the fiscal management, improve the business environment, among other reforms.

Payment of Certain Extraordinary Expenses

In 2020, Paraguay was affected by the COVID-19 pandemic. Faced with this health emergency, the government implemented a series of actions to prepare the healthcare system for the influx of new patients. This required the country to obtain financing to cover the extraordinary expenses involved.

Furthermore, the implementation of strict isolation measures, along with the global economic downturn, had a profound impact on Paraguay's domestic growth. Recognizing the need for economic stabilization, countercyclical fiscal policies were put into action. These policies were complemented by increased investments in infrastructure, aimed at generating employment opportunities and alleviating the adverse effects of the pandemic-induced recession. Concurrently, temporary economic aid programs were introduced to provide much-needed support to vulnerable families and workers.

In 2020, despite Paraguay's economy experiencing a relatively modest decline of 0.8%, the country encountered significant fiscal challenges. The combination of heightened public spending and diminished tax revenues resulting from the economic downturn led to a considerable central administration deficit of 6.1% of GDP. Moving into 2021, the government initiated a gradual withdrawal of temporary aid programs and made progress towards establishing a fiscal convergence plan for 2024, which has been followed thus far. However, the implementation of certain measures posed challenges, introducing some inflexibility in public spending. These measures entitled sustaining the healthcare system amidst uncertainties surrounding the pandemic's evolution, as well as the continuation of multi-year public works projects. Despite these obstacles, 2021 concluded with a robust economic growth of 4%. Nonetheless, a fiscal deficit of 3.6% remained, highlighting the need for ongoing fiscal management and strategic decision-making.

In early 2022, Paraguay faced the devastating consequences of an unprecedented drought that destroyed nearly 60% of the soybean production, the country's main agricultural and export commodity. The immediate and indirect ramifications of this agricultural crisis reverberated through the economy, exacerbating the impact of the ongoing war between Russia and Ukraine. This war contributed to the increase of inflationary pressures, primarily driven by soaring prices of food and fuel. By December 2022, inflation had surged to 8.1%, accompanied by a corresponding increase in the monetary policy rate to 8.5%. Despite these challenging circumstances, Paraguay's economic growth for the year was 0.1%, reflecting the combined internal and external effects mentioned earlier. Furthermore, the central administration grappled with a fiscal deficit of 3%, as the projected revenue targets were not met due to the profound impact of these events on economic activity. This confluence of factors stressed the need for strategic measures and effective fiscal management to navigate the country through these turbulent times.

The aforementioned economic shocks had a ripple effect, resulting in substantial payment delays for state suppliers and contractors. To address this liquidity challenge, government entities resorted to utilizing various tools within the existing legal framework. One notable strategy involved the assignment of debt to commercial banks, enabling contractors to transfer their entitlement to payment for work certificates to local financial institutions. This approach proved instrumental in navigating the adverse circumstances and maintaining financial stability.

Significant progress has been made in fulfilling these obligations, utilizing resources allocated in the public budgets for fiscal years of 2020, 2021, and 2022. However, there are still outstanding debts under this mechanism with contractors associated with the Ministry of Public Works and Communications (MOPC). Additionally, there are unresolve payment commitments with certain providers of the Ministry of Public Health and Social Welfare which is expected to be partially paid with the 2023 budget, with the remaining debt to be evaluated and paid after considering the available payment options and after taking into account the fiscal impact.

Currently, with the upcoming change of administration in the Executive Branch scheduled for August of this year, the Ministry of Finance is actively seeking information from both ministries to determine the extent of outstanding payment commitments and assess various options for payment, considering their impact on fiscal accounts. Two potential avenues for addressing these obligations are using the 2023 budget and available resources (with only 37% of the current budget executed as of May) or exploring public financing options such as Treasury bonds or loans from multilateral organizations. Furthermore, efforts are underway to establish regulations for the debt assignment process through a decree currently being reviewed by the President. This decree could potentially afford the tools for quantifying the outstanding amounts and establishing a structured payment mechanism. In addition to addressing existing obligations, it will also serve as a framework for future debt assignments, ensuring predictability and transparency regarding the associated Treasury payment procedures.

PUBLIC SECTOR DEBT

General

Paraguayan public sector debt is composed of debt incurred by the central government, financial public institutions (BNF, AFD, Livestock Fund (*Fondo Ganadero*), and Agricultural Credit (*Crédito Agrícola de Habilitación*)), and non-financial public institutions (including SOEs). In general, Paraguay has relied on public external and public sector domestic debt to finance capital expenditures, primarily to expand the country's infrastructure, invest in education, grant low-interest rate loans and provide assistance to the manufacturing and agricultural sectors. As of April 30, 2023, 99.9% of public sector external debt and approximately 5.5% of public sector domestic debt were denominated in foreign currencies.

All public sector domestic and external debt incurred by the central government is backed by the full faith and credit of Paraguay and medium- and long-term debt must be authorized by both the Ministry of Finance and Congress.

Incurrence of public sector debt is limited each year to the amount authorized by Congress in the annual budget.

The principal guidelines in the government's public debt policies are the ratio of total outstanding public sector debt to GDP, and the ratio of total principal, interest payments and other financial costs (including interest, commissions and others) on public sector external debt to GDP. As of April 30, 2023, the ratio of total outstanding public sector debt to GDP was 34.3%.

The following table sets forth a summary of Paraguay's total gross public sector debt as a percentage of GDP for the periods indicated below.

Total Gross Public Sector External Debt by Creditor

	As of December 31,										As of April 30,			
	2018		2019		2020		2021		2022		2022		2023	
	US$	% of GDP	US$	% of GDP	US$	% of GDP	US$	% of GDP	US$	% of GDP	US$	% of GDP	US$	% of GDP
	(in millions of U.S. dollars and percentages)													
Public Sector Debt[(1)]	$8,040.9	19.8%	$8,859.1	22.9%	$12,212.9	33.8%	$13,631.3	33.8%	$15,053.7	36.0%	$14,123.9	33.7%	$15,444.4	34.3%
External Public Debt	$6,402.4	15.7%	$7,238.5	18.7%	$10,488.5	29.0%	$11,812.0	29.3%	$13,323.1	31.8%	$12,195.0	29.1%	$13,618.6	30.2%
Domestic Public Debt[(2)]	$1,638.5	4.0%	$1,620.6	4.2%	$1,724.4	4.8%	$1,819.3	4.5%	$1,730.6	4.1 %	$1,928.8	4.6%	$1,825.7	4.1%

(1) Public sector debt is classified as external and domestic. Domestic public debt comprises debt contracted with individuals or legal entities resident or domiciled in the Republic of Paraguay, whose payment may be payable within the national territory. External public debt comprises debt contracted with another state or international organization, or any other natural or legal person without residence or domicile in the Republic of Paraguay, the payment of which may be due outside the national territory.

(2) The domestic debt includes since 2012 the result of the capitalization of the Central Bank in the amount of US$915.5 million, through the issuance of a perpetual bond. This amount represented 1.2% of GDP and 3.5% of total public debt as of April 30, 2023 (US$543.1 million).

Source: Ministry of Finance and Central Bank.

Public Sector External Debt

Paraguay's current strategy focuses on minimizing the cost of its public sector external debt. As of April 30, 2023, public sector external debt represented 88.2% of outstanding public sector debt, most of which was incurred to finance infrastructure projects in the form of bilateral and multilateral loans.

The following table sets forth gross public sector external debt by creditor for the periods indicated below.

Gross Public Sector External Debt by Creditor

	As of December 31,										As of April 30			
	2018		2019		2020		2021		2022		2022		2023	
	US$	%	US$	%	US$	%	US$	%	US$	%	US$	%	US$	%
	(in millions of U.S. dollars and percentages)													
Official creditors	**2,966.8**	**46.3**	**3,224.0**	**44.5**	**4,916.2**	**46.9**	**5,591.5**	**47.3**	**6,808.5**	**51.1**	**5,697.6**	**46.7**	**7,341.6**	**53.9**
Multilateral organizations	**2,768.0**	**43.2**	**3,007.2**	**41.5**	**4,686.9**	**42.8**	**5,373.8**	**45.5**	**6,626.3**	**49.7**	**5,498.9**	**45.1**	**7,168.4**	**52.6**
IDB	1,469.2	22.9	1,671.3	23.1	2,393.8	23.6	2,541.0	21.5	3,183.5	23.9	2,558.2	21.0	3,225.0	23.7
IBRD	631.7	9.9	572.0	7.9	849.2	8.4	879.9	7.4	885.4	6.6	868.9	7.1	1,115.8	8.2
CAF	386.4	6.0	467.7	6.5	1,075.2	7.2	1,483.9	12.6	2,018.5	15.2	1,595.4	13.1	2,168.5	15.9
FONPLATA	137.2	2.1	146.6	2.0	180.3	1.8	276.1	2.3	342.6	2.6	285.1	2.3	348.3	2.6
IFAD	19.6	0.3	20.4	0.3	22.0	0.2	23.2	0.2	23.4	0.2	22.8	0.2	25.5	0.2
AID	4.3	0.1	3.5	0.0	2.7	0.0	2.0	0.0	1.4	0.0	1.9	0.0	1.2	0.0
OPEC	40.1	0.6	46.2	0.6	53.9	0.5	60.0	0.5	67.2	0.5	59.0	0.5	166.0	1.2
BEI	79.6	1.2	79.6	1.1	109.7	1.1	107.7	0.9	104.4	0.8	107.7	0.9	118.1	0.9
Bilateral organizations	**198.8**	**3.1**	**216.7**	**3.0**	**229.3**	**2.3**	**217.7**	**1.8**	**182.2**	**1.4**	**198.8**	**1.6**	**173.2**	**1.3**
JICA	161.3	2.5	177.2	2.4	188.9	1.9	171.5	1.5	135.4	1.0	151.2	1.2	126.3	0.9
KFW	12.8	0.2	10.9	0.2	10.1	0.1	7.6	0.1	5.6	0.0	7.1	0.1	5.8	0.0
USAID	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FINAME	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
ICO	24.4	0.4	28.6	0.4	30.2	0.3	38.6	0.3	41.2	0.3	40.5	0.3	41.0	0.3
NATIXIS	0.3	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Private creditors	**3,435.6**	**53.7**	**3,917.3**	**54.1**	**5,363.3**	**52.9**	**5,858.0**	**49.6**	**6,071.2**	**45.6**	**6,072.8**	**49.8**	**5,833.6**	**42.8**
Banks	**12.7**	**0.2**	**7.3**	**0.1**	**3.3**	0.0	**1.7**	**0.0**	**0.0**	**0.0**	**1.7**	**0.0**	**0.0**	**0.0**
BBVA Spain	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EXIMBANK CHINA	12.7	0.2	7.3	0.1	3.3	0.0	1.7	0.0	0.0	0,0	1.7	0.0	0.0	0.0
Bonds	**3,422.9**	**53.5**	**3,910.0**	**54.0**	**5,360.0**	**52.9**	**5,856.4**	**49.6**	**6,071.2**	**45.6**	**6,071.2**	**49.8**	**5,833.6**	**42.8**
Bonds due 2023/44/26/27/48/ 50/31/33/33_2	3,410.0	53.3	3,910.0	54.0	5,360.0	52.9	5,856.4	49.6	6,071.2	45,6	6,071.2	49.8	5,833.6	42.8
Chinese Bonds (CHINA TRUST COMM. B.)	12.9	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0,0
Turnkey Law (5.074/13)	**0.0**	**0.0**	**97.2**	**1.3**	**209.0**	**2.1**	**362.4**	**3.1**	**443.5**	**3.3**	**424.6**	**3.5**	**443.5**	**3.3**
Consorcio Corredor Vial Bioceánico	0.0	0.0	97.2	1.3	209.0	1.1	362.4	3.1	443.5	3.3	424.6	3.5	443.5	3.3
Total external debt	**6,402.4**	**100.0**	**6,402.4**	**100.0**	**10,488.5**	**100.0**	**11,812.0**	**100.0**	**13,323.1**	**100.0**	**12,195.0**	**100.0**	**13,618.6**	**100.0**

Source: Ministry of Finance.

As of April 30, 2023, Paraguay's gross public sector external debt was US$13.6 billion, an increase of approximately 11.6% compared to April 30, 2022. Central government borrowings represented 46.4% of Paraguay's gross total public sector external debt as of the same period.

The following table sets forth a summary of Paraguay's total public sector external debt by type of debtor.

Total Gross Public Sector External Debt

	As of December 31,										As of April 30			
	2018	**% of Total**	**2019**	**% of Total**	**2020**	**% of Total**	**2021**	**% of Total**	**2022**	**% of Total**	**Apr 2022**	**% of Total**	**Apr 2023**	**% of Total**
Central Government	$5,917.8	92.4	$6,685.6	92.4	$9,800.3	93.4	11,153.9	94.4	12,625.3	94.8	11,547.8	94.7%	12,920.1	94.9%
Financial public sector[(1)]........	118.6	1.9	144.5	2.0	157.5	1.5	151.5	1.3	154.7	1.2	150.3	1.2%	154.0	1.1%
Non-financial public sector	365.9	5.7	408.4	5.6	530.7	5.1	506.6	4.3	543.0	4.1	496.9	4.1%	544.6	4.0%
Total	**$6,402.4**	**100.0**	**$7,238.5**	**100.0**	**$10,488.5**	**100.0**	**11,812.0**	**100.0**	**13,323.1**	**100.0**	12,195.0	100.0	**13,618.6**	**100.0**
Total public external debt/GDP ...	**15.7%**		**18.7%**		**29.0%**		**29.3%**		**31.8%**		**29.1%**		**30.2%**	

(1) Includes the Central Bank.
Source: Ministry of Finance and Central Bank.

The following table shows the total public sector external debt net of international reserves.

Total Public Sector External Debt, Net of International Reserves

	As of December 31,					As of April 30,	
	2018	**2019**	**2020**	**2021**	**2022**	**2022**	**2023**
	(in millions of U.S. dollars)						
Total public external debt	$6,402.4	$7,238.5	$10,488.5	$11,812.0	$13,323.1	$12,195.0	$13,618.6
Less: Gross international reserves of Central Bank	$7,969.6	$7,674.7	$9,490.1	$9,946.6	$9,825.0	$9,343.9	$9,848.3
Total public external debt, net of international reserves	**$(1,567.2)**	**($436.2)**	**$998.3**	**$1,865.4**	**$3,498.1**	**$2,851.1**	**$3,770.3**

Source: Ministry of Finance and Central Bank.

Paraguay has historically relied on multilateral organizations, bi-lateral loans and commercial banks as sources of public sector external debt. Multilateral and bilateral organizations accounted for 53.9% of total gross public sector external debt outstanding as of April 30, 2023. The IDB and the CAF are currently Paraguay's largest creditors, accounting for 44.9% and 30.3% as of April 30, 2023, respectively, of gross total public sector external debt owed to multilateral organizations and 23.6% and 15.9%, respectively, of total public sector external debt. Paraguay's borrowings from multilateral organizations are used primarily for infrastructure and social development programs.

On March 13, 2018, Paraguay issued bonds for an aggregate principal amount of US$530 million (the "2048 Bonds"), which mature on March 13, 2048. The 2048 Bonds bear interest at rate of 5.6%, payable semi-annually in arrears on September 13 and March 13 of each year.

On February 7, 2019, Paraguay issued bonds for an aggregate principal amount of US$500 million (the "Initial 2050 Bonds"), to mature on March 30, 2050. The Initial 2050 Bonds bear interest at rate of 5.4%, payable semi-annually in arrears on March 30 and September 30 of each year. On January 21, 2020, Paraguay reopened the Initial 2050 Bonds and made a further issuance, under the indenture dated March 31, 2016 (as amended, modified and/or supplemented from time to time), for an aggregate principal amount of US$450 million (the "First Additional 2050 Bonds," together with the Initial 2050 Bonds, the "Reopened 2050 Bonds"). This issuance was consolidated with the Initial 2050 Bonds to form a single series of 5.4% bonds due 2050. On January 29, 2021, Paraguay reopened for a second time the 2050 Bonds and made a further issuance, for an aggregate principal amount of US$225.8 million (the "Second Additional 2050 Bonds," together with the Reopened 2050 Bonds, the "2050

Bonds”). This issuance was consolidated with the Initial 2050 Bonds and the Reopened 2050 Bonds to form a single series of 5.4% bonds due 2050.

On April 28, 2020, Paraguay issued bonds for an aggregate principal amount of US$1 billion (the “2031 Bonds”), which mature on April 28, 2031. The 2031 Bonds bear interest at a rate of 4.950%, payable semi-annually in arrears on April 28 and October 28 of each year.

On January 29, 2021, Paraguay issued bonds for an aggregate principal amount of US$600 million (the “2033 Bonds”), which mature on January 29, 2033. The 2033 Bonds bear interest at a rate of 2.739%, payable semi-annually in arrears on January 29 and July 29 of each year.

On January 28, 2022, Paraguay issued bonds for an aggregate principal amount of US$500.6 million (the “2033 Bonds”), which mature on June 28, 2033. The 2033 Bonds bear interest at a rate of 3.849%, payable semi-annually in arrears on June 28 and December 28 of each year.

The following table sets forth information regarding gross public sector external debt service.

Public Sector Gross External Debt Service

	12-month period ended December 31,										Four-month period ended April 30,			
	2018	% of Total	2019	% of Total	2020	% of Total	2021	% of Total	2022	% of Total	2022	% of Total	2023	% of Total
	(in millions of U.S. dollars. and percentages)													
Interest payments(1)	$257.2	56.3%	$318.5	61,4%	367.4	62.8	415.5	65.2	500.5	66.9	$179.4	76.2%	$208.7	41.6%
Principal amortization	$199.9	43.7%	$200.6	38.6%	217.5	37.2	221.5	34.8	248.1	33.1	$56.1	23.8%	$293.3	58.4%
Total	**$457.2**	**100.0%**	**$519.1**	**100.0%**	**584.9**	**100.0%**	**637.0**	**100.0%**	**748.5**	**100%**	**$235.4**	**100.0%**	**$502.0**	**100.0%**
Debt service as a percentage of registered exports	3.9%		4.1%		5.1%		4.5%		5.4%		5.5%		8.93%	

(1) Includes financial costs.
Source: Ministry of Finance.

The following table sets forth information regarding gross public sector external debt amortization schedule by creditor.

Gross Public Sector External Debt Amortization Schedule by Creditor(1)

	Total Outstanding External Debt as of April 30, 2023	Amortization Schedule for 2023	2024	2025	2026	2027	2028 and thereafter
	(in millions of U.S. dollars)						
Multilateral organizations.	7,168.4	144.9	375.0	429.7	461.2	526.2	5,231.4
Foreign governments........	173.2	18.5	19.1	17.1	16.4	16.4	85.7
Bonds................................	5,833.6	0.0	0.0	0.0	527.1	500.0	4,806.5
Turnkey Projects (Law 5074/13)	443.5	0.0	22.2	44.3	44.3	44.3	288.3
Total................................	**$13,618.6**	**$163.4**	**$416.2**	**$491.2**	**$1,049.1**	**$1,086.9**	**$10,411.8**

(1) Includes only loans approved by Congress and not those under negotiation or pending approval by Congress.
Source: Ministry of Finance.

On October 16, 2019, the IDB converted the interest rates on five loans from floating to fixed rates. With this conversion, the amount of outstanding public sector external debt at a fixed rate increased from 64.6% as of October 31, 2018, to 68.6% as of October 31, 2019, thereby reducing the exposure to the risk of interest rate fluctuations. However, as of April 30, 2023, the amount of outstanding public sector external debt at a fixed rate was 58.8%, decreasing from 67.6% as of April 30, 2022, mainly due to the disbursements of loans contracted to mitigate the effects of COVID-19.

The following table sets forth a summary of Paraguay's gross public sector external debt by interest rate type.

Summary of Gross Public Sector External Debt by Interest Rate Type

	As of December 31,										As of April 30,			
	2018	% of Total	2019	% of Total	2020	% of Total	2021	% of Total	2022	% of Total	2022	% of Total	2023	% of Total
	(in millions of U.S. dollars and percentages)													
Fixed Rate	$4,077.8	63.7%	$5,332.3	73.7%	$7,364.3	70.2%	$7,991.7	67.7%	$8,257.2	62.0%	$8,247.3	67.6%	$8,013.6	58.8%
0-3%	395.9	6.2	1,132.9	15.7	1617.9	15.4	2,202.9	18.7	2,176.0	16.3%	2,186.1	17.9%	2,174.4	16.0%
More than 3%-6%	2,681.9	41.9	3,102.2	42.9	4,537.4	43.3	4,426.3	37.5	4,637.7	34.8%	4,636.7	38.0%	4,395.8	32.3%
More than 6%-9%	1,000.0	15.6	1,097.2	15.2	1,209.0	11.5	1,362.4	11.5	1,443.5	10.8%	1,424.6	11.7%	1,443.5	10.6%
Floating Rate(1)	2,324.6	36.3	1,906.2	26.3	3,124.2	29.8	3,820.3	32.3	5,065.9	38.0%	3,947.7	32.4%	5,605.0	41.2%
Total	**$6,402.4**	**100%**	**$7,238.5**	**100%**	**$10,488.5**	**100%**	**$11,812**	**100%**	**$13,323.1**	**100%**	**$12,195**	**100%**	**$13,618.6**	**100%**

(1) Primarily LIBOR-based.
Source: Ministry of Finance.

The following table sets forth a summary of Paraguay's gross public sector external debt outstanding by maturity.

Summary of Gross Public Sector External Debt Outstanding by Maturity of Indenture Date

			As of December 31,								As of April 30,			
	2018	% of Total	2019	% of Total	2020	% of Total	2021	% of Total	2022	% of Total	2022	% of Total	2023	% of Total
							(in millions of U.S. dollars and percentages)							
0-5 years	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Between 5-10 years	1,888.0	29.5%	1,993.77	27.2%	1,969.28	18.8%	1,722.2	14.6%	1,591.8	11.9%	1,495.0	12.3%	1,399.2	10.3 %
Between 10-15 years	483.4	7.5	622.22	8.5%	763.62	7.3%	1,495.8	12.7%	2,094.2	15.7%	2,055.7	16.9%	2,083.7	15.3 %
More than 15 years	4,031.0	63.0	4,722.48	64.4%	7,755.58	73.9%	8,593.9	72.8%	9,637.1	72.3%	8,644.4	70.9%	10,135.8	74.4 %
Total	**6,402.4**	**100%**	**7,338.5**	**100%**	**10,488.5**	**100%**	**11,812.0**	**100%**	**13,323.1**	**100%**	**12,195.0**	**100%**	**13,618.6**	**100%**

Source: Ministry of Finance.

The following table sets forth gross public sector external debt denominated in foreign currency, by currency as of the dates indicated.

Summary of Gross Public Sector External Debt Outstanding by Currency

	As of April 30, 2022	% of Total	As of April 30, 2023	% of Total
	(in millions of U.S. dollars and percentages)			
United State Dollar	11,940.8	97.9%	13,393.2	98.3%
Japanese Yen	151.3	1.2%	126.4	0.9%
Euro	86.9	0.7%	84.3	0.6%
Canadian Dollar	0.3	0.0%	0.2	0.0%
Special Drawing Rights(1)	15.6	0.1%	14.5	0.1%
British Pound	0.0	0.0%	0.0	0.0%
Swedish Krona	0.0	0.0%	0.0	0.0%
Norwegian Krone	0.0	0.0%	0.0	0.0%
Paraguay Guaraní	0.0	0.0%	0.0	0.0%
Total	**12,195.0**	**100.0%**	**13,618.6**	**100.0%**

(1) Units of account used by IMF and reflects disbursements from the International Fund for Agricultural Development, an agency of the United Nations.
Source: Ministry of Finance.

Public Sector External Debt Owed to Multilateral Organizations and Credit Agencies

IDB. The IDB is Paraguay's principal multilateral financial institution creditor. As of April 30, 2023, the balance of this multilateral debt was US$3,225.0 million, representing 23.6% of Paraguay's total public sector external debt.

The country strategy from 2018 to 2022 aims to continue with the objective of promoting the diversification of credit sources and seeking to ensure government access to resources in circumstances of external shocks that generate fiscal imbalances and unexpected increases in financing needs. This strategy includes the financing of investment projects through multilateral and bilateral organizations in addition to the use of new investment financing instruments.

CAF. The Development Bank of Latin America, also known as CAF, is the second major multilateral financial institution active in Paraguay, providing lending operations, funding studies, and offering both technical and financial assistance. As of April 30, 2023, the projects in Paraguay financed by CAF totaled US$2,168.5 million, representing 15.9% of Paraguay's total public sector external debt.

The CAF finances projects in, among others, the following priority areas:

- Strengthening of the Paraguayan economy to increase its capacity to resist risks and volatility by strengthening households and producers' economic capacity, enhancing management of public finances, and promoting investment by the private sector.

- Promoting public goods and public services that benefit the poor by supporting initiatives that increase tax collection, enhance accountability and transparency in public sector expenditures, and improve poor's access to high quality public services.

- Developing inclusive markets by enhancing agricultural productivity and improving small producers' access to markets. This can be achieved by boosting private investment in infrastructure projects that will in turn reduce logistics costs.

JICA. Paraguay's principal bilateral creditor is the Japan International Cooperation Agency ("JICA"). JICA finances projects focused on reducing social disparities (improvement of public health, and assistance for the self-reliance of small-scale farmers) and advancing sustainable economic development (improvement of water and sanitation, and of economic infrastructure).

As of April 30, 2023, loans outstanding owed to JICA totaled US$126.3 million, representing 0.9% of Paraguay's total public sector external debt.

The following table sets forth the loans of official institutions approved by law in the year 2022 and the four-month period of 2023.

Creditor	Project/Program	Date of Contract Signing	Amount (Millions of US$)	Original Currency	Law No.	Objective
IDB	Program to Support the Transparency Agenda in Paraguay II	18/3/2022	250	US$	6873/2022	The objective of the program is to contribute to greater transparency in Paraguay by improving efficiency in: (i) access to public information; (ii) public resources management; and (iii) financial supervision
FONPLATA	Project for the Improvement and Paving of Route PY-15 Mariscal Estigarribia - Pozo Hondo Section and access to Mariscal Estigarribia, Department of Boqueron.	16/11/2021	354,25	US$	6898/2022	The general objective of the project is to contribute to achieving safe and uninterrupted transit between the towns of Mariscal Estigarribia and Pozo Hondo in the Boquerón Department of the Republic of Paraguay.

Creditor	Project/Program	Date of Contract Signing	Amount (Millions of US$)	Original Currency	Law No.	Objective
CAF	Paving Project of the Puerto Indio Route - Supercarretary Junctions (ITAIPU) - Department of Alto Paraná.	7/10/2020	100	US$	6897/2022	The objective of the Project is to improve connectivity in the Mbaracayú district and its area of influence, integrating productive and logistical activities, to help consolidate the economic development of the Alto Paraná region, through the construction of a section of National Route 21. (RN 21) that joins Puerto Indio with the Itaipu superhighway.
IDB	First Individual Program to Finance the Improvement of Research, Innovation, and Transfer of Agricultural Technology in Paraguay	23/6/2020	20	US$	6904/2022	Contribute to the increase in productivity and environmental sustainability of the sector agriculture, through the strengthening of the country's capacity to generate and transfer technologies.
IDB	Program to Support Transformation of the Public Sector	3/6/2022	200	US$	6975/2022	The general development objective of this program is to increase the effectiveness of the public sector through: (i) increasing the efficiency of public management; (ii) improve the efficiency of public services administration; and (iii) improve the integrity and transparency of public management.
IDB	Upgrade and Maintenance Project for National Route PY12, Nanawa Junction to General Bruguez Segment and Access Roads	16/3/2022	215	US$	6972/2022	To help boost Paraguay's competitiveness through the provision of road infrastructure suited to all weather conditions and safe, resilient, and reliable transportation services on National Route

Creditor	Project/Program	Date of Contract Signing	Amount (Millions of US$)	Original Currency	Law No.	Objective
						PY12 (stage I) and access roads
CAF	Program to Support the Strengthening of Fiscal Policy and Improvement of Public Expenditure	18/4/2022	200	US$	6974/2022	The objective of the operation is to support the fiscal management of the National Government and the implementation of priority policy and institutional reforms aimed at underpinning fiscal sustainability in the medium term and the gradual and orderly convergence of fiscal rules, which contribute to reinforcing the country's economic framework and support the creation of the enabling environment for sustainable and inclusive growth.
IDB	Promoting Private Sector Investments in Energy Efficiency in the Industrial Sector in Paraguay	2/12/2019	20	US$	6976/2022	The general objective of the program is to promote investments of small and medium-sized companies (SMEs) in energy efficiency in Paraguay to improve their productivity in the long term.
IDB	Public Policy Support Program for the New Economy	23/9/2022	90	US$	6985/2022	The general objective of the program is to improve connectivity and drive the digitalization of the Paraguayan economy through the specific objectives of: (i) strengthening public policies to promote access by citizens and the private sector to digital technologies; and (ii) promoting the digital transformation of public sector services.

Creditor	Project/Program	Date of Contract Signing	Amount (Millions of US$)	Original Currency	Law No.	Objective
CAF	Program to Support the Strengthening of Fiscal Policy and Improvement of Public Expenditure	20/12/2022	50	US$	6985/2022	The objective of the operation is to support the fiscal management of the National Government and the implementation of priority policy and institutional reforms aimed at underpinning fiscal sustainability in the medium term and the gradual and orderly convergence of fiscal rules, which contribute to reinforcing the country's economic framework and support the creation of the enabling environment for sustainable and inclusive growth.
IDB	Strengthening the "Don Carlos Antonio Lopez" National Scolarship Program for Postgraduate Studies Abroad	16/6/2020	30	US$	7025/2022	The general objective of the project is to contribute to improving the performance of public institutions and private enterprises by incorporating advanced human capital (AHC) into their human resource endowment. The specific objectives are: (i) to increase the participation of AHC in a number of public- and private-sector institutions in Paraguay; and (ii) to enhance the sustainability of the "Don Carlos Antonio López" National Scholarship Program for Postgraduate Studies Abroad.
IBRD	Paraguay Green and Resilient Development Policy Loan	23/8/2022	240	US$	7026/2022	The Program Development Objective is to (i) mobilize private capital for climate resilience and mitigation, (ii) promote climate resilience and mitigation in select sectors of the economy,

Creditor	Project/Program	Date of Contract Signing	Amount (Millions of US$)	Original Currency	Law No.	Objective
						and (iii) enhance fiscal transparency for climate action.
IDB	Water and Sanitation Project for Metropolitan Asunción - Lambaré Watershed	4/5/2022	105	US$	7074/2023	The objective of the project is to contribute to the expansion of sanitary sewer service and improve the quality of drinking water service in the Asunción Metropolitan Area (AMA).
AECID	Water and Sanitation Project for Metropolitan Asunción - Lambaré Watershed	26/5/2022	60	US$	7074/2023	The general objective of the Project consists of expanding the coverage of the sanitary sewer system and improving the quality of the drinking water service in the Asunción Metropolitan Area (AMA).
IDB	Program to Strengthen Comprehensive Integrated Health Services Networks Based on Primary Care	16/3/2020	45	US$	7077/2023	The overall objective of the program is to help improve the health conditions of Paraguay's most vulnerable population by strengthening the Comprehensive, Integrated Health Services Networks (RIISS) based on primary care.
	Total USD		**210.00**			

Source: Ministry of Finance.

Public Sector Domestic Debt

Medium- and long-term public sector domestic debt of Paraguay can be issued by the central government and financial public sector institutions with the authorization of the Ministry of Finance and congressional approval. Paraguayan public sector domestic debt may be in bills having a maturity of less than one year or bonds. Under the Constitution, the Central Bank may not extend any loans to the government, except for short-term cash advances and loans for national emergencies.

The Central Bank issues Remunerated Liquidity Bills (LRMs), with terms ranging from 14 to 392 days to refinance liabilities incurred in the 1990s in connection with the liquidation of financial institutions. The government issues medium- and long-term treasury bonds guaranteed by the state, which can be placed through the Central

Bank, the BVPASA or directly. In addition, AFD issues medium- and long-term bonds through BVPASA without a guarantee by the state.

The maturity of domestic instruments issued by the government currently range from one to twenty. As of April 30, 2023, gross public sector domestic debt outstanding was approximately US$1,825.7 million, of which US$1,227.0 million was issued by the central government and US$598.8 million was issued by AFD (32.8% of total public sector domestic debt).

The following table sets forth Paraguay's public sector domestic debt outstanding as at the dates indicated below.

Gross Public Sector Domestic Debt

	As of December 31,					As of April 30,	
	2018	***2019***	***2020***	***2021***	***2022***	***2022***	***2023***
	(in millions of U.S. dollars)						
Central Government							
Guaraní-denominated(1)	$1,114.5	$1,037.4	$1,062.5	$1,181.7	1,067.4	1,197.7	1,125.8
Foreign currency-denominated(2)	13.7	46.0	46.0	45.8	73.8	43.5	101.1
Subtotal	1,128.2	1,083.4	1,108.5	1,227.5	1,141.1	1,241.2	1,227.0
AFD							
Guaraní-denominated(1)	510.0	536.9	615.9	591.8	589.5	687.6	598.8
Foreign currency-denominated(2)	0.3	0.3	0.0	0.0	0.0	0.0	0.0
Subtotal	510.3	537.27	615.93	591.82	589.45	687.61	598.75
Total	**$1,638.5**	**$1,620.6**	**$1,724.4**	**$1,819.3**	**$1,730.6**	**$1,928.8**	**$1,825.7**

(1) Translated at average Paraguay Guaraní-U.S. Dollar exchange rate at the close of business for the last business day of December of each year as reported by the Central Bank.
(2) Denominated in United States Dollars in its entirety.
Source: Ministry of Finance.

The following table sets forth the amortization schedule of Paraguay's outstanding public sector domestic debt as of April 30, 2023.

Domestic Debt Amortization Schedule

	Total Outstanding Domestic Debt as of April 30, 2023	Amortization Schedule for					
		2023	2024	2025	2026	2027	2028 to Final Maturity(3)
	(in millions of U.S. dollars)						
Central Government							
Guaraní-denominated(1)	1,125.8	64.5	-	132.2	-	7.1	922.0
Foreign currency-denominated(2)	101.1	2.3	4.6	9.0	13.5	13.5	58.3
Subtotal	1,227.0	66.8	4.6	141.2	13.5	20.6	980.4
AFD							
Guaraní-denominated(1)	598.8	135.1	177.5	99.4	41.5	69.1	76.1
Foreign currency-denominated(2)	-	-	-	-	-	-	-
Subtotal	598.8	135.1	177.5	99.4	41.5	69.1	76.1
Total	**$1,825.7**	**$201.9**	**$182.1**	**$240.6**	**$55.0**	**$89.8**	**$1,056.4**

(1) Converted at average Paraguay Guaraní-United States Dollar exchange rate at the close of business for the last business day of December of each year as reported by the Central Bank.
(2) Denominated in United States Dollars in its entirety.
(3) This amount includes (i) the perpetual bond in favor of the Central Bank for an amount equivalent to US$543.1 million as of April 30, 2023, and (ii) several treasury bonds issued for the capitalization of the deposit guarantee fund of the Central Bank.
Source: Ministry of Finance.

Treasury Bonds

Since 2006, Paraguay has issued treasury bonds in the domestic market through the Central Bank, as financial agent of the government, and starting in July 2012, on the Asunción Stock Exchange ("BVPASA").

Until 2008, bonds were issued in both Guaraníes and U.S. dollars. Starting in 2009, bonds were issued only in local currency. The bonds' maturities range from one to twenty years, with the largest placement of bonds having a maturity of three years, representing 23.7% of the total amount placed in the period 2012-2016. Long-term bonds, which are bonds that have maturities of five or more years, have been issued since 2010 and only in Guaraníes.

As of December 31, 2022, Paraguay issued an aggregate principal amount of G.59.3 billion (approximately US$8.65 million) through the Central Bank, as financial agent of the government, on the BVPASA.

In October 2018, Paraguay made its first issuance of ten-year bonds in Guaraníes in the local market in an amount equal to US$5.0 million, which bonds bear interest at a rate of 7.9%. As of December 31, 2022, an aggregate principal amount of US$93.5 million of these ten-year bonds had been issued in the local market.

In August 2020, Paraguay made its first issuance of fifteen-year bonds in Guaraníes in the local market in an amount equal to US$2.84 million, which bonds bear interest at a rate of 9.5%. As of December 31, 2022, an aggregate principal amount of US$21.99 million of these fifteen-year bonds had been issued in the local market.

Also, in September 2020, Paraguay made its first issuance of twenty-year bonds in Guaraníes in the local market in an amount equal to US$14.2 million, which bonds bear interest at a rate of 9.9%. As of December 31, 2022, an aggregate principal amount of US$21.99 million of these fifteen-year bonds had been issued in the local market.

Furthermore, to deepen the local currency bond market, Congress enacted Decree No. 9301/2023 in May 2023. This decree establishes a regulatory framework for the issuance of Treasury Debt Securities and the management of public debt. As a result, non-resident investors can now acquire treasury bonds denominated in Guaraníes through custodian banks. This development has injected greater liquidity into the local market and facilitated the diversification of the investor base, presenting new opportunities for both domestic and international investors.

The following table sets forth Paraguay's treasury bond issuances since 2018:

Paraguay's Treasury Bonds
(issued in Guaraníes, but presented in millions of US$, except percentages)

Maturity (years)	As of December 31, 2018	Average Interest Rate	2019	Average Interest Rate	2020	Average Interest Rate	2021	Average Interest Rate	2022	Average Interest Rate	As of April 30, 2023	Average Interest Rate
1-2.7	$0.0	-	$0.0	-	$0.0	-	$0.0	-	$0.0	-	$0.0	-
3-3.7	0.0	-	0.0	-	0.0	-	0.0	-	0.0	-	0.0	-
4-4.7	87.2	7.0%	37.2	7.0%	0.0	-	0.0	-	0.0	-	0.0	-
5	0.0	-	0.0	-	0.0	-	0.0	-	0.0	-	0.3	8.25%
6	0.0	-	13.4	7.2%	39.8	7.2%	0.0	-	0.0	-	0.0	-
7	25.4	7.8%	20.4	7.8%	54.4	7.8%	37.8	7.8%	4.0	7.8%	47.6	9.03%
8	0.0	-	0.0	-	0.0	-	0.0	-	0.0	-	0.0	-
9	0.0	-	0.0	-	0.0	-	0.0	-	0.0	-	0.0	-
10	10.1	7.9%	14.3	7.9%	42.3	7.9%	93.6	7.9%	0.3	7.8%	0.0	-
15	0.0	-	0.0	-	22.7	9.5%	43.5	8.8%	0.1	8.0%	0.0	-
20	0.0	-	0.0	-	28.4	9.9%	61.5	9.9%	3.8	9.9%	0.0	-
Total	**$122.7**		**$85.3**		**$187.7**		**$236.5**		**$8.2**		**$47.9**	

Source: Ministry of Finance.

Debt Record

History of Debt Restructuring

1871-1872 Bonds. In 1871 and 1872, the government placed bonds in Great Britain (the "1871-1872 Bonds"). The proceeds were used to rebuild the country, finance expenses and pay external debts incurred as a result of the Triple Alliance war (1864-1870) with Uruguay, Argentina and Brazil. The 1871-1872 Bonds were denominated in British pounds. In March 1876, the terms of the 1871-1872 Bonds were renegotiated. According to historical records, payments of principal and interest on the 1871-1872 Bonds were paid in full in 1932. A claim against Paraguay with respect to the 1871-72 Bonds was threatened in 1999 but has not been commenced. The statute of limitations under the Paraguayan civil code has run.

1963 Bonds. In 1935, the government issued domestic bonds to finance expenses related to the 1932-35 Chaco war with Bolivia (the "1963 Bonds"). The 1963 Bonds were scheduled to mature in 1963 and were denominated in sealed gold pesos, the Paraguayan currency in circulation at that time. No administrative or judicial claims against Paraguay have been made requesting such payment, except for an administrative claim against Paraguay made at the end of 1996, which the Ministry of Finance rejected on the basis that the statute of limitations under the civil code had run. No further claim or action has been commenced. Pursuant to Minister of Finance Resolution No. 1521/96, the 1963 Bonds are considered to be without any legal or financial validity by the Ministry of Finance. The 1963 Bonds have no officially registered value.

Brazil Bonds. In 1985, Paraguay fell in arrears with respect to borrowings from Brazil of approximately US$486 million. In 1989, Paraguay restructured amounts owed to Brazil totaling US$435.6 million, including principal and accrued but unpaid interest, by purchasing on the secondary market Brazilian bonds with a face value approximating the principal and interest owed to Brazil. Such Brazilian bonds were purchased by Paraguay at the then-market price of US$128.2 million. Brazil and Paraguay subsequently agreed to cancel their respective debts with each other in full satisfaction of all outstanding amounts.

1998 Debt Restructuring. In 1992, the Central Bank paid US$350 million on behalf of the government to certain commercial banks and foreign governments to cover arrears accumulated with respect to certain external borrowings. In August 1998, under the domestic debt restructuring law enacted in July 1997, the government issued US$425 million in domestic bonds to restructure the principal plus accrued interest and other lines of credit extended by the Central Bank to the government. In 2012, this debt was included in the recapitalization agreement between the Central Bank and the Ministry of Finance.

Recapitalization of the Central Bank

Since 2010, the Treasury is authorized to issue bonds to capitalize the Central Bank and cancel certain debts incurred as a result of the measures taken by the Central Bank and the government to tackle the crisis that affected the Paraguayan financial system in the 1990s, during which the Central Bank provided liquidity and guaranteed most withdrawals of deposits and certain financing arrangements provided to state-owned enterprises under the government of President Stroessner.

The Central Bank was recapitalized most recently in 2012. The Central Bank's negative equity position was the legacy of non-performing claims related to loans to the public and to the financial sector largely incurred prior to 1995, when its charter was amended to prohibit such practices. In 2012, the Ministry of Finance issued a perpetual bond of approximately US$0.9 billion to recapitalize the Central Bank and better position its focus on monetary policy issues rather than on the implication of its actions on the balance sheet.

Paraguay has taken measures to realign the Central Bank's capital requirements and established the financial terms of bonds to be issued as a replacement for the cancelled debt. The debt was cancelled, and new debt was issued in December 2012. For more information see "Monetary System—The Central Bank."

Economic Recovery Structural Adjustment Loan

In 2002, further to the effects of the economic downturn, the volatility in South America following Argentina's default, the freeze of deposits and adoption of exchange controls in Argentina led to a run on a Paraguayan subsidiary of an Argentine bank, which held approximately 11% of total deposits in the Paraguayan financial system. This led to a loss of confidence in the banking system as a whole and resulted in a run on several banks, which in combination with the depreciation of the Guaraní against major currencies, resulted in a system-wide financial crisis. Finally, in 2003, the Paraguayan monetary authorities were confronted with an isolated case of fraud in a medium-sized, locally owned bank that did not have systemic repercussions. The Superintendence of Banks responded more appropriately and timely to the 2002 and 2003 crises by closing the failing banks, with a cost to the public sector equivalent to approximately 1% of GDP.

In 2003, Paraguay entered into a stand-by facility with the IMF for special drawing rights equivalent to US$73 million. The economic agreement signed with the IMF included a series of targets that the country agreed to meet during 2004. The US$70 million facility granted by the IMF to strengthen monetary reserves in case of an emergency was not used. In addition, Paraguay received an economic recovery credit-line facility from the World Bank for US$30 million, which allowed Paraguay to resume servicing its debt by the end of the first half of 2004. Moreover, a US$30 million credit-line facility was granted to Paraguay by the IDB, of which US$20 million was drawn and US$10 million was not used.

Contingencies

Mota Engil Arbitration

In 2015, Paraguay, through the MOPC, issued a public tender for the construction of a bus rapid transit system ("Metrobus") along the Avenida Eusebio Ayala in Asunción. The total project was set to span 18.3 km of the road, but the MOPC's initial tender was only for the intermediate portion, spanning 11.3km of the pathway.

Portuguese company Mota Engil bid for the construction, and in March 2016 was awarded the contract for the design and construction of the Metrobus. Construction commenced on November 26, 2016, but was delayed on several occasions over the course of 2017 and 2018. On August 13, 2018, Mota Engil addressed seven complaints to the MOPC, alleging errors in the contract specifications and seeking compensation for additional and/or unforeseen costs. On October 23, 2018, Mota Engil and the MOPC entered into a Memorandum of Understanding, whereby the parties agreed to discontinue work on the Metrobus and undertake efforts to rehabilitate the worksite. Pursuant to the

Memorandum of Understanding, Mota Engil and the MOPC also agreed to submit disputes that may arise under the contract to arbitration.

On December 20, 2019, the MOPC technical team rejected all of Mota Engil's claims. On December 23, 2019, Mota Engil initiated an arbitration against the MOPC by filing a Notice of Arbitration under the 2013 Rules of the United Nations Center on International Trade Law ("UNCITRAL"). The Notice of Arbitration alleges that the MOPC violated certain terms of the contract and seeks US$25 million in indemnification for (i) costs Mota Engil alleges it incurred during construction and (ii) compensation for works performed under the contract. Paraguay responded to the arbitration notice on January 23, 2020, rejecting Mota Engil's claim and announcing the filing of a counterclaim. On August 28, 2020, Mota-Engil presented its complaint claiming from Paraguay the total sum of approximately US$32.2 million in damages and on January 11, 2021, Paraguay presented its answer to the claim and counterclaim.

On May 24, 2021, Mota Engil filed an answer against the Republic of Paraguay's counterclaim. Hearings were held in late August 2021 in The Hague, Netherlands. The hearings lasted approximately one week. The arbitral tribunal was scheduled to render a final decision by September 2022; however, as of the date of this Offering Memorandum, the final award in the case has not been issued.

Serviam S.A. Sucursal Paraguay (Serviam) vs. MOPC (Paraguay)

On February 26, 2016, the MOPC awarded Serviam S.A. Sucursal Paraguay ("Serviam"), a Paraguayan subsidiary of the Uruguayan company Serviam S.A., a service contract for the rehabilitation and maintenance of several highways in Paraguay, including Route 6, Route 8 and the access routes to each of José Leandro Oviedo, San Pedro, Artigas and Coronel Bogado. On April 19, 2016, Serviam and the MOPC executed an agreement under which Serviam was obliged to provide such rehabilitation and maintenance services, and in exchange, the MOPC was obliged to pay Serviam approximately US$16 million for such services, of which approximately US$5.5 million was paid in the period from June 2016 to March 2020.

During contract execution, Serviam alleged that the MOPC failed to comply with the duties of cooperation and information in the pre-contractual stage and in the contractual stage (duties that, according to Serviam, are derived from the principle of good faith) by having, supposedly, concealed existing structural flaws on Route 8, which would make it more onerous to comply with Serviam's obligations under the contract. Based on the foregoing, in September 2019, Serviam requested the termination of the contract (for breach) and the payment of compensation from the MOPC. On December 31, 2019, Serviam submitted a request for arbitration to the International Chamber of Commerce (ICC), partially quantifying its claims at a total of approximately US$ 11 million. On April 23, 2020, Paraguay presented its answer to the arbitration request, alleging that the ICC lacks jurisdiction to resolve the claims based on the procedure established in the contract. Likewise, Paraguay has rejected the amount claimed by the Serviam, alleging that Serviam knew the conditions of Route 8 when it participated in the tender. Paraguay reserved the right to present a counterclaim.

On December 31, 2022, the arbitral tribunal issued the final award requiring Paraguay to pay the amount of US$ 1,133,498 to Serviam. The other claims of Serviam were dismissed. To date, the arbitral award has not been enforced.

The arbitration was governed by ICC rules and Paraguayan law. The headquarters of the arbitration is in Santiago, Chile. The arbitral tribunal is composed of Luca G. Radicati (Italian), Paul Arrigui (Uruguayan), and Joao Bosco (Brazilian).

Gramont Berres Litigation

In 1979, Gustavo Gramont Berres was appointed Honorary Consul of Geneva. Furthermore, in 1983 Mr. Gramont Berres was appointed "Ambassador on Special Mission" in Geneva. Mr. Gramont Berres negotiated loans for two industrial projects by private companies owned by him: ROSI S.A. ("Rosi") and Lapachos de San Isidro S.A. ("Lapachos"). Mr. Gramont Berres executed a private loan agreement between Rosi and the Overland Trust Bank for the construction of a processing and canning plant for citrus fruits, and another private loan agreement between Lapachos and the Overland Trust Bank for the construction of and equipment for a pharmaceutical plant. The loans were granted to Mr. Gramont Berres, who invoked the representation of the Paraguayan State as an "Ambassador in Special Mission." Rosi and Lapachos never commenced operations.

After failed negotiations with 10 banks holding the loans, Banque Bruxelles Lambert (Suisse) SA, D.G. Bank (Schweiz) AG, Banque Paribas, Union de BanquesArabes et Françaises, Cassa de Risparmio de Torino, Banca di Roma International, Mecfint (Jersey) Ltd., Sanpaolo-Lariano Bank SA, BancaPopolare di Milano and the Republican National Bank of New York (collectively, the "Swiss Bank Creditors") filed suit against Paraguay in Swiss federal court. The Swiss Bank Creditors demanded that Paraguay, as alleged guarantor, repay the loans made to Rosi and Lapachos in the amount of in the amount of approximately US$85 million.

In its answer to the complaint, Paraguay maintained that the government is not a guarantor and is not liable for these loans because: (i) the loan agreements signed by Mr. Gramont Berres and allegedly guaranteed by Paraguay never received congressional approval prior to their execution, as would be required under the Constitution for a valid sovereign guarantee, (ii) Mr. Gramont Berres executed the loan agreements on behalf of Paraguay with a seal of the "Embassy of Paraguay in Switzerland" when no such Embassy existed, (iii) Mr. Gramont Berres did not have the power to execute the loan agreements because he was appointed "Ambassador on a Special Mission" of Paraguay (appointment that did not entail the creation of a Paraguayan embassy) in Switzerland by President Stroessner without proper congressional approval and (iv) the Swiss Bank Creditors failed to exercise good faith in their due diligence investigation as to whether actual governmental authorization was in place for the purported guarantee.

In May 2005, the Swiss Federal Court issued the 2005 Judgment.

Banque Paribas (now BNP Paribas London Branch) was one of the Swiss Bank Creditors, but it had withdrawn its lawsuit prior to the judgment. After the 2005 Judgment, BNP reinstated its complaint. In September 2010, the complaint was sustained, and BNP obtained the 2010 Judgment.

Pursuant to settlement agreements entered into between SACE and each of the ten banks, SACE holds all rights to portions of the Swiss Judgments that granted monetary awards to the ten banks. In July 2015, SACE filed an action in D.C. District Court seeking recognition of the Swiss Judgments against Paraguay and in favor of the banks. On January 21, 2016, Paraguay filed a motion to dismiss for lack of jurisdiction on grounds of sovereign immunity. Consistent with its previous arguments, Paraguay maintains that the government is not liable as an alleged guarantor of the Rosi and Lapachos loan agreements because (i) Mr. Gramont Berres had neither the actual nor apparent authority to waive Paraguay's sovereign immunity and (ii) the alleged guarantees were invalid under the Paraguayan Constitution that was in force at such time because only Congress held the power to authorize the contracting of loans on behalf of the government, which authorization Mr. Gramont Berres did not receive.

On March 21, 2016, SACE filed a motion in opposition of Paraguay's motion to dismiss, wherein SACE reaffirms its arguments that Paraguay is bound by the Swiss Judgments. On September 2, 2016, the D.C. District Court held a hearing on Paraguay's motion to dismiss for lack of jurisdiction, and on March 21, 2017, the D.C. District Court granted such motion to dismiss. As the date of this Offering Memorandum, SACE had not appealed the D.C. District Court's judgment and the deadline for filing such appeal has passed, rendering this judgment final and non-appealable. As of the date of this Offering Memorandum, SACE had not initiated litigation regarding the matter in any other jurisdiction. For more information see "Risk Factors—Risk Factors Relating to Paraguay—Part of the offering proceeds could be attached by creditors to satisfy outstanding judgments against Paraguay" and "Risk Factors—Risk Factors Relating to Paraguay—Payments to holders of the Bonds could be attached by creditors to satisfy outstanding judgments against Paraguay. As a result, Paraguay may not be able to make payments to holders of the Bonds."

Petropar's Debt to Venezuela's PDVSA

In 2004, the presidents of Paraguay and Venezuela signed the Energy Cooperation Agreement of Caracas (the "Caracas Agreement"). The Caracas Agreement provides that Venezuela will supply Paraguay with 18.6 million barrels per day (or its energy equivalent) of crude oil, refined products and liquid gas processing. The financing arrangements in the agreement provide short-term financing of 90 days for payment of principal at a fixed interest rate of 2% and long-term financing of up to 15 years with a grace period of two years at a fixed interest rate of 2%. During the period 2006-2008, Petróleos Paraguayos ("Petropar"), the state oil company of Paraguay, had a risk of oil shortage because of tight supply in South America and strong demand and Petropar did not make timely payments on its debt to PDVSA.

On September 24, 2009, an agreement was signed between Petropar and PDVSA to renegotiate Petropar's debt. Petropar owed PDVSA US$269 million. Petropar requested a freeze for one year or more at 2% interest for US$162 million, a 15-year refinancing grace period at 2% interest for US$60 million and the elimination of overruns of US$37.3 million.

On July 20, 2016, Petropar was notified that PDVSA had filed a claim against Petropar in an arbitration seated in Paris, France, before the International Chamber of Commerce ("ICC"), for US$290,000,000. The dispute arose over the renegotiation of the Caracas Agreement. PDVSA sent its Notice of Arbitration ("NoA") in July 2016 and Petropar responded to the NoA arguing that the debt has not yet become due because the parties had not yet exhausted the previous negotiations provided for in the Caracas Agreement. In addition, Petropar objected to the jurisdiction of the arbitral tribunal and filed a counterclaim requesting return of all excess payments it believed it had made, due to the alleged unfairness of the agreement's terms throughout its duration, along with its defense statement for the wrongful collection of interest and capitalization of undue interest.

On September 11, 2017, a hearing on jurisdiction, admissibility and applicable law was held within the framework of the arbitration proceedings at the ICC. At this stage, only Petropar's objections regarding the Tribunal's jurisdiction were discussed. In a June 4, 2018, decision, the Tribunal declared its jurisdiction over the case and the application of Venezuelan law to the dispute, thus closing the procedural phase on jurisdiction, admissibility and applicable law. Following this decision, the Tribunal established that the hearings on the merits and any counterclaim to take place in June 2019, after submission by the parties of their statements of claim, defense, counterclaim and reply to counterclaim. In August 2018, PDVSA submitted a statement of claim for US$320,000,000, including interest, followed by Petropar's submission of its statement of defense in October 2018.

On March 7, 2019, Petropar requested the suspension of the arbitration proceedings on the basis that PDVSA, as a company owned by the Venezuelan government, was under the control of the Nicolas Maduro regime, whose authority was not recognized by the Republic of Paraguay. On March 19, 2019, the Arbitral Tribunal issued Procedural Order No. 5, declaring the suspension of the arbitral proceedings, and cancelled the scheduled hearings on the merits and any counterclaim originally scheduled for June 2019. The Tribunal did not schedule a date to lift the stay of arbitration proceedings; however, it reserved that decision to its own motion or upon request of any of the parties.

The arbitral tribunal is composed of Francesca Mazza (Italian, appointed by PDVSA), Horacio Grigera Naón (Argentine, appointed by Petropar) and its President Claus Von Wobeser (Mexican, appointed by the ICC). As of the date of this Offering Memorandum, no decisions on the merits of the case have been rendered, and the order of the Tribunal to stay arbitration proceedings has not been lifted. Because Petropar is a legal entity (*persona jurídica*), it would be solely responsible for satisfying any eventual adverse arbitration award, and there would be no recourse to the Republic of Paraguay to satisfy such an award.

DESCRIPTION OF THE BONDS

The Bonds will be issued under the indenture dated March 31, 2016 (as amended, modified and/or supplemented from time to time, the "indenture") between Paraguay and The Bank of New York Mellon, as trustee.

This section of this Offering Memorandum is intended to be an overview of the material provisions of the Bonds and the indenture. Because this section is only a summary, you should refer to the indenture for a complete description of Paraguay's obligations and your rights as a holder or beneficial owner of the Bonds. Paraguay has filed copies of the indenture at the offices of the trustee, where they will be made available to you free of charge.

The definitions of certain capitalized terms used in this section are set forth under "—Defined Terms."

General

Basic Terms

The Bonds will:

- be initially issued in an aggregate principal amount of US$500,000,000;
- pay principal amounts in two installments on August 21, 2032 and at maturity, to be calculated as follows: the aggregate amount of the (i) first principal installment on the Bonds shall equal 40% of the principal amount outstanding on the Bonds as of such principal payment date, and (ii) second principal installment will equal the remaining principal amount under the Bonds as of the maturity date. To the extent necessary, principal payments may be rounded down to the nearest whole number, with any difference being paid at maturity;
- have a final maturity date of August 21, 2033;
- be issued in denominations of US$200,000 and in integral multiples of US$1,000 in excess thereof;
- be general, direct, unconditional, unsubordinated and unsecured obligations of Paraguay and will be backed by the full faith and credit of Paraguay;
- be subject to optional redemption prior to their scheduled maturity, as set forth in "Redemption and Repurchase—Optional Redemption" below;
- not be entitled to the benefit of a sinking fund;
- be represented by one or more registered bonds in global form, but in certain limited circumstances may be represented by bonds in certificated form. For more information see "Book-Entry, Delivery and Form;" and
- contain "collective action clauses" under which Paraguay may amend certain key terms of the Bonds, including the maturity date, interest rate and other terms, with the consent of less than all of the holders of the Bonds.

Interest

Interest on the Bonds will:

- accrue at the rate of 5.850% per annum;
- accrue from the date of issuance or the most recent interest payment date;

- be payable semi-annually (other than the first interest period) in arrears on February 21 and August 21 of each year, commencing on February 21, 2024 to the holders of the bonds in global form record on February 20 and August 20 immediately preceding the related interest payment date (whether or not a business day); and

- be computed on the basis of a 360-day year comprised of twelve 30-day months.

Payment

Principal of, and premium, if any, and interest on, the Bonds will be payable at the offices or agencies maintained by Paraguay for such purpose (which initially will be the offices of the paying agent specified on the inside back cover page of this Offering Memorandum). Payment of principal of, and premium, if any, and interest on Bonds in global form registered in the name of or held by The Depository Trust Company ("DTC") or its nominee, will be made in U.S. dollars in immediately available funds to DTC or its nominee, as the case may be, as the registered holder of the global bonds, which will receive the funds in trust for, and for distribution to, the beneficial owners. If any of the Bonds are no longer represented by global bonds, payment of principal of and interest on Certificated Securities may, at Paraguay's option, be made by check mailed directly to holders at their registered addresses (except for (i) registered holders of at least US$1,000,000 aggregate principal amount of Bonds, to whom payments will be made by wire transfer if such holder elects so; *provided* that not less than 15 days prior to the payment date, such holders have given the trustee notice of their election to receive payment by wire transfer and provided the trustee with bank account information and wire transfer instructions or (ii) if Paraguay is making such payments at maturity and such person surrenders the Certificated Securities at the corporate trust office).

If Paraguay is not required to pay principal or interest by wire transfer, it will, subject to applicable laws and regulations, mail a check on or before the due date for the payment. The check will be mailed to such holder at their address as it appears on the register as of the applicable record date.

Paraguay will maintain a paying agent, a transfer agent and a registrar in New York City. Paraguay has initially appointed The Bank of New York Mellon SA/NV, Luxembourg Branch to serve as Luxembourg listing agent. Paraguay will give prompt notice to all holders of the Bonds and the trustee of any future appointment or any resignation or removal of any paying agent, transfer agent or registrar or of any change by any paying agent, transfer agent or registrar in any of its specified offices.

If any date for an interest or principal payment is not a business day, Paraguay will make the payment on the next business day. Such payments will be deemed to have been made on the due date, and no interest on the Bonds will accrue as a result of the delay in payment. For the purpose of this section, a "business day" means any day that is not a Saturday or Sunday, or any other day on which commercial banks in New York City (or in the city where the relevant paying or transfer agent is located) are required or authorized by law to close.

To the extent permitted by law, claims against Paraguay for the payment of principal of or interest or other amounts due on, the Bonds (including Additional Amounts (as defined below)) will become void unless made within six years of the date on which that payment first became due.

The registered holder of a Bond will be treated as its owner for all purposes.

Certificated Securities

Paraguay may issue Certificated Securities in certain limited circumstances. For more information see "Book-Entry, Delivery and Form—Certificated Securities."

Transfer, Exchange and Replacement of Bonds

The Bonds may be transferred or exchanged in whole or in part at the offices or agencies maintained by Paraguay for such purpose (which initially will be the offices of the transfer agent specified on the inside back cover page of this Offering Memorandum) together with an executed instrument of transfer or exchange.

No service charge will be made for any registration of transfer or exchange of Bonds, but Paraguay, the trustee or any transfer agent may require payment of an amount sufficient to cover any transfer tax or other similar governmental charge payable in connection therewith.

If a Bond becomes mutilated, defaced, apparently destroyed, lost or stolen, Paraguay may issue, and the trustee will authenticate and deliver, a substitute Bond. In each case, the applicant for a substitute Bond will be required to furnish to Paraguay, the trustee, the paying agent, the transfer agent and the registrar an indemnity under which it will agree to pay Paraguay, the trustee, the paying agent, the transfer agent and the registrar for any losses they may suffer relating to the Bond that was mutilated, defaced, destroyed, lost or stolen. Paraguay and the trustee may also require that the applicant present other documents or proof. The applicant will be required to pay all expenses and reasonable charges associated with the replacement of the mutilated, defaced, destroyed, lost or stolen Bond.

Further Issuances

Paraguay may from time to time, without the consent of holders of the Bonds, create and issue additional debt securities of the same series as the Bonds having the same terms and conditions as the Bonds in all respects, except for issue date, issue price and the first payment on the Bonds; provided, however, that any such additional debt securities subsequently issued shall be issued, for U.S. federal income tax purposes, either (a) as part of the "same issue" as the Bonds or (b) in a "qualified reopening" of the Bonds, unless such additional debt securities have a separate CUSIP, ISIN or other identifying number from the previously outstanding Bonds. Such additional debt securities will be consolidated with and will form a single series with the previously outstanding Bonds.

Ranking

The Bonds will constitute direct, general, unconditional and unsubordinated External Debt of Paraguay for which the full faith and credit of Paraguay is pledged. The Bonds rank and will rank without any preference among themselves and equally with all other unsubordinated External Debt of Paraguay. It is understood that this provision will not be construed so as to require Paraguay to make payments under the Bonds ratably with payments being made under any other External Debt of Paraguay.

Additional Amounts

Payments of principal of, and premium, if any, and interest on the Bonds are not currently subject to withholding or deduction for any taxes, duties, assessments or governmental charges of whatever nature in Paraguay. All payments by Paraguay in respect of the Bonds shall be made without withholding or deduction for or on account of any present or future taxes, duties, assessments or other governmental charges of whatever nature, unless the withholding or deduction is required by law. If any such withholding or deduction is imposed or levied by or on behalf of Paraguay, or any political subdivision or taxing authority or agency therein or thereof having the power to tax (collectively, "relevant tax"), Paraguay shall pay such additional amounts ("Additional Amounts") as may be necessary to ensure that the amounts received by holders or beneficial owners after such withholding or deduction shall equal the respective amounts of principal and interest that would have been receivable in respect of the Bonds in the absence of such withholding or deduction; *provided*, *however*, that no such Additional Amounts shall be payable in respect of any relevant tax:

- in respect of any Bond held by or on behalf of a holder or a beneficial owner of a Bond that is liable for such taxes, duties, assessments or governmental charges by reason of such holder or beneficial owner having some present or former connection with Paraguay other than any connection arising merely from the holding of such Bond or from receipt, of principal or interest or the enforcement of rights in respect thereof;

- in respect of any Bond held by or on behalf of a holder or a beneficial owner of such Bond that is liable for such taxes, duties, assessments or governmental charges by reason of the failure of such holder or beneficial owner to comply with any certification, identification or other reporting requirement concerning the nationality, residence, identity or connection with Paraguay, or any political subdivision or taxing authority thereof or therein, of such holder or beneficial owner or of the holder or beneficial owner of any interest in such Bond or any rights in respect thereof, provided that, (A) compliance is required by Paraguay, or any political subdivision or taxing authority thereof or therein, as a precondition to exemption from all or any portion of such withholding or deduction, (B) at least 30 days prior to the first scheduled payment date for which compliance will be required, Paraguay has notified the holders in writing that holders of Bonds must comply with such certification, identification or other reporting requirement in order to receive Additional Amounts; and (C) such requirements are not materially more onerous to such holders or beneficial owners (in form, in procedure or in the substance of information disclosed) than comparable information or other reporting requirements imposed under U.S. federal tax law, regulation and administrative practice (such as U.S. Internal Revenue Service ("IRS") Forms W-8 and W-9); or

- in respect of any Bond presented for payment (where such presentation is required) more than 30 days after the relevant date except to the extent that the holder thereof would have been entitled to Additional Amounts on presenting the same for payment on any date during such 30-day period.

As used herein, "relevant date" in respect of any Bond means the date on which payment in respect thereof first becomes due or, if the full amount of the money payable has not been received by the trustee on or prior to such due date, the date on which notice is duly given to the holders that such monies have been so received and are available for payment. All references in this Offering Memorandum to principal of, and premium, if any, or interest on the Bonds will include any Additional Amounts payable by Paraguay in respect of such principal or interest.

Paraguay will pay any present or future stamp, court or documentary taxes or any excise or property taxes, charges or similar levies which arise in Paraguay or any political subdivision thereof or taxing authority thereof or therein in respect of the creation, issue, execution, delivery or registration of the Bonds or any other document or instrument referred to therein. Paraguay will also indemnify the holders or beneficial owners from and against any stamp, court or documentary taxes or any excise or property taxes, charges or similar levies resulting from, or required to be paid by any of them in any jurisdiction in connection with, the enforcement of the obligations of Paraguay under the Bonds or any other document or instrument referred to therein following the occurrence of any event of default.

Redemption and Repurchase

The Bonds will not be redeemable prior to maturity at the option of Paraguay or repayable prior to maturity at the option of the holders, except as set forth below. Paraguay may at any time purchase Bonds in the open market or otherwise at any price. Any Bond so purchased (including upon any redemption) shall not be re-issued or resold except in compliance with the Securities Act and other applicable law.

Optional Redemption

Prior to May 21, 2033 (three months prior to the maturity date of the Bonds) (the "Par Call Date"), Paraguay may redeem the Bonds at its option, in whole or in part, at any time and from time to time, at a redemption price (expressed as a percentage of principal amount and rounded to three decimal places) equal to the greater of:

(1) (a) the sum of the present values of the remaining scheduled payments of principal and interest thereon discounted to the redemption date (assuming the Bonds matured on the Par Call Date) on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus 35 basis points less (b) interest accrued to the date of redemption, and

(2) 100% of the principal amount of the Bonds to be redeemed,

plus, in either case, accrued and unpaid interest thereon to, but excluding, the redemption date.

On or after the Par Call Date, Paraguay may redeem the Bonds, in whole or in part, at any time and from time to time, at a redemption price equal to 100% of the principal amount of the Bonds being redeemed plus accrued and unpaid interest thereon to, but excluding, the redemption date.

"*Treasury Rate*" for this purpose means, with respect to any redemption date, the yield determined by Paraguay in accordance with the following two paragraphs.

The Treasury Rate shall be determined by Paraguay after 4:15 p.m., New York City time (or after such time as yields on U.S. government securities are posted daily by the Board of Governors of the Federal Reserve System), on the third business day preceding the redemption date based upon the yield or yields for the most recent day that appear after such time on such day in the most recent statistical release published by the Board of Governors of the Federal Reserve System designated as "Selected Interest Rates (Daily)—H.15" (or any successor designation or publication) ("H.15") under the caption "U.S. government securities–Treasury constant maturities–Nominal" (or any successor caption or heading) ("H.15 TCM"). In determining the Treasury Rate, Paraguay shall select, as applicable: (1) the yield for the Treasury constant maturity on H.15 exactly equal to the period (the "Remaining Life") from the redemption date to the date that reflects the remaining weighted average life of the Bonds (assuming the last amortization payment on the Bonds is made on the Par Call Date) (the "WAL Date"); or (2) if there is no such Treasury constant maturity on H.15 exactly equal to the Remaining Life, the two yields – one yield corresponding to the Treasury constant maturity on H.15 immediately shorter than and one yield corresponding to the Treasury constant maturity on H.15 immediately longer than the Remaining Life – and shall interpolate to the WAL Date on a straight-line basis (using the actual number of days) using such yields and rounding the result to three decimal places; or (3) if there is no such Treasury constant maturity on H.15 shorter than or longer than the Remaining Life, the yield for the single Treasury constant maturity on H.15 closest to the Remaining Life. For purposes of this paragraph, the applicable Treasury constant maturity or maturities on H.15 shall be deemed to have a maturity date equal to the relevant number of months or years, as applicable, of such Treasury constant maturity from the redemption date.

If on the third business day preceding the redemption date H.15 TCM is no longer published, Paraguay shall calculate the Treasury Rate based on the rate per annum equal to the semi-annual equivalent yield to maturity at 11:00 a.m., New York City time, on the second business day preceding such redemption date of the United States Treasury security maturing on, or with a maturity that is closest to, the WAL Date, as applicable. If there is no United States Treasury security maturing on the WAL Date but there are two or more United States Treasury securities with a maturity date equally distant from the WAL Date, one with a maturity date preceding the WAL Date and one with a maturity date following the WAL Date, Paraguay shall select the United States Treasury security with a maturity date preceding the WAL Date. If there are two or more United States Treasury securities maturing on the WAL Date or two or more United States Treasury securities meeting the criteria of the preceding sentence, Paraguay shall select from among these two or more United States Treasury securities the United States Treasury security that is trading closest to par based upon the average of the bid and asked prices for such United States Treasury securities at 11:00 a.m., New York City time. In determining the Treasury Rate in accordance with the terms of this paragraph, the semi-annual yield to maturity of the applicable United States Treasury security shall be based upon the average of the bid and asked prices (expressed as a percentage of principal amount) at 11:00 a.m., New York City time, of such United States Treasury security, and rounded to three decimal places.

Paraguay's actions and determinations in determining the redemption price shall be conclusive and binding for all purposes, absent manifest error.

Notice of any redemption will be mailed or electronically delivered (or otherwise transmitted in accordance with the depositary's procedures) at least 10 days but not more than 60 days before the redemption date to each holder of Bonds to be redeemed.

In the case of a partial redemption, selection of the Bonds held in certificated, non-global form for redemption will be made pro rata, by lot or by such other method as the Trustee in its sole discretion deems appropriate and fair and selection of the Bonds held in global form for redemption will be made in accordance with applicable depositary procedures. No Bonds of a principal amount of $1,000 or less will be redeemed in part. If any Bond is to be redeemed in part only, the notice of redemption that relates to the Bond will state the portion of the principal amount of the Bond to be redeemed. A new Bond in a principal amount equal to the unredeemed portion of the Bond will be issued in the name of the holder of the Bond upon surrender for cancellation of the original Bond. For so long as the Bonds are held by DTC (or another depositary), the redemption of the Bonds shall be conducted in accordance with the policies and procedures of the depositary.

Unless Paraguay defaults in payment of the redemption price, on and after the redemption date interest will cease to accrue on the Bonds or portions thereof called for redemption.

Negative Pledge Covenant

So long as any Bond remains outstanding, Paraguay may not allow any Lien on its assets or revenues as security for any of its Public External Debt, unless Paraguay's obligations under the Bonds are secured equally and ratably with such Public External Debt. Paraguay may, however, grant or agree to any Permitted Lien (as defined under "—Defined Terms") on its assets or revenues.

Events of Default

Each of the following is an event of default with respect to the Bonds:

(i) *Non-Payment:*

- failure to pay principal of the Bonds when due; or
- failure to pay interest on the Bonds within 30 days following the due date; or

(ii) *Breach of Other Obligations*: failure to observe or perform any of the covenants or agreements provided in the Bonds or the indenture (other than those referred to in paragraph (i) above) for a period of 30 days following written notice to Paraguay by the trustee or holders representing at least 25% in principal amount of the then outstanding Bonds to remedy such failure; or

(iii) *Cross Default*:

- failure by Paraguay, beyond any applicable grace period, to make any payment when due on Public External Debt in an aggregate principal amount greater than or equal to US$25,000,000 (or its equivalent in other currencies); or
- acceleration of any Public External Debt in an aggregate principal amount greater than or equal to US$25,000,000 (or its equivalent in other currencies) due to an event of default, unless such acceleration is rescinded or annulled; or

(iv) *Moratorium*: declaration by Paraguay of a general suspension of, or a moratorium on, payments of Public External Debt; or

(v) *Validity*:

- Paraguay contests any of its obligations under the Bonds or the indenture in a formal administrative, legislative or judicial proceeding; or
- Paraguay denies any of its obligations under the Bonds or the indenture; or
- any constitutional provision, treaty, law, regulation, decree, or other official pronouncement of Paraguay, or any final decision by any court in Paraguay having jurisdiction, renders it unlawful for Paraguay to pay any amount due on the Bonds or to perform any of its obligations under the Bonds or the indenture; or

(vi) *Judgments*: any writ, execution, attachment or similar process is levied against all or any substantial part of the assets of Paraguay in connection with any judgment for the payment of money exceeding US$25,000,000 (or its equivalent in other currencies) and failure by Paraguay either to satisfy or discharge such judgment, or adequately bond, contest in good faith or receive a stay of execution or continuance in respect of such judgment, within a period of 120 days, *provided*, however, that this clause shall not include any action taken to enforce the Gramont Berres judgment; or

(vii) *Membership in International Monetary Fund*: failure by Paraguay to maintain its membership in, and its eligibility to use the general resources of, the IMF.

If any of the events of default described above occurs and is continuing, the holders of not less than 25% of the aggregate principal amount of the then-outstanding Bonds may, by written notice to Paraguay with a copy to the trustee, declare all the Bonds then outstanding to be immediately due and payable. Accordingly, holders of less than 25% of the aggregate principal amount of the outstanding Bonds may not, on their own, declare the Bonds due and payable immediately. The holders of the Bonds may exercise these acceleration rights only by providing such written notice to Paraguay, with a copy to the trustee, at a time when the event of default is continuing.

Paraguay will notify the trustee promptly upon becoming aware of the occurrence of any event of default or potential event of default.

Upon any declaration of acceleration, the principal of, and interest and all other amounts payable on, the Bonds will become immediately due and payable on the date on which Paraguay receives written notice of the declaration, unless Paraguay has remedied the event or events of default prior to receiving the notice. The holders representing in the aggregate more than 50% of the principal amount of the outstanding Bonds may, on behalf of all holders, waive any existing defaults or events of default and their consequences or rescind a declaration of acceleration, if:

- following the declaration of the Bonds to be due and payable immediately, Paraguay deposits forthwith with the trustee a sum sufficient to pay all overdue installments of principal, interest and other amounts in respect of the Bonds as well as the reasonable expenses and indemnities, fees and compensation of the trustee; and

- all other events of default have been remedied.

Meetings, Amendments and Waivers—*Collective Action*

Paraguay may call a meeting of the holders of the Bonds at any time regarding the indenture or the Bonds. Paraguay will determine the time and place of the meeting and will notify the holders and the trustee of the time, place and purpose of the meeting not less than 30 and not more than 60 days before the meeting.

In addition, Paraguay or the trustee will call a meeting of the holders of the Bonds if holders of not less than 10% of the aggregate principal amount of the outstanding Bonds have delivered a written request to Paraguay or the trustee (with a copy to Paraguay) setting forth the purpose of the meeting. Within 10 days of receipt of such written request or copy thereof, Paraguay will notify the trustee and the trustee will notify the holders of the time, place and purpose of the meeting called by the holders, to take place not less than 30 and not more than 60 days after the date on which such notice is given.

Only holders of Bonds and their proxies are entitled to vote at a meeting of holders. Paraguay will set the procedures governing the conduct of the meeting and if additional procedures are required, Paraguay will consult with the trustee to establish such procedures as are customary in the market.

Modifications may also be approved by holders of Bonds pursuant to written action with the consent of the requisite percentage of Bonds. Paraguay will solicit the consent of the relevant holders to the modification not less than 10 and not more than 30 days before the expiration date for the receipt of such consents as specified by Paraguay.

The holders of the Bonds may generally approve any proposal by Paraguay to modify or act with respect to the indenture or the terms of the Bonds with the affirmative vote (if approved at a meeting of the holders) or consent (if approved by written action) of holders of more than 50% of the outstanding principal amount of the Bonds.

However, holders of any series of debt securities issued under the indenture (including the Bonds) may approve, by vote or consent through one of three modification methods, any modification, amendment, supplement or waiver proposed by Paraguay that would do any of the following (such subjects referred to as "reserve matters"):

- change the date on which any amount is payable on the debt securities;
- reduce the principal amount (other than in accordance with the express terms of the debt securities and the indenture) of the debt securities;
- reduce the interest rate on the debt securities;
- change the method used to calculate any amount payable on the debt securities (other than in accordance with the express terms of the debt securities and the indenture);
- change the currency or place of payment of any amount payable on the debt securities;
- modify Paraguay's obligation to make any payments on the debt securities (including any redemption price therefor);
- change the identity of the obligor under the debt securities;
- change the definition of "outstanding debt securities" or the percentage of affirmative votes or written consents, as the case may be, required to make a "reserve matter modification";
- change the definition of "uniformly applicable" or "reserve matter modification";
- authorize the trustee, on behalf of all holders of the debt securities, to exchange or substitute all the debt securities for, or convert all the debt securities into, other obligations or securities of Paraguay or any other person; or
- change the legal ranking, governing law, submission to jurisdiction or waiver of immunities provisions of the terms of the debt securities.

A change with respect to a reserve matter, including the payment terms of the Bonds, can be made without your consent, as long as the change is approved, pursuant to one of the three following modification methods, by vote or consent by:

- the holders of more than 75% of the aggregate principal amount of the outstanding Bonds insofar as the change affects the Bonds (but does not modify the terms of any other debt securities issued under the indenture);
- where such proposed modification would affect the outstanding debt securities of any two or more series (including the Bonds) issued under the indenture, the holders of more than 75% of the aggregate principal amount of the outstanding debt securities of all the series affected by the proposed modification, taken in the aggregate, if certain "uniformly applicable" requirements are met; or
- where such proposed modification would affect the outstanding debt securities of any two or more series (including the Bonds) issued under the indenture, whether or not the "uniformly applicable" requirements are met, the holders of more than 66⅔ of the aggregate principal amount of the outstanding debt securities of all of the series (including the Bonds) affected by the proposed

modification, taken in the aggregate, *and* the holders of more than 50% of the aggregate principal amount of the outstanding debt securities of each series (including the Bonds) affected by the modification, taken individually.

Any modification consented to or approved by the holders of debt securities pursuant to the above provisions will be conclusive and binding on all holders of the relevant series of debt securities or all holders of all series of debt securities affected by a cross-series modification, as the case may be, whether or not they have given such consent, and on all future holders of those debt securities whether or not notation of such modification is made upon the debt securities. Any instrument given by or on behalf of any holder of a debt security in connection with any consent to or approval of any such modification will be conclusive and binding on all subsequent holders of that debt security.

For so long as any series of debt securities issued under the indenture dated as of June 2, 2013 between the Republic of Paraguay, as issuer, and Citibank, N.A. as trustee, as amended by the first supplemental indenture dated as of April 29, 2015 (the "2013 indenture") (the "2013 debt securities") are outstanding, if Paraguay certifies to the trustee and to the trustee under the 2013 indenture that a cross-series modification is being sought simultaneously with a "2013 indenture reserve matter modification", the 2013 debt securities affected by such 2013 indenture reserve matter modification shall be treated as "series affected by that proposed modification" as that phrase is used in the indenture with respect to both cross-series modifications with single aggregated voting and cross-series modifications with two-tier voting; *provided*, that if Paraguay seeks a cross-series modification with single aggregated voting, in determining whether such modification will be considered uniformly applicable, the holders of any series of 2013 debt securities affected by the 2013 indenture reserve matter modification shall be deemed "holders of debt securities of all series affected by that modification," for the purpose of the uniformly applicable definition. It is the intention that in the circumstances described in respect of any cross-series modification, the votes of the holders of the affected 2013 debt securities be counted for purposes of the voting thresholds specified in the indenture for the applicable cross-series modification as though those 2013 debt securities had been affected by that cross-series modification although the effectiveness of any modification, as it relates to the 2013 debt securities, shall be governed exclusively by the terms and conditions of those 2013 debt securities and by the 2013 indenture; *provided*, *however*, that no such modification as to the debt securities will be effective unless such modification shall have also been adopted by and become binding upon the holders of the 2013 debt securities pursuant to the amendment and modification provisions of such 2013 debt securities set forth in the 2013 indenture.

Paraguay may select, in its discretion, any modification method for a reserve matter modification in accordance with the indenture and to designate which series of debt securities will be included for approval in the aggregate of modifications affecting two or more series of debt securities. Any selection of a modification method or designation of series to be included will be final for the purpose of that vote or consent solicitation.

"Uniformly applicable," as referred to above, means a modification by which holders of debt securities of any series affected by that modification are invited to exchange, convert or substitute their debt securities on the same terms for (x) the same new instruments or other consideration or (y) new instruments or other consideration from an identical menu of instruments or other consideration. It is understood that a modification will not be considered to be uniformly applicable if each exchanging, converting or substituting holder of debt securities of any series affected by that modification is not offered the same amount of consideration per amount of principal, the same amount of consideration per amount of interest accrued but unpaid and the same amount of consideration per amount of past due interest, respectively, as that offered to each other exchanging, converting or substituting holder of debt securities of any series affected by that modification (or, where a menu of instruments or other consideration is offered, each exchanging, converting or substituting holder of debt securities of any series affected by that modification is not offered the same amount of consideration per amount of principal, the same amount of consideration per amount of interest accrued but unpaid and the same amount of consideration per amount of past due interest, respectively, as that offered to each other exchanging, converting or substituting holder of debt securities of any series affected by that modification electing the same option under such menu of instruments).

"2013 indenture reserve matter modification" means any modification to a reserve matter affecting the terms and conditions of one or more series of the 2013 debt securities, pursuant to the 2013 indenture.

Before soliciting any consent or vote of any holder of a Bond for any change to a reserve matter, Paraguay will provide the following information to the trustee for onward distribution to the holders of the Bonds:

- a description of Paraguay's economic and financial circumstances that are in Paraguay's opinion, relevant to the request for the proposed modification, a description of Paraguay's existing debts and description of its broad policy reform program and provisional macroeconomic outlook;
- if Paraguay shall at the time have entered into an arrangement for financial assistance with multilateral and/or other major creditors or creditor groups and/or an agreement with any such creditors regarding debt relief, (x) a description of any such arrangement or agreement and (y) where permitted under the information disclosure policies of the multilateral or other creditors, as applicable, a copy of the arrangement or agreement;
- a description of Paraguay's proposed treatment of foreign debt instruments that are not affected by the proposed modification and its intentions with respect to any other major creditor groups; and
- if Paraguay is then seeking any reserve matter modification affecting any other series of debt securities, a description of that proposed modification.

For purposes of determining whether the required percentage of holders of the Bonds or any other series of debt securities has approved any amendment, modification or change to, or waiver of, the Bonds, such other series of debt securities or the indenture, or whether the required percentage of holders has delivered a notice of acceleration of the Bonds, debt securities will be disregarded and deemed not to be outstanding and may not be counted in a vote or consent solicitation for or against a proposed modification if on the record date for the proposed modification or other action or instruction hereunder, the debt security is held by Paraguay or by a public sector instrumentality of Paraguay, except that (x) debt securities held by Paraguay or any public sector instrumentality of Paraguay which have been pledged in good faith may be regarded as outstanding if the pledgee establishes to the satisfaction of the trustee the pledgee's right so to act with respect to such debt securities and that the pledgee is not Paraguay or a public sector instrumentality of Paraguay, and in case of a dispute concerning such right, the advice of counsel shall be full protection in respect of any decision made by the trustee in accordance with such advice and any certificate, statement or opinion of counsel may be based, insofar as it relates to factual matters or information which is in the possession of the trustee, upon the certificate, statement or opinion of or representations by the trustee; and (y) in determining whether the trustee will be protected in relying upon any such action or instructions hereunder, or any notice from holders, only debt securities that a responsible officer of the trustee knows to be so owned or controlled will be so disregarded.

As used in the preceding paragraph, "public sector instrumentality" means any (i) department, secretary, ministry or agency of the central government of Paraguay and (ii) corporation, trust or other legal entity owned or controlled by the central government of Paraguay or by any of the entities identified in the preceding clauses (i) and (ii). The term "control" means, in turn, the power, directly or indirectly, through the ownership of voting securities or other ownership interests, by contract or otherwise, to direct the management of or to elect or to appoint a majority of the board of directors or other persons performing similar functions in lieu of, or in addition to, the board of directors of that legal entity.

Other Amendments

Paraguay and the trustee may, without the vote or consent of any holder of the Bonds, amend the indenture or the Bonds for the purpose of:

- adding to Paraguay's covenants for the benefit of the holders;
- surrendering any of Paraguay's rights or powers with respect to the Bonds;
- securing the Bonds;

- curing any ambiguity or curing, correcting or supplementing any defective provision in the Bonds or the indenture;

- amending the Bonds or the indenture in any manner that Paraguay and the trustee may determine and that does not materially adversely affect the interests of any holders of the Bonds;

- amending the authorized denominations of the debt securities of that series; or

- correcting a manifest error of a formal, minor or technical nature.

Notices

Paraguay will mail notices to holders of Certificated Securities at their registered addresses, as reflected in the register maintained by the registrar. Paraguay will consider any mailed notice to have been given five business days after it has been sent. Paraguay will give notices to the holders of Global Bonds in accordance with the procedures and practices of DTC and such notices shall be deemed given upon actual receipt thereof by DTC.

Paraguay will also publish notices to the holders in leading newspapers having general circulation in New York City and London. Paraguay anticipates that it will make such publications in *The Wall Street Journal* and the *Financial Times*. In addition, so long as the Bonds are listed on the Euro MTF market of the Luxembourg Stock Exchange and the rules of that Exchange so require, Paraguay will publish notices to the holders in a leading newspaper having general circulation in Luxembourg and on the website of the Luxembourg Stock Exchange (www.bourse.lu). Paraguay anticipates that it will initially make its newspaper publication in the *Luxemburger Wort*. If publication in a leading newspaper in Luxembourg is not practical, Paraguay will publish such notices in one other leading English language daily newspaper with general circulation in Europe. Paraguay will consider any published notice to be given on the date of its first publication.

Governing Law

The Bonds will be, and the indenture is, governed by, and construed in accordance with, the laws of the State of New York, except that all matters governing authorization and execution by Paraguay are governed by the laws of Paraguay.

Submission to Jurisdiction

Paraguay is a foreign sovereign state. Consequently, it may be difficult for holders to obtain judgments from courts in the United States or elsewhere against Paraguay. Furthermore, it may be difficult for investors to enforce, in the United States or elsewhere, the judgments of U.S. or foreign courts against Paraguay.

In connection with any legal action or proceeding arising out of or relating to the Bonds (subject to the exceptions described below) or the indenture, Paraguay has agreed:

- to submit to the jurisdiction of any New York State or U.S. federal court sitting in New York City in the Borough of Manhattan and any appellate court of either thereof;

- that all claims in respect of such legal action or proceeding may be heard and determined in such New York state or U.S. federal court and to waive, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such action or proceeding; and

- to appoint as its process agent the Consul General of Paraguay in New York City, having an office on the date hereof at 801 2nd Avenue Suite 600, New York, NY 10017, United States of America.

The process agent will receive on behalf of Paraguay and its property service of copies of any summons and complaint and any other process which may be served in any such legal action or proceeding brought in such

New York State or U.S. federal court sitting in New York City in the Borough of Manhattan. Service may be made by mailing or delivering a copy of such process to Paraguay at the address specified above for the process agent.

A final non-appealable judgment in any of the above legal actions or proceedings will be conclusive and may be enforced by a suit upon such judgment in any other courts that may have jurisdiction over Paraguay.

In addition to the foregoing, the holders may serve legal process in any other manner permitted by applicable law. Nothing in the indenture or the Bonds shall limit the right of any holder to bring any action or proceeding against Paraguay or its property in other courts where jurisdiction is independently established.

To the extent that Paraguay has or hereafter may acquire or have attributed to it any sovereign or other immunity under any law, Paraguay has agreed to waive, to the fullest extent permitted by law, such immunity in respect of any claims or actions regarding its obligations under the Bonds.

Paraguay waives, to the fullest extent permitted by law, any requirement or other provision of law, rule, regulation or practice which requires or otherwise establishes as a condition to the institution, prosecution or completion of any action or proceeding (including appeals) arising out of or relating to the Bonds, the posting of any bond or the furnishing, directly or indirectly, of any other security.

Paraguay reserves the right to plead sovereign immunity under the U.S. Foreign Sovereign Immunities Act of 1976 with respect to actions brought against it under U.S. federal securities laws or any state securities laws, and Paraguay's appointment of the process agent will not extend to such actions. Without a waiver of immunity by Paraguay with respect to such actions, it would be impossible to obtain a U.S. judgment in such an action against Paraguay unless a court were to determine that Paraguay is not entitled under the U.S. Foreign Sovereign Immunities Act of 1976 to sovereign immunity with respect to such action. However, even if a U.S. judgment could be obtained in any such action under the U.S. Foreign Sovereign Immunities Act of 1976, it may not be possible to enforce in Paraguay a judgment based on such a U.S. judgment.

A judgment obtained against Paraguay in a foreign court can be enforced in the courts of Paraguay if such judgment is ratified by the Paraguayan courts. Based on existing law, Paraguayan courts will ratify such a judgment:

- if a formal request for the payment of the award under the judgment is lodged with the Paraguayan government and not honored (it is not clear how such request must be made, and how and when such request must not have been honored, in order for a party to have the right to seek such ratification); and
- if there exists a treaty with the country where such judgment was issued providing for reciprocal enforcement of foreign judgments (no such treaty exists at the present time between Paraguay and the United States); or if no such treaty exists:
  - such judgment has *res judicata* effects in the jurisdiction where it was rendered;
  - such judgment was issued by a competent court with *in personam* jurisdiction or (if the relevant assets were transferred to Paraguay during or after the complaint was filed) in rem jurisdiction;
  - there is no legal action filed and pending judgment at a Paraguayan court with the same cause of action and among the same parties;
  - any person or entity domiciled in Paraguay against whom such judgment is sought to be enforced must have been duly served with process and represented during the trial or adjudged to have failed to appear in accordance with the laws of the country where the trial was held;
  - the obligation that gave rise to the complaint must be valid under Paraguayan law;
  - such judgment is not contrary to the public policy of Paraguay;

- such judgment must comply with all necessary requirements to be considered as a valid judgment in the foreign jurisdiction; and

- such judgment must not conflict with a judgment rendered previously or simultaneously by a Paraguayan court.

Once a foreign judgment is ratified by the Paraguayan courts, payment of such judgment should be included by Congress as a liability under the budget law for the following fiscal year. Under Paraguayan law, creditors may not be able seek attachment prior to judgment and attachment in aid of execution with respect to property of Paraguay located in Paraguay.

Paraguay agrees to cause an appearance to be filed on its behalf and to defend itself in connection with any legal action or proceeding instituted against it. However, a default judgment obtained in the United States against Paraguay, resulting from Paraguay's failure to appear and defend itself in any suit filed against Paraguay, or from Paraguay's deemed absence at the proceedings, may not be enforceable in the Paraguayan courts unless the requirements mentioned above are fulfilled.

Currency Indemnity

The obligation of Paraguay to any holder under the Bonds will be discharged only to the extent that the holder may purchase U.S. dollars with any other currency paid to that holder in accordance with any judgment or otherwise. If the holder cannot purchase U.S. dollars in the amount originally to be paid, Paraguay agrees, as a separate obligation and notwithstanding any such judgment, to pay the difference. The holder, however, agrees that, if the amount of the U.S. dollars purchased exceeds the amount originally to be paid to such holder, the holder will reimburse the excess to Paraguay. The holder, however, will not be obligated to make this reimbursement if Paraguay is in default of its obligations under the Bonds.

Concerning the Trustee

The indenture contains provisions relating to the obligations and duties of the trustee, to the indemnification of the trustee and to the trustee's rights, protections, exculpations, defenses and relief from responsibility for actions that it takes or fails to take. The trustee is entitled to enter into business transactions with Paraguay or any of its affiliates without accounting for any profit resulting from such transactions.

Defined Terms

The following are certain definitions used in the Bonds:

"External Debt" means obligations of, or guaranteed (whether by contract, statute or otherwise) by, Paraguay for borrowed money or evidenced by bonds, debentures, notes or similar instruments denominated or payable, or which, at the option of the holder thereof, may be payable, in a currency other than the currency of Paraguay or by reference to a currency other than the currency of Paraguay, regardless of whether that obligation is incurred or entered into within or outside Paraguay.

"Lien" means any lien, pledge, mortgage, security interest, deed of trust, charge or other encumbrance or preferential arrangement which has the practical effect of constituting a security interest with respect to the payment of any obligations with or from the proceeds of any assets or revenues of any kind.

"Permitted Liens" means:

- any Lien on property to secure Public External Debt arising in the ordinary course to finance export, import or other trade transactions, which Public External Debt matures (after giving effect to all renewals and refinancing thereof) not more than one year after the date on which such Public External Debt was originally incurred;

- any Lien on property to secure Public External Debt existing on such property at the time of its acquisition or incurred solely for the purpose of financing any acquisition by Paraguay of such property, and any renewal or extension of any such Lien which is limited to the original property covered thereby and which secures any renewal or extension of the original financing without any increase in the amount thereof; and

- any Lien securing Public External Debt incurred for the purpose of financing all or part of the costs of the acquisition, construction or development of a project, provided that:

    - the holders of such Public External Debt agree to limit their recourse to the assets and revenues of such project as the principal source of repayment of such Public External Debt; and

    - the property over which such Lien is granted consists solely of such assets and revenues.

"Public External Debt" means any External Debt that is in the form of, or represented by, bonds, notes or other securities that are or may be quoted, listed or ordinarily purchased or sold on any securities exchange, automated trading system or over-the-counter or other securities market, including securities eligible for resale pursuant to Rule 144A under the Securities Act.

BOOK-ENTRY, DELIVERY AND FORM

Bonds sold to qualified institutional buyers in reliance on Rule 144A (the "Rule 144A Bonds") under the Securities Act will be represented by one or more global bonds in registered form without interest coupons attached (collectively, the "144A Global Bonds"). The 144A Global Bonds representing the Bonds will be deposited with a custodian for DTC, and registered in the name of Cede & Co., as nominee of DTC.

Bonds sold in reliance on Regulation S (the "Reg S Bonds") under the Securities Act will be represented by one or more global bonds in registered form without interest coupons attached (collectively, the "Reg S Global Bonds" and, together with the Rule 144A Global Bonds, the "Global Bonds"). The Reg S Global Bonds representing the Bonds will be registered in the name of Cede & Co., as nominee of DTC and deposited with a custodian for DTC, for credit to Euroclear and Clearstream.

Ownership of interests in the 144A Global Bonds ("Restricted Book-Entry Interests") and in the Reg S Global Bonds (the "Reg S Book-Entry Interests" and, together with the Restricted Book-Entry Interests, the "Book-Entry Interests") will be limited to persons that have accounts with DTC, Euroclear and/or Clearstream, or persons that hold interests through their participants. Prior to the 40th day after the later of the commencement of this offering and the date the Bonds were originally issued (the "Distribution Compliance Period"), interests in the Reg S Global Bonds may only be held by non-U.S. persons. DTC, Euroclear and Clearstream will hold interests in the Global Bonds on behalf of their participants through customers' securities accounts in their respective names on the books of their respective depositaries. Except under the limited circumstances described below, owners of beneficial interests in the Global Bonds will not be entitled to receive Certificated Securities.

Book-Entry Interests will be shown on, and transfers thereof will be done only through, records maintained in book-entry form by DTC, Euroclear and Clearstream and their participants. The foregoing limitations may impair your ability to own, transfer or pledge Book-Entry Interests. In addition, while the bonds are in global form, holders of Book-Entry Interests will not be considered the owners or "holders" of Bonds for any purpose.

So long as the Bonds are held in global form, DTC (or its nominee) will be considered the sole holders of Global Bonds for all purposes under the indenture. In addition, participants in DTC, Euroclear and/or Clearstream must rely on the procedures of DTC, Euroclear and/or Clearstream, as the case may be, and indirect participants must rely on the procedures of DTC, Euroclear, Clearstream and the participants through which they own Book-Entry Interests, to transfer their interests or to exercise any rights of holders under the indenture.

None of Paraguay, the trustee, the paying agent, the transfer agent or the registrar will have any responsibility or be liable for any aspect of the records relating to the Book-Entry Interests.

Redemption of the Global Bonds

In the event any Global Bond (or any portion thereof) is redeemed, DTC (or its nominee) will redeem an equal amount of the Book-Entry Interests in such Global Bond from the amount received by it in respect of the redemption of such Global Bonds. The redemption price payable in connection with the redemption of such Book-Entry Interests will be equal to the amount received by DTC, in connection with the redemption of such Global Bond (or any portion thereof). Paraguay understands that, under existing practices of DTC, if fewer than all of the bonds are to be redeemed at any time, DTC will credit its participants' accounts on a proportionate basis (with adjustments to prevent fractions) or by lot or on such other basis as they deem fair and appropriate; *provided, however,* that no Book-Entry Interest of US$200,000 principal amount or less may be redeemed in part.

Payments on Global Bonds

Under the terms of the indenture, Paraguay, the trustee, the paying agent, the transfer agent and the registrar will treat the registered holders of the Global Bonds (e.g., DTC (or its nominee)) as the owners thereof for the purpose of receiving payments and for all other purposes. Consequently, none of Paraguay, the trustee, the paying agent, the transfer agent, the registrar, the initial purchasers or any of Paraguay's and their respective agents has or will have any responsibility or liability for:

- any aspect of the records of DTC or any participant or indirect participant relating to payments made on account of a Book-Entry Interest or for maintaining, supervising or reviewing the records of DTC or any participant or indirect participant relating to, or payments made on account of a Book-Entry Interest; or

- DTC or any participant or indirect participant.

Payments by participants to owners of Book-Entry Interests held through participants are the responsibility of such participants.

Currency of Payment for the Global Bonds

Except as may otherwise be agreed between DTC and any holder, the principal of, premium, if any, and interest on, and all other amounts payable in respect of, the Global Bonds will be paid to holders of interests in such Bonds (the "DTC Holders") through DTC in U.S. dollars. Payments will be subject in all cases to any fiscal or other laws and regulations (including any regulations of the applicable clearing system) applicable thereto. None of Paraguay, the trustee, the paying agent, the transfer agent, the registrar, the initial purchasers or any of Paraguay's and their respective agents will be liable to any holder of a Global Bond or any other person for any commissions, costs, losses or expenses in relation to or resulting from any currency conversion or rounding effected in connection with any such payment.

Action by Owners of Book-Entry Interests

DTC advised us that it will take any action permitted to be taken by a holder of Bonds only at the direction of one or more participants to whose account the Book-Entry Interests in the Global Bonds are credited and only in respect of such portion of the aggregate principal amount of bonds as to which such participant or participants has or have given such direction.

DTC will not exercise any discretion in the granting of consents, waivers or the taking of any other action in respect of the Global Bonds. However, if there is an event of default under the bonds, DTC reserves the right to exchange the Global Bonds for definitive registered bonds in certificated form (the "Certificated Securities"), and to distribute Certificated Securities to its participants.

Transfers

Transfers of beneficial interests in the Global Bonds will be subject to the applicable rules and procedures of DTC and its direct or indirect participants, which rules, and procedures may change from time to time.

The Global Bonds will bear a legend to the effect set forth in "Transfer Restrictions." Book-Entry Interests in the Global Bonds will be subject to the restrictions on transfers as discussed in "Transfer Restrictions."

During the Distribution Compliance Period, any sale or transfer of ownership of a Reg S Book-Entry Interest to a U.S. person shall not be permitted unless such resale or transfer is made pursuant to Rule 144A. Subject to the foregoing, a Reg S Book-Entry Interest may be transferred to a person who takes delivery in the form of a Restricted Book-Entry Interest in a Global Bond only upon delivery by the transferor of a written certification (in the form provided in the indenture) to the effect that such transfer is being made to a person who the transferor reasonably believes is a "qualified institutional buyer" within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A or otherwise in accordance with the transfer restrictions described under "Transfer Restrictions," and in accordance with any applicable securities laws of any state of the United States or any other jurisdiction.

Transfers of Restricted Book-Entry Interests to persons wishing to take delivery of Restricted Book-Entry Interests will at all times be subject to the transfer restrictions contained in the legend appearing on the face of the 144A Global Bond, as set forth in "Transfer Restrictions."

Restricted Book-Entry Interests may be transferred to a person who takes delivery in the form of a Reg S Book-Entry Interest in a Global Bond upon delivery by the transferor of a written certification (in the form provided in the indenture) to the effect that such transfer is being made in accordance with Regulation S and that, if such transfer occurs prior to the expiration of the Distribution Compliance Period, the interest transferred will be held immediately thereafter through Euroclear or Clearstream. For more information see "Transfer Restrictions."

Any Book-Entry Interest in one of the Global Bonds that is transferred to a person who takes delivery in the form of a Book-Entry Interest in any other Global Bond of the same series will, upon transfer, cease to be a Book-Entry Interest in the first-mentioned Global Bond and become a Book-Entry Interest in such other Global Bond, and accordingly will thereafter be subject to all transfer restrictions, if any, and other procedures applicable to Book-Entry Interests in such other Global Bond for as long as it remains such a Book-Entry Interest. In connection with such transfer, appropriate adjustments will be made to reflect a decrease in the principal amount of the first-mentioned Global Bond and a corresponding increase in the principal amount of the other Global Bond, as applicable.

Certificated Securities

Under the terms of the indenture, owners of the Book-Entry Interests will receive Certificated Securities:

- if DTC notifies us that it is unwilling or unable to continue as depositary for the Global Note, or DTC ceases to be a clearing agency registered under the Exchange Act and, in either case, a qualified successor depositary is not appointed by us within 120 days;
- if Paraguay determines not to have any Bonds of such series represented by a Global Note;
- if DTC so requests following an event of default under the indenture; or
- if the owners of a Book-Entry Interest request such exchange in writing delivered through DTC following an event of default under the indenture.

In the case of the issuance of Certificated Securities, the holder of a Certificated Security may transfer such note by surrendering it at the offices of the trustee. In the event of a partial transfer or a partial redemption of a holding of Certificated Securities represented by one Certificated Security, a Certificated Security shall be issued to the transferee in respect of the part transferred, and a new Certificated Security in respect of the balance of the holding not transferred or redeemed shall be issued to the transferor or the holder, as applicable; *provided* that no Certificated Security in a denomination less than US$200,000 shall be issued. Paraguay will bear the cost of preparing, printing, packaging and delivering the Certificated Securities.

Paraguay, the trustee, the registrar or the transfer agent shall not be required to register the transfer or exchange of Certificated Securities for a period of 15 calendar days preceding (a) the record date for any payment of interest on the bonds, (b) any date fixed for redemption of the bonds or (c) the date fixed for selection of the Bonds to be redeemed in part. In the event of the transfer of any Certificated Security, the transfer agent may require a holder, among other things, to furnish appropriate endorsements and transfer documents as described in the indenture. Paraguay may require a holder to pay any taxes and fees required by law or permitted by the indenture and the Bonds.

Paraguay will pay interest on the Bonds to persons who are registered holders at the close of business on the record date immediately preceding the interest payment date for such interest. Holders of Certificated Securities must present (or, if the final payment, surrender) the Bonds to a Paying Agent to collect principal payments.

If Certificated Securities are issued and a holder thereof claims that such Certificated Securities have been lost, destroyed or wrongfully taken or if such Certificated Securities are mutilated and are surrendered to the trustee or at the office of the trustee, Paraguay shall issue, and the trustee shall authenticate a replacement Certificated Security if the trustee's and Paraguay's requirements are met. The trustee or Paraguay may require a holder requesting replacement of a Certificated Security to furnish indemnity and security sufficient in the judgment of both the trustee and Paraguay to protect Paraguay, the trustee, and any paying agent or transfer agent appointed pursuant to the indenture from any loss which any of them may suffer if a Certificated Security is replaced. Paraguay may charge for Paraguay's expenses in replacing a Certificated Security. In case any such mutilated, destroyed, lost or stolen Certificated Security has become or is about to become due and payable, or is about to be redeemed or purchased by Paraguay pursuant to the provisions of the indenture, Paraguay in its discretion may, instead of issuing a new Certificated Security, pay, redeem or purchase such Certificated Security, as the case may be. Certificated Securities may be transferred and exchanged for Book-Entry Interests in a Global Bond only in accordance with the indenture and, if required, only after the transferor first delivers to the trustee a written certification (in the form provided in the indenture) to the effect that such transfer will comply with the transfer restrictions applicable to such Bonds and Paraguay may require a holder to pay any taxes and fees required by law or permitted by the indenture and the Bonds. For more information see "Transfer Restrictions."

Information Concerning DTC, Euroclear and Clearstream

The following description of the operations and procedures of DTC, Euroclear and Clearstream are provided solely as a matter of convenience. These operations and procedures are solely within the control of the relevant settlement systems and are subject to changes by them. Paraguay takes no responsibility for these operations and procedures and investors should contact the systems or their participants directly to discuss these matters. Paraguay understands as follows with respect to DTC, Euroclear and Clearstream:

The Depository Trust Company

DTC is:

- a limited purpose trust company organized under the New York Banking Law;
- a "banking organization" under New York Banking Law;
- a member of the Federal Reserve System;
- a "clearing corporation" within the meaning of the New York Uniform Commercial Code; and
- a "clearing agency" registered under Section 17A of the U.S. Securities Exchange Act of 1934, as amended.

DTC was created to hold securities for its participants and to facilitate the clearance and settlement of transactions among its participants. It does this through electronic book-entry changes in the accounts of securities participants, eliminating the need for physical movement of securities certificates. DTC participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a direct participant also have access to the DTC system and are known as indirect participants.

Because DTC can only act on behalf of participants, who in turn act on behalf of indirect participants and certain banks, the ability of an owner of a beneficial interest to pledge such interest to persons or entities that do not participate in the DTC system, or otherwise take actions in respect of such interest, may be limited by the lack of a definitive certificate for that interest. To the extent that certain persons require delivery in definitive form, the ability to transfer beneficial interests to such persons may be limited. In addition, owners of beneficial interests through the DTC system will receive distributions attributable to the Global Bonds only through DTC participants.

Euroclear and Clearstream

Like DTC, Euroclear and Clearstream hold securities for participating organizations. They also facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in the accounts of such participants. Euroclear and Clearstream provide various services to their participants, including the safekeeping, administration, clearance, settlement, lending and borrowing of internationally traded securities. Euroclear and Clearstream interface with domestic securities markets. Euroclear and Clearstream participants are financial institutions such as underwriters, securities brokers and dealers, banks, trust companies and certain other organizations. Indirect access to Euroclear or Clearstream is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Global Clearance and Settlement Under the Book-Entry System

The Bonds are expected to trade in DTC's Same-Day Funds Settlement System, and any permitted secondary market trading activity in such Bonds will, therefore, be required by DTC to be settled in immediately available funds. Paraguay expects that secondary trading in any Certificated Securities will also be settled in immediately available funds. Subject to compliance with the transfer restrictions applicable to the Global Bonds, cross-market transfers of Book-Entry Interests in the Bonds between the participants in DTC, on the one hand, and Euroclear or Clearstream participants, on the other hand, will be done through DTC in accordance with DTC's rules on behalf of each of Euroclear or Clearstream by its common depositary; however, such cross-market transactions will require delivery of instructions to Euroclear or Clearstream by the counterparty in such system in accordance with the rules and procedures and within the established deadlines (Brussels time) of such system. Euroclear or Clearstream will, if the transaction meets its settlement requirements, deliver instructions to the common depositary to take action to effect final settlement on its behalf by delivering or receiving interests in the Global Bonds in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Euroclear and Clearstream participants may not deliver instructions directly to the common depositary.

Because of time zone differences, the securities account of a Euroclear or Clearstream participant purchasing an interest in a Global Bond from a participant in DTC will be credited, and any such crediting will be reported to the relevant Euroclear or Clearstream participant, during the securities settlement processing day (which must be a business day for Euroclear and Clearstream) immediately following the settlement date of DTC. Cash received in Euroclear and Clearstream as a result of a sale of an interest in a Global Bond by or through a Euroclear or Clearstream participant to a participant in DTC will be received with value on the settlement date of DTC but will be available in the relevant Euroclear or Clearstream cash account only as at the business day for Euroclear or Clearstream following DTC's settlement date.

Although DTC, Euroclear and Clearstream are expected to follow the foregoing procedures in order to facilitate transfers of interests in the Global Bonds among participants in DTC, Euroclear or Clearstream, as the case may be, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of Paraguay, the trustee, the paying agent, the transfer agent, the registrar or the initial purchasers will have any responsibility for the performance by DTC, Euroclear or Clearstream, or their respective participants or indirect participants, of their respective obligations under the rules and procedures governing their operations.

TAX CONSIDERATIONS

Paraguayan Tax Considerations

The discussion in this Offering Memorandum was written to support the promotion or marketing of this Offering Memorandum. Each investor should seek advice based on their particular circumstances from an independent tax advisor, to determine the tax consequences relevant to his particular situation.

The following is a general summary of certain Paraguayan tax considerations that may be relevant in connection with the Bonds. This summary is based on Paraguayan tax laws in effect on the date hereof, including Law No. 6,638/20, Law No. 6,380/19 and Law No. 125/91, as applicable. Paraguayan tax laws are subject to change, or to be interpreted in a new or different manner than that set forth herein, which could affect the continued validity of this general summary.

This summary does not address all of the Paraguayan tax consequences that may be relevant to the holders of the Bonds and does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase the Bonds. This summary does not constitute tax advice, nor does it purport to furnish information in the level of detail or with attention to an investor's specific tax circumstances that would be provided by an investor's own tax advisor. Prospective investors of the Bonds are urged to consult their own tax advisors as to the precise Paraguayan and other tax consequences that may be applicable to specific holders of the Bonds. This summary does not describe any tax consequences in relation to (i) any taxing jurisdiction other than Paraguay or (ii) Holders that are Paraguayan Residents.

Under Paraguayan law, as in effect as of the date of this Offering Memorandum, if you are a Non-Resident Holder of bonds, interest and principal payments on the bonds will not be subject to Paraguayan income or withholding tax. For the purposes of this summary, a "Non-Resident Holder" means a holder of bonds who is an individual that is a non-resident of Paraguay, or a legal entity that is neither organized in, nor maintains a permanent office in, Paraguay, as defined below:

For purposes of Paraguayan taxation, a resident is:

- a foreign individual (i) if such individual is present in Paraguay for more than 120 days in a calendar year; (ii) alternatively, if such individual carries out civil or commercial activities in Paraguay; or (iii) if such individual has a proxy or legal representative in Paraguay, which normally execute contracts on its behalf in Paraguay (other than the sale and purchase of goods);

- a company (i) if it is a legal entity incorporated in Paraguay; or (ii) if it is a foreign entity registered in Paraguay before the Public Registries (*Direccion General de los Registros Publicos*);

- a foreign company if (i) its permanent establishment is located in Paraguay, or (ii) it has no permanent establishment in Paraguay but it has a proxy or legal representative in Paraguay, which normally execute contracts on its behalf in Paraguay (other than the sale and purchase of goods); and

- permanent establishments are (i) branches or agencies; (ii) factories, industrial or assembly plants, and agricultural establishments; (iii) mines, quarries, or other natural resources extraction places; or (iv) carrying out construction works that exceed 12 months.

Under Paraguayan law, as in effect as of the date of this Offering Memorandum, if you are a Non-Resident Holder of bonds, interest and principal payments on the bonds will not be subject to Non-resident Income tax (*Impuesto a la Renta de No Residentes*) or other Paraguayan taxes.

Article 79 of Paraguayan Law No. 6380/19 of the Modernization and Simplification of the National Tax System Law and Article 4 of Paraguayan Law No. 6638/20 of the Liability Management Law provide that capital gains, increases, interests and any income derived from the possession or transfer of public debt securities issued by

Paraguay are exempt from Paraguayan taxes. Investors are not obligated to provide certification of non-residency status under Paraguayan law.

Certain United States Federal Income Tax Considerations

This section describes certain U.S. federal income tax consequences of owning the Bonds we are offering. It applies to you only if you acquire Bonds in the offering at their "issue price" (the first price at which a substantial amount of the Bonds are sold for money to investors, excluding sales to bond houses, brokers or similar persons or organizations acting in the capacity of underwriter, placement agent or wholesaler) and you hold your Bonds as a capital asset for U.S. federal income tax purposes. This section does not apply to you if you are a member of a class of holders subject to special rules, such as:

- a broker or dealer in securities,
- a trader in securities that elects to use a mark-to-market method of accounting for your securities holdings,
- a bank,
- a life insurance company,
- a tax-exempt organization,
- a person that owns Bonds that are a hedge or that are hedged against interest rate risks,
- a person that owns Bonds as part of a straddle or conversion transaction for tax purposes,
- a person that purchases or sells Bonds as part of a wash sale for tax purposes, or
- a U.S. holder (as defined below) whose functional currency for tax purposes is not the U.S. dollar.

This summary addresses only U.S. federal income tax consequences, and does not address consequences arising under state, local, foreign tax laws, the alternative minimum tax or the or under special timing rules prescribed under section 451(b) of the Code.

If you purchase Bonds at a price other than the issue price, the amortizable bond premium or market discount rules may also apply to you. You should consult your tax advisor regarding this possibility.

This section is based on the Code, its legislative history, existing and proposed regulations under the Code, published rulings and court decisions, all as in effect as of the date of this Offering Memorandum. These laws are subject to change and differing interpretations, possibly on a retroactive basis.

If a partnership (or other entity treated as a partnership for U.S. federal income tax purposes) holds the Bonds, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. A partner in a partnership (or other entity treated as a partnership for U.S. federal income tax purposes) holding the Bonds should consult its tax advisor with regard to the U.S. federal income tax treatment of an investment in the Bonds.

Please consult your own tax advisor concerning the consequences of owning these Bonds in your particular circumstances under the Internal Revenue Code, as well as the application of U.S. federal estate, gift, and alternative minimum tax laws, U.S. state and local tax laws, and the laws of any other taxing jurisdiction.

U.S. Holders

This subsection describes the tax consequences to a U.S. holder. You are a U.S. holder if you are a beneficial owner of a Bond and you are:

- an individual citizen or resident of the United States,
- a corporation or other entity treated as a corporation for U.S. federal income tax purposes created or organized in or under the laws of the United States or any political subdivision of the U.S.,
- an estate whose income is subject to U.S. federal income tax regardless of its source, or
- a trust if (1) a U.S. court can exercise primary supervision over the trust's administration and one or more U.S. persons are authorized to control all substantial decisions of the trust or (2) it was in existence on August 20, 1996 and treated as a U.S. person and has a valid election in effect under applicable U.S. Treasury regulations to continue to be treated as a U.S. person.

If you are not a U.S. holder, this subsection does not apply to you and you should refer to "Non-U.S. Holders" below.

Payments of Interest and Additional Amounts. You will be taxed on interest on your Bonds, and Additional Amounts, if any, as ordinary income at the time you receive the interest or when it accrues, depending on your method of accounting for tax purposes. Interest paid by Paraguay on the Bonds is income from sources outside the United States for purposes of the rules regarding the foreign tax credit allowable to a U.S. holder and will, depending on your circumstances, be either "passive," "general" or "foreign branch" income for purposes of computing any foreign tax credit. The rules governing the foreign tax credit are complex. U.S. holders should consult their own tax advisors regarding the availability of the foreign tax credit under their particular circumstances.

Original Issue Discount. If the Bonds are issued with a discount equal to or more than a de minimis amount of original issue discount, or "OID", a U.S. holder generally will be required to include the OID in income (as ordinary income) for U.S. federal income tax purposes as it accrues (regardless of the holder's accounting method for U.S. federal income tax purposes), in accordance with a constant yield method based on a compounding of interest, before the receipt of cash payments attributable to this income. Under this method, a U.S. holder of the Bonds generally will be required to include in income increasingly greater amounts of OID in successive accrual periods. The Bonds may be treated as issued with OID if the stated principal amount of the Bonds equals or exceeds their issue price by a statutorily defined de minimis amount. The issue price of the Bonds is the first price at which a substantial amount of the Bonds is sold for cash, other than to bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers. The amount of such OID is the excess of the stated principal amount of the Bonds over their issue price. The Bonds are not expected to be treated as issued with OID and the following discussion assumes this to be the case.

Payments of Principal and Sale, Retirement, and Other Disposition of the Bonds.

If the issue price (as defined above) of the Bonds is less than their stated principal amount by an amount that is less than a statutory de minimis amount, the discount will be treated as "de minimis OID." If the Bonds are issued with de minimis OID, you generally must include the de minimis OID in income at the time principal payments on the Bonds are made. The includible amount with respect to each principal payment on a Bond will generally be equal to the product of (i) the total amount of the de minimis OID on the Bond and (ii) a fraction, the numerator of which is the amount of the principal payment made and the denominator of which is the stated principal amount of the Bond. Any amount of de minimis OID includible in income will generally be treated as an amount received in retirement of the Bond, and thus will generally be treated as capital gain (as described below).

You will generally recognize capital gain or loss on the sale, retirement or other disposition of your Bond equal to the difference between the amount you realize on the sale, retirement or other disposition, excluding any amounts attributable to accrued but unpaid interest (which will be treated as interest payments and taxable as such), and your adjusted tax basis in your Bond. A U.S. holder's adjusted basis in a Bond generally will be the U.S. holder's cost therefor, likely increased by any de minimis OID previously included in income, and reduced by any previous payments of principal on the Note. Capital gain of a noncorporate U.S. holder is generally taxed at preferential rates where the U.S. holder has held the property for more than one year at the time of disposition. The deductibility of capital losses is subject to limitations. Any gain or loss you recognize will generally be treated as U.S. source gain or loss for purposes of determining your U.S. foreign tax credit limitations.

Medicare Tax. A U.S. holder that is an individual or estate, or a trust that does not fall into a special class of trusts that is exempt from such tax, will be subject to a 3.8% tax on the lesser of (1) the U.S. holder's "net investment income" (or "undistributed net investment income" in the case of an estate or trust) for the relevant taxable year and (2) the excess of the U.S. holder's modified adjusted gross income (or adjusted gross income in the case of an estate or trust) for the taxable year over a certain threshold (which in the case of individuals will be between US$125,000 and US$250,000, depending on the individual's circumstances). A holder's net investment income will generally include its interest income and any gains from the disposition of Bonds unless such interest income or gain is derived in the ordinary course of the conduct of a trade or business (other than a trade or business that consists of certain passive or trading activities). If you are a U.S. holder that is an individual, estate or trust, you are urged to consult your tax advisor regarding the applicability of the Medicare tax to your income and gains in respect of your investment in the Bonds.

Information With Respect to Foreign Financial Assets. Certain U.S. holders that own "specified foreign financial assets" with an aggregate value in excess of US$50,000 on the last day of the taxable year or US$75,000 at any time during the taxable year are generally required to file an information report, currently on IRS Form 8938, with respect to such assets with their tax returns. "Specified foreign financial assets" include financial accounts maintained by foreign financial institutions, as well as the following, but only if they are held for investment and not held in accounts maintained by financial institutions: (i) stocks and securities issued by non-U.S. persons, (ii) financial instruments and contracts that have non-U.S. issuers or counterparties, and (iii) interests in foreign entities. U.S. holders who fail to report the required information could be subject to substantial penalties. In addition, the statute of limitations for assessment of tax would be suspended, in whole or in part. Holders are urged to consult their tax advisors regarding the application of this reporting requirement to their ownership of the Bonds.

Non-U.S. Holders

This subsection describes the tax consequences to a non-U.S. holder. You are a non-U.S. holder if you are a beneficial owner of a Bond and you are, for U.S. federal income tax purpose:

- A nonresident alien individual,
- A non-U.S. corporation, or
- An estate or trust the income of which in either case is not subject to U.S. federal income tax regardless of its source.

If you are a U.S. Holder, this subjection does not apply to you.

Payments of Interest. Under U.S. federal income tax law, and subject to the discussion of backup withholding below, if you are a non-U.S. holder of a Bond, interest on a Bond paid to you is exempt from U.S. federal income tax, including withholding tax, whether or not you are engaged in a trade or business in the United States, unless:

- you are an insurance company carrying on a U.S. insurance business to which the interest is attributable, within the meaning of the Code, or
- you both

– have an office or other fixed place of business in the United States to which the interest is attributable and

– derive the interest in the active conduct of a banking, financing or similar business within the United States, or are a corporation with a principal business of trading in stocks and securities for your own account.

Different rules may apply if you qualify for benefits under an applicable income tax treaty.

Payments of Principal and Sale, Retirement and Other Disposition of the Bonds. If you are a non-U.S. holder of a Bond, you generally will not be subject to U.S. federal income tax on gain realized on a payment of principal or on the sale, exchange, retirement or other disposition of a Bond, subject to the discussion of backup withholding below, unless:

- the gain is effectively connected with your conduct of a trade or business in the United States or

- you are an individual, you are present in the United States for 183 or more days during the taxable year in which the gain is realized and certain other conditions are met.

An individual non-U.S. holder described in the first bullet point above will be subject to U.S. federal income tax on the gain derived from the sale on a net income basis. An individual non-U.S. alien holder described in the second bullet point above will be subject to a flat 30% U.S. federal income tax on the gain derived from the sale, which may be offset by U.S. source capital losses, even though the holder is not considered a resident of the United States. A non-U.S. holder that is a foreign corporation and is described in the first bullet point above will be subject to tax on gain at regular U.S. federal income tax rates and, in addition, may be subject to a branch profits tax at a 30% rate or a lower rate if so specified by an applicable income tax treaty.

Estate Tax. For purposes of U.S. federal estate tax, the Bonds will be treated as situated outside the United States and will not be includible in the gross estate of a holder who is neither a citizen nor a resident of the United States at the time of death.

Backup Withholding and Information Reporting

If you are a noncorporate U.S. holder, information reporting requirements, on IRS Form 1099, generally will apply to payments of principal and interest on a Bond within the United States, and the payment of proceeds to you from the sale of a Bond effected at a U.S. office of a broker.

Additionally, backup withholding may apply to such payments if you fail to comply with applicable certification requirements or are notified by the IRS that you have failed to report all interest and dividends required to be shown on your federal income tax returns.

If you are a Non-U.S. holder, you are generally exempt from backup withholding and information reporting requirements with respect to payments of principal and interest made to you outside the United States by us or another non-U.S. payor. You are also generally exempt from backup withholding and information reporting requirements in respect of payments of principal and interest made within the United States and the payment of the proceeds from the sale of a Bond effected at a U.S. office of a broker, as long as either (i) the payor or broker does not have actual knowledge or reason to know that you are a U.S. person and you have furnished a valid IRS Form W-8 or other documentation upon which the payor or broker may rely to treat the payments as made to a Non-U.S. holder, or (ii) you otherwise establish an exemption.

Payment of the proceeds from the sale of a Bond effected at a foreign office of a broker generally will not be subject to information reporting or backup withholding. However, a sale effected at a foreign office of a broker could be subject to information reporting in the same manner as a sale within the United States (and in certain cases may be subject to backup withholding as well) if (i) the broker has certain connections to the United States, (ii) the proceeds or confirmation is sent to the United States or (iii) the sale has certain other specified connections with the United States.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against your U.S. federal income tax liability provided the required information is timely furnished to the IRS.

PLAN OF DISTRIBUTION

Citigroup Global Markets Inc. and Itau BBA USA Securities, Inc. are acting as joint book-running managers of the offering, and as representatives of the initial purchasers named below. Subject to the terms and conditions stated in the purchase agreement dated as of the date of this Offering Memorandum, each initial purchaser named below has severally and not jointly agreed to purchase, and Paraguay has agreed to sell to that initial purchaser, the principal amount of the Bonds set forth opposite the initial purchaser's name.

Initial Purchasers	**Principal Amount of Bonds**
Citigroup Global Markets Inc.	US$250,000,000
Itau BBA USA Securities, Inc.	US$250,000,000
Total	**US$500,000,000**

The purchase agreement provides that the obligations of the initial purchasers to purchase the Bonds are subject to approval of legal matters by counsel and to other conditions, such as the receipt by the initial purchasers of officer's certificates and legal opinions. The initial purchasers must purchase all the bonds if they purchase any of the bonds. The offering of the Bonds by the initial purchasers is subject to receipt and acceptance and subject to the initial purchasers' right to reject any order in whole or in part. If an initial purchaser defaults, the purchase agreement provides that the purchase commitments of the non-defaulting initial purchasers may be increased or the purchase agreement may be terminated. The initial purchasers may offer and sell the Bonds through certain of their affiliates.

Paraguay has been advised that the initial purchasers propose to resell the Bonds at the offering price set forth on the cover page of this Offering Memorandum to qualified institutional buyers (as defined in Rule 144A) in reliance on Rule 144A or outside the United States in reliance on Regulation S. For more information see "Transfer Restrictions." The price at which the Bonds are offered may be changed at any time without notice.

The Bonds have not been and will not be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except in transactions exempt from, or not subject to, the registration requirements of the Securities Act. For more information see "Transfer Restrictions." Each purchaser of the Bonds will be deemed to have made acknowledgments, representations and agreements as described under "Transfer Restrictions."

In addition, until 40 days after the commencement of this offering, an offer or sale of Bonds within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if that offer or sale is made otherwise than in accordance with Rule 144A or another exemption from registration under the Securities Act.

Application will be made to list the Bonds on the Official List of the Luxembourg Stock Exchange and to trade them on the Euro MTF market of the Luxembourg Stock Exchange. However, Paraguay cannot assure you that the prices at which the Bonds will sell in the market after this offering will not be lower than the initial offering price or that an active trading market for the Bonds will continue after this offering. The initial purchasers have advised us that they currently intend to make a market in the Bonds. However, they are not obligated to do so and they may discontinue any market-making activities with respect to the Bonds at any time without notice. In addition, market-making activity may be subject to the limits imposed by applicable securities laws. Accordingly, Paraguay cannot assure you as to the liquidity of, or the trading market for, the Bonds.

In connection with the offering, the initial purchasers may purchase and sell Bonds in the open market. Purchases and sales in the open market may include short sales, purchases to cover short positions and stabilizing purchases.

- Short sales involve secondary market sales by the initial purchasers of a greater number of Bonds than they are required to purchase in the offering.

- Covering transactions involve purchases of Bonds in the open market after the distribution has been completed in order to cover short positions.

- Stabilizing transactions involve bids to purchase Bonds so long as the stabilizing bids do not exceed a specified maximum.

Purchases to cover short positions and stabilizing purchases, as well as other purchases by the initial purchasers for their own accounts, may have the effect of preventing or retarding a decline in the market price of the Bonds. They may also cause the price of the Bonds to be higher than the price that would otherwise exist in the open market in the absence of these transactions. The initial purchasers may conduct these transactions in the over-the-counter market or otherwise. If the initial purchasers commence any of these transactions, they may discontinue them at any time.

Paraguay expects that delivery of the Bonds will be made to investors on or about July 12, 2023, which will be the ninth business day following the date of this Offering Memorandum (such settlement being referred to as "T+9"). Under Rule 15c6-1 under the U.S. Securities Exchange Act of 1934, as amended, trades in the secondary market are required to settle in two business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Bonds prior to the delivery of the Bonds hereunder may be required, by virtue of the fact that the Bonds initially settle in T+9, to specify an alternate settlement arrangement at the time of any such trade to prevent a failed settlement. Purchasers of the Bonds who wish to trade the Bonds prior to their date of delivery hereunder should consult their advisors.

The initial purchasers and their affiliates have performed commercial banking, investment banking and advisory services for Paraguay from time to time for which they have received customary fees and reimbursement of expenses. The initial purchasers and their affiliates may, from time to time, engage in transactions with and perform services for Paraguay in the ordinary course of their business for which they may receive customary fees and reimbursement of expenses. The initial purchasers are acting as dealer managers for the Offer to Purchase. In addition, the initial purchasers may tender Old Bonds they hold in the Offer to Purchase and receive the proceeds from this offering in payment, therefore.

In the ordinary course of their various business activities, the initial purchasers and their respective affiliates, officers, directors and employees may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments (including bank loans) for their own account and for the accounts of their customers, and such investment and trading activities may involve or relate to assets, securities and/or instruments of Paraguay (directly, as collateral securing other obligations or otherwise) and/or persons and entities with relationships with Paraguay. If any of the initial purchasers or their affiliates has a lending relationship with Paraguay, certain of those initial purchasers or their affiliates may hedge their credit exposure to Paraguay consistent with their customary risk management policies. Typically, such initial purchasers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in Paraguay's securities, including potentially the Bonds offered hereby. Any such credit default swaps or short positions could adversely affect future trading prices of the Bonds offered hereby. The initial purchasers and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities or instruments.

Investors who purchase the Bonds from the initial purchasers may be required to pay stamp taxes and other charges in accordance with the laws and practice of the country of purchase in addition to the offering price set forth on the cover page of this Offering Memorandum.

Paraguay has agreed to indemnify the initial purchasers and their controlling persons against certain liabilities, including liabilities under the Securities Act, or to contribute to payments that the initial purchasers may be required to make because of any of those liabilities.

Paraguay has agreed that it will not, for 60 days from the date of this Offering Memorandum, without first obtaining the prior written consent of Citigroup Global Markets Inc. and Itaú BBA USA Securities, Inc. offer, sell, contract to sell or otherwise dispose of any debt securities of Paraguay or warrants to purchase debt securities of Paraguay substantially similar to the Bonds.

Notice to Prospective Investors in the European Economic Area

The Bonds have not been and will not be registered under the laws of any member state of the EEA. The offering of the Bonds is being made, and the Bonds are being offered and issued, only to persons other than retail investors in the EEA. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of Directive (EU) 2016/97 (the "Insurance Distribution Directive"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the "PRIIPs Regulation") for offering or selling the Bonds or otherwise making them available to retail investors in the EEA has been prepared. Offering or selling the Bonds or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

Notice to Prospective Investors in the United Kingdom

The Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the UK. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 ("EUWA"); or (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA. Consequently, no key information document required by Regulation (EU) No 1286/2014 as it forms part of domestic law by virtue of the EUWA (the "UK PRIIPs Regulation") for offering or selling the Bonds or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Bonds or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

This Offering Memorandum has not been approved by an authorized person for the purposes of section 21 of the FSMA. Accordingly, this Offering Memorandum is for distribution only to, and is directed solely at, persons who are: (i) outside the UK; (ii) are investment professionals, as such term is defined in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "Financial Promotion Order"); (iii) persons falling within Articles 49(2)(a) to (d) of the Financial Promotion Order; or (iv) persons to whom an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) in connection with the issue or sale of any Bonds may otherwise lawfully be communicated or caused to be communicated (all such persons together being referred to as "relevant persons"). This Offering Memorandum is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this Offering Memorandum relates is available only to relevant persons and will be engaged in only with relevant persons. Any person who is not a relevant person should not act or rely on this Offering Memorandum or any of its contents.

Notice to Prospective Investors in France

Neither this Offering Memorandum nor any other offering material relating to the Bonds described in this Offering Memorandum has been submitted to the clearance procedures of the *Autorité des Marchés Financiers* or of the competent authority of another member state of the European Economic Area and notified to the *Autorité des Marchés Financiers*. The Bonds have not been offered or sold and will not be offered or sold, directly or indirectly, to the public in France. Neither this Offering Memorandum nor any other offering material relating to the Bonds has been or will be:

(a) released, issued, distributed or caused to be released, issued or distributed to the public in France; or

(b) used in connection with any offer for subscription or sale of the Bonds to the public in France. Such offers, sales and distributions will be made in France only:

   (i) to qualified investors (*investisseurs qualifiés*) and/or to a restricted circle of investors (*cercle restraint d'investisseurs*), in each case investing for their own account, all as defined in, and in accordance with, articles L.411-2, D.411-1, D.411-2, D.734-1, D.744-1, D.754-1 and D.764-1 of the French Code monétaire et financier;

   (ii) to investment services providers authorized to engage in portfolio management on behalf of third parties; or

   (iii) in a transaction that, in accordance with article L.411-2-II-1°-or-2°-or 3° of the French Code *monétaire et financier* and article 211-2 of the General Regulations (*Règlement Général*) of the Autorité des Marchés Financiers, does not constitute a public offer (*appel public à l'épargne*).

The Bonds may be resold directly or indirectly only in compliance with articles L.411-1, L.411-2, L.412-1 and L.621-8 through L.621-8-3 of the French Code *monétaire et financier*.

Notice to Prospective Investors in the Kingdom of Spain

The Bonds may not be offered, sold or distributed, nor may any subsequent resale of Bonds be carried out in Spain, except in circumstances which do not constitute a public offer of securities in Spain within the meaning of the Spanish Securities Market Law (*Ley 24/1988, de 28 julio del Mercado de Valores*) and related legislation or without complying with all legal and regulatory requirements under Spanish securities laws. No publicity or marketing of any kind shall be made in Spain in relation to the Bonds.

Neither the Bonds nor the Offering Memorandum have been registered with the Spanish Securities Market Commission (*Comisión Nacional del Mercado de Valores*) and therefore the Offering Memorandum is not intended for any public offer of the Bonds in Spain.

Notice to Prospective Investors in Italy

The offering of the Bonds has not been cleared by the Italian Securities Exchange Commission (*Commissione Nazionale per le Società e la Borsa* or the "CONSOB") pursuant to Italian securities legislation. Accordingly, the Bonds may not be offered, sold or delivered, directly or indirectly, nor may copies of this Offering Memorandum or any other document relating to the Bonds be distributed in the Republic of Italy, except:

(i) to qualified investors (*investitori qualificati*), as defined under Article 100 of the Legislative Decree No. 58 of February 24, 1998, as amended (the "Italian Securities Act"), as implemented by Article 26, paragraph 1, letter (d) of CONSOB Regulation No. 16190 of October 27, 2007, as amended ("Regulation 16190"), pursuant to Article 34-ter, paragraph 1, letter (b), of CONSOB Regulation No. 11971 of May 14, 1999, as amended ("Regulation 11971"); or

(ii) in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Italian Securities Act and its implementing CONSOB regulations, including Regulation No. 11971.

Any such offer, sale or delivery of the Bonds or distribution of copies of this Offering Memorandum or any other document relating to the Bonds in the Republic of Italy must be in compliance with the selling restriction under (i) and (ii) above and:

(a) made by investment firms, banks or financial intermediaries permitted to conduct such activities in the Republic of Italy in accordance with the relevant provisions of the Italian Securities Act, Regulation No. 16190 and Legislative Decree No. 385 of September 1, 1993, as amended (the "Italian Banking Act");

(b) in compliance with Article 129 of the Italian Banking Act and the implementing guidelines of the Bank of Italy, as amended, pursuant to which the Bank of Italy may request information on the offering or issue of securities in Italy; and

(c) in compliance with any other applicable laws and regulations or requirement imposed by CONSOB or the Bank of Italy or any other Italian authority.

Any investor purchasing the Bonds is solely responsible for ensuring that any offer or resale of the Bonds by such investor occurs in compliance with the applicable Italian laws and regulations.

Please note that in accordance with Article 100-bis of the Italian Securities Act, either the subsequent resale on the secondary market in Italy of the Bonds (which were part of a public offer made pursuant to an exemption from the obligation to publish a prospectus) or the subsequent systematic resale on the secondary market in Italy to investors that are not qualified investors within 12 months of completion of the offer reserved to qualified investors only, constitutes a distinct and autonomous offer that must be made in compliance with the public offer and the prospectus requirement rules provided under the Italian Securities Act and Regulation No. 11971, unless an exemption applies. Failure to comply with such rules may result in the subsequent resale of such Bonds being declared null and void and in the liability of the intermediary transferring the Bonds for any damages suffered by the investors.

Notice to Prospective Investors in Hong Kong

The Bonds may not be offered or sold in Hong Kong by means of any document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32 of the Laws of Hong Kong) ("Companies (Winding Up and Miscellaneous Provisions) Ordinance") or which do not constitute an invitation to the public within the meaning of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) ("Securities and Futures Ordinance"), or (ii) to "professional investors" as defined in the Securities and Futures Ordinance and any rules made thereunder, or (iii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance, and no advertisement, invitation or document relating to the Bonds may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Bonds which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" in Hong Kong as defined in the Securities and Futures Ordinance and any rules made thereunder.

Notice to Prospective Investors in Japan

The Bonds have not been and will not be registered pursuant to Article 4, Paragraph 1 of the Financial Instruments and Exchange Act of Japan. Accordingly, neither the Bonds nor any interest therein may be offered or sold, directly or indirectly, in Japan or to, or for the benefit of, any "resident" of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to or for the benefit of a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and any other applicable laws, regulations and ministerial guidelines of Japan in effect at the relevant time.

Notice to Prospective Investors in Singapore

This Offering Memorandum has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this Offering Memorandum and any other document or material in connection with the offering of the Bonds may not be circulated or distributed, nor may the Bonds be offered, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act (Chapter 289) (the "SFA"), (ii) to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions specified in

Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Bonds are subscribed for under Section 275 by a relevant person which is: (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor, then securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferable for six months after that corporation or that trust has acquired the Bonds under Section 275 of the SFA except: (i) to an institutional investor under Section 274 of the SFA or to a relevant person (as defined in Section 275(2) of the SFA), or to any person arising from an offer referred to in Section 275(1A), or Section 276(4)(i)(B) of the SFA; (ii) where no consideration is or will be given for the transfer; (iii) where the transfer is by operation of law; (iv) as specified in Section 276(7) of the SFA; or (v) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

Singapore Securities and Futures Act Product Classification – Solely for the purposes of its obligations pursuant to sections 309B(1)(a) and 309B(1)(c) of the SFA (Chapter 289 of Singapore), the Republic has determined, and hereby notifies all relevant persons (as defined in Section 309A of the SFA) that the Bonds are "prescribed capital markets products" (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

Notice to Prospective Investors in Switzerland

The Bonds may not be publicly offered, directly or indirectly, in Switzerland within the meaning of the Swiss Financial Services Act ("FinSA") and no application has or will be made to admit the Bonds to trading on any trading venue (exchange or multilateral trading facility) in Switzerland. Neither this document nor any other offering or marketing material relating to the Bonds, constitutes or will constitute a prospectus pursuant to the FinSA, and neither this document nor any other offering or marketing material relating to the Bonds may be publicly distributed or otherwise made publicly available in Switzerland.

Notice to Prospective Investors in the Dubai International Financial Centre ("DIFC")

This Offering Memorandum relates to an Exempt Offer in accordance with the Markets Rules 2012 of the Dubai Financial Services Authority ("DFSA"). This Offering Memorandum is intended for distribution only to persons of a type specified in the Markets Rules 2012 of the DFSA. It must not be delivered to, or relied on by, any other person. The DFSA has no responsibility for reviewing or verifying any documents in connection with Exempt Offers. The DFSA has not approved this Offering Memorandum nor taken steps to verify the information set forth herein and has no responsibility for the Offering Memorandum. The securities to which this Offering Memorandum relates may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the securities offered should conduct their own due diligence on the securities. If you do not understand the contents of this Offering Memorandum you should consult an authorized financial advisor.

In relation to its use in the DIFC, this Offering Memorandum is strictly private and confidential and is being distributed to a limited number of investors and must not be provided to any person other than the original recipient, and may not be reproduced or used for any other purpose. The interests in the Bonds may not be offered or sold directly or indirectly to the public in the DIFC.

Notice to Prospective Investors in Canada

The Bonds may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions or subsection 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. Any resale of the Bonds must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this Offering Memorandum (including any amendment hereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 (or, in the case of securities issued or guaranteed by the government of a non-Canadian jurisdiction, section 3A.4) of National Instrument 33-105 Underwriting Conflicts (NI 33-105), the Initial Purchasers are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this offering.

Notice to Prospective Investors in Chile

The offer of the Bonds will begin on June 28, 2023 and is subject to General Rule No. 336 of the Chilean Securities Commission (*Superintendencia de Valores y Seguros de Chile*, or the "SVS"). The Bonds being offered are not registered in the Securities Registry (*Registro de Valores*) or in the Foreign Securities Registry (*Registro de Valores Extranjeros*) of the SVS and, therefore, the Bonds are not subject to the supervision of the SVS. As unregistered securities, Paraguay is not required to disclose public information about the Bonds in Chile. The Bonds may not be publicly offered in Chile unless they are registered in the corresponding securities registry.

La oferta de los valores comienza el 28 de Junio de 2023 y está acogida a la NCG 336 de fecha 27 de junio de 2012 de la Superintendencia de Valores y Seguros de Chile (la "SVS"). La oferta versa sobre valores no inscritos en el Registro de Valores o en el Registro de Valores Extranjeros que lleva la SVS, por lo que los valores no están sujetos a la fiscalización de dicho organismo. Por tratarse de valores no inscritos, no existe obligación por parte del emisor de entregar en Chile información pública respecto de los valores. Estos valores no pueden ser objeto de oferta pública a menos que sean inscritos en el registro de valores correspondiente.

Notice to Prospective Investors in Colombia

The Bonds have not been, and will not be, registered in the National Securities and Issuers Registry (*Registro Nacional de Valores y Emisores*) of Colombia or traded on the Colombian Stock Exchange (*Bolsa de Valores de Colombia*). Therefore, the Bonds may not be publicly offered in Colombia or traded on the Colombian Stock Exchange except in circumstances which do not result in a public offering under Colombian law.

This Offering Memorandum is for the sole and exclusive use of the addressee as an offeree in Colombia, and this Offering Memorandum shall not be interpreted as being addressed to any third party in Colombia or for the use of any third party in Colombia, including any shareholders, administrators or employees of the addressee.

The recipient of the Bonds acknowledges that certain Colombian laws and regulations (specifically foreign exchange and tax regulations) are applicable to any transaction or investment made in connection with the Bonds being offered and represents that it is the sole party liable for full compliance with any such laws and regulations.

Notice to Prospective Investors in Peru

The Bonds will not be subject to a public offering in Peru. This Offering Memorandum and the Bonds have not been, and will not be, registered with or approved by the Peruvian Superintendency of Capital Markets (*Superintendencia del Mercado de Valores*, or "SMV") or the Lima Stock Exchange (*Bolsa de Valores de Lima S.A.A.*). Accordingly, the Bonds cannot be offered or sold in Peru, except if (i) the Bonds are previously registered with the SMV or (ii) such offering is considered to be a private offering under the securities laws and regulations of Peru. The Peruvian securities laws establish, among other things, that an offer directed exclusively to institutional investors (as defined under Peruvian law) qualifies as a private offering. In making an investment decision, institutional investors (as defined under Peruvian law) must rely on their own examination of the terms of the offering of the Bonds to determine their ability to invest in the Bonds. No offer or invitation to subscribe for or sell the Bonds or beneficial interests therein can be made in Peru except in compliance with the securities laws thereof.

Notice to Prospective Investors in Uruguay

In Uruguay, the Bonds are being placed relying on a private placement ("*oferta privada*") pursuant to section 2 of law 16,749. The Bonds are not and will not be registered with the Central Bank of Uruguay to be publicly offered in Uruguay. The Bonds do not qualify as an investment fund regulated by Uruguayan law 16,774, as amended.

Notice to Prospective Investors in Paraguay

The Bonds have not been and will not be registered with the Paraguayan National Securities Commission (*Comisión Nacional de Valores*) or on the Paraguayan Stock Exchange. Therefore, the Bonds may not be publicly offered in Paraguay.

TRANSFER RESTRICTIONS

Because of the following restrictions, purchasers are advised to consult legal counsel prior to making any offer, resale, pledge or other transfer of the Bonds offered hereby.

The Bonds have not been registered under the Securities Act or the laws of any jurisdiction and they are being offered and sold only:

- to “Qualified Institutional Buyers,” in accordance with Rule l44A (“Rule 144A”) under the Securities Act; or
- to non-U.S. persons (“foreign purchasers”) in accordance with Regulation S under the Securities Act (“Regulation S”).

As used in this section, the terms “United States” and “U.S. person” have the meaning given to them in Regulation S, and terms that are defined in Rule 144A have the respective meanings given to them in Rule 144A.

By purchasing the Bonds, each purchaser will be deemed to have represented and agreed with us and the initial purchasers as follows:

(i) You are either (a)(i) a qualified institutional buyer, (ii) aware that the sale of the Bonds to you is being made in reliance on Rule 144A and (iii) acquiring the Bonds for your own account or the account of one or more other qualified institutional buyers or (b)(i) a foreign purchaser and outside the United States and (ii) aware that the sale of the Bonds to you is being made in reliance on Regulation S.

(ii) You understand and acknowledge that the Bonds have not been registered under the Securities Act and may not be offered, sold or otherwise transferred except in compliance with the registration requirements of the Securities Act and any other applicable securities law, pursuant to an exemption therefrom, or in a transaction not subject thereto, and in each case in compliance with the conditions for transfer set forth in these Transfer Restrictions.

(iii) You understand and agree that the Bonds are being offered only in a transaction not involving any public offering within the meaning of the Securities Act, and that any future resale, pledge or transfer by you of the Bonds on which the legend set forth in (viii) below appears may be made only (i) to Paraguay, (ii) for so long as the Bonds are eligible for resale pursuant to Rule 144A, to a person that you reasonably believe is a qualified institutional buyer acquiring the Bonds for its own account or for the account of one or more other qualified institutional buyers in a transaction meeting the requirements of Rule 144A, (iii) in an offshore transaction meeting the requirements of Rule 903 or Rule 904 of Regulation S under the Securities Act or (iv) pursuant to an exemption from registration under the Securities Act, in each case of clauses (i) – (iv) in accordance with any applicable securities laws of any state of the United States and any other jurisdiction.

(iv) You are purchasing the Bonds for your own account, or for one or more accounts for which you are acting as a fiduciary, in each case for investment, and not with a view to, or for offer or sale in connection with, any resale or distribution in violation of the Securities Act, subject to any requirement of law that the disposition of your property (or the property of such investor account or accounts) be at all times within your control.

(v) You will, and each subsequent holder is required to, notify any purchaser of Bonds from you or the applicable subsequent holder of the resale restrictions referred to in (2) and (3) above, if then applicable.

(vi) You understand and agree that the Bonds initially offered to qualified institutional buyers in reliance on Rule 144A will be represented by 144A Global Bonds, and with respect to any transfer of any interest in a Rule 144A Bond, (i) if to a transferee that takes delivery in the form of interests in the 144A Global Bond, written certification from the transferor or the transferee will not be required and (ii) if to a transferee that takes delivery in the form of interests in the Reg S Global Bond, a written certification from the transferor to the effect that the transfer complies with Rule 903 or 904 of Regulation S will be required.

(vii) You understand and agree that the Bonds initially offered to foreign purchasers outside the United States in reliance on Regulation S will be represented by Reg S Global Bonds and with respect to any transfer of any interest in a Reg S Global Bond on or prior to the applicable Distribution Compliance Period, to a transferee who takes delivery in the form of an interest in the 144A Global Bond, the transferor will be required by the terms of the indenture to provide a written certification to the effect that the Bonds are being transferred to a person that the transferor and any person acting on its behalf reasonably believe to be a qualified institutional buyer within the meaning of Rule 144A, acquiring for its own account or for the account of a qualified institutional buyer, and the transferor and any person acting on its behalf has taken reasonable steps to ensure that the transferee is aware that the transferor may be relying on Rule 144A in connection with the transfer.

(viii) You understand that the 144A Global Bonds will bear a legend to the following effect unless otherwise agreed by us:

THIS BOND HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND MAY NOT BE SOLD OR OTHERWISE TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN APPLICABLE EXEMPTION THEREFROM. EACH PURCHASER OF THIS BOND IS HEREBY NOTIFIED THAT THE SELLER OF THIS BOND MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A THEREUNDER.

THIS BOND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (A)(1) TO A PERSON WHO THE TRANSFEROR REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT ACQUIRING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QUALIFIED INSTITUTIONAL BUYERS IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (2) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OR (3) OUTSIDE THE UNITED STATES TO PERSONS OTHER THAN U.S. PERSONS, PURSUANT TO THE TERMS AND CONDITIONS OF REGULATION S UNDER THE SECURITIES ACT AND (B) IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND OTHER JURISDICTIONS.

THIS BOND AND ANY RELATED DOCUMENTATION MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME TO MODIFY THE RESTRICTIONS ON RESALES AND OTHER TRANSFERS OF THIS BOND TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO THE RESALE OR TRANSFER OF RESTRICTED SECURITIES GENERALLY. THE HOLDER OF THIS BOND SHALL BE DEEMED BY THE ACCEPTANCE OF THIS NOTE TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT.

THIS LEGEND CAN ONLY BE REMOVED AT THE OPTION OF THE ISSUER.

You understand that the Reg S Global Bond will bear a legend to the following effect, unless Paraguay determines otherwise in accordance with applicable law:

THIS BOND HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND, PRIOR TO THE EXPIRATION OF FORTY DAYS

FROM THE LATER OF (1) THE DATE ON WHICH THIS BOND WAS FIRST OFFERED AND (2) THE DATE OF ISSUANCE OF THIS BOND, MAY NOT BE OFFERED, SOLD OR DELIVERED IN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, ANY U.S. PERSON EXCEPT (A) TO A PERSON WHO THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) PURCHASING FOR ITS OWN ACCOUNT OR THE ACCOUNT OF ONE OR MORE OTHER QUALIFIED INSTITUTIONAL BUYERS IN ACCORDANCE WITH RULE 144A, OR (B) IN AN OFFSHORE TRANSACTION COMPLYING WITH RULE 903 OR 904 OF REGULATION S. THE HOLDER HEREOF, BY PURCHASING THIS SECURITY, REPRESENTS AND AGREES FOR THE BENEFIT OF THE ISSUER THAT IT WILL NOTIFY ANY PURCHASER OF THIS SECURITY FROM IT OF THE RESALE RESTRICTIONS REFERRED TO ABOVE.

THIS BOND AND ANY RELATED DOCUMENTATION MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME TO MODIFY THE RESTRICTIONS ON RESALES AND OTHER TRANSFERS OF THIS BOND TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO THE RESALE OR TRANSFER OF RESTRICTED SECURITIES GENERALLY. THE HOLDER OF THIS BOND SHALL BE DEEMED BY THE ACCEPTANCE OF THIS BOND TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT.

SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

The Republic of Paraguay is a foreign sovereign state. Consequently, it may be difficult for investors to obtain or realize upon judgments of courts in the United States or elsewhere against Paraguay, and enforcement of such judgments may be subject to limitations with respect to attachment of certain classes of assets. Paraguay will irrevocably submit to the jurisdiction of any New York state or federal court sitting in New York City in relation to judicial proceedings arising out of the issuance or sale of the Bonds. In addition, Paraguay will irrevocably waive, to the fullest extent permitted by law, any immunity, including foreign sovereign immunity, from the jurisdiction of such courts in connection with any action based upon the Bonds brought by any holder of Bonds. Paraguay will agree that any process or other legal summons in connection with actions arising or relating to the Bonds may be served upon it by delivery to the Consul General of Paraguay in New York City, having an office on the date hereof on 801 2nd Avenue, Suite 600, New York, New York 10017, United States of America, as its agent, or by any other means permissible under the laws of the State of New York and Paraguay. Nevertheless, Paraguay reserves the right to plead sovereign immunity under the U.S. Foreign Sovereign Immunities Act of 1976, as amended (the "Immunities Act"), in actions brought against it under the United States federal securities laws or any state securities laws. Paraguay's appointment of its process agent will not extend to these actions. Without Paraguay's waiver of immunity, you will not be able to obtain a United States judgment against Paraguay unless the court determines that Paraguay is not entitled under the Immunities Act to sovereign immunity in such action. In addition, execution upon property of Paraguay located in the United States to enforce a judgment obtained under the Immunities Act may not be possible except in the limited circumstances specified in the Immunities Act.

A judgment obtained against Paraguay in a foreign court can be enforced in the courts of Paraguay if such judgment is ratified by the Paraguayan courts. Based on existing law, Paraguayan courts will ratify such a judgment if (i) a formal request for the payment of the award under the judgment is lodged with the Paraguayan government and not honored (it is not clear how such request must be made, and how and when such request must not have been honored, in order for a party to have the right to seek such ratification) and (ii) there exists a treaty with the country where such judgment was issued providing for reciprocal enforcement of foreign judgments (no such treaty exists at the present time between Paraguay and the United States); or if no such treaty exists (A) such judgment has *res judicata* effects in the jurisdiction where it was rendered; (B) such judgment was issued by a competent court with *in personam* jurisdiction or (if the relevant assets were transferred to Paraguay during or after the complaint was filed) in rem jurisdiction; (C) there is no legal action filed and pending judgment at a Paraguayan court with the same cause of action and among the same parties; (D) any person or entity domiciled in Paraguay against whom such judgment is sought to be enforced must have been duly served with process and represented during the trial or adjudged to have failed to appear in accordance with the laws of the country where the trial was held; (E) the obligation that gave rise to the complaint must be valid under Paraguayan law; (F) such judgment is not contrary to the public policy of Paraguay; (G) such judgment must comply with all necessary requirements to be considered as a valid judgment in the foreign jurisdiction; and (H) such judgment must not conflict with a judgment rendered previously or simultaneously by a Paraguayan court.

Once a foreign judgment is ratified by the Paraguayan courts, payment of such judgment should be included by Congress as a liability under the budget law for the following fiscal year. Under Paraguayan law, creditors may not be able seek attachment prior to judgment and attachment in aid of execution with respect to property of Paraguay located in Paraguay.

OFFICIAL STATEMENTS AND DOCUMENTS

Information included herein that is identified as being derived from information published by the Ministry of Finance, the Central Bank or other publications of Paraguay's agencies or instrumentalities is included herein on the authority of such publication as an official public document of Paraguay. All other information herein is included as an official public statement made on the authority of Oscar Llamosas, Minister of Finance of Paraguay.

VALIDITY OF THE BONDS

The validity of the Bonds will be passed upon for Paraguay by the Attorney General of Paraguay and Parquet & Asociados, each serving as Paraguayan counsel to the Republic of Paraguay, and by Foley & Lardner LLP, United States counsel to Paraguay, and for the initial purchasers, by Cleary Gottlieb Steen & Hamilton LLP, United States counsel to the initial purchasers, and by Gross Brown, Paraguayan counsel to the initial purchasers.

AUTHORIZED AGENT

The authorized agent of Paraguay in the United States of America is the Consul General of Paraguay in New York City, whose address is 801 2nd Avenue, Suite 600, New York, New York 10017.

GENERAL INFORMATION

1. The issuance of the Bonds was authorized by the Annual Budget Law No. 7050/23 dated January 4, 2013, Liability Management Law No. 6638/20, Presidential Decree No. 9301/23 dated May 12, 2023, which implements the Annual Budget Law, Resolutions of the Ministry of Finance No. 91/23 dated January 31, 2023 and Resolutions No. 296 and 297 dated June 15, 2023, and Central Bank Resolution No. 1/23, Act No. 32, dated June 22, 2023.

All consents, approvals, authorizations and other orders of all regulatory authorities under the laws of Paraguay have been given for the issuance of the Bonds; the execution and issue of the indenture and are in full force and effect.

2. Paraguay is not involved in any litigation or arbitration proceedings that are material in the context of the issuance of the Bonds nor, so far as Paraguay is aware, are any such litigation or arbitration proceedings pending or threatened, other than as described in this Offering Memorandum.

3. The Bonds will be accepted for clearance through DTC and its direct and indirect participants including Euroclear and Clearstream. The CUSIP number and ISIN number for the Bonds offered pursuant to 144A and Regulation S are as follows:

Bonds Offered	CUSIP Number	ISIN
Rule 144A	699149 AM2	US699149AM21
Regulation S	P75744 AM7	USP75744AM75

4. As long as the Bonds are listed on the Official List of the Luxembourg Stock Exchange and traded on the Euro MTF market of the Luxembourg Stock Exchange, if and as long as it is required for maintaining a listing on the Official List of the Luxembourg Stock Exchange or trading on the Euro MTF market of the Luxembourg Stock Exchange, you may receive copies, free of charge, of the following documents on any business day at the offices of the Luxembourg listing agent:

- the Constitution;
- the most recent annual reports of the Ministry of Finance and the Central Bank (of which English translations will be made available); and
- this Offering Memorandum.

5. There has been no material adverse change in the financial condition of Paraguay which is material in the context of the issuance of the Bonds since December 31, 2022.

APPENDIX

Paraguay: Gross Public Sector External Debt as of April 30, 2023.

Creditor	Currency	Maturity (years)	Maturity Date	Type of Interest Rate	Outstanding Amount as of April 30, 2023 (in millions of USD)
A I F	USD	50	September-24	Fixed	0.49
A I F	USD	50	May-25	Fixed	0.30
A I F	USD	50	August-26	Fixed	0.42
B I D	USD	40	November-23	Fixed	0.34
B I D	USD	40	November-23	Fixed	0.20
B I D	USD	40	September-24	Fixed	0.13
B I D	USD	40	September-24	Fixed	0.05
B I D	USD	40	May-28	Fixed	2.09
B I D	USD	40	September-28	Fixed	8.47
B I D	CAD	40	September-28	Fixed	0.24
B I D	JPY	40	September-28	Fixed	0.03
B I D	PYG	40	March-29	Fixed	0.02
B I D	USD	41	April-30	Fixed	4.32
B I D	USD	40	May-30	Fixed	7.35
B I D	USD	40	September-32	Fixed	9.38
B I D	USD	40	March-32	Fixed	12.98
B I D	USD	40	September-33	Fixed	16.52
J I C A	JPY	30	February-24	Fixed	1.16
K F W	EUR	30	June-23	Variable	1.13
K F W	EUR	30	December-23	Fixed	0.11
B I D	USD	40	December-33	Fixed	0.63
K F W	EUR	30	June-25	Fixed	0.28
J I C A	JPY	30	November-24	Fixed	3.80
I C O	USD	30	May-28	Fixed	0.05
I C O	USD	30	May-28	Fixed	0.24
I C O	USD	30	July-28	Fixed	2.33
I C O	USD	30	July-28	Fixed	1.13
I C O	USD	30	July-28	Fixed	0.77
I C O	USD	30	October-31	Fixed	2.62
J I C A	JPY	18	August-23	Fixed	2.81
J I C A	JPY	18	August-23	Fixed	0.79
J I C A	JPY	18	August-23	Fixed	2.04
J I C A	JPY	18	August-23	Fixed	0.51
B I D	USD	20	September-28	Fixed	5.28
B I D	USD	20	September-28	Fixed	2.32
B I D	USD	20	August-25	Fixed	5.03
B I D	USD	20	August-25	Fixed	0.70
B I D	USD	20	August-25	Fixed	0.75
B I D	USD	25	September-26	Variable	2.08
B I D	USD	25	January-28	Fixed	7.03
B I D	USD	20	June-28	Variable	7.00
B I R F	USD	23	May-26	Variable	4.43
B I R F	USD	23	October-26	Variable	5.81
O P E P	USD	15	December-24	Fixed	1.60
B I R F	USD	23	October-27	Variable	3.74
B I D	USD	25	November-25	Variable	4.99
B I D	USD	20	October-25	Variable	1.09
B I D	USD	25	October-30	Variable	0.93
F I D A	SDR	38	December-44	Fixed	7.75
B I R F	USD	23	April-29	Variable	27.17
B I D	USD	25	October-31	Variable	59.87
B I D	USD	25	October-31	Variable	29.82
B I D	USD	25	October-31	Variable	15.32
B I D	USD	25	October-31	Variable	1.82
B I D	USD	25	October-31	Variable	1.07
B I D	USD	30	March-38	Fixed	13.77
B I D	USD	40	March-48	Fixed	5.32
B I D	USD	25	March-38	Fixed	5.21
B I D	USD	40	March-48	Fixed	1.98
B I D	USD	30	March-38	Fixed	3.25
B I D	USD	40	March-48	Fixed	1.24

Creditor	Currency	Maturity (years)	Maturity Date	Type of Interest Rate	Outstanding Amount as of April 30, 2023 (in millions of USD)
B I D	USD	30	February-38	Fixed	25.53
B I D	USD	40	February-48	Fixed	10.00
B I R F	USD	23	September-30	Variable	16.59
B I R F	USD	27	October-35	Variable	2.13
B I R F	USD	27	October-35	Variable	28.88
B I R F	USD	27	October-35	Variable	6.21
B I R F	USD	27	March-36	Variable	68.44
B I D	USD	20	May-29	Fixed	41.94
B I D	USD	30	April-39	Fixed	27.23
B I D	USD	40	April-49	Fixed	10.00
K F W	EUR	30	June-38	Fixed	4.30
B I D	USD	30	March-39	Variable	3.79
B I D	USD	40	March-49	Fixed	1.30
B I D	USD	25	April-34	Fixed	22.57
B I D	USD	30	April-39	Variable	15.06
B I D	USD	40	September-49	Fixed	5.24
O P E P	USD	20	April-29	Fixed	9.55
B I D	USD	25	April-35	Fixed	7.83
F I D A	SDR	20	November-29	Variable	1.24
J I C A	JPY	20	April-30	Fixed	11.07
B I D	USD	30	May-40	Fixed	24.91
B I D	USD	40	May-50	Fixed	7.36
B I D	USD	25	May-35	Fixed	18.78
B I D	USD	25	November-35	Variable	6.82
B I R F	USD	25	November-37	Variable	71.07
B I D	USD	30	May-41	Variable	7.00
C A F	USD	15	April-27	Variable	25.43
B I D	USD	25	November-36	Fixed	2.98
B I D	USD	20	October-31	Variable	0.90
B I D	USD	23	November-36	Variable	21.86
B I D	USD	16	May-28	Variable	35.50
B I D	USD	30	May-41	Variable	13.66
B I D	USD	25	September-38	Variable	40.55
B I R F	USD	25	November-36	Variable	93.34
O P E P	USD	20	October-30	Fixed	2.28
B I D	USD	23	April-36	Fixed	44.38
B I D	USD	30	April-43	Variable	50.49
B I D	USD	40	July-53	Fixed	14.15
FONPLATA	USD	20	May-32	Variable	64.16
B I D	USD	20	November-31	Variable	11.56
O P E P	USD	18	February-28	Fixed	4.80
B E I	EUR	26	November-27	Fixed	73.63
F I D A	SDR	18	November-30	Variable	5.53
B I D	USD	40	September-51	Fixed	2.22
B I D	USD	30	November-41	Variable	20.68
B I D	USD	40	October-51	Fixed	4.00
B I D	USD	40	February-52	Fixed	6.39
B I D	USD	30	May-42	Variable	42.82
B I D	USD	40	May-52	Fixed	12.90
JP MORGAN[(*)]	USD	30	August-44	Fixed	1,000.00
B I R F	USD	30	October-43	Variable	95,27
C A F	USD	12	July-26	Variable	25.67
C A F	USD	15	October-29	Variable	125.96
C A F	USD	15	October-29	Variable	33.91
J I C A	JPY	20	April-30	Fixed	4.57
B I D	USD	25	November-38	Variable	7.21
J I C A	JPY	20	April-34	Fixed	94.29
C A F	USD	15	June-29	Variable	29.99
B I D	USD	24	September-39	Variable	93.60
B I D	USD	25	November-39	Variable	34.72
B I D	USD	30	December-44	Variable	53.34
B I D	USD	40	December-54	Fixed	13.91
B I D	USD	20	October-39	Variable	2.93
B I D	USD	23	March-38	Variable	42.88
B I D	USD	23	March-38	Variable	42.89
B I R F	USD	28	October-43	Variable	100.00

Creditor	Currency	Maturity (years)	Maturity Date	Type of Interest Rate	Outstanding Amount as of April 30, 2023 (in millions of USD)
I C O	USD	27	December-41	Fixed	22.68
FONPLATA	USD	15	September-31	Variable	112.38
B I D	USD	25	May-40	Variable	17.89
B I D	USD	24	November-39	Fixed	6.80
B I D	USD	23	May-38	Variable	0.98
O P E P	USD	20	April-35	Fixed	29.18
J I C A	JPY	20	April-34	Fixed	5.28
BOFA(*)	USD	10	April-26	Fixed	527.13
B I D	USD	25	October-40	Fixed	20.45
B I D	USD	20	March-36	Fixed	192.00
CITIBANK N.A.(*)	USD	10	March-27	Fixed	500.00
FONPLATA	USD	12	September-28	Variable	9.63
B I D	USD	24	October-40	Fixed	19.77
B I D	USD	25	March-41	Variable	41.06
B I D	USD	24	November-40	Variable	6.08
B I D	USD	20	March-41	Variable	11.09
B I R F	USD	35	May-51	Variable	41.99
FONPLATA	USD	16	September-32	Variable	29.48
C A F	USD	16	January-33	Variable	81.22
CITIBANK N.A.(*)	USD	30	March-48	Fixed	530.00
C A F	USD	15	September-32	Variable	126.44
O P E P	USD	15	September-36	Fixed	16.64
O P E P	USD	14	March-34	Fixed	1.95
B I D	USD	15	September-40	Variable	30.00
F I D A	EUR	18	December-36	Variable	4.82
B I D	USD	30	March-38	Variable	12.22
B I D	USD	40	March-38	Fixed	3.60
B I D	USD	20	September-37	Fixed	200.00
F I D A	USD	18	November-36	Variable	6.11
B I D	USD	18	November-40	Fixed	25.00
B I D	USD	25	May-42	Variable	4.77
B I D	USD	19	March-42	Variable	25.46
B I D	USD	25	May-40	Variable	57.00
C A F	USD	16	December-33	Variable	62.92
FONPLATA	USD	16	September-33	Variable	29.21
I C O	USD	20	April-43	Fixed	11.21
C A F	USD	16	June-33	Variable	99.95
B E I	USD	26	December-44	Fixed	44.45
B I D	USD	16	March-41	Variable	154.11
C A F	USD	10	September-33	Variable	372.08
CITIBANK N.A. (*) GOLDMAN SACHS(*) MORGAN STANLEY(*)	USD	31	March-50	Fixed	500.00
FONPLATA	USD	16	March-34	Variable	31.04
C A F	USD	16	November-33	Variable	63.13
B I D	USD	24	September-42	Fixed	24.51
C A F	USD	16	September-34	Variable	126.97
CONSORCIO CORREDOR VIAL BIOCEÁNICO	USD	15	May-34	Fixed	39.35
CONSORCIO CORREDOR VIAL BIOCEÁNICO	USD	15	May-34	Fixed	37.39
B I D	USD	24	September-41	Variable	9.89
CONSORCIO CORREDOR VIAL BIOCEÁNICO	USD	15	May-34	Fixed	20.43
GOLDMAN SACHS(*) MORGAN STANLEY(*) ITAU	USD	31	March-50	Fixed	450.00
B I D	USD	20	September-38	Fixed	300.00
B I D	USD	23	March-42	Variable	3.55
FONPLATA	USD	16	March-35	Variable	60.44
B I D	USD	24	September-42	Variable	7.78

Creditor	Currency	Maturity (years)	Maturity Date	Type of Interest Rate	Outstanding Amount as of April 30, 2023 (in millions of USD)
CONSORCIO CORREDOR VIAL BIOCEÁNICO	USD	15	May-34	Fixed	27.32
CONSORCIO CORREDOR VIAL BIOCEÁNICO	USD	15	May-34	Fixed	23.92
B I D	USD	19	September-39	Fixed	90.00
GOLDMAN SACHS(*) MORGAN STANLEY(*) ITAU	USD	31	April-31	Fixed	1,000.00
B I R F	USD	30	November-50	Variable	200.00
B I R F	USD	30	November-50	Variable	20.00
CONSORCIO CORREDOR VIAL BIOCEÁNICO	USD	15	May-34	Fixed	23.46
CONSORCIO CORREDOR VIAL BIOCEÁNICO	USD	15	May-34	Fixed	20.02
B I D	USD	24	November-44	Fixed	50.00
B I R F	USD	32	October-50	Variable	49.28
B I R F	USD	32	May-51	Variable	41.48
CONSORCIO CORREDOR VIAL BIOCEÁNICO	USD	15	May-34	Fixed	17.10
B I D	USD	20	November-39	Variable	160.00
B I D	USD	24	November-42	Variable	4.06
C A F	USD	20	November-40	Variable	250.00
C A F	USD	20	December-38	Variable	44.47
B I D	USD	25	October-44	Variable	58.63
C A F	USD	20	December-40	Variable	100.00
CONSORCIO CORREDOR VIAL BIOCEÁNICO	USD	15	May-34	Fixed	23.74
CONSORCIO CORREDOR VIAL BIOCEÁNICO	USD	15	May-34	Fixed	18.70
ITAU(*) CITI (*) SANTANDER (*)	USD	12	January-33	Fixed	600.00
ITAU(*) CITI (*) SANTANDER(*)	USD	31	March-50	Fixed	225.86
B I D	USD	25	October-44	Fixed	21.16
CONSORCIO CORREDOR VIAL BIOCEÁNICO	USD	15	May-34	Fixed	15.59
B I D	USD	22	March-42	Variable	6.39
CONSORCIO CORREDOR VIAL BIOCEÁNICO	USD	15	May-34	Fixed	18.02
CONSORCIO CORREDOR VIAL BIOCEÁNICO	USD	15	May-34	Fixed	22.13
CONSORCIO CORREDOR VIAL BIOCEÁNICO	USD	15	May-34	Fixed	17.61
CONSORCIO CORREDOR VIAL BIOCEÁNICO	USD	15	May-34	Fixed	19.88
C A F	USD	20	November-41	Variable	150.00
C A F	USD	20	May-41	Variable	100.00
B I D	USD	23	May-41	Variable	29.36
C A F	USD	19	May-41	Variable	42.43
CONSORCIO CORREDOR VIAL BIOCEÁNICO	USD	15	May-34	Fixed	17.81

Creditor	Currency	Maturity (years)	Maturity Date	Type of Interest Rate	Outstanding Amount as of April 30, 2023 (in millions of USD)
CITIBANK N.A.(*) GOLDMAN SACHS(*)	USD	11	June-33	Fixed	500.60
CONSORCIO CORREDOR VIAL BIOCEÁNICO	USD	15	May-34	Fixed	19.81
CONSORCIO CORREDOR VIAL BIOCEÁNICO	USD	15	May-34	Fixed	22.51
CONSORCIO CORREDOR VIAL BIOCEÁNICO	USD	15	May-34	Fixed	19.78
FONPLATA	USD	20	November-42	Variable	12.00
C A F	USD	18	May-38	Variable	6.27
B I D	USD	22	November-42	Variable	0.95
B I D	USD	18	November-26	Variable	250.00
CONSORCIO CORREDOR VIAL BIOCEÁNICO	USD	15	May-34	Fixed	18.92
C A F	USD	20	June-42	Variable	200.00
B I D	USD	19	June-41	Variable	200.00
B I D	USD	18	November-40	Variable	90.00
B I R F	USD	16	July-39	Variable	240.00
C A F	USD	19	June-42	Variable	50.00
C A F	USD	20	June-43	Variable	51.62
O P E P	USD	19	August-42	Variable	100.00
Total					**13,618.6**

Source: Ministry of Finance.
(*) Initial Purchaser banks. This relates to bonds that were distributed to the market and the initial purchases are no longer Paraguay's creditors with respect to the bonds.

ISSUER

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REPUBLIC OF PARAGUAY

OFFERING MEMORANDUM

Joint Book-Running Managers

Citigroup **Itaú BBA**

June 28, 2023