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Statement by the Hon. **CARLOS CARVALLO SPALDING**,
Governor of the Fund for **PARAGUAY**

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I would like to express my appreciation to the World Bank Group (WBG) and the International Monetary Fund (IMF) for their support throughout the past years in overcoming significant challenges, including the prolonged pandemic, climate related challenges, and a period of economic deceleration. As the governor of the Central Bank of Paraguay, I hold a strong belief that our commitment to fostering collaboration in advancing monetary policy, sustainable finance, digitalization, and integrated supervision will complement the ongoing endeavors of the WBG and the IMF.

Global and regional context

The growth prospects for the global economy have improved over the past months, with an outlook of moderate growth for both 2023 and 2024. Commodity prices have shown mixed behavior. Inflation in the major advanced economies has continued to show signs of moderation, although it remains above their targets, leading the monetary authorities of these countries to continue raising their benchmark interest rates.

In the region, economic prospects for Paraguay's main trading partners, except for Argentina, have improved for 2023, while growth prospects for 2024 remain moderate. Inflation has decelerated in most countries in the region. However, core inflation measures remain elevated in some of them, prompting central banks to maintain a contractionary monetary policy.

In this context, uncertainty persists regarding economic growth, global inflation, and international conflicts. A contractionary monetary policy stance by central banks in major advanced economies, driven by more persistent inflation than anticipated, would result in more restrictive international financial conditions for an extended period, which could impact growth forecasts. Higher interest rates could also negatively affect capital flows to emerging economies, leading to currency depreciation and fiscal pressures, especially for countries with high levels of foreign currency-denominated debt. The ongoing conflict between Russia and Ukraine adds uncertainty to the prices of certain commodities. A recent development, the OPEC+ agreement to decrease oil production and the reduction of crude inventories in the United States, may continue to exert pressure on fuel prices. In the region, uncertainty has increased regarding the timing and magnitude of monetary policy rate cuts, while growth remains moderate compared to 2022.

Domestic context

In recent years, Paraguay has demonstrated resilience in the face of numerous challenges, including the surge in energy and food prices, fluctuations in prices of its primary export commodities (such as soybeans and beef), droughts, and the COVID-19 pandemic. This resilience can be attributed to several key factors, including economic diversification, sound public policies, and prudent management of external risks. Currently, Paraguay is in the midst of a recovery phase characterized by robust economic expansion, with a GDP growth forecast of 4.5% for 2023. This growth is being driven by various factors, including increased agricultural production and electricity generation, while other sectors of the economy are also contributing to a lesser extent. In terms of price stability, both total inflation and various trend measures have continued to decline. This downward trajectory can be attributed to a responsive monetary policy aimed at curbing inflationary pressures, aligning expectations, and driving inflation towards the target. Additionally, lower commodity prices, impacting food

and fuel costs, have played a role, along with a relatively stable exchange rate. The 2023 inflation projection has been revised down from 4.5% to 4.1%, close to the 4% target, while the forecast for 2024 and the monetary policy horizon continues at 4%. Furthermore, Paraguay's financial sector remains robust and holds favorable prospects. It has displayed resilience in terms of credit growth, profitability, solvency, and low non-performing loan ratio. In addition, Paraguay is actively striving to establish itself as a nation known for its commitment to sustainability and environmental preservation. The country is set to issue green, social, and sustainable bonds by the end of 2023, underlining its prioritization of eco-conscious practices. Moreover, Paraguay is working on enhancing its investment climate, featuring clear regulations and a commitment to safeguarding investors' rights. It is also working on improving bureaucratic processes that contribute to an environment conducive to business growth, and on structural reforms that ensure macroeconomic stability, enhance productivity, and promote social inclusion.

Outlook for the World Bank Group and the International Monetary Fund

We support the World Bank's dedication to advancing sustainable finance and digitalization. While commendable progress has been achieved, we expect that the WBG commitment to strengthening sustainable finance will complement our initiative aimed at fostering a sustainable economic development model. In addition, we express our gratitude to the International Monetary Fund for its commitment to offering sound policy counsel and financial support to member nations during these challenging times. We endorse IMF policy actions and endeavors in several key areas, such as combating inflation, providing essential assistance to those facing the most acute needs, enhancing future resilience by assisting member nations in addressing pressing issues such as climate change, digital transformation, among others.