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Paraguay: Letter of Intent

Press Release:

[IMF Executive Board](#)

[Completes First](#)

[Review of Paraguay's](#)

[Stand-By](#)

[Arrangement](#)

September 29, 2006

September 12, 2006

[Country's Policy](#)

[Intentions Documents](#)

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The following item is a Letter of Intent of the government of Paraguay, which describes the policies that Paraguay intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Paraguay, is being made available on the IMF website by agreement with the member as a service to users of the [IMF](#) website.

Asunción, Paraguay
September 12, 2006

Mr. Rodrigo de Rato
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. de Rato:

1. This letter updates our letter of May 8, 2006, which articulates the policies of our multi-year program supported by a Stand-By Arrangement (SBA) approved by the Fund's Board on May 31, 2006, and at the same time reiterates our commitment to the program.
2. The program went off to a good start. Macroeconomic conditions have improved in the last few months and the program remains on track. All quantitative PCs and the structural benchmark for end-June 2006 were observed.
3. Economic growth remained buoyant and inflationary pressures significantly eased in the second quarter of 2006. Despite a repeated drought and rising international oil prices, our external position continued strengthening; international reserves stood at record highs and the *guaraní* gained ground against major international currencies. Fiscal policy continued to be implemented according to strict adherence to the program. Diesel subsidies were cut in almost one half in June when domestic diesel prices were raised. Short-term rates on monetary instruments (LRMs) almost doubled earlier this year to address inflationary pressures. The structural reform agenda continues to be implemented as scheduled.¹
4. However, we experienced an unexpected setback when the commitment fee on the SBA due to the Fund—a relatively small sum of no macroeconomic significance—could not be discharged on time owing to unforeseen legal difficulties to making this payment (under the new budgetary procedures for the Central Bank). Mindful of the importance to remain current in our obligations to the Fund, we finally made the payment within our legal framework.
5. Against this background, we would like to: (i) reaffirm our commitment to the policies described in our letter and memorandum of economic and financial policies of

¹ While PETROPAR's financial position has strengthened as a result of domestic price adjustments, higher world prices will make it difficult for PETROPAR to eliminate their overdue obligation to oil suppliers by end-2006 as previously anticipated. We now expect PETROPAR overdue obligations to be cleared by September 2007.

May 2006; and (ii) request completion of the first review under the SBA. Our Government will continue its close and fruitful dialogue with the Fund and stands ready to adopt all measures necessary to achieve the objectives of the program. We have authorized the Fund to publish this letter, to facilitate a wider access and review of our policies within Paraguay and among the international community.

Sincerely yours,

_____/s/_____
Mónica Pérez dos Santos
President
Central Bank of Paraguay

_____/s/_____
Ernst Bergen
Minister of Finance