OFFERING CIRCULAR

REPUBLIC OF PARAGUAY

US $500,000,000

4.625% Bonds due 2023

We are offering US$500,000,000 aggregate principal amount of 4.625% bonds due 2023 (the "Bonds") of the Republic of Paraguay ("Paraguay") that will bear interest on their outstanding principal amount from the date of issuance, expected to be January 25, 2013 (the "Settlement Date"), at a rate of 4.625%, payable semi-annually in arrears on January 25 and July 25 of each year (each, an "Interest Payment Date"), commencing on July 25, 2013 and ending on January 25, 2023 (the "Maturity Date"). The Bonds will be general, direct, unconditional, unsubordinated and unsecured External Debt of Paraguay and will be backed by the full faith and credit of Paraguay. The Bonds will rank equally in right of payment with all existing and future unsubordinated and unsecured External Debt of Paraguay (as defined herein). The Bonds will be backed by the full faith and credit of Paraguay. Principal and interest payments on the Bonds will be made without withholding or deduction for or on account of taxes imposed by Paraguay. All Bonds will be issued in book-entry form only.

The Bonds contain collective action clauses with provisions regarding future modifications to the terms of Bonds issued under the indenture. Under those provisions, which are described herein in "Description of the Bonds—Meetings, Amendments and Waivers," modifications affecting the reserve matters listed in the indenture, including modifications to payment and other important terms, may be made to a single series of Bonds issued under the indenture with the consent of the holders of 75% of the aggregate principal amount outstanding of that series, and to multiple series of Bonds issued under the indenture with the consent of the holders of 85% of the aggregate principal amount outstanding of all series that would be affected and 66 2/3% in aggregate principal amount outstanding of each affected series.

Application has been made to list the Bonds on the Official List of the Luxembourg Stock Exchange and to have the global bonds trade on the Euro MTF Market of the Luxembourg Stock Exchange.

See "Risk Factors" beginning on page 9 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 in the United States only to qualified institutional buyers in reliance on Rule 144A under the Securities Act ("Rule 144A") and outside the United States to persons that are not 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."

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Public Price: 100% plus interest, if any, from January 25, 2013

Delivery of the Bonds in book-entry form will be made through The Depository Trust Company ("DTC") and its direct participants, including Euroclear Bank S.A./N.V. ("Euroclear") and Clearstream Banking, Luxembourg, *société anonyme* ("Clearstream") on or about January 25, 2013.

Global Coordinator:

Citigroup

Joint Book-Runners:

Citigroup | **BofA Merrill Lynch**

The date of this Offering Circular is January 17, 2013.


B O L I V I A
B R A S I L
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PRESIDENTE HAYES
CONCEPCIÓN
AMAMBAY
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ALTO PARANÁ
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PARAGUARÍ
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Formosa
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SERRANÍA DE SANTIAGO
SIERRA DE MARACAJÚ
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Paraguay has provided you only with the information contained in this Offering Circular. 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 Circular is accurate as of any date other than the date on the front of this Offering Circular.

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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 Circular 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. See "Book-Entry, Delivery and Form."

This Offering Circular does not constitute an offer of or an invitation by or on behalf of Paraguay or the Initial Purchasers (as defined under "Plan of Distribution") 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 Circular and the offering of the Bonds in certain jurisdictions may be restricted by law. People in possession of this Offering Circular are required by Paraguay and the Initial Purchasers to inform themselves about and to observe any such restrictions.

The Bonds offered in this Offering Circular 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. See "Transfer Restrictions."

The information contained in this Offering Circular 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. 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 Circular 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 Circular.

The Bonds offered in this Offering Circular 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 Circular. Any representation to the contrary is a criminal offense.

Paraguay is entitled to withdraw this offering at any time before closing. Paraguay is making this offering subject to the terms described in this Offering Circular 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 Circular for which it is responsible is in accordance with the facts and contains no omissions likely to affect the import of the Offering Circular on the Official List of the Luxembourg Stock Exchange.

In connection with the issue of the Bonds, Citigroup Global Markets Inc. (the "Stabilizing Manager") (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 the Stabilizing Manager (or persons acting on behalf of a Stabilizing Manager) will undertake stabilization action. Any stabilization action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Bonds is made and, if begun, may be ended at any time but it must end no later than the earlier of 30 days after the issue date of the Bonds and 60 days after the date of the allotment of the Bonds. 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.

NOTICE TO NEW HAMPSHIRE RESIDENTS ONLY

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER RSA 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

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. Figures converted from Guaraníes to U.S. dollars in this document were converted at a rate of G.5,033 per U.S. dollar for 2007 figures, G.4,363 for 2008 figures, G.4,967 for 2009 figures, G.4,740 for 2010 figures, G.4,196 for 2011 figures and G.4,431 for 2012 figures, 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 (the "Central Bank of Paraguay" or the "Central Bank"). 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 by the Central Bank of Paraguay to financial institutions in the commercial market as reported by the Central Bank of Paraguay for the last business day of December 2012, December 28, was Guaraníes 4,290 = US$1.00. References to "billion" are to thousands of millions.

The fiscal year of the government ends on December 31. Unless otherwise indicated, all annual information is based upon a January 1 to December 31 calendar year. Certain monetary amounts included in this Offering Circular 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).

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 document.

- 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 1994 as the base year.

- Imports are calculated based upon cost, insurance and freight, or "CIF" 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 of Paraguay based on surveys conducted by the Central Bank.

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 document may be subsequently adjusted or revised. In addition, the information and data provided for 2011 and 2012 are preliminary and are subject to further adjustment or revision. The government believes that this practice is substantially similar to the practices of many industrialized nations. The government does not expect revisions to be material, but cannot assure you that material changes will not be made.

The Bureau of Statistics, Surveys and Census of Paraguay (*Dirección General de Estadística, Encuestas y Censos* – "DGEEC") is the state agency responsible for generating, systematizing, analyzing and distributing certain statistical and cartographic information about Paraguay.

CAUTIONARY STATEMENT REGARDING PROJECTIONS AND OTHER INFORMATION ABOUT FUTURE EVENTS

This Offering Circular 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 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" on page 9. These factors include, but are not limited to:

- adverse external factors, such as:
  - 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 or the Inter-American Development Bank;
  - a downgrade of Paraguay's credit ratings by international rating agencies;
  - changes in MERCOSUR (as defined herein) import tariffs;
  - changes in international commodity prices;
  - recession, low economic growth or economic contraction affecting Paraguay's trading partners;
  - suspension or termination of trade agreements or treaties;
  - deterioration in the economic condition of or Paraguay's relationship with neighboring countries; and
  - international hostilities; and
- 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;
  - adverse court decisions;
  - 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;
- natural events, such as climatic changes and floods; and
- foot-and-mouth disease (FMD) outbreaks.

OFFERING CIRCULAR 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 Circular. 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 Circular, including "Risk Factors" (beginning on p. 9), before purchasing the Bonds.

Recent Developments

In 2012, the Paraguayan economy contracted as a result of adverse conditions for the agricultural sector during the first half of the year due to a drought and an outbreak of FMD that affected beef exports. Preliminary Central Bank estimates for 2012 indicate a decline in real GDP of 1.2%, driven by a decline in agricultural production of about 28%. However, following a contraction in the first half of the year, the economy recovered in the second half of 2012 driven by a recovery of the livestock sector and the strength of the non-rural economy. Non-agricultural sector estimates for 2012 indicates an increase of 5%, in real terms.

Preliminary estimates for the overall balance in 2012 for the central government indicates a deficit of 1.8% of GDP.

Agriculture. In 2012, Agroindustrial Angostura S.A., a Bunge and Louis Dreyfus joint-venture that is building a soybean crushing facility, is scheduled to begin operations at the end of 2013. Once this project is completed, soybean crushing facilities in Paraguay are expected to process more than four million tons of soybeans per year, representing half of Paraguay's soybean production in 2011.

Manufacturing. Rio Tinto Alcan, Inc. signed a memorandum of understanding with the Minister of Industry and Commerce (*Ministerio de Industria y Commercio*) for the development of an industrial park and the construction of an aluminum smelter with an estimated investment of up to US$4.0 billion. The smelter project is expected to obtain energy from the Itaipú hydroelectric plant.

Balance of Payments. Paraguay estimates that it had a current account surplus of US$55.2 million in 2012, a decrease from US$181.0 million in 2011. The capital and financial accounts recorded a surplus of US$115.7 million up from US$44.6 million in 2011. Direct investment (net) for 2012 totaled US$409.6 milion. As a result of the US$10.5 million balance of payment surplus in 2012, international reserves (net) increased to US$4,994.4 billion from US$4,983.9 billion in 2011.

Monetary Policy. For the 12 months ended 2012, the inflation rate (CPI) was 4.0% compared to 4.9% in 2011. As of June 30, 2012, the assets of banks operating in Paraguay amounted to approximately US$13.0 billion, while bank deposits amounted to US$9.6 billion. As of June 30, 2012, banks and other financial institutions were holding US$582 million in assets and US$419 million in deposits. Bank loans to clients represent about 61.7% of bank assets. The remaining portion were predominantly liquid assets held with the Central Bank. Approximately 73.7% of bank liabilities were deposits, while the rest is represented by liabilities to the public sector, to foreign creditors and a small amount of subordinated bonds.

Public Sector Finance. Preliminary data for 2012 indicates that the central government primary expenses totaled US$5.1 billion, an increase of 18.4% compared to 2011. Central government revenues in 2012 totaled US$4.6 billion, an increase of 2.7%, compared to 2011. The central government overall balance recorded a deficit of US$465 million (1.8% of GDP). The central government primary balance showed a deficit equivalent to 1.6% of GDP.

Paraguay's 2013 Annual Budget was enacted on January 2, 2013. The 2013 budget is based in part on projections of an increase of approximately 8.5% of real GDP and assumes an increase in total central government revenue as compared with estimated revenue for 2012 mainly due to an estimated 7.2% increase in tax revenue. The budget contemplates an increase in total expenditures of 12%, mainly due to funding the continuation of government social programs and new large industrial projects. The government anticipates a deficit in the range of 2.5% of GDP for the central government in 2013, mostly as a result of the decision to execute major public works in spite of moderate revenues.

Public Sector Debt. As of December 31, 2012 the total public sector debt was US$3.6 billion (14% of GDP) up from US$2.7 billion (10.6% of GDP) as of December 31, 2011. Total public sector external debt for 2012 was US$2.3 billion and US$2.3 billion as of December 31, 2011 and total public domestic debt was US$1.3 billion for 2012 as compared to US$0.5 billion as of December 31, 2011.

Selected Economic Information

THE ECONOMY	**2007**	**2008**	**2009**	**2010**	**2011[(1)]**	**2012[(2)]**
GDP[(3)]						
(In millions of US$)	$13,837	$18,505	$15,950	$20,028	$26,008	$25,547[(1)]
% change of real GDP from the previous year	5.4%	6.4%	(4.0)%	13.1%	4.3%	(1.2)%
Population (in thousands)	6,120	6,230	6,341	6,451	6,562	6,673
Per capita GDP (in millions of US$)	$2,261	$2,970	$2,516	$3,105	$3,964	$3,829
Inflation Rate[(4)]	6.0%	7.5%	1.9%	7.2%	4.9%	4.0%
Unemployment rate (%)[(5)]	5.6%	5.7%	6.4%	5.7%	5.6%	7.0%
Exchange rate (Guaraníes/per US$)[(6)]	G.5,033	G.4,363	G.4,967	G.4,740	G.4,196	G.4.423

BALANCE OF PAYMENTS[(7)]	**2007**	**2008**	**2009**	**2010**	**2011[(1)]**	**2012[(2)]**
			(in millions of US$)			
Export of Goods (FOB)	$7,534	$9,731	$7,756	$10,474	$12,634	$11,829
Imports of Goods	6,030	8,681	6,632	9,593	11,737	11,117
Current Account Surplus (Deficit)	779	189	505	(66)	181	55
Net Foreign Direct Investment	202	209	95	227	364	410
Overall Balance of Payments Surplus (Deficit)	727	394	915	319	784	10.5
Total International Reserves (end of period)	2,462	2,864	3,861	4,168	4,984	4,994

PUBLIC SECTOR FINANCES[(8)]	**2007**	**2008**	**2009**	**2010**	**2011[(1)]**
	(in millions of US$ and percentage of total GDP)				
Central Government Revenues[(9)]	$2,153	$2,921	$2,795	$3,428	$4,521
% of real GDP	15.6%	15.8%	17.5%	17.1%	17.4%
Central Government Expenditures[(9)]	2,036	2,502	2,786	3,180	4,334
% of real GDP	14.7	13.5	17.5	15.9	16.7
Central Government Balance[(9)]	118	420	9	248	188
% of real GDP	0.9	2.3	0.1	1.2	0.7[(8)]
Consolidated Public Sector Revenues	3,879	5,347	4,761	5,544	7,481
Consolidated Public Sector Expenditures	3,003	4,116	4,114	4,540	5,846
Consolidated Public Sector Current Balance	876	1,230	647	1,004	1,635
Consolidated Public Sector Overall Balance	314	729	(116)	99	566

PUBLIC SECTOR DEBT	**2007**	**2008**	**2009**	**2010**	**2011[(1)]**	**2012[(2)]**
	(in millions of US$ and percentage of total GDP)					
Public Sector Domestic Debt	346	367	496	500	458	1,346
Public Sector External Debt	2,130	2,194	2,212	2,340	2,288	2,250
Total Public Sector Debt	$2,476	$2,561	$2,707	$2,839	$2,746	$3,596
% of GDP	17.9%	13.8%	17.0%	14.2%	10.6%	14.1

(1) Preliminary data.
(2) Projected data, except where noted.
(3) GDP includes Itaipú Binational and Yacyretá Binational.
(4) Percentage change of consumer prices measured by CPI over the 12-month period ended December 31 of each year.

(5) For 2012, the data are given as of September 2012.
(6) Annual arithmetic average of monthly average bid/offer exchange rates.
(7) Includes Itaipú Binational and Yacyretá Binational electricity exports, trade registered by customs and re-exports, among others.
(8) Negative amounts indicate budget deficit.
(9) For 2012, the government estimates an overall central government deficit of 1.8% of GDP.

Source: Ministry of Finance and Central Bank of Paraguay.

Republic of Paraguay

Paraguay is located in central South America and as of 2011 had a population of approximately 6.56 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% of the population living 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, is densely forested in parts, and has extensive farmlands.

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 poverty, 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.

Paraguayan Economy

Paraguay's market economy has been characterized in recent years with one of the highest growth rates in gross domestic product (GDP) of any country in Latin America. In 2011, GDP grew 4.3% in real terms to US$26.0 billion and GDP per capita increased by 2.3%. In 2010, real GDP grew by 13.1%, fueled largely by the increase in the export of commodities, mainly soybeans and meat and the expansion of the commercial, industrial and public and private sectors.

Agriculture continues to dominate the Paraguayan economy, representing 18.7% of GDP in 2011, compared to 18.3% in 2010. The growth of the agricultural sector has resulted in part from an increase in soybean production, as well as other products such as corn and manioc, a type of edible root. In 2010, the agricultural sector grew in real terms by 49.8% and by 7.0% in 2011.

Other important sectors of the Paraguayan economy include commerce and manufacturing, representing 15.5% and 10.1%, respectively, of GDP in 2011, compared to 15.7% and 10.7%, respectively, in 2010. Commerce grew in real terms by 3.0% in 2011 and by 10.9% in 2010. Manufacturing decreased in real terms by 1.6% in 2011 and increased by 6.3% in 2010.

Paraguay is the largest exporter of electricity in South America, the bulk of which is produced at the Itaipú hydroelectric plant and, to a lesser extent, at the Yacyretá hydroelectric plant. 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. Pursuant to each treaty, Paraguay owns a 50% equity stake in each binational entity and the rights to 50% of the electricity produced. Revenues generated by its participation in each of the Itaipú and the Yacyretá hydroelectric plants contribute significantly to Paraguay's GDP, representing about 11.2% of total GDP in 2011.

Balance of Payments and Foreign Trade

Between 2003 and 2011, Paraguay experienced a balance of payments surplus, resulting from an improvement in the exports of goods and services coupled with an increase in foreign currency income from binational hydroelectric companies, family remittances from abroad and increased stability of net capital inflows, mainly into the private sector. The balance of payments surplus for 2011 was US$784.1 million (3.1% of GDP) compared to a surplus of US$319.2 million (1.6% of GDP) in 2010. Consecutive surpluses increased Paraguay's international reserves by US$3.3 billion from 2007 to 2011, which resulted in total international reserves (net) of US$5.0 billion at December 31, 2011. Paraguay's net international reserves at the end of 2011 amounted to 19.2% of GDP.

Paraguay had a current account surplus of US$181.0 million (0.7% of GDP) in 2011 and a deficit of US$65.8 million (0.3% of GDP) in 2010. The capital and financial accounts had an aggregate surplus of US$115.7

million (0.5% of GDP) in 2012, US$44.6 million (0.2% of GDP) in 2011 and US$207.4 million in 2010 (1.0% of GDP).

Paraguay's trade is primarily focused on MERCOSUR members, countries in the European Union (EU) and Asia, especially China. Since 2010, Paraguay's main export trade partner has been the EU. From 2007 to 2011, exports from Paraguay to EU members grew from US$585.1 million to US$1.5 billion. In 2011, the EU members represented approximately 26.5% of Paraguay's exports while MERCOSUR represented approximately 16.7% of exports. Brazil is Paraguay's largest trading partner, accounting for 13.0% and 26.3% of registered exports and imports, respectively, during 2011, followed by Argentina, with 2.3% and 14.1% of registered exports and imports, respectively.

The Paraguayan agricultural sector has attracted significant foreign direct investment in recent years. Foreign direct investment flows totaled US$1.2 billion between 2007 and the first half of 2012. The services sector receives most foreign direct investment, accounting for 78% of total foreign direct investment in the first half of 2012.

Monetary System

The Central Bank of Paraguay is independent of the government and has as its fundamental objectives to preserve and safeguard the stability of the currency and promote efficiency and stability of the financial system. The Central Bank has focused its efforts on maintaining a stable and predictable level of inflation. The Central Bank has adopted an inflation targeting scheme to manage monetary policy that establishes a target rate of 5.0% annual inflation with a floor of 2.5% and a ceiling of 7.5%. Since 2006, the annual inflation rate remained below the ceiling target range, with an average of 5.25% for the 2006-2012 period. Since the beginning of 2011, the inflation rate has had a downward trajectory as a result of reductions in food prices, and mainly because of a reduction in the price of beef.

The Central Bank was recently recapitalized. The Central Bank's negative equity was a legacy of non-performing claims related to loans to the public and to the financial sector that were largely incurred prior to 1995 when its charter was amended to prohibit such practices. A recent agreement between the Ministry of Finance and the Central Bank provided that the Ministry of Finance issued a perpetual bond, of approximately US$0.9 billion to allow the Central Bank to focus more on monetary policy issues rather than the implication of its actions on the balance sheet.

Paraguay experienced five financial crises during the 1995-2003 period, which had significant adverse consequences on Paraguay's financial system. Since then, Paraguay has strengthened its regulatory system, evidenced by the Financial Sector Assessment Program.

Public Sector Finances

Paraguay had a surplus in its fiscal accounts consistently from 2007 through 2011. In fiscal year 2011, the central government recorded a surplus of approximately US$188 million, equivalent to 0.7% of GDP. Reforms in tax legislation and improved collections have resulted in tax revenues increasing by an average of 18.5% annually for the period 2003-2011. For 2012 and 2013, increased public sector spending is expected to result in overall deficits. See "—Recent Developments."

From 2007 to 2011, tax revenues averaged 67.8% of total central government revenues, and the majority of tax revenues were provided by consumption taxes (including VAT and excise tax), which accounted for 66.5% of total tax revenues. VAT is levied at a general rate of 10%. While livestock, soybeans and other agricultural products in their natural state are exempt from VAT, a bill was submitted to Congress that would subject such goods to VAT at a rate of 5%. Excise taxes are levied primarily on fuel, beverages and cigarettes. Paraguay's Personal Income Tax became effective in 2012 and is imposed on personal income, capital income, capital gains and other income after certain exemptions and deductions. Non-tax revenues represent, on average, 26.1% of total central government revenue for the 2007-2012 period. Itaipú Binational and Yacyretá Binational are the largest contributors to non-tax revenue, accounting, on average, for 14.8% of total central government revenues in the 2007-2011 period.

The main component of Paraguay's total central government expenditures in the 2007-2011 period were payments in wages and salaries, representing on average approximately 45.0% of total expenditures.

Public Sector Debt

The public sector debt-to-GDP ratios of total public sector debt to GDP, as of December 31, 2011, was 10.6%. As of December 31, 2011, Paraguay's public sector external debt was US$2.3 billion, a decrease of approximately 2.2% from the end of 2010.

The Inter-American Development Bank and the World Bank are Paraguay's largest creditors, accounting for 73.6% and 16.3% as of December 31, 2011, respectively, of total public sector external debt. Paraguay's borrowings from multilateral organizations are used primarily for infrastructure and social development programs.

As of December 31, 2011, public sector total outstanding domestic debt was approximately US$457.9 million, of which US$392.6 million was issued by the central government. Paraguay has issued treasury bonds in the domestic market through the Central Bank since 2006 and on the Asunción Stock Exchange since July 2012. In 2012, Paraguay issued eight series of bonds through the Central Bank and Asunción Stock Exchange, amounting to a total of approximately US$231.6 million.

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 Circular.

Issuer	Republic of Paraguay.
Securities Offered	US$500,000,000 principal amount of 4.625% Bonds due 2023.
Issue Price of the Bonds	100% of the principal amount of the Bonds, plus accrued interest, if any, from January 25, 2013.
Maturity Date	January 25, 2023.
Interest	The Bonds will bear interest on their outstanding principal amount from their date of issuance, expected to be January 25, 2013, at a fixed rate of 4.625%, payable semi-annually in arrears on January 25 and July 25 of each year, commencing on July 25, 2013.
Status	The Bonds will be direct, general, unconditional, unsubordinated and unsecured External Debt of Paraguay and will be ranked equally in right of payment with all existing and future unsubordinated and unsecured External Debt of Paraguay (as defined herein). The Bonds will be backed up by the full faith and credit of Paraguay. See "Description of the Bonds."
Use of Proceeds	Paraguay will use the net proceeds to finance infrastructure and energy projects.
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. See "Description of the Bonds — Additional Amounts" in this Offering Circular. For a discussion of the Paraguayan and United States tax consequences of owning the Bonds, see "Tax Considerations — Paraguayan Tax Considerations," and "— United States Federal Income Tax considerations."
Risk Factors	See "Risk Factors" starting on page 9 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. See "Notice to Investors" and "Transfer Restrictions."

Listing	An application has been 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.
Trustee, Principal Paying Agent, Transfer Agent and Registrar	Citibank, N.A.
Luxembourg Listing Agent, Paying Agent and Transfer Agent	Banque Internationale à Luxembourg SA
Governing Law	The Bonds and the indenture will be 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 impeachment and removal from office of President Fernando Lugo in June 2012 occurred in the context of political tensions in Paraguay in connection with land disputes, and continued political instability may affect Paraguay's economy.

Former President Fernando Lugo was impeached and removed from office in June 2012 over allegations that he mishandled a land eviction that resulted in the death of 17 persons. Land reform remains a contentious issue in Paraguayan politics, with the leading parties differing sharply on the manner and amount of land reform that should be pursued. Vice President Federico Franco assumed the presidency upon Mr. Lugo's impeachment and removal from office. The impeachment of Mr. Lugo was heavily criticized by countries in the region, and Argentina, Brazil and Ecuador have refused to recognize Mr. Franco as President. Domestically, the impeachment represented the dismantling of the coalition between Mr. Franco's Authentic Radical Liberal Party and Mr. Lugo's Patriotic Alliance for Change. President Franco's party does not command majorities in either chamber of Congress and must rely on support from opposition parties to adopt key measures. If opposition parties withhold their support, President Franco may not be able to implement important governmental measures. The government resulting from the April 2013 election may also be dependent on the formation of congressional coalitions to adopt legislation required to implement important measures. An unstable political environment could significantly affect Paraguay's economy and Paraguay's ability to perform its obligations under the Bonds.

Paraguay's deteriorating relations with countries in South America, especially members of MERCOSUR, may adversely affect Paraguay's foreign trade.

The impeachment and removal from office of President Lugo in June 2012 increased tensions in Paraguay's relations with its neighbors, especially members of the Common Market of the South (*El Mercado Común del Sur* – "MERCOSUR"). In response to the impeachment, MERCOSUR members voted to suspend Paraguay's membership in MERCOSUR until Paraguay's next presidential elections, scheduled for April 2013. Furthermore, MERCOSUR members voted to allow Venezuela entry into the trade bloc — a move that had been blocked by Paraguay prior to its suspension. MERCOSUR accounts for the majority of Paraguay's imports, making up approximately 42% of Paraguay's imports. Furthermore, MERCOSUR is Paraguay's second largest export market, accounting for approximately 18% of Paraguay's exports. Deteriorating relations with MERCOSUR members may adversely affect the ability of Paraguay to import goods from and export goods to those countries. This would have an adverse effect on Paraguay's economy and could affect Paraguay's ability to perform its obligations under the Bonds.

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

Creditors holding outstanding court judgments or arbitral awards present a risk of disruption to the offering. The risk with respect to the offering is that the initial purchasers in the offering 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.

Paraguay currently has one court judgment against it outstanding, which the Swiss Federal Tribunal issued in judgment 4C.380/2004 on May 31, 2005 in favor of nine banks. The judgment amount is for approximately US$85 million plus interest. In addition to this outstanding court judgment, Paraguay also has an International Centre for Settlement of Investment Disputes ("ICSID") arbitration award outstanding, which an ICSID tribunal issued in favor of Societé Générale de Surveillance S.A. ("SGS") in February 2012 (the "SGS Award"), for approximately US$39 million plus interest (US$58 million as of February 29, 2012). A further ICSID award against Paraguay may be obtained by Bureau Veritas, Inspection, Valuation, Assessment and Control ("BIVAC") in its ICSID proceeding (the "BIVAC Claim"), which was stayed pending application to the Paraguayan courts. BIVAC filed a claim in the Paraguayan courts on December 27, 2012. In the ICSID proceeding, BIVAC claimed damages of US$36 million (including interest). As of August 31, 2011, damages and accrued interest amounted to US$64 million.

Should any of these creditors 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 could not receive all of the proceeds of the offering.

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

There is a risk that judgment creditors could attach payments of interest and principal by Paraguay to holders of the Bonds outside Paraguay because until payments reach holders of the Bonds, payments could be deemed Paraguay's assets. There is currently a court judgment and an arbitral award outstanding against Paraguay in the amount of approximately US$85 million plus interest and approximately US$39 million (US$58 million as of August 31, 2011), respectively. In addition, BIVAC may obtain an arbitral award in the amount of approximately US$36 million (US$64 million as of August 31, 2011) from a pending ICSID arbitration. For more information on these outstanding and pending judgments and awards, see "—Part of the offering proceeds could be attached by creditors to satisfy outstanding and pending judgments and awards against Paraguay." If creditors are successful in attaching payments to holders of the Bonds, Paraguay may not be able to make payments to holders of the Bonds.

Paraguay's credit ratings could be adversely affected by political instability and other 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.

After the impeachment and removal from office of former President Lugo in June 2012, Standard & Poor's Rating Services ("Standard & Poor's") placed Paraguay's credit rating on watch for a potential downgrade. Standard & Poor's removed Paraguay from watch for a downgrade on August 29, 2012, having determined that the impact of President Lugo's impeachment would be limited. Since August 2011, Standard & Poor's has assigned Paraguay a long-term foreign and local currency rating of BB-. Since December 2010, Moody's has assigned Paraguay a long-term foreign and local currency rating of B1. Paraguay's ratings or outlooks may be downgraded or placed on watch by Standard & Poor's and Moody's or any other rating agency in the future, 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 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 an applicable 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 or Itaipú Binational's inability to service its debt to Electrobras could significantly adversely affect Paraguay's economy and Paraguay's ability to perform its obligations under the Bonds.

The Itaipú hydroelectric plant is a significant source of revenue for the government. In 2011, payments to Paraguay with respect to energy generated at the Itaipú hydroelectric plant, accounted for approximately 1.5% of Paraguay's GDP. Payments to Paraguay by Itaipú Binational consist of royalty payments based on revenues from electricity sales and compensation payments by the Brazilian government based on sales of the unused portion of Paraguay's share of the electricity produced at Itaipu to Brazil. Paraguay owns a 50% equity stake in Itaipú Binational and Brazilian Electric Central S.A. ("Electrobras"), a partially state-owned Brazilian company, owns the remaining 50%. Electrobras provided 85% of the financing for the construction of Itaipú; however, after becoming operational, Itaipú Binational could not service its debt to Electrobras, and in September 1997, Electrobras entered into a restructuring agreement with Itaipú Binational with respect to such outstanding amounts. As of December 31, 2011, Itaipú Binational owed Electrobras approximately US$6.3 billion, which accounts for approximately 40% of Itaipú Binational's total outstanding indebtedness of approximately US$15.9 billion. As of December 31, 2011, Itaipú Binational also owed approximately US$9.6 billion to the National Treasury of Brazil. If Itaipú Binational fails to make payments under its debt to Electrobras, Electrobras may set off such obligations against payments owed by Electrobras to Itaipú Binational. If Itaipú Binational does not receive payments from Electrobras, it would be unable to make payments to Paraguay, which in turn would have a significant impact on the Paraguayan economy and could adversely affect Paraguay's ability to perform its obligations under the Bonds. There is no guarantee that Electrobras will agree to restructure Itaipú Binational's debt obligations in the future.

In addition, the compensation payments Paraguay receives from the sale to Brazil of its unused electricity are contingent on the amount of electricity sold to Brazil. Itaipú Binational provided approximately 17% of Brazil's electricity needs and approximately 73% of Paraguay's electricity needs in 2011. 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.

Payments that Paraguay receives from the Yacyretá hydroelectric plant are subject to Yacyretá Binational's discretion until 2019. Any decision by Yacyretá Binational not to make payments to Paraguay would adversely affect Paraguay's economy and, in turn, adversely affect 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 Paraguay's state-owned power company Administracion Nacional de Electricidad ("ANDE") and Emprendimientos Binacionales S.A., an Argentine state-owned company, in a 50/50 joint venture. Because of cost overruns in the project, Paraguay and Argentina agreed in 1992 that accumulated royalties and compensation for the years 1994 to 2004 would be deferred until 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 amount advanced to Paraguay is at Yacyretá Binational's discretion and is subject to agreement on an annual basis by Argentina and Paraguay. In 2011, payments received from Yacyretá Binational on account of deferred royalties and compensation totaled approximately US$233 million and accounted for approximately 0.6% of Paraguay's GDP. Should Yacyretá Binational elect in its discretion to stop making 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 governmental economic or tax policies;
- the imposition of trade barriers by the government or by third parties;
- general economic and business conditions in Paraguay;
- high interest rates;
- high levels of inflation;
- 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 has experienced real GDP growth of 5.4% in 2007 and 6.4% in 2008, a real GDP decrease of 4.0% in 2009, and renewed real GDP growth of 13.1% and 4.3%, in 2010 and 2011, respectively. As a result, from 2007 to 2011, the Paraguayan economy recorded average GDP growth of 5.0%. Paraguay cannot offer any assurance that its economy will continue to grow in the future. Paraguay's economic growth depends on a variety of factors, including, among others, international demand and prices Paraguayan exports, 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 capital spending and the rate of inflation. Some of these factors are outside Paraguay's control. Preliminary data indicates that Paraguay's real GDP declined by approximately 1.2% in 2012. An economic contraction could result in a material decrease in Paraguay's fiscal revenues, which in turn would materially and adversely affect the ability of Paraguay to service its public debt, including the Bonds.

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

From time to time, the Paraguayan Central Bank intervenes in the foreign exchange market in order to stabilize the Paraguayan 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 harder 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 be affected, which would adversely affect Paraguay's economy and Paraguay's ability to perform its obligations under the Bonds.

Severe weather, natural disasters and adverse climate changes may materially adversely affect Paraguay's economy.

Paraguay's economy is heavily reliant on agriculture, which accounted for approximately 18.7% of Paraguay's GDP in 2011. Paraguay's economy is therefore very susceptible to severe weather conditions, such as droughts, that can significantly affect crop production. For example, soybeans accounted for approximately 50% of Paraguay's agricultural production in 2011 and the 2011-2012 soybean crop contracted by approximately 40% compared to 2010-2011 as a result of an extended drought. Low agricultural production would significantly adversely affect Paraguay's economy and, as a result, could have an adverse effect on Paraguay's ability to perform its obligations under the Bonds.

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 make up approximately 50% of Paraguay's agricultural production. 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.

Outbreaks of species-based diseases, including Bovine Spongiform Encephalopathy ("BSE") and Foot-and-Mouth Disease ("FMD"), in Paraguay, such as the 2011 FMD outbreak, can significantly adversely affect Paraguay's exports, which would have an adverse effect on Paraguay's economy and on Paraguay's ability to perform its obligations under the Bonds.

There were two outbreaks of FMD in the San Pedro Department in northeastern Paraguay, one in September 2011 and the other in January 2012. As a result of the first outbreak, Paraguay was banned from exporting beef to the European Union and Chile in September 2011. The disease reduced Paraguay's beef exports in 2011 by approximately 22% compared to 2010. Beef products were Paraguay's second largest export product in 2011 making up approximately 13.5% of all exports. While Paraguay is no longer banned from exporting beef to Chile, Paraguay remains banned from exporting beef products to the European Union. Further outbreaks of species-based diseases affecting livestock could result in further restrictions on exports. Also, outbreaks of these diseases or concerns that these diseases may occur and spread in the future, whether or not resulting in regulatory action, can 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 significant drop in beef products exports would negatively 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, 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 external shocks, including those relative to or similar to the global economic crisis that began in 2008 and the recent uncertainties surrounding European sovereign debt. Paraguay's economy has grown on average since 2010, but continued economic growth remains vulnerable to conditions in the European Union and Latin America and other international economic and political developments, which are outside the control of the central government. For 2012, the Central Bank estimates a GDP decrease of 1.2%. Adverse developments in the European Union, including the ongoing instability affecting the European financial markets, and Latin America could affect Paraguay's economic progress or return it to recessionary conditions.

Paraguay's economy is also vulnerable to adverse developments affecting its principal trading partners. 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.

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 fell from 7.5% in 2008 to 1.9% in 2009 before increasing to 7.2% in 2010 and decreasing to 4.9% in 2011. In response, Paraguay has adopted an inflation targeting scheme to stabilize inflation rates. The Central Bank, in an effort to combat inflationary increases in 2011, cut the benchmark 14-day interest rate by 300 basis points to 5.5% between November 2011 and September 2012. 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. 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.

The situation in rural areas of Paraguay remains tense after the shootings of June 2012, and attention has focused on the occupation by 6,000 landless farmers of 472,000 hectares of public land at Ñacunday, Santa Rosa del Monday, in the department of Alto Paraná. Social unrest in rural areas, which may increase during pre-electoral periods, may create challenges for the Paraguayan government. If these activities persist in Paraguay, any escalation of such activities and the effects associated with them may have a negative effect in the future on the Paraguayan economy and political situation. 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.

If interest rates outside Paraguay increase significantly, Paraguay's trading partners, in particular, the European Union and Brazil, could find it more difficult and expensive to borrow capital and refinance their existing debt. These increased costs could in turn adversely affect economic growth in those countries. 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 Paraguay's economy. An increase in interest rates would also increase Paraguay's debt service requirements with respect to Paraguay's debt obligations that accrue interest at floating rates. As a result, Paraguay's ability to make payments on its outstanding public debt generally, including the Bonds, would be adversely affected.

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.

The depreciation of the currencies of one or more of Paraguay's other trade partners or trade competitors relative to Guaraníes 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.

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.

From 2007 to 2011, Paraguayan exports to MERCOSUR declined 29.3% from US$1.3 billion to US$920 million. This decline was partially the result of the application of non-tariff trade barriers by the two major economies of MERCOSUR, Brazil and Argentina, such as the excessive implementation of non-automatic importing licenses, and the application of advance import declarations and sanitary and phytosanitary controls on the borders. Non-tariff trade barriers to MERCOSUR trade may remain in place or increase in the future. Non-tariff trade barriers negatively affect Paraguay's economy and Paraguay's ability to perform its obligations under the Bonds.

In addition, the Argentine government has threatened to implement trade barriers and import controls to protect the Argentine domestic industry. Argentina is one of Paraguay's most important trade partners, accounting for approximately 14.1% and 2.3% of Paraguay's total imports and exports, respectively, for 2011. In the event Argentina implements protectionist policies, specifically those affecting the agribusiness sector, Paraguay's economy may be adversely affected and Paraguay's ability to perform its obligations under the Bonds.

Economic growth in Paraguay may be adversely affected if Argentine ports block Paraguayan vessels, exports and imports.

In recent years, Paraguay's agricultural and livestock sectors have benefitted from an increase in export demand for Paraguayan products, principally beef products and soybeans. In addition, Paraguay's economic growth has been enhanced by imports of capital and consumer goods. During the last quarter of 2010, as a result of a boycott by the Argentine maritime workers' union (*Sindicato Marítimo Unido Argentino*), Argentine ports denied access to Paraguayan vessels and products. Paraguay's economy may be adversely affected in the future if Argentine ports resume a blockade of Paraguayan vessels' exports and imports.

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 could have a material adverse effect on Paraguay's ability to make payments on its outstanding public debt, including the Bonds.

Certain financial and other information presented in this Offering Circular 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 Circular. 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.

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 will be 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 non-exclusive 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.

There may be no active trading market for the Bonds, or the trading market for the Bonds may be volatile and may be adversely affected by many factors.

The Bonds will not have any established trading market when issued, and there can be no assurance that an active trading market for the Bonds will develop, or, if one does develop, that it will be maintained. If an active trading market for the Bonds does not develop or 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. Even if a trading market for the Bonds develops, 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 has been made to list the Bonds on an exchange, there can be no assurance that such application will be accepted or that an active trading market will develop. Illiquidity may have a material adverse effect on the market value of the Bonds.

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

The Bonds will contain provisions for calling meetings of holders of the Bonds to vote on amendments, modifications, and waivers, which are commonly referred to as "collective action clauses." Under these provisions, certain key terms of the Bonds may be amended, including the maturity date, interest rate, and other payment terms, with the consent of the holders of not less than 75% of the aggregate principal amount of the outstanding Bonds or 85% of the aggregate principal amount of the outstanding debt securities (including the Bonds) of all the multiple series affected, with a minimum of 66 2/3% per series. See "Description of the Bonds — Meetings, Amendments and Waivers" in this Offering Circular. 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.

Recent federal court decisions in New York create uncertainty regarding the meaning of ranking provisions and could potentially reduce or hinder the ability of sovereign issuers to restructure their public sector debt.

In ongoing litigation in federal courts in New York captioned *NML Capital, Ltd. v. Republic of Argentina*, the U.S. Court of Appeals for the Second Circuit has ruled that the ranking clause in bonds issued by Argentina prevents Argentina from making payments in respect of the bonds unless it makes *pro rata* payments in respect of defaulted debt that ranks *pari passu* with the performing bonds. The judgment has been appealed.

We cannot predict when or in what form a final appellate decision will be granted. Depending on the scope of the final decision, a final decision that requires ratable payments could potentially hinder or impede future sovereign debt restructurings and distressed debt management unless sovereign issuers obtain the requisite creditor consents under their debt, pursuant to a collective action clause, such as the collective action clause contained in the Bonds, if applicable, or otherwise. See "Description of the Bonds – Meetings, Amendments and Waivers." Paraguay cannot predict whether or in what manner the courts will resolve this dispute or how any such judgment will be applied or implemented.

The ability of holders to transfer 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 Guarani, 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 expenses, including underwriting fees and commissions, are anticipated to be approximately US$494,400,000. Paraguay will use the net proceeds to finance infrastructure and energy projects as approved by Law 4848/12. The infrastructure projects include (i) expansion of route 3 between Mariano Roque Alonso and Limpio, (ii) construction of the underpass at the intersection of the highway and Madame Lynch Avenue, (iii) expansion of routes 2 and 7 (Caacupé – Inicio Concesión Tapé Porá), (iv) paving of the road between Caazapá and Yuty, (v) construction of Costanera Avenue between Bañado Norte and Asunción and (vi) partial paving of the eastern access to the city of Asunción (Laguna Grande Avenue). The energy projects include (i) the replacement and installation of transformers, (ii) the construction of power substations and (iii) the renovation and upgrade of power substations.

REPUBLIC OF PARAGUAY

Introduction

Paraguay is located in central South America and as of December 2011 had an estimated population of approximately 6.56 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% of the population living 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, and is densely forested in parts, and has extensive farmlands.

Agriculture continues to dominate the Paraguayan economy. The strong potential of the Paraguayan agricultural resources has attracted significant foreign direct investment ("FDI") in recent years.

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 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 its 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.

Paraguay's population was approximately 6.56 million at the end of 2011, with approximately 59% of the population living in urban areas and about 8% in Asunción.

From 2007 to 2011, the population grew at an average rate of 1.8%.

Spanish and Guaraní are the official languages of Paraguay.

The following table sets forth comparative per capita GDP figures and other selected comparative statistics indicated based on data from the United Nations Development Programme, Human Development Report 2011.

Comparative Per Capita GDP and Other Statistics

	Paraguay[1]	Guatemala	Honduras	Bolivia	Colombia	Brazil	Peru	Venezuela	Argentina	United States of America
Per Capita GDP[2] (*U.S.$*)	4,523	4,720	3,842	4,419	8,959	10,367	8,629	12,323	14,538	45,989
United Nations Index of Human Development (World Ranking)[2]	107	131	121	108	87	84	80	73	45	4
Life Expectancy at Birth (*years*)[2]	72.5	71.2	73.1	66.6	73.7	73.5	74.0	74.4	75.9	78.5
Infant Mortality (*per 1,000 live births*)[3]	23	40	30	51	19	21	21	18	14	8
Adult Literacy Rate[4](*%*)	94.6	74.5	83.6	90.7	93.2	90.0	89.6	95.2	97.7	n.a.
Population below the poverty line[5](*%*)	5.1	16.9	23.3	14.0	16.0	3.8	5.9	3.5	0.9	n.a.

Source: United Nations Development Programme, *Human Development Report 2011*
(1) This data may conflict with official data from the Government.
(2) 2011 data.
(3) 2009 data.
(4) Data is the most recent year available between 2005 and 2010.
(5) Data is the most recent year available between 2000 and 2009. The international poverty line is defined as the population living on a daily per capita income of U.S.$1.25 or less, adjusted for purchasing power parity.

As of 2011, approximately 75% of the population is under 40 and approximately 50.5% of the population is male and approximately 49.5% is female.

2011 Population by Gender and Age Group[(1)]

			Gender	
Age /years	Total population	Cumulative Percentage	Men	Women
0-4	739,448	11.3	376,861	362,588
5-9	726,782	22.3	369,978	356,804
10-4	707,673	33.1	360,040	347,633
15-19	681,024	43.5	346,035	334,989
20-24	640,693	53.3	324,491	316,202
25-29	578,454	62.1	292,276	286,177
30-34	466,222	69.2	235,296	230,926
35-39	376,212	74.9	188,873	187,339
40-44	340,699	80.1	171,028	169,671
45-49	305,829	84.8	154,272	151,558
50-54	265,475	88.8	134,610	130,864
55-59	224,123	92.2	114,432	109,691
60-64	169,687	94.8	86,093	83,594
65-69	124,297	96.7	61,867	62,430
70-74	92,787	98.1	44,931	47,856
75-79	60,978	99.1	28,346	32,632
80 and above	61,401	100.0	26,206	35,195
Total	6,561,785	100.0	3,315,636	3,246,149

(1) Based on estimates derived from the 2002 national census.
Source: General Direction of Statistics, Surveys and Census, Statistical Compendium 2011.

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 subsequently occupied the country until 1874. A succession of presidents governed Paraguay under the banner of the Colorado Party (*Asociación Nacional Republicana–Partido Colorado*) from 1880 until 1904, when the Liberal Radical Authentic Party (*Partido Liberal Radical Auténtico*) (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 d'état*. 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, members of 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 expected upon completion), 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 d'état* led by General Andrés Rodríguez, who assumed the presidency. General Rodríguez was elected president in May 1989. 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, who was appointed as the presidential candidate on behalf of the Colorado Party in 1998, was elected president and took office in August 1998. The May 1998 presidential election marked the first transition of power from one civilian president to another in 50 years. Likewise, during the 1998 congressional elections, the Colorado Party won a majority of seats in Congress.

Following a seven-month period of political instability during which the 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.

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 towards fiscal stability and increasing social investments. Towards the end of his 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 Patriotic Alliance for Change (*Alianza Patriótica para el Cambio*), 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 cast. This was the first time since 1954 that the Colorado Party lost a presidential election. The Colorado Party retained a slightly larger representation (43%) than the Liberal Party (36%) in the Chamber of Deputies and the Senate where the Colorado Party obtained 33% and the Liberal Party obtained 31% of the votes. Mr. Lugo was sworn in as president in August 2008.

Mr. Lugo's key objectives were to reduce extreme poverty, especially in rural areas, strengthen internal security and achieve a more equitable distribution of land among farmers and peasants. In furtherance of these objectives, the Lugo administration implemented the following initiatives:

- the Economic and Social Program 2008-2013 (*Plan Estratégico Económico y Social 2008-2012*)("PEES"), a strategic plan focused on policy making aimed at maintaining consistent macroeconomic policies, increasing the professionalism, efficiency and transparency of state owned enterprises, agrarian reform, access to public services to all citizens, improving infrastructure, strengthening commercial competitiveness and financial investment, and eliminating poverty and social exclusion. The PEES provided the framework for the adoption of several sectoral programs such as the Strategic Framework for Agriculture 2018, the Competitive Paraguay 2030 program (manufacturing and export sectors), the Strategic Plan for Energy and the Strategic Plan for Public Works and Communications (infrastructure).

- the Social Development Policies Program (*Políticas Publicas para el Desarrollo Social*)("PPDS 2020"), a roster of measures intended to promote and develop economic conditions designed to expand opportunities for individual development and sustained economic growth. The PPDS 2020, among other aspects, focuses on the strengthening of institutions and improving the efficiency of social investment;

- the Food Pension for Seniors in Poverty, to cover senior citizens (aged 65 and above);

- the Regulation of Conditional Cash Transfers, creating a framework for programs that contemplate direct cash transfers and subsidies, such as the *Tekoporá* program (administered by the Social Action Secretariat) and the *Abrazo* program (administered by the National Secretariat for Childhood and Adolescence); and

- the modernization of the City of Asuncion.

Impeachment and Removal from Office of Former President Lugo and Impact on Foreign Relations

Impeachment is a process under the Constitution by which the President of the Republic, the Vice President, the Ministers of the Executive Power, members of the Supreme Court of Justice, the Attorney General, the Ombudsman and Comptroller General of the Republic, the Assistant Comptroller and the members of the Superior Tribunal of Electoral Justice can be tried and ultimately removed from office by Congress for negligence in the performance of their official duties, for crimes committed in the exercise of their official duties, or for other crimes. The Chamber of Deputies initiates the process with two-thirds of its members and acts as a prosecutor, after which the Chamber of Senators acts as a tribunal, requiring the approval of two-thirds of its members for impeachment. If found guilty, officials are removed from office, and in the case of criminal offenses, the case is then remitted to the corresponding jurisdiction.

On June 21, 2012, the Chamber of Deputies voted 76 to 1 (with three absent) to begin impeachment proceedings against President Lugo on charges stemming from, among others, mismanagement during a clash between police and Paraguayan farmers during a land eviction that resulted in the death of 17 people. On June 22, 2012, the Paraguayan Senate held an impeachment trial, complying with all Constitutional requirements, including designation of counsel by Mr. Lugo. The Senate voted 39 to 4, with two senators abstaining, to remove Mr. Lugo as president. Pursuant to the Constitution, on June 22, 2012, Vice-President Franco, leader of the Liberal Radical Authentic Party, was sworn in as president to serve for the remainder of President Lugo's term, which is due to end in August 2013.

As a consequence of Mr. Lugo's removal by impeachment proceedings on June 22, 2012, during the MERCOSUR Presidential Council Summit on June 29, 2012, the presidents of Argentina, Brazil and Uruguay decided to suspend Paraguay's membership in MERCOSUR until the next presidential elections, currently scheduled for April 21, 2013, or until the next democratically elected president takes office, currently scheduled for August 2013. On the same date, the presidents of Argentina, Brazil and Uruguay also decided to admit Venezuela as a full member to the MERCOSUR—a measure that had been opposed by Paraguay prior to its suspension. MERCOSUR has not imposed economic sanctions on Paraguay.

Paraguay did not experience a decline in imports and exports from MERCOSUR countries during the three-month period after President Lugo's removal. From January to September 2012, Paraguay's exports to MERCOSUR increased by 23% as compared to the same period in 2011, and exports during July, August and September 2012 increased by 35%, 4% and 25% (21% on average), as compared to the same period in 2011. Paraguay's imports from MERCOSUR decreased by 9% from January to September 2012, as compared to the same period in 2011. However, just after the suspension of Paraguay during July, August and September 2012, imports from MERCOSUR increased around 5% on average. This increase was primarily the result of an increase in imports from Brazil during those months, with an average growth of 12%.

The ambassadors of MERCOSUR and the Union of South American Nations ("UNASUR") members were called back to their home countries for consultations in their respective capitals shortly after the impeachment and removal from office of President Lugo. Since then, the ambassadors from Chile and Colombia have returned to Paraguay.

The Organization of American States (the "OAS") sent a mission to Paraguay in order to gather information on the impeachment of Mr. Lugo and concluded that a *coup d'état* had not occurred. The mission also found that the impeachment process had been carried out in accordance with Paraguay's Constitution. On August 22, 2012, the OAS Permanent Council convened to discuss the situation in Paraguay. There was no consensus among the members of the OAS to issue an official resolution. However, 26 out of the 43 member countries of OAS supported the report made on behalf of the Secretary General of the OAS.

UNASUR decided to suspend Paraguay from the bloc as a consequence of the impeachment and removal of President Lugo until Paraguay's next presidential elections, currently scheduled for April 21, 2013, or until the next democratically elected president takes office, currently scheduled for August 2013. In addition, Paraguay's period as the *pro-tempore* president of UNASUR was suspended and Paraguay has been replaced for the next 12 months by Peru.

The United Nations has not released an official statement regarding the impeachment and removal of Mr. Lugo. However, on September 27, 2012, President Franco attended the Sixty-Seventh Regular Session of the United Nations General Assembly as legitimate President of the Republic of Paraguay and made a speech to the international community explaining the current political situation in Paraguay and other key issues related to the United Nations and its relationship with Paraguay. No countries expressed any opposition to the presence of President Franco in the United Nations General Assembly plenary session.

Constitution

The fundamental law of the Republic of Paraguay is the national constitution (the "Constitution"), which was ratified by a National Constitutional Convention in June 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 reelected. 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. The next presidential elections are scheduled for April 21, 2013. As a result, President Franco cannot be elected as president of Paraguay although he will not have served a full term as president and only assumed the office after the impeachment and removal from office of Mr. Lugo.

Congress. The legislative branch, or Congress, is comprised of two chambers, namely, the Senate (with at least 45 members) and the Chamber of Deputies (with at least 80 members). 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. The next congressional elections are scheduled for April 21, 2013.

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–Partido Colorado*)	15	33%	34	43%
Liberal Radical Authentic Party (*Partido Liberal Radical Auténtico)*	14	31	29	36
National Union of Ethical Citizens (*Unión Nacional de Cuidadanos Eticos*)	9	20	11	14
Beloved Fatherland Movement (*Partido Patria Querida*)	4	9	4	5
Democratic Progressive Party (*Partido Democrático Progresista*)	-	-	1	1
Party for a Country of Solidarity (*Partido País Solidario*)	2	4	-	-
Citizen Participation Movement (*Partido de Participación Cuidadana*)	-	-	1	1
Tekojoja Popular Party (*Partido Popular Tekojoja*)	1	2	-	-
Total	45	100	80	100

Source: Paraguayan National Congress.

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 244 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 make up the Republic of Paraguay.

The departments of Presidente Hayes, Boquerón and Alto Paraguay are situated in the large western region of the country, covering 52% 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.

Foreign Policy and Membership in International and Regional Organizations

Paraguay has diplomatic relations with 81 countries and is a member of 54 international organizations. 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 Organization of American States (the "OAS") and the World Trade Organization (the "WTO"). It is also a member of the International Monetary Fund (the "IMF"), the International Bank for Reconstruction and Development (the "World Bank"), the Multilateral Investment Guarantee Agency of the World Bank Group (the "MIGA"), the International Finance Corporation, the Inter-American Development Bank (the "IDB") and the Andean Development Corporation (the "ADC") and the UNASUR. Other memberships include the Latin American Integration Institute, the International Atomic Energy Agency and the International Telecommunications Union. For more information on OAS and the United Nations, see "—Impeachment and Removal from Office of Former President Lugo and Impact on Foreign Relations."

Paraguay maintains close ties with its neighboring countries and participates in several regional arrangements designed to promote cooperation in trade and investment, including the Latin American Integration Association, the ADC, UNASUR and the Río Group, an organization composed of South and Central American countries whose purpose is to discuss international policy matters.

In 1991, Argentina, Brazil, Paraguay and Uruguay signed the Treaty of Asunción, commonly known as the MERCOSUR. MERCOSUR provides for the gradual integration of the four members' economies, gradual economic convergence and macroeconomic policy coordination. MERCOSUR is also under trade negotiations with the European Union and members of the Andean Pact to establish free trade agreements. For more information on MERCOSUR, see "Balance of Payments and Foreign Trade—MERCOSUR" and "—Impeachment and Removal from Office of Former President Lugo and Impact on Foreign Relations."

Paraguay has entered into bilateral investment treaties (each, a "BIT") with Austria, Belgium, Chile, Costa Rica, the Czech Republic, Ecuador, France, Germany, the Republic of Korea, the Netherlands, Peru, Portugal, Switzerland, the United Kingdom, Spain, Hungary and Venezuela.

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 by 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 subsistence for 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 subsistence 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 realizes 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.

Government policies favoring economic growth, education and greater labor mobility will be important determinants of the future social and economic prospects of farmers currently participating in the smaller-scale aspects of the agricultural economy. This continues to be a focus of the central government's economic policies.

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 of economic interest in their colony, which had no precious metals and no sea coasts. 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 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 percent 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 maté* 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 550, also referred to as Law 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 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 arms' 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 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 489 and Law 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 the region 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 2334/03 (the "Law 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.

Economic Recovery Structural Adjustment Loan

In 2002, Paraguay experienced an economic crisis as a result of a combination of factors that adversely affected the Paraguayan economy, 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. In addition, Paraguay's largest commercial bank, 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 US$. 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$70 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. This IDB loan has not been used.

The average annual real GDP growth from 1992 to 2002 in Paraguay was approximately 1.9%, well below the average growth rates of 8.2% and 3.9% 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. During the 2003-2006 period, Paraguay experienced an average annual real GDP increase of 3.8%.

Current Economic Policy

Under the administration of current President Franco, Paraguay is focused on implementing macroeconomic and financial strategies seeking to consolidate the pillars for sustainable medium- and long-term economic growth.

The current economic policy is focused on stimulating growth on the basis of a stable and inclusive economy. Policy is therefore focused on macroeconomic stability and labor force indicators:

- *Macroeconomic Stability* – The principal macroeconomic policy objectives are low and stable inflation, medium-term fiscal balance, and maintain a floating exchange rate. Since 2011, the Paraguayan Central Bank has followed an inflation targeting regime. To strengthen the intervention capabilities of the Central Bank, the Franco administration, through an agreement between the monetary authority and the Ministry of Finance, recapitalized the Central Bank delivering a financial instrument designed to mitigate the structural operating deficit that characterizes the Central Bank's operations, and filled vacancies in its Board of Directors that had existed since 2008. The Ministry of Finance is increasing its efforts to improve tax collections and increase revenues. The Personal Income Tax law (*Impuesto a la Renta del Servicio de Carácter Personal*), which had been proposed in 2004, was approved by Congress in July 2012, became effective in August 2012. The Ministry of Finance is currently preparing a draft Law of Fiscal Responsibility (*Ley de Responsabilidad Fiscal*) to seek to ensure the presentation of balanced fiscal accounts.

- *Labor Force* – The Paraguayan labor force consists largely of young and unskilled workers in segmented markets. In order to develop a more educated work force and improve productivity, the government invests in social development programs through the National Public Investment and Development Fund (*Fondo Nacional de Inversión Pública y Desarrollo*—"FONACIDE") and provides for certain cash transfers to individuals needing assistance ("Adultos Mayores", Tekoporá, Programa Abrazos). FONACIDE is funded with revenues generated by Itaipú Binational and provides funding for social programs in education and health. In addition, FONACIDE provides funding for infrastructure and capital for AFD, and supports the development of departmental and municipal governments.

President Franco´s administration has also pursued growth-enhancing policies directed toward stabilizing and diversifying the economy:

- *Agriculture* – Agriculture is the most important sector of the economy, accounting for an average of 13.3% of GDP from 2007 to 2011. The agricultural sector, however, is exposed to significant price volatility and climate changes that have a direct impact on production levels. The volatility of the agricultural sector indirectly affects other sectors such as services, manufacturing and commerce. The Franco administration has planned significant infrastructure investment to support growing production through long-term financing provided by Paraguay's public bank, *Agencia Financiera de Desarrollo* ("AFD"), Paraguay´s public bank, *Banco Nacional de Fomento* ("BNF"), multilateral institutions, the capital markets and public-private partnerships. In addition, the government is channeling resources into long-term public financing at concessionary interest rates directed toward specific sectors and the construction of a long-term interest rate curve for forestry, irrigation and the expansion of static agricultural production capacity.

- *Industrial Development* – Current economic policy also seeks to prioritize and accelerate public and private sector investment in infrastructure, such as roads, electricity and communications, to promote employment and growth in the manufacturing sector. As part of this plan, the proposed Law of Public-Private Partnerships (*Ley de Asociaciones Público Privadas*) would provide a framework for the formation of partnerships between the public sector and private companies to finance and provide services required for building infrastructure. This law if passed by Congress should foster access to capital markets and private investments to finance infrastructure projects needed for the development of the country. The administration is also seeking to reduce delays in the bidding process and allocation of resources for the implementation of infrastructure projects. The 2013 budget includes expenditures totaling US$2.35 billion (9.2% of estimated GDP) for public investment, the largest capital expenditure budget in Paraguay's recent history.

Gross Domestic Product and Structure of the Economy

During the 2007-2011 period, real GDP grew at an annual average rate of 5.0%. GDP grew by 5.4% and 6.4% in 2007 and 2008, respectively, declined by 4.0% in 2009, and increased by 13.1% in 2010 and 4.3% in 2011. GDP per capita increased in real terms at an average annual rate of 3.2% from 2007 to 2011. GDP per capita grew in real terms by 3.5% and 4.5% in 2007 and 2008, respectively, declined by 5.6% in 2009 and grew by 11.2% in 2010 and 2.3% in 2011.

In 2007, real GDP grew by 5.4%, caused in part by the 24.1% growth of the agricultural sector as compared to the previous year as a result of the increase in external demand and high prices for commodities, such as oil seeds, cereals and timber. Growth of domestic demand and increased investment also contributed to the growth of the Paraguayan economy in 2007, all of which were facilitated by greater macroeconomic stability and the enhanced role of the financial system. Domestic demand was fueled by increased purchasing power of households which resulted from increased employment levels. In addition, remittances of Paraguayans working abroad increased by 97.0 % compared to 2006 (from US$101 million in 2006 to US$198 million in 2007, representing 1.4% of real GDP) because of a significant increase in Paraguayans working abroad and improved economic conditions in the region.

In 2008, real GDP grew by 6.4% mainly driven by the continued expansion of the primary sector and the diversification of growth in the manufacturing and services sector. In response to the global financial crisis in 2008, the Central Bank of Paraguay undertook a series of measures to minimize the impact of the crisis on the real sector of the economy. Such measures were intended to provide liquidity to the banking system by reducing the rate of reserve requirements and interest rate benchmarks for placement of monetary regulation instruments (IRM). The measures also provided liquidity through repurchases by the Central Bank of securities previously issued by the Central Bank, which played an important role in stabilizing the economy by injecting capital into the financial system. In 2008, remittances amounted to approximately US$202 million, representing 1.1% of GDP.

In 2009, after six years of consecutive growth, Paraguay real GDP contracted by 4.0% caused by the combined effect of a drought that adversely affected the agricultural sector, especially the soybean harvest, and the effects of the 2008 global financial crisis that resulted in a 9.3% decrease in exports in real terms, which in turn caused slower growth in domestic demand, reduced consumption and investment, particularly in the construction sector. In 2009, remittances amounted to approximately US$201 million, representing 1.3% of GDP.

In 2010, real GDP grew by 13.1%, fueled largely by the increase in the production of commodities, mainly soybeans and meat (largely driven by a record crop for export), and the recovery of the commercial, industrial and public and private sectors, fueled by domestic consumption. In 2010, remittances amounted to approximately US$274 million, representing 1.4% of GDP.

In 2011, real GDP grew by 4.3%. The economic performance was affected by positive results in the agricultural sector with high yields in the main crops and favorable weather conditions. Other main sectors that fueled economic growth were the commercial and financial sector and communications. On the other hand, the livestock sector decreased as a result of an FMD outbreak in September 2011. In addition, there were difficulties in the production and supply of cement that negatively affected the construction sector. The shortage in supply was the result of a malfunction in the state-owned cement company's machinery attributable to years of underinvestment. The government has since authorized cement imports and allowed two privately-held companies to start producing cement in competition with the state-owned company. Moreover, imports were negatively affected by a decrease in the water level of the Paraguay River that adversely affected the transport of fuel oil and other imported products. The unavailability of these products resulted in a drop in sales. In 2011, remittances amounted to US$451 million, representing 1.7% of GDP.

For 2012, the Central Bank of Paraguay estimates a real GDP decrease of 1.2%, caused mainly by the effects of a drought in 2012 that affected the agricultural sector and an outbreak of FMD in 2011 and January 2012 that affected beef exports. The decrease in agricultural production was partially offset by an increase in non-agricultural sectors, which increased by approximately 5%.

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

Nominal GDP and Domestic Expenditures

	2007	2008	2009	2010	2011(1)
	(in millions of US$, at current prices)				
GDP	$13,837	$18,505	$15,950	$20,028	$26,008
Imports of goods and services	6,496	9,249	7,159	10,319	12,636
Total supply of goods and services	20,334	27,754	23,109	30,347	38,644
Less: Exports of goods and services	7,791	10,040	8,161	10,942	12,705
Total goods and services available for domestic expenditures	$12,543	$17,715	$14,948	$19,405	$25,938
Allocation of goods and services					
Consumption (public and private sectors)	$10,360	$14,679	$12,749	$16,156	$21,723
Public sector gross fixed investment	301	285	416	476	589
Private sector gross fixed investment	1,805	2,680	1,738	2,699	3,530
Gross fixed investment	2,105	2,965	2,154	3,175	4,119
Changes in inventory	77	71	46	75	96
Total domestic expenditure	$12,543	$17,715	$14,948	$19,405	$25,938

(1) Preliminary data.
Source: Central Bank of Paraguay.

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

Nominal GDP by Expenditures

	2007	2008	2009	2010	2011(1)
	(as percentage of total nominal GDP)				
Government consumption	9.2%	8.9%	10.9%	10.4%	10.3%
Private consumption	65.7	70.4	69.0	70.2	73.3
Gross fixed investment	15.2	16.0	13.5	15.9	15.8
of which:					
Public Sector (% of gross fixed investment)	14.3	9.6	19.3	15.0	14.3
Private Sector (% of gross fixed investment)	85.7	90.4	80.7	85.0	85.7
Changes in inventories	0.6	0.4	0.3	0.4	0.4
Exports of goods and services	56.3	54.3	51.2	54.6	48.9
Imports of goods and services	46.9	50.0	44.9	51.5	48.6

(1) Preliminary data.
Source: Central Bank of Paraguay.

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

Change in Real GDP by Expenditure

	2007	2008	2009	2010	2011[1]
	(percentage change from previous year)				
Government consumption	3.0%	3.5%	13.7%	12.0%	5.3%
Private consumption	5.5	7.5	(2.0)	13.7	8.6
Gross fixed investment	12.4	17.8	(6.9)	21.7	11.0
Changes in inventories	(38.8)	49.5	(59.1)	42.0	7.5
Exports of goods and services	9.3	2.0	(9.3)	19.7	2.8
Imports of goods and services	9.7	7.0	(8.5)	24.8	10.4
Real GDP growth	5.4	6.4	(4.0)	13.1	4.3

(1) Preliminary data.
Source: Central Bank of Paraguay.

Principal Sectors of the Economy

The composition of GDP by economic sector has remained stable from 2007 to 2011. Commerce, agriculture and electricity production from binationals constitute the largest components of real GDP, representing 15.5%, 18.7% and 11.2%, respectively, of real GDP in 2011, compared to 15.7%, 18.3%, and 10.9%, respectively, in 2010. In 2009, commerce, agriculture and electricity production from binationals represented 16.0%, 13.8% and 12.4% of real GDP, respectively, compared to 15.9%, 17.6% and 12.6%, respectively, in 2008, and 16.2%, 17.0% and 12.1%, respectively, in 2007.

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

Nominal GDP by Sector

	2007	2008	2009	2010(1)	2011(1)
	(in millions of US$, at current prices)				
Goods					
Agriculture	$1,837	$2,731	$1,680	$2,665	$3,303
Livestock	648	979	829	1,155	1,402
Forestry	204	263	235	250	338
Fishery	8	10	9	9	12
Mining	14	20	21	24.3	33
Manufacturing	1,575	2,118	1,852	2,239	2,758
Construction	652	1,031	932	1,233	1,696
Total production of Goods	4,938	7,153	5,559	7,577	9,541
Services					
Electricity and Water	209	243	219	242	295
Transportation	536	691	590	632	735
Communications	434	493	451	522	636
Commerce	2,388	3,168	2,567	3,157	5,035
Finance	307	542	505	716	1,039
Housing	134	168	157	175	214
Business Services	279	369	369	435	565
Restaurants and Hotels	131	178	159	195	251
Household Services	650	852	830	949	1,250
Government	1,124	1,443	1,508	1,798	2,320
Total production of Services	6,193	8,148	7,356	8,820	12,341
Gross Value Added	11,130	15,301	12,915	16,397	21,882
Taxes on products	1,130	1,587	1,395	1,917	2,406
Total	12,260	16,888	14,310	18,314	24,288
Binationals(2)	1,578	1,617	1,640	1,715	1,720
Total GDP	$13,837	$18,505	$15,950	$20,028	$26,008

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

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

Percent of Total Real GDP by Sector

	2007	2008	2009	2010	2011
			(in percentages)		
Goods					
Agriculture	17.0%	17.6%	13.8%	18.3%	18.7%
Livestock	5.1	5.2	5.6	5.4	4.8
Forestry	1.6	1.6	1.6	1.3	1.2
Fishery	0.1	0.1	0.1	0.1	0.1
Mining	0.1	0.1	0.1	0.1	0.1
Manufacturing	11.5	11.0	11.4	10.7	10.1
Construction	3.2	3.3	3.6	3.6	3.5
Total production of Goods	38.6	38.9	36.1	39.3	38.5
Services					
Electricity and Water	1.6	1.5	1.7	1.6	1.6
Transportation	3.7	3.7	3.4	3.3	3.2
Communications	3.6	3.5	3.9	3.6	4.0
Commerce	16.2	15.9	16.0	15.7	15.5
Finance	1.8	2.0	2.3	2.2	2.5
Housing	1.5	1.5	1.6	1.4	1.4
Business Services	2.2	2.1	2.5	2.3	2.3
Restaurants and Hotels	1.0	1.0	1.0	1.0	1.0
Household Services	4.9	4.8	5.3	4.9	5.0
Government	6.0	5.8	7.0	7.0	7.1
Total production of Services	42.5	41.8	44.6	42.9	43.6
Gross Value Added	81.1	80.8	80.7	82.2	82.0
Taxes on products	6.8	6.7	6.9	6.8	6.7
Total	87.9	87.4	87.6	89.1	88.8
Binationals(2)	12.1	12.6	12.4	10.9	11.2
Total GDP	100.0%	100.0%	100.0%	100.0%	100.0%

(1) Based on preliminary data.
(2) Based on aggregate gross value of Paraguay's portion of total electricity production is added to GDP.
Source: Central Bank of Paraguay.

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

Change in Real GDP by Sector

	2007	2008	2009	2010	2011(1)
	(percentage change from previous year, at constant prices)				
Agriculture	24.1%	10.5%	(25.0)%	49.8%	7.0%
Livestock	(6.8)	6.5	4.8	8.5	(7.1)
Forestry	2.5	4.1	(4.3)	(9.0)	3.0
Fishery	1.0	1.0	1.5	(4.0)	2.0
Mining	3.5	5.0	3.0	3.2	5.3
Manufacturing	(1.2)	2.0	(0.8)	6.3	(1.6)
Construction	7.2	11.0	2.0	13.0	1.5
Total production of Goods	8.6	7.2	(10.9)	23.2	2.1
Electricity and Water	5.9	3.5	4.8	5.1	8.7
Transportation	9.5	5.5	(10.5)	7.0	2.5
Communications	12.0	4.8	4.4	6.2	15.0
Commerce	5.2	4.1	(3.4)	10.9	3.0
Finance	5.3	18.9	6.6	12.0	17.3
Housing	1.8	1.8	1.7	1.5	2.2
Business Services	4.1	3.0	12.4	6.3	4.0
Restaurants and Hotels	3.5	5.1	0.5	8.5	6.0
Household Services	3.0	4.5	7.0	4.0	6.5
Government	5.0	3.5	15.2	13.0	6.0
Total production of Services	5.6	4.7	2.3	8.9	5.9
Gross Value Added	7.0	5.9	(4.1)	15.3	4.1
Taxes on products	5.0	5.0	(1.0)	12.0	3.0
Total	6.8	5.8	(3.8)	15.0	4.0
Binationals	(3.4)	10.2	(4.8)	(0.6)	7.1
Total	5.4	6.4	(4.0)	13.1	4.3

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

Production of Goods

The primary sectors in the production of goods, namely agriculture, livestock, forestry and fishery, represented 24.8% of GDP in 2011.

Agriculture. The agricultural sector grew at an average annual rate of 13.3% from 2007 to 2011. In 2007 the agricultural sector grew by 24.1%. The agricultural sector grew by 10.5% in 2008 and declined by 25.0% in 2009 as a result of a drought that adversely affected the agricultural sector, especially the soybean harvest. In 2010 and 2011, the agricultural sector increased by 49.8% and 7.0%, respectively.

Soybeans, wheat, sugar cane, corn, manioc, rice, sunflowers and cotton are the main crops of the Paraguayan agricultural sector, accounting for 89.6% of the value of Paraguay's agricultural production from 2007 to 2011. The performance of the agricultural sector is highly dependent on weather and the international prices of Paraguay's main agricultural products. During the five-year period ending 2011, the agricultural sector experienced fluctuations in production and has been buoyed by adequate international prices. In addition to producing goods for export, the agricultural sector supplies raw materials for Paraguay's manufacturing sector.

The growth of the agricultural sector has resulted in part from an increase in soybean production, as well as other products such as corn and manioc, a type of edible root. During the five-year period ending 2011, the agricultural sector has benefited from capital investment and increased use of advanced genetics technology and mechanization, which has resulted in Paraguay being ranked fourth in the world among grain-exporting countries. In addition to being exported in raw form, soybeans are used to produce oil and derivatives for animal feed. Recent investments by large multinational companies, such as Cargill and Archer Daniels Midland Company, resulted in increased domestic soybean production. In addition, Complejo Agroindustrial Angostura S.A., a Bunge and Louis Dreyfus joint-venture soybean crushing company, is scheduled to begin operations in Villeta at the end of 2013, with an investment of US$160 million that began in March 2012. As of December 31, 2012, approximately 40% of the total investment had been made. Once this project is completed, these crushing facilities combined are expected to process more than four million tons of soybeans per year, representing half of the total country production in 2011.

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

Selected Agricultural Production

	2007	2008	2009	2010	2011[1]
			(in US$ thousands)		
Soybeans	$1,104,538	$1,685,963	$802,127	$1,584,464	$2,130,195
Corn	190,265	454,585	314,851	689,451	780,077
Manioc	338,723	245,852	552,787	575,495	660,812
Wheat	163,645	207,284	189,924	273,890	316,300
Sugar Cane	89,955	128,318	113,624	163,624	254,584
Rice	29,277	47,033	70,169	88,563	117,838
Beans	35,641	26,483	26,587	36,915	49,037
Sunflower	37,107	57,729	28,377	54,718	42,916
Cotton	32,913	30,138	5,805	6,930	19,104
Peanuts	9,841	12,228	10,387	14,851	12,869
Tobacco	13,024	3,640	4,818	5,628	6,459
Other[2]	397,239	760,504	180,900	158,002	203,442
Total	$2,442,168	$3,659,756	$2,300,358	$3,652,533	$4,593,634

(1) Preliminary data.
(2) Includes all agricultural products not specifically listed.
Source: Central Bank of Paraguay.

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

Selected International Commodity Prices[1]

	2007	2008	2009	2010	2011
Soybeans[2]			(in US$)		
US$/bushel	859.1	1,234.5	1,037.0	1,048.0	1,318.4
US$/ton.	315.7	453.6	381.1	385.1	484.5
Beef[3] (US$/ton)	3,190.2	3,340.2	3,152.5	3,535.0	3,990.3
Corn[4] (US$/ton).	148.3	208.0	144.9	167.4	267.6
Sunflower seeds[5] (US$/ton).	531.4	558.5	348.8	524.1	583.8
Cotton[6] (US$/ton)	1,250.5	1,407.9	1,260.9	2,065.8	3,037.3
Wheat[7] (US$/ton)	240.7	283.4	192.9	213.4	261.0

(1) Average prices for each year as published by Reuters and Bloomberg for each of the markets indicated.
(2) Chicago Board of Trade ("CBOT").
(3) Australia Eastern Young Cattle Indicator.
(4) CBOT.
(5 South Africa Futures Exchange.
(6) New York Mercantile Exchange.
(7) CBOT.
Source: Ministry of Finance.

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

Selected Primary Production

	2008	2009	2010	2011[1]
	(percentage change from previous year, at constant prices)			
Cotton	(37.5)%	(72.6)%	(16.4)%	103.3%
Rice	11.8	48.0	46.6	29.5
Soybeans	12.0	(42.7)	93.5	11.4
Beans	(36.2)	(3.7)	13.5	9.2
Corn	97.7	(24.8)	67.3	7.6
Wheat	-	33.4	31.4	4.4
Sugar Cane	23.9	(5.5)	6.9	4.1
Tobacco	(74.8)	50.7	11.5	1.6
Manioc	(53.8)	17.6	0.5	(6.5)
Peanuts	(16.7)	(24.7)	17.6	(9.5)
Sunflower	0.6	1.5	35.2	(58.6)
Subtotal	8.8	(27.0)	61.6	7.8
Other [2]	26.3	(8.8)	(25.2)	(3.6)
Total percent change from previous year	10.5	(25.0)	49.8	7.0

(1) Preliminary data.
(2) Includes all agricultural products not specifically listed.
Source: Central Bank of Paraguay.

Livestock. In 2011, the livestock sector represented 4.8% of real GDP. In 2007 the livestock sector declined by 6.8% in real terms. The livestock sector grew by 6.5% in real terms in 2008, declined by 4.8% in 2009 and grew by 8.5% in 2010. In 2011, the livestock sector again declined by 7.1% in real terms primarily due to the FMD outbreak in the second half of the year.

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

Selected Livestock Production

	2007	2008	2009	2010	2011[1]
	(in millions of US$, at current prices)				
Livestock production	$648	$979	$829	$1,155	$1,402

(1) Preliminary data.
Source: Central Bank of Paraguay.

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

	2007	2008	2009	2010	2011[1]
	(% change from previous year, at constant prices)				
Livestock production	(6.8)%	6.5%	4.8%	8.5%	(7.1)%

(1) Preliminary data.
Source: Central Bank of Paraguay.

The livestock sector growth over the last few years was caused in part by investments made 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 the cattle stock. This has allowed Paraguay to diversify its meat exports to markets such as Chile, Russia, Venezuela and Brazil. In 2011, Paraguay exported Paraguayan meat to Chile (34% of Paraguay's total meat exports), Russia (36% of Paraguay's total meat exports), Venezuela (7% of Paraguay's total meat exports) and Brazil (6% of Paraguay's total meat exports).

In September 2011 and January 2012, FMD outbreaks were detected in the department of San Pedro, as a result of which the main Paraguayan meat producers were banned access to main international markets in September 2011, including the European Union and Chile. The outbreaks have since been controlled and Paraguayan producers are seeking to regain access to their main export markets. While Paraguay is no longer banned from exporting beef to Chile, Paraguay remains banned from exporting beef products to the European Union, a situation that Paraguay is seeking to reverse. The FMD outbreak in 2011 reduced Paraguay's beef exports (in nominal U.S. dollar terms) in 2011 by approximately 22% compared to 2010.

The following table sets forth the main destinations of Paraguayan beef exports as of December 31, 2011.

Main Destinations of Paraguayan Beef Exports

	As of December 31, 2011
	(% of total)
Russia	36.2%
Chile	33.6
Venezuela	7.3
Brazil	5.5
Israel	5.0
Angola	3.3
Vietnam	0.8
Saudi Arabia	0.6
Germany	0.7
Other	7.1
Total	100%

Source: Central Bank of Paraguay.

Manufacturing. In 2011, the manufacturing sector represented 10.1% of real GDP. In 2007, the manufacturing sector declined by 1.2%. The manufacturing sector grew by 2.0% in 2008, decreased by 0.8% in 2009 and increased by 6.3% in 2010. In 2011, the manufacturing sector declined by 1.6%.

Manufacturing in Paraguay primarily focuses on the production of foodstuffs for human and animal consumption, such as dairy products, meat, animal feed, beverages, 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. Industries within the manufacturing sector that had a positive economic impact were meat production, dairy production, beverages, pharmaceuticals and the manufacture of machinery and equipment.

Dairy production has been developed significantly, producing many diverse export-quality products such as yogurt, probiotic yogurt, cheese, milk candy, cream and ultra-high temperature processing milk, among others. As a result of increased domestic production, dairy product imports have declined. Meat production has also developed significantly with the installation of several meat processing companies that meet all the international standards to export the processed product.

Paraguay is proactively seeking to attract FDI to the manufacturing sector and has offered to make available a portion of electricity it is entitled to receive from the binational companies to companies interested in making significant investments in the manufacturing sector. For example, Rio Tinto Alcan, Inc. signed a memorandum of understanding with the Minister of Industry and Commerce (*Ministerio de Industria y Commercio*) for the development of an industrial park with the possible construction of an aluminum smelter with an estimated investment of up to US$4.0 billion. The smelter project is expected to obtain energy from the Itaipú hydroelectric plant.

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

Selected Manufacturing Products

	2007	% of Total	2008	% of Total	2009	% of Total	2010	% of Total	2011[1]	% of Total
	(in millions of US$ at current prices)									
Processed Meats	$385	24.5%	$586	27.7%	$514	27.8%	$683	30.5%	$767	27.9%
Beverages and Tobacco	208	13.2	289	13.6	294	15.9	369	16.5	491	17.9
Textiles and Clothing	205	13.1	219	10.3	185	10.0	217	9.7	299	10.9
Timber	110	7.0	138	6.5	94	5.1	98	4.4	128	4.7
Chemicals	54	3.4	76	3.6	73	3.9	85	3.8	108	3.9
Milling and Bakery	67	4.3	86	4.1	70	3.8	74	3.3	102	3.7
Paper and Paper Products	63	4.0	85	4.0	76	4.1	84	3.8	100	3.6
Oil Products[2]	44	2.8	74	3.5	58	3.1	65	2.9	85	3.1
Leather and Shoes	59	3.8	61	2.9	40	2.2	49	2.2	59	2.1
Sugar	32	2.0	33	1.6	32	1.7	44	2.0	55	2.0
Other Foodstuff	29	1.8	40	1.9	37	2.0	40	1.8	55	2.0
Dairy Products	14	0.9	21	1.0	20	1.1	23	1.0	38	1.4
Oil and Refined Products	10	0.6	-	-	-	-	0	-	-	-
Non-Metallic Products	93	5.9	142	6.7	134	7.2	164	7.3	186	6.8
Machinery and Equipment	76	4.8	105	5.0	83	4.5	94	4.2	102	3.7
Base Metal Products	44	2.8	62	2.9	51	2.8	52	2.3	48	1.7
Other Manufactured Products	77	4.9	101	4.8	88	4.8	100	4.5	125	4.5
Total	1,570	100.0	2,118	100.0	1,850	100.0	2,239	100.0	2,749	100.0

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

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

Selected Manufacturing Products

	2007	2008	2009	2010	2011(1)
	(percentage change from previous year, at constant prices)				
Processed Meats	(9.2)%	7.3%	6.3%	10.0%	(16.7)%
Beverages and Tobacco	(1.3)	7.7	4.6	9.0	7.0
Textiles and Clothing	(1.2)	(11.5)	(6.8)	6.0	2.0
Timber	1.5	(2.4)	(28.2)	(6.0)	7.0
Chemicals	2.3	16.2	6.6	7.0	8.5
Milling and Bakery	(1.3)	(7.5)	7.5	2.0	6.0
Paper and Paper Products	1.0	15.0	(13.7)	5.0	6.8
Oil Products	3.0	9.0	(4.5)	6.5	3.5
Leather and Shoes	1.5	(11.4)	(2.0)	(1.0)	(1.5)
Sugar	6.5	(1.6)	(11.9)	(20.0)	(5.5)
Other Foodstuff	(2.0)	(12.0)	8.5	2.0	4.5
Dairy Products	(4.2)	5.3	11.6	3.5	30.3
Oil and Refined Products	(60.0)	(100.0)	-	-	-
Non-Metallic Products	6.1	8.0	6.5	10.5	(8.2)
Machinery and Equipment	18.0	10.0	(10.6)	11.0	4.3
Base Metal Products	1.8	1.2	(4.5)	-	(6.5)
Other Manufactured Products	0.5	1.4	(2.5)	1.0	1.5
Total	(1.2)	2.0	(0.8)	6.3	(1.6)

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

Construction. The construction sector, consisting mainly of residential housing and commercial buildings, grew by 6.9% for the five-year period ending 2011. In 2011, the construction sector represented 3.5% of real GDP. In 2007, the construction sector grew by 7.2%. The construction sector grew by 11.0% in 2008, declined by 2.0% in 2009 (with the decline in part being mitigated by the government's decision to increase gross fixed investment to offset in part the effects of the economic contraction) and grew by 13.0% in 2010. In 2011, the construction sector grew by 1.5%. The construction sector contributes significantly to the economy and has demonstrated continuous growth over the 2007-2011 period, with significant domestic and international investment. For example, in Asunción, many international hotel chains have opened hotels and construction of commercial real estate has increased significantly.

Mining. Mining consists primarily of the extraction of kaolin, gypsum and limestone. At present, some foreign companies are beginning gold production in Paso Yobai. Crescent Global Oil, based in Fort Worth, Texas, entered into a farm-out agreement with London-based President Energy Plc to carry out a 700 km 3D seismic acquisition program on the Pirity basin located in the Paraguayan Chaco region with prospects of drilling six exploratory wells in 2014-2016.

Services

In 2011, the services sector represented 43.6% of real GDP. The services sector grew by 5.5% for the five-year period ending 2011. In 2007, the services sector grew by 5.6% to US$6.2 billion. The services sector grew by 4.7% in 2008 to US$8.1 billion, declined by 2.3% in 2009 to US$7.4 billion and 8.9% in 2010 to US$8.8 billion. In 2011, the services sector grew by 5.9% to US$12.3 billion.

Commerce. Most of the commercial activity centers on agricultural, manufacturing and imported goods. In 2011, commerce represented 15.5% of real GDP. In 2007, commerce grew by 5.2% and by 4.1% in 2008. It experienced a decline of 3.4% in 2009 and grew by 10.9% in 2010 and 3.0% in 2011. Commerce grew by 4.0% on average in the 2007-2011 period. Average growth in the sector during the 2007-2011 period was mainly driven by a growing domestic demand, a higher volume of trade in agricultural goods, and the increase of imports.

Government. The government sector is mostly composed of expenditures in wages of the central government, the local governments and decentralized entities (excluding state-owned companies). In 2011, the government sector represented 7.1% of real GDP. The sector grew at an average annual rate of 8.5% in the 2007-2011 period. In 2007, the government sector grew by 5.0% and grew by 3.5% in 2008, 15.2% in 2009, 13.0% in 2010 and 6.0% in 2011. In 2009 and 2010, the acceleration in the sector was mainly the result of the implementation of increases in wages and salaries of public sector employees.

Communications. The communications sector is mainly composed of the largest telecommunication companies in the country and, to a lesser extent, mail services such as private courier companies. The sector grew at an average annual rate of 8.5% in the 2007-2011 period. In 2007, the sector grew by 12.0% and it grew by 4.8% in 2008, 4.4% in 2009, 6.2% in 2010 and 15.0% in 2011. Growth in the communications sector was driven by significant investments by mobile telecommunications companies and an increase in the number of consumers of telecommunications services.

Finance. The finance sector includes all the banks, financial and insurance companies in the financial system. The sector experienced solid growth in the 2007-2011 period, with an average annual growth rate of 12.0%. In 2011, the finance sector represented 2.5% of real GDP. In 2007, the sector grew by 5.3% and it grew by 18.9% in 2008, 6.6% in 2009, 12.0% in 2010 and 17.3% in 2011. Growth in the finance sector in this period was fueled by macroeconomic stability and confidence in the banking sector, which is reflected in the increase in deposits and loans.

Other Services. Other important services sectors include transportation, household services and hotels and restaurants. Transportation grew by 9.5% in 2007 and 5.5% in 2008. It declined by 10.5% in 2009 and grew by 7.0% in 2010 and 2.5% in 2011. Household services grew by 3.0% in 2007, 4.5% in 2008, 7.0% in 2009, 4.0% in 2010 and 6.5% in 2011. Finally, the hotels and restaurant services grew by 3.5% in 2007, 5.1% in 2008, 0.5% in 2009, 8.5% in 2010 and 6.0% in 2011.

In general, changes in transportation have correlated with results in the agricultural sector. As such, transportation has expanded in the periods during which agricultural production increased. In contrast, household services have been characterized by less volatile gross production values. Hotels and restaurant services have been positively influenced by the level of economic activity in general, as demand of such services increased in response to overall GDP growth and as a result of growth in shopping tourism. Growth in this sector has in recent times attracted significant private investment.

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

Paraguay is the largest exporter of electricity in South America. 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, which represented approximately 11% of real GDP in 2011, is included in the calculation of Paraguay's GDP. Acaray, a hydroelectric facility owned by National Electricity Administration ("ANDE"), a Paraguayan state-owned company, is also a part of the energy system, and its production is used entirely locally.

Itaipú. Itaipú, the world's largest hydroelectric plant measured by annual electricity generation, is located in the Paraná River in eastern Paraguay on the border with Brazil. Itaipú has an installed capacity of 14,000 MW, 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.

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. Electrobras, 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 1985. Itaipú currently has 20 turbines in operation. Itaipú Binational's electricity production during 2011 reached 92.24 million MWh and supplied 72.92% and 16.99% of the electric power consumed in Paraguay and Brazil, respectively. The Itaipú Treaty remains in force until 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 Electrobras at cost in accordance with the Treaty. The amount of the compensation is negotiated between both governments and currently stands at US$9 per MgW/hour. In 2011, Paraguay received royalty payments and compensation payments of US$386.5 million, equivalent to 1.5% of GDP. Revenues grew by 15% in 2007 to US$420.2 million, declined by 19.5% in 2008 to US$338.2 million, grew by 2.2% in 2009 to US$345.6 million and declined by 8.7% in 2010 to US$315.6 million. In 2011, revenues increased by 22.4% to US$386.5 million. Revenues fluctuate as a result of the total production of electricity, which itself depends on the water flow of the Paraná river.

The following table sets forth the revenues from Itaipú for the periods indicated.

Revenues from Itaipú

	2007	2008	2009	2010	2011	For the eleven months ended November 30, 2012
			(in millions of US$)			
Royalties and Compensation	$ 307	$ 327	$ 346	$ 316	$ 387	$ 510
Other [(1)]	113.0	11.0	-	-	-	-
Total	$ 420	$ 338	$ 346	$ 316	$ 387	$ 510

(1) Includes administrative expenses, consultancy and independent contractor services fees.
Source: Central Bank of Paraguay.

Electrobras provided 85% of the financing for the construction of Itaipú, with other third parties providing the balance. After startup of operations, when the debt began to amortize, Itaipú Binational experienced difficulties in servicing its debt to Electrobras. In September 1997, Electrobras 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$16.3 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 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, 2011, Itaipú Binational's aggregate indebtedness to Electrobras was approximately US$6.3 billion, approximately 40% of Itaipú's total outstanding debt in Loans and Financing of US$15.9 billion. In addition, Itaipú Binational owes US$9.6 billion to the National Treasury of Brazil (approximately 59% of Itaipú's total outstanding debt in Loans and Financing).

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 Electrobras 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 Electrobras at cost. The Brazilian government compensates Paraguay directly for the amounts sold by ANDE to Petrobras, at a rate that at December 31, 2012 was US$9 per MgW/hour. 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.

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; Yacyretá has a planned total capacity of 3,200 MW.

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 US$.

The construction of Yacyretá began in 1975, Yacyretá's first turbine commenced operations in 1994, and currently there are 20 turbines in operation. Yacyreta's production of electricity during 2011 reached 20.86 million MWh. 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 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 guaranteed by Argentina. Yacyretá Binational's total outstanding debt is US$3.3 billion (excluding accrued interest) as of December 31, 2011, which represents 50% of the total principal outstanding. 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, 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. In 2011, Paraguay received royalties and compensation for a total of US$233 million, which is equivalent to 0.9% of Paraguay's nominal GDP. In 2007, revenues grew by 4.3% to US$195.2 million. Revenues increased by 47.8% in 2008 to US$288.4 million, 13.1% in 2009 to US$326.2 million and declined by 29.7% in 2010 to US$229.3 million. In 2011, revenues increased slightly by 1.6% to US$233.0 million.

The following table sets forth the revenues from Yacyretá Binational for the periods indicated.

Revenues from Yacyretá

	As of December 31,					As of November 30,
	2007	2008	2009	2010	2011	2012
			(in millions of US$)			
Royalties and Compensation	$ 100	$ 100	$ 114	$ 109	$ 161	$ 104
Other [(1)]	95	188	212	120	72	53
Total	$ 195	$ 288	$ 326	$ 229	$ 233	$ 157

(1) Includes administrative expenses, consultancy and independent contractor service fee.
Source: Central Bank of Paraguay.

Pursuant to the Law 3984/2010, 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 physical infrastructure projects.

State-Owned Enterprises

There are nine state-owned enterprises ("SOEs"), whose total revenues is equal to 8.6% of GDP. In the aggregate, the SOEs generate revenue for the government, with ANDE (electricity) representing 36% of total SOE revenues. Of the nine SOEs, three operate in goods-producing sectors such as 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 (TAM) (airline). ACEPAR (steel) and FLOMERPASA (merchant marine) were formerly owned by Paraguay but have now been fully privatized.

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

Source: Ministry of Finance.

SOEs play a key strategic role in the national economy. SOEs represent about 23% of overall public sector expenditure, and are responsible for providing essential goods and services, including oil, water, telecommunications and electric power.

In 2008, in furtherance of the PEES, Paraguay announced a plan to improve these public enterprises and to promote more efficient and transparent management.

Under the PEES, the government established the Council of Public Enterprises ("CEP"), which is formed by an inter-ministerial Board composed of the Minister of Finance, the Minister of Public Works and Communications, the Minister of Industry and Trade, and the Attorney General of the Republic to promote and advance the implementation of processes and good administrative and financial practices in SOEs and companies in which Paraguay holds a majority stake.

To fulfill its functions, the CEP created a Monitoring Unit of Public Enterprises ("UMEP") that started monitoring the financial and administrative affairs of the SOEs through the signing of performance contracts with each of the SOEs and by requesting independent financial audits. These performance contracts have been entered into with the various SOEs in stages.

In 2009, the CEP signed performance contracts with four state-owned enterprises (COPACO S.A., ESSAP S.A., PETROPAR and INC); ANDE and the ANNP signed performance contracts in 2010 and 2011, respectively. It is expected that DINAC will sign a performance contract in 2013. Once DINAC has signed, only CAPASA and FEPASA will have yet to sign a performance contract because both are very small and FEPSA in particular is inactive (combined total revenues amounted to approximately US$7 million).

UMEP evaluates the management of each SOE according to qualitative and quantitative targets set forth in the performance contracts and provides recommendations for improvement to CEP and 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 equipment;

(v) increased and improved access to financial information and management of earnings per share ("EPS");

(vi) publication of external audits for the years ended 2008, 2009, 2010 and 2011; and

(vii) increases in infrastructure investments (ANDE, ESSAP and INC) in 2010 and 2011, respectively.

SOEs are deemed to have performed "satisfactorily" if more than 85% of the qualitative and quantitative targets set forth in the performance contracts are met. SOE performance is deemed "acceptable" if between 65% and 85% of the qualitative and quantitative targets are met and "unsatisfactory" if less than 65% of the targets are met.

The performance contracts provide for monthly and quarterly monitoring by CEP. A scorecard is compiled with basic information on the SOE that reflects quantitative and qualitative targets that have been met (the "Balanced Scorecard"). Waiver of the targets for the Balanced Scorecard may be made only if provided for in the performance contract. In addition, an automated data collection mechanism provides on a quarterly basis full documentation of performance targets to CEP. This matrix of control is a complementary tool of the inspection and monitoring that is done by the CEP.

Through the performance contracts, CEP and UMEP have made improvements in the transparency and performance of the SOEs, including providing truthful and accurate information on financial information and management which has been achieved through monitoring, recommending external audits and the publishing of results of such monitoring and external audits on the public web page of UMEP. In addition to renewed accountability, SOEs have improved their performance by hiring consultants, technicians and specialists who have assisted them in developing strategic plans, business plans, management and financial audits, and have provided assistance to senior management when making significant investment projects. Overall, CEP and UMEP have promoted a more productive and professional culture in the SOEs.

In order to ensure that the improvements achieved so far are maintained and that medium-term reforms to improve the management of SOEs are completed, certain objectives have been proposed. These objectives include:

(i) strengthening the institutional framework for the supervision of EPS and the implementation of a new system of governance through the establishment of better administrative practices;

(ii) strengthening the regulatory framework;

(iii) implementing a procurement mechanism of strategic goods used by SOEs in order to expedite the purchase of strategic goods;

(iv) achieving ISO 9001:2008 certification to strengthen the monitoring mechanism;

(v) reviewing and cancelling SOEs' public sector debts;

(vi) including all SOEs under the CEP's performance contracts framework, except for CAPASA and FEPASA, with aggregate revenues that do not exceed US$15 million;

(vii) requiring SOEs to implement strategic plans for the 2013-2015 period;

(viii) improving the training of human resources;

(ix) implementing external audits for all SOEs in accordance with terms of reference prepared by UMEP;

(x) implementing best practices to mitigate adverse environmental impacts; and

(xi) enforcing the requirement that public institutions are required to pay for basic services provided by the SOEs to avoid the accumulation of debts on the part of SOEs, which in the past amounted to approximately US$100 million.

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 Department of the Environment (*Secretaría del Ambiente* – "SEAM") is responsible for developing a national environmental policy. SEAM 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's penalties include fines and imprisonment. A national prosecutor is responsible for investigating and prosecuting environmental offenses under the criminal code.

Recent environmental regulation includes a 2006 law that promotes 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. In addition, in 2007, a law was passed that regulates the sustainable and integrated use of water and in 2008 the "Zero Deforestation Law," which prohibits deforestation in the Upper Paraná Atlantic forests in the eastern region of Paraguay, was extended until December 2013.

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

Employment and Labor

The labor force in Paraguay has increased from 2.7 million in 2007 to 3.0 million in 2011. Labor force includes any person above the minimum age requirement who is currently employed or looking for employment.

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

Labor Force

	2007	**2008**	**2009**	**2010**	**2011**
			(in percentages by sector)		
Primary Sector					
Agriculture, Livestock, Forestry and Fishing	29.5%	26.5%	29.5%	26.9%	26.4%
Production Sector					
Manufacturing industries	12.1	12.3	11.0	11.1	10.5
Construction	5.7	6.0	5.8	7.2	6.6
Total (production)	17.8	18.3	16.8	18.3	17.1
Services Sector					
Trade, Restaurants and Hotels	23.5	23.7	24.6	24.4	25.3
Community, Social and Personal	21.3	22.4	20.3	21.6	21.8
Others[(1)]	7.9	9.3	8.6	8.9	9.2
Total (services)	52.7	55.4	53.5	54.9	56.3
	100.0%	100.0%	100.0%	100.0%	100.0%

(1) Includes Electricity, Gas and Water, Transport, Storage and Communications, and Finance, Insurance and Real Estate.
Source: DGEEC. EPH 2007, 2008, 2009, 2010 and 2011.

In 2009, there were 2,377 unions, primarily in the manufacturing and government services sectors of the economy. The Constitution provides that workers may strike when disputes among workers and employers are not settled according to the process established by the labor law. However, for workers who provide essential services such as water, electricity and hospital services, the Constitution establishes limitations on 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 estimated unemployment rate in Paraguay in 2011 was 5.6%. Workers are defined as unemployed if they are not employed and are actively seeking employment.

Approximately 39.3% of the people employed or their dependents are covered by a retirement or pension system. More women (50.9%) are covered by a retirement or pension system than men (33.9%). This discrepancy is a result of the predominance of female workers in the services sector, which includes all public institutions, like education and health.

The estimated underemployment rate in Paraguay in 2011 was 22.0%, a slight decrease from the previous year. 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, receive a salary below the official minimum wage or do not perform activities related to their training.

However, the labor market is segmented, where formal jobs with highly educated workers 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, with wages below the legal minimum. The latter is related to the low level of training of the population of working age.

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

Estimated Unemployment and Underemployment

	2007	2008	2009	2010	2011
			(in percentages)		
Unemployment rate	5.6%	5.7%	6.4%	5.7%	5.6%
Underemployment rate	28.1	26.1	26.8	22.9	21.9

Source: DGEEC.

Wages

Workers of 18 years of age or above and formally employed are entitled to a current monthly minimum wage of G.1,658,232 (approximately US$374). Based on the 2011 annual employment survey, 54.2% of the labor force receives a salary above 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 National Commission of Minimum Wage may propose adjustments to the minimum wage because of significant economic changes and when the cost of living, as measured by the CPI, fluctuates by at least 10%.

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

The following table sets forth annual changes in the wage index for the periods indicated.

Changes in Wages[(1)]

Year	% change
2007	9.0%
2008	9.5
2009	6.6
2010	6.4
2011	9.8

(1) Wage index based on survey conducted by the Central Bank of Paraguay.
Source: Central Bank of Paraguay.

Public sector wages increased by 30% in 2012 as a result of new laws that automatically took effect requiring an increase in public sector wages. No such automatic increases in wages are scheduled to occur in 2013.

Education

The total literacy rate in Paraguay was 95% in 2011.

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

Illiteracy Rate

	2007	2008	2009	2010	2011
			(in percentages)		
Illiterate	5.4%	5.1%	5.2%	5.3%	4.7%

Source: DGEEC.

The Lugo administration 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 addition, a program providing two free school meals was implemented recently in public schools to alleviate food deficiency for school-age children. New programs at the university level include international exchange programs, need- and merit-based scholarships and the establishment of research institutes.

In 2012, the Ministry of Education granted 3,367 scholarships to higher education throughout the country. Also, 36 youth representatives from 10 Paraguayan universities received a grant from a regional exchange program among MERCOSUR universities.

Until the early 1990s, there were only two universities in Paraguay, the public National University and the Catholic University of Asunción. The government then authorized the establishment of new private universities. As of December 31, 2012, there are more than 10 private universities operating 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

	2009	2010	2011
	(as a percentage of citizens at or above 15 years old)		
Without formal education	3.8%	3.8%	3.1%
From 1 to 6 years of study	40.2	42.0	39.4
From 7 to 12 years of study	41.8	40.4	41.1
From 13 to 18 years of study	13.7	13.6	16.3

Source: DGEEC.

Non-attendance in school increases with age. 68.5% of those 19 to 25 years old do not study. For those aged 13 to 18 years old, this rate drops to 19.9% and 5.8% for those aged 5 to 12 years old. The school absenteeism rate in children and young people is higher in the most deprived strata of society.

73.3% of persons aged 5 years and over attend public institutions while 23.4% attend private institutions. Among the extremely poor and poor, 91.8% attend public institutions together with 63% of the non-poor.

The average years of schooling for persons aged 15 years and older is 8.6 years. This average is clearly differentiated by poverty level, with the non-poor having an average of 9.4 years of schooling, while the non-extreme poor (includes non-poor and poor) have an average of 7.2 years and the extreme poor an average of 5.8 years of schooling.

Poverty and Income Distribution

According to preliminary data of a survey conducted by DGEEC in 2011, 18% of the Paraguayan population is considered to be extremely poor and 32.4% is considered to be poor (includes poverty and extreme poverty). Most people in these two categories are located in rural areas. Based on the definition of DGEEC, the poor in the metropolitan area of Asunción received a monthly income of approximately US$134 or less and the extremely poor received a monthly income of US$82 or less, while poor people in urban areas received a monthly income of approximately US$96 or less and the extremely poor received a monthly income of approximately US$63 or less. According to the same survey, an estimated 10% of the Paraguayan population received an overall monthly income of approximately US$27 or less. Poverty in Paraguay is primarily attributable to the low level of education and economic activity. At the end of 2011, according to DGEEC, 4.7% of the Paraguayan population was illiterate, which is defined as an individual above 15 years old whose education level does not exceed that of a second grader.

In 2011, 32.4% of the population was living in poverty or extreme poverty, as noted above. The percentage remains relatively high, but poverty and extreme poverty has decreased as compared to 2010 (34.7%), 2009 (35.1%), 2008 (37.7%) and 2007 (41.2%). Extreme poverty decreased in 2011 by 1.4 percentage points. In 2010, extreme poverty was 19.4% of the population, in 2009 18.8%, in 2008 18.9% and in 2007 23.3%.

The following table sets forth the percentage change of those living in poverty and extreme poverty for the periods indicated showing a sustained reduction since 2007.

Changes in Poverty and Extreme Poverty Rates

	2007	2008	2009	2010	2011
			(in percentages)		
Extreme poverty	23.3%	18.9%	18.8%	19.4%	18.0%
Non-extreme poverty	17.9	18.8	16.3	15.3	14.4
Total Poor	41.2%	37.7%	35.1%	34.7%	32.4%

Despite improvements in the reduction of poverty, inequality remains a problem. The Gini-index is the most commonly used measure of inequality. The index ranges from 0, which represents complete equality, to 1, which represents complete inequality. The Gini index in Paraguay was 0.52 in 2011, 0.512 in 2010, 0.487 in 2009, 0.506 in 2008 and 0.525 in 2007.

The average monthly household in 2011 was approximately G.3,838,000 (approximately US$915). The disposable income for the wealthiest 20% of Paraguayans is 11 times larger 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

Quintiles	2007	2008	2009	2010	2011
			(in US$)(1)		
Top 20%	$1,617	$1,802	$1,211	$1,447	$2,086
20% below	686	838	572	634	845
20% below	474	577	393	453	551
20% below	328	408	258	290	366
Lowest 20%	167	219	127	149	182
Total	654	769	580	684	915

(1) Calculated based on the annual average exchange rate.
Source: DGEEC.

The government has created programs to address poverty, including *Tekoporá* 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 in order to provide those in need with medical assistance.

Tekoporá 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. In 2011, 98,789 families were granted benefits under the *Tekoporá* program.

The Food Pension for Seniors in Poverty Law 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. This law is effective as of August 2010 and as of December 2012, approximately 50,000 seniors received 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 ("SNPP") is an agency under the Ministry of Justice and Labor that offers courses designed for people of different levels and sectors of the economy. The services are provided through use of 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 refining them in trades of all economic sectors.

BALANCE OF PAYMENTS AND FOREIGN TRADE

Commencing in 2012, 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. This change in statistical presentation does not result from or give rise to any structural change in the economy. The information set forth in this Offering Circular for any period or date commencing January 1, 2007 has been adjusted to reflect the change in methodology described. The Central Bank has made public its methodology and has explained the changes in the balance of payments and international investment position resulting from the change of non-resident to resident status of Itaipú Binational and Yacyretá Binational, but has not yet made retroactive adjustments to the information published on its website for any period commencing prior to January 1, 2012.

Balance of Payments

Between 2003 and 2011, Paraguay experienced balance of payments surpluses, resulting from an improvement in the exports of goods and services coupled with an increase in foreign currency income from the binational hydroelectric companies, worker remittances from abroad and increased stability of net capital inflows, mainly into the private sector. In addition, Paraguay's export of electricity is a key factor in maintaining a current account surplus during this period. The balance of payments surplus for 2011 was US$784.1 million (3.1% of GDP) compared to a surplus of US$319.2 million (1.6% of GDP) in 2010, US$915.2 million (5.7% of GDP) in 2009, US$394.3 million (2.1% of GDP) in 2008 and US$727.4 million (5.3% of GDP) in 2007. These results generated an increase of US$3.3 billion from 2007 to 2011 in Paraguay's international reserves which resulted in total international reserves (net) of US$5.0 billion at December 31, 2011. Paraguay's balance of payments remained relatively stable in 2012, resulting in an increase in international reserves of US$10.5 million.

Additionally, the financial and capital account surpluses have also contributed to the increase in international reserves. The private sector has received a steady flow of foreign capital such as: foreign investment, which was invested in agribusiness companies, telecommunications, transportation and food and beverage production, among others, and return on deposits abroad and external loans. Capital inflows originate primarily from the United States, Brazil and Argentina. The public sector and binationals made net repayments of their debts, receiving aggregate disbursements of US$1.6 billion (based on preliminary data) between 2007 and 2012, while making repayments of US$4.2 billion (based on preliminary data) of principal in that period. The net result is a decrease in the external debt of the central government and the binationals.

The amount of net international reserves of Paraguay at the end of 2011 amounted to 19.2% of GDP and provided on average 8.6 months of coverage for the import of goods in 2011 (excluding goods for re-export).

The following table sets forth the balance of payments for the periods indicated.

Balance of Payments[1]

	2007	2008	2009	2010	2011[2]	2012[2]
			(in millions of US$)			
Current account						
Trade balance[3]	1,504.1	1,049.8	1,123.7	881.7	897.0	711.6
Exports	7,534.0	9,731.0	7,756.0	10,474.4	12,633.9	11,828.6
Imports	(6,029.9)	(8,681.2)	(6,632.3)	(9,592.7)	(11,736.9)	(11,116.9)
Services balance						
Transportation (net)	(140.5)	(169.2)	(152.0)	(250.1)	(298.9)	(302.3)
Travel (net)	(7.0)	(12.2)	76.2	64.5	86.7	53.9
Other services (net)[4]	43.6	32.8	117.6	93.3	61.8	96.4
Subtotal	(140.0)	(148.6)	41.8	(92.3)	(150.4)	(152.0)
Income (net)	(994.4)	(1,126.2)	(1,179.3)	(1,412.7)	(1,266.5)	(1,259.6)
Current transfers (net)[5]	373.3	414.2	518.9	557.5	700.9	755.1
Total current account	**779.0**	**189.2**	**505.1**	**(65.8)**	**181.0**	**55.2**
Capital and financial account						
Capital account	28.0	33.0	47.0	40.0	40.0	51.0
Financial account						
Direct investment (net)	202.3	208.7	94.7	226.9	363.6	409.6
Other investment						
Trade credits (net)	(121.6)	(182.6)	155.6	(44.4)	13.6	27.8
Loans						
Assets	25.0	(140.5)	56.6	(44.3)	162.1	(106.4)
Liabilities	(464.8)	(366.2)	(464.9)	(99.7)	(357.4)	(497.3)
of which:						
Disbursements to public sector	144.3	161.6	263	293	153.5	213.2
Payments by public sector	(225.2)	(249.8)	(270.4)	(247.9)	(217.6)	(198.8)
Disbursements to binational entities	10.5	32.3	5.1	235.4	87.3	-
Payments by binational entities	(384.1)	(391.6)	(486.4)	(528.3)	(482.5)	(512.3)
Currency and deposits	577.9	12.5	100.4	76.2	42.8	281.6
Other assets and liabilities	206.8	686.4	62.2	52.7	(220.1)	(50.5)
Subtotal	223.4	9.6	(90.2)	(59.5)	(359.0)	(344.9)
Total capital and financial account	**453.7**	**251.3**	**51.5**	**207.4**	**44.6**	**115.7**
Errors and omissions[6]	(505.2)	(46.2)	358.5	177.6	558.6	(160.4)
Total balance of payments	727.4	394.3	915.2	319.2	784.1	10.5
Change in international reserves (net)						
Gold	-	19.7	-	-	-	-
SDRs	-	-	115.5	-	-	-
Foreign exchange	727.4	374.6	799.7	319.2	784.1	10.5
Total international reserves (net)	**2,461.8**	**2,864.1**	**3,860.7**	**4,168.2**	**4,983.9**	**4,994.4**

(1) Figures calculated according to the methodology set forth in the IMF Balance of Payments Manual, Fifth Edition.
(2) Preliminary data.
(3) Includes Itaipú Binational and Yacyretá Binational electricity exports.
(4) Other services includes diplomatic services, banking and insurance commissions (including insurance and reinsurance premiums) from commercial transactions outside of Paraguay and communications services.
(5) Net debits and credits of workers' remittances and donations.
(6) These residual items are periodically revised as additional information becomes available on the current and capital accounts.

Source: Central Bank of Paraguay.

The following table sets forth summary balance of payments information for the periods indicated, treating Itaipú Binational and Yacyretá Binational as full non-residents.

Balance of Payments: Non-Resident Binationals[(1)]

	2007	2008	2009	2010	2011
			(in millions of US$)		
Current account	$176.6	$(318.8)	$67.7	$(653.7)	$(270.2)
Goods	(532.9)	(1,063.9)	(1,043.1)	(1,396.5)	(1,677.7)
Services	498.6	558.3	894.1	718.8	1,013.5
Income	(162.3)	(227.4)	(302.2)	(533.4)	(307.0)
Transfers	373.3	414.2	518.9	557.5	700.9
Capital and financial account	733.1	651.9	568.9	708.0	751.6
Errors and omissions	(182.3)	61.2	278.6	264.8	302.7
International Reserves (net)	727.4	394.3	915.2	319.2	784.1

(1) Balance of payments disclosed until December 2011. Since January 2012, only the resident criteria is considered for the Balance of Payments, including its past history. Therefore, no information is available for 2012 under the non-resident criteria.
Source: Central Bank of Paraguay.

Current Account

Paraguay's current account surplus for 2012 is US$55.2 million (approximately 0.2% of GDP). Paraguay had a current account surplus of US$181.0 million (0.7% of GDP) in 2011 and a current account deficit of US$65.8 million (0.3% of GDP) in 2010. Paraguay had a current account surplus of US$505.1 million (3.2% of GDP) in 2009, a current account surplus of US$189.2 million (1.0% of GDP) and US$779.0 million (5.6% of GDP) in 2008 and 2007, respectively.

The trade balance includes electricity exports made by Itaipú Binational and Yacyretá Binational.

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 that transport merchandise into and from Paraguay. The net travel component of the services balance refers to the difference in the expenditures incurred by inbound and outbound tourists travelling to and from Paraguay.

Income (net). The income (net) component of the current account consists primarily of (i) accrued earnings of majority foreign-owned companies and (ii) net interest payments made on central government debt and external liabilities of other public and private debtors, including 50% of the interest payments made by binational entities.

Income (net) maintained a deficit during the 2007-2012 period, mainly the result of debt service payments to binational entities and remittances and dividend payments by majority foreign-owned companies to their foreign shareholders and affiliates.

Current Transfers. Transfers surplus increased by 102.2% from 2007 to 2012. Transfers are mainly composed of workers' remittances and donations received from abroad and from the public and private sectors. In general, remittances are considered relatively stable but growing. In 2012, remittances totaled an amount equal to 15.2% of the country's total international reserves (net) as of December 31, 2012.

Capital and Financial Accounts

In 2012, the capital and financial account recorded a surplus of US$115.7 million (0.5% of GDP). The capital and financial account generated a surplus of US$44.6 million (0.2% of GDP) in 2011, US$207.4 million in 2010 (1.0% of GDP), US$51.5 million (0.3% of GDP) in 2009, US$251.3 million (1.4% of GDP) in 2008 and US$453.7 million (3.3% of GDP) in 2007. The private sector has been the largest recipient of capital inflows, mainly through foreign investment, return on deposits and loans. FDI flows in 2011 totaled US$363.6 million, which represented an increase of 80% over 2007. Preliminary data for 2012 indicate that FDI flows reached US$409.6 million. FDI has been increasing in relative importance from 11.5% of nominal GDP in 2007 to 23% in 2012. Since 2007, borrowing from abroad has shown the opposite trend and the public sector has been a net payor of external financing resources.

The amortization of principal on 50% of the debt of Itaipú is considered a negative outflow in the capital account.

Foreign Trade

Trade

Paraguay's trade (excluding electricity exports) is primarily focused on its neighboring countries, particularly on MERCOSUR members, countries in the European Unión (EU) and Asia, especially China. Particularly since 2010, the main export trade partner of Paraguay has been the EU. From 2007 to 2011, exports from Paraguay to EU members grew from US$585.1 million to US$1.5 billion, representing an increase of around 150.3%, as a result of the application of the Generalized System of Preference program and the use of the Hilton quota from EU to Paraguayan bovine meat exports. However, Paraguay preferential export quota was temporarily suspended as a result of the outbreak of FMD in September 2011, at San Pedro Department, located in northeastern Paraguay.

From 2007 to 2011, Paraguayan exports to MERCOSUR declined 29.3% from US$1.3 billion to US$920.4 million. This resulted from the application of non-tariff trade barriers by the two major economies of MERCOSUR, Brazil and Argentina, such as the excessive implementation of non-automatic importing licenses, and the application of advance import declarations and sanitary and phytosanitary controls on the borders.

In 2011, the EU members represented approximately 26.5% of Paraguay's exports while MERCOSUR represented approximately 16.7% of exports. Brazil is Paraguay's largest trading partner, accounting for 13.0% and 26.3% of registered exports and imports, respectively, during 2011, followed by Argentina, with 2.3% and 14.1% of registered exports and imports, respectively.

The main import trade partner of Paraguay is MERCOSUR, with US$5.2 billion (42% of the total imported goods) imported from MERCOSUR, and the Asian countries (especially Mainland China) accounting for US$4.5 billion, which represented 36.4% of total goods imported by Paraguay in 2011.

Paraguay also engages in significant trade with other countries that are members of the Latin American Association of Integration ("LAIA"), with registered exports and imports representing 17.2% and 4.9% of total registered exports and imports, respectively, during 2011. Trade with the United States in 2011 represented 2.7% of Paraguay's registered exports and 5.3% of registered imports.

A substantial portion of Paraguay's trade is unregistered, particularly exports and re-exports of goods to Brazil and Argentina. Unregistered trade is trade of goods not registered by customs. The main reason for this re-export activity is the existence of the trade scheme called "Tourism Regime," which was established in 1996 and consists of reduced import duties for certain products from outside MERCOSUR countries, which are then re-exported, mainly to Brazil, by unregistered retail sales made to day-tourists in the border region. With the reduction of tariff rates among MERCOSUR members, incentives for smuggling among the MERCOSUR nations have been reduced and registered trade has grown. The establishment of certain tariff regimes under MERCOSUR has also reduced unregistered trade since 1995.

Geographical Distribution of Merchandise Trade

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

Geographical Distribution of Merchandise Trade

Trade Blocs	2007	2008	2009	2010	2011	% change 2010-2011	% of total exports 2011
			Exports by geographical distribution (in millions of US$, FOB value of exports)				
Exports							
European Union	$ 585.1	$ 481.0	$ 471.5	$ 1,164.3	$ 1,464.4	25.8%	26.5
Rest of Europe	130.4	365.2	333.1	614.7	611.2	(0.6)	11.1
MERCOSUR	1,301.2	1,487.6	882.0	772.1	920.4	19.2	16.7
Brazil	518.6	582.4	645.1	606.0	716.9	18.3	13.0
Argentina	521.2	859.4	195.9	107.9	125.9	16.7	2.3
Uruguay	261.3	45.8	41.0	58.3	77.5	32.9	1.4
LAIA(2)	451.4	835.9	751.3	996.5	950.0	(4.7)	17.2
Chile	204.8	367.7	399.5	599.8	515.6	(14.0)	9.3
Peru	102.9	162.6	148.1	210.7	201.5	(4.4)	3.7
Venezuela	84.8	243.8	132.0	110.8	106.0	(4.3)	1.9
Colombia	9.4	5.3	18.6	24.6	68.0	176.4	1.2
Bolivia	39.5	37.4	29.6	32.7	36.4	11.3	0.7
Ecuador	9.2	18.9	23.5	17.7	22.3	26.0	0.4
Cuba	0.8	0.2	-	0.2	0.2	0.0	-
Asia	49.1	232.4	247.6	365.0	518.4	42.0	9.4
NAFTA	82.5	79.0	53.9	111.3	204.3	83.6	3.7
Africa	22.8	29.8	87.1	63.0	192.7	205.9	3.5
ASEAN	68.5	54.0	55.9	77.7	171.4	120.6	3.1
Gulf Cooperation Counsel (GCC)	29.3	91.2	66.5	42.9	93.6	118.2	1.7
Rest of the World	58.4	778.6	156.8	235.8	310.3	31.6	5.6
Surinam	-	0.1	-	-	0.6	-	-
Others	58.4	778.5	156.8	235.8	309.7	31.3	5.6
Rest of the Caribbean	2.6	2.4	5.5	12.5	26.4	111.2	0.5
Community of Portuguese Language Countries	17.6	-	19.6	23.4	17.7	(24.4)	0.3
Central American Integration System (SICA)	11.7	5.5	6.7	26.5	14.8	(44.2)	0.3
European Free Trade Association (EFTA)	3.1	1.7	3.1	7.7	12.5	62.3	0.2
Southern African Customs Union (SACU)	22.9	17.1	24.7	17.1	7.4	(56.7)	0.1
Caribbean Community (CARICOM)	0.5	1.0	1.0	2.4	1.4	(41.7)	-
Closer Economic Relations (CER)(3)	0.3	0.7	0.7	0.8	0.4	(50.0)	-
Total	2,817.2	4,463.3	3,167.0	4,533.8	5,517.4	21.7	100.0
% Change	52.8	58.4	(29.0)	43.2	21.7		

Trade Blocs	2007	2008	2009	2010	2011	% change 2010-2011	% of total exports 2011
			Imports by geographical distribution (in millions of US$, CIF value of imports)				
Imports							
European Union	302.1	488.9	383.2	535.8	767.1	43.2	6.2
Rest of Europe	3.0	8.0	20.5	33.3	53.5	60.7	0.4
MERCOSUR	2,611.3	3,823.7	2,816.8	4,149.9	5,167.9	24.5	42.0
Brazil	839.2	2,425.8	1,605.0	2,419.2	3,237.0	33.8	26.3
Argentina	1,696.9	1,290.0	1,123.6	1,578.0	1,736.5	10.0	14.1
Uruguay	75.2	107.9	88.1	152.7	194.4	27.3	1.6
LAIA(2)	260.5	560.8	494.8	384.8	599.9	55.9	4.9
Venezuela	152.1	388.3	361.1	226.4	390.1	72.3	3.2
Chile	75.1	105.6	100.0	123.3	153.7	24.7	1.2
Bolivia	26.8	54.0	19.8	17.5	22.9	30.9	0.2
Colombia	4.0	7.5	8.1	10.1	21.5	112.9	0.2
Peru	1.0	1.9	3.0	5.0	7.9	58.0	0.1
Ecuador	1.1	2.7	2.2	1.8	2.4	33.3	0.0
Cuba	0.4	0.8	0.6	0.7	1.4	100.0	0.0
Asia	2,084.1	3,212.8	2,626.5	4,086.4	4,485.1	9.8	36.4
NAFTA	348.9	492.9	375.9	550.0	856.8	55.8	7.0
ASEAN	149.2	165.9	116.2	151.5	184.0	21.5	1.5
EFTA	50.9	229.3	76.1	101.8	94.3	(7.4)	0.8
Rest of the World	14.0	12.6	15.9	16.7	45.9	174.9	0.4
Africa	0.4	0.3	0.5	3.0	18.1	503.3	0.1
SICA	2.2	5.6	4.0	10.5	13.6	29.5	0.1
CARICOM	0.0	0.1	0.1	-	12.9	-	0.1
GCC	0.1	15.4	5.9	11.1	10.0	(9.9)	0.1
SACU	2.1	15.1	2.1	3.0	4.3	43.3	0.0
CER(3)	1.9	1.8	1.4	2.2	3.3	50.0	0.0
Rest of the Caribbean	28.7	0.1	-	0.1	0.4	300.0	0.0
Total	5,859.4	9,033.2	6,939.8	10,040.2	12,316.9	22.7	100.0
% Change	23.0	54.6	(23.2)	44.7	22.7		

(1) Preliminary data.
(2) Excluding MERCOSUR members.
(3) Free trade agreement between Australia and New Zealand.
Source: Integration Division; Ministry of Finance, including data from the Central Bank of Paraguay; 2007 data was extracted from UN Comtrade Database.

Paraguay's exports have historically been dominated by agricultural products such as soybeans, meat, fats and oils, wheat and other cereals. Revenues from exports are therefore highly dependent on international commodity prices and weather conditions. In 2011, exports of soybeans, meat, fats and oils, wheat and other cereals accounted for approximately 77.6% of Paraguay's total registered exports. Registered exports of soybeans, fats and oils, wheat and other cereals in 2011 increased approximately 35% from US$2.6 billion in 2010 to US$3.6 billion in 2011, because of the increase of international commodities prices.

Exports of oilseeds (including soybeans), fats and oils, wheat and other cereals increased by approximately 36% from US$1.8 billion in 2007 to US$2.5 billion in 2008, decreased approximately 24% from US$2.5 billion in 2008 to US$1.9 billion in 2009 and increased approximately 42% in 2009 to US$2.6 billion in 2010. Exports of these goods increased by 35% from 2.6 billion in 2010 to 3.6 billion in 2011. Beef exports increased by 71% from US$361.1 million in 2007 to US$616.3 million in 2008, decreased by 7% from US$616.3 million in 2008 to US$575.8 million in 2009 and increased by 58% from US$575.8 million in 2009 to US$907.5 million in 2010. Beef exports decreased by 22% in 2011 to US$708.5 million as a result of the FMD outbreak in the third quarter of 2011.

The following table sets forth Paraguay's exports by economic sector for the periods indicated.

Exports by Products

Sector(1)	2007	2008	2009	2010	2011
	(in millions of US$, FOB value of exports)				
Oilseeds (including soybeans)	$ 922.8	$ 1,452.8	$ 882.0	$ 1,639.1	$ 2,288.7
Beef Products	361.1	616.3	575.8	907.5	708.5
Fats and Oils	550.8	699.4	535.7	605.1	692.9
Other Cereals	270.4	137.3	268.7	227.0	361.9
Wheat	59.4	164.8	182.7	174.4	229.4
Chemicals, Rubber, Plastics	126.4	133.4	148.5	153.1	186.9
Leather Products	94.2	87.0	56.7	112.4	118.1
Sugar	34.8	60.3	34.7	38.1	90.8
Textiles	43.1	45.1	38.3	52.1	67.4
Wood Products	85.3	82.6	60.5	65.4	62.6
Other Foodstuff	31.7	34.0	34.1	52.1	60.5
Processed Rice	11.5	30.5	34.2	43.6	48.3
Beverages and Tobacco	16.4	19.5	24.8	37.3	47.7
Other Machinery and Equipment	19.5	16.4	10.4	26.6	39.9
Clothing	24.5	29.0	22.3	32.7	37.9
Paddy	9.5	9.7	14.5	20.5	31.9
Other Metals	9.4	9.3	3.2	6.4	30.3
Other Crops	9.8	14.5	20.0	25.5	25.4
Other Animal Products	12.1	17.8	16.7	22.5	24.0
Paper Products, Publications	4.4	3.4	3.0	7.9	17.3
Fiber Plants	45.5	23.0	19.6	26.4	16.6
Ferrous Metals	34.2	38.0	12.2	18.4	14.3
Other	40.2	739.2	168.4	239.8	316.2
Total	$2,817.2	$4,463.3	$3,167.0	$4,533.8	$5,517.4
% Change	52.8%	58%	(29) %	43%	22%

(1) The sectors are classified according to the Global Trade Analysis Project (the "GTAP") sector classifications of goods.
(2) Preliminary data.
Source: Integration Division; Ministry of Finance with Central Bank data; 2007 data was extracted from the UN Comtrade Database. Unregistered and re-export trade are not included.

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

Percentage of Total Exports by Products

Sector[(1)]	2007	2008	2009	2010	2011
	(in percentages)				
Oilseeds (including soybeans)	32.8%	32.5%	27.8%	36.2%	41.5%
Beef Products	12.8	13.8	18.2	20.0	12.8
Fats and Oils	19.6	15.7	16.9	13.3	12.6
Other Cereals	9.6	3.1	8.5	5.0	6.6
Wheat	2.1	3.7	5.8	3.8	4.2
Chemicals, Rubber, Plastics	4.5	3.0	4.7	3.4	3.4
Leather Products	3.3	1.9	1.8	2.5	2.1
Sugar	1.2	1.4	1.1	0.8	1.6
Textiles	1.5	1.0	1.2	1.1	1.2
Wood Products	3.0	1.9	1.9	1.4	1.1
Other Foodstuff	1.1	0.8	1.1	1.1	1.1
Processed Rice	0.4	0.7	1.1	1.0	0.9
Beverages and Tobacco	0.6	0.4	0.8	0.8	0.9
Other Machinery and Equipment	0.7	0.4	0.3	0.6	0.7
Clothing-Costumes of Use	0.9	0.6	0.7	0.7	0.7
Paddy	0.3	0.2	0.5	0.5	0.6
Other Crops	0.3	0.3	0.6	0.6	0.5
Other Metals	0.3	0.2	0.1	0.1	0.5
Other Animal Products	0.4	0.4	0.5	0.5	0.4
Fiber Plants	1.6	0.5	0.6	0.6	0.3
Ferrous Metals	1.2	0.9	0.4	0.4	0.3
Paper Products, Publications	0.2	0.1	0.1	0.2	0.3
Other	1.4	16.6	5.3	5.3	5.7
	100.0%	100.0%	100.0%	100.0%	100.0%

(1) The sectors are classified according to the Global Trade Analysis Project (the "GTAP") sector classifications of goods.
(2) Preliminary data.
Source: Integration Division; Ministry of Finance with Central Bank data; 2007 data was extracted from the UN Comtrade Database.

Imports are more diversified than exports. The leading imports in recent years have been chemicals, rubber, plastics, electric equipment, other machinery and equipment, petroleum and coal products, motor vehicles and parts, which together generated 72.1% of the import bill in 2011, and accounted for approximately US$8.9 billion of total imports. As compared to the same period in 2010, imports of these goods have increased approximately 23.3%, mainly caused by the expansion in the imports of vehicles and parts, (38.3%) petroleum and coal products (37.8%) and chemical, rubber, and plastics (31.3%).

The total value of registered imports increased in the 2007-2011 period by approximately 110.4%, while the composition of Paraguay's registered imports in broad categorical terms has remained largely constant. Paraguay imposes low levels of tariffs (0% and 2%) on imported capital goods and computing and telecommunications goods.

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

Imports by Economic Sector

Sector[1]	2007	2008	2009	2010	2011	Percentage Change 2011
			(in millions of US$ in CIF prices)			
Chemical, Rubber, Plastics	1,110.3	1,714.7	1,276.4	1,729.4	2,270.6	31.3
Petroleum and Coal Products	769.3	1,396.3	1,005.8	1,189.0	1,638.9	37.8
Electronic Equipment	1,497.7	1,832.5	1,409.9	2,151.4	2,131.4	(0.9)
Other Machinery and Equipment	749.4	1,201.4	793.2	1,403.2	1,833.5	30.7
Motor Vehicles and Parts	397.4	737.5	504.8	731.3	1,011.4	38.3
Other Articles	166.0	318.1	405.5	611.2	602.0	(1.5)
Ferrous Metals	111.2	214.9	131.3	209.4	278.8	33.1
Other Food Products	159.6	178.0	159.7	209.4	267.0	27.5
Textiles	110.1	169.3	149.8	210.6	277.3	31.7
Beverages and Tobacco	107.3	144.2	145.8	206.9	261.5	26.4
Paper Products, Publications	135.9	176.5	173.5	219.6	268.4	22.2
Other Mineral Products	63.4	114.0	95.1	153.3	222.6	45.2
Other Transport Equipment	81.5	161.4	87.5	195.0	242.6	24.4
Other Crops	52.9	91.5	110.8	151.5	147.9	(2.4)
Leather Products	55.0	85.6	70.3	109.5	145.6	33.0
Clothing-Costumes of Use	34.4	60.2	52.0	81.6	102.9	26.1
Milk Products	10.7	59.5	63.2	76.4	87.2	14.1
Metal Products	88.5	142.8	119.8	165.8	214.5	29.4
Other Metals	25.9	37.1	27.8	42.1	56.6	34.4
Wood Products	12.5	32.1	30.4	46.1	64.7	40.3
Other Cereals	28.0	58.3	24.8	38.1	59.6	56.4
Vegetables, Fruit, Nuts	11.0	12.3	17.4	19.5	20.3	4.1
Fats and Oils	13.9	17.4	14.2	17.4	22.6	29.9
Other Animal Products	9.1	14.5	11.1	18.5	21.1	14.1
Other Minerals	14.1	21.1	19.1	17.7	16.8	(5.1)
Other Meat Products	4.3	5.4	4.7	7.5	10.7	42.7
Oilseeds	14.8	28.1	26.7	12.2	21.5	76.2
Sugar	4.2	0.2	0.1	6.3	7.0	11.1
Other	20.8	8.2	9.0	10.2	11.8	15.7
Total	5,854.4	9,033.2	6,939.8	10,040.2	12,316.9	22.7
% Change	23%	54%	(23) %	45%	23%	

(1) The sectors are classified according to the GTAP sector classifications of goods.
(2) Preliminary data.
Source: Integration Division Ministry of Finance with Central Bank data. 2007 data was extracted from UN Comtrade Database.

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

Percentage of Total Imports by Products

Sector[(1)]	2007	2008	2009	2010	2011
			(in percentages)		
Chemical, Rubber, Plastics	19.0%	19.0%	18.4%	17.2%	18.4%
Electronic Equipment	25.6	20.3	20.3	21.4	17.3
Other Machinery and Equipment	12.8	13.3	11.4	14.0	14.9
Petroleum and Coal Products	13.1	15.5	14.5	11.8	13.3
Motor Vehicles and Parts	6.8	8.2	7.3	7.3	8.2
Other Articles	2.8	3.5	5.8	6.1	4.9
Ferrous Metals	1.9	2.4	1.9	2.1	2.3
Textiles	1.9	1.9	2.2	2.1	2.3
Paper Products, Publications	2.3	2.0	2.5	2.2	2.2
Other Food Products	2.7	2.0	2.3	2.1	2.2
Beverages and Tobacco	1.8	1.6	2.1	2.1	2.1
Other Transport Equipment	1.4	1.8	1.3	1.9	2.0
Other Mineral Products	1.1	1.3	1.4	1.5	1.8
Metal Products	1.5	1.6	1.7	1.7	1.7
Other Crops	0.9	1.0	1.6	1.5	1.2
Leather Products	0.9	0.9	1.0	1.1	1.2
Clothing-Costumes of Use	0.6	0.7	0.7	0.8	0.8
Milk Products	0.2	0.7	0.9	0.8	0.7
Wood Products	0.2	0.4	0.4	0.5	0.5
Other Cereals	0.5	0.6	0.4	0.4	0.5
Other Metals	0.4	0.4	0.4	0.4	0.5
Fats and Oils	0.2	0.2	0.2	0.2	0.2
Oilseeds	0.3	0.3	0.4	0.1	0.2
Other Animal Products	0.2	0.2	0.2	0.2	0.2
Vegetables, Fruit, Nuts	0.2	0.1	0.3	0.2	0.2
Other Minerals	0.2	0.2	0.3	0.2	0.1
Other Meat Products	0.1	0.1	0.1	0.1	0.1
Sugar	0.1	0.0	0.0	0.1	0.1
Other	0.4	0.1	0.1	0.1	0.1
	100.0%	100.0%	100.0%	100.0%	100.0%

(1) The sectors are classified according to the GTAP sector classifications of goods.
(2) Preliminary data.
Source: Integration Division Ministry of Finance with Central Bank data. 2007 data was extracted from UN Comtrade Database.

MERCOSUR

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

As a result of the removal by impeachment of President Lugo by Congress on June 22, 2012, the Presidents of Argentina, Brazil and Uruguay voted to suspend Paraguay from the bloc until the next presidential election, which is scheduled for April 2013. Citing the Ushuaia Protocol, these countries alleged that a *coup d'état* had taken place in Paraguay that involved a breakdown of democratic rule without any respect for due process of law. The Ministry of Foreign Affairs of Paraguay responded that the impeachment was not a *coup d'état* as it was performed pursuant to article 225 of the National Constitution of Paraguay and because President Lugo accepted the decision of Congress. Shortly after suspending Paraguay's membership, MERCOSUR members voted to allow Venezuela entry into the bloc—a move that had been blocked by Paraguay prior to its suspension.

MERCOSUR established a common external tariff ("CET") in 1995. 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 common external tariffs (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 December 2012, the CET, which came into effect in January 1995, had not yet been fully implemented. Each country maintains a list of CET exceptions that, in Paraguay's case, are around 23% of all tariff lines and establish an average tariff that is lower than MERCOSUR's average CET. For Paraguay, the full implementation of the CET would cause rates to increase. The modification of CET rates requires the consent of all MERCOSUR members.

The Protocol of Montevideo on Trade in Services in MERCOSUR became effective in 2005, following ratification by Argentina, Brazil, and Uruguay. Paraguay has not yet ratified the Protocol, as a result of which the Protocol does not apply to Paraguay. 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, but it is not clear whether Paraguay does in practice give these preferences.

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. These, however, have not yet entered into force, and the required ratification by all parties is pending.

MERCOSUR has also signed framework agreements to formally initiate preferential trade negotiations with Jordan (2008), Turkey (2008), Pakistan (2006), the GCC (which includes the United Arab Emirates, Bahrain, Saudi Arabia, Oman, Qatar and Kuwait) (2005), Morocco (2004). Negotiations between MERCOSUR and Jordan on a free-trade agreement are at an advanced stage. 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 countries with: the Republic of Korea (2009); Singapore (2007); Russia (2006); Guyana (1999); and Trinidad and Tobago (1999). These cover, *inter alia*, exchange of information identification of areas of mutual interest and measures for expanding trade and investment.

Negotiations on an interregional association agreement between the European Union and MERCOSUR are currently under way.

Other Preferential Trade Relationships

Paraguay offers preferential access to imports from a total of 13 countries. 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 Complementarity Agreements and Regional Scope Agreements. When a country has been given preferences under more than one agreement, the preferential tariff applied is the lowest one, in other words, the tariff that gives the highest level of preference.

The arithmetic average of applied most favored nation ("MFN") rates in 2011 was 8.5%, lower than the 8.9% recorded in 2004, mainly owing to the lowering of tariffs on capital goods. The average applied MFN tariff is 10% for agricultural products (WTO definition) and 8.4% for non-agricultural products. Paraguay grants at least

MFN treatment to all its trading partners. All rates are *ad valorem* and are levied on the CIF value of the product imported. Paraguay did not make use of temporary or variable levies on imports between 2007 and 2012.

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 32.4%. The gap between applied and bound tariffs 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 the "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. VAT is imposed on imported and domestic goods and services alike. In 2011, 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. Agricultural products in their natural condition are exempt from VAT. The revenue earned from VAT is still the largest source of tax revenue, accounting for 52.3% of the total in 2011. The selective consumption tax applies to a group of products, whether imported or domestically produced, essentially tobacco, alcoholic beverages, perfumes, petroleum fuels, etc., at rates ranging from 1% to 38%.

Foreign Direct Investment

Equal treatment for foreign and domestic investment is guaranteed by law, the only exception being 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 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 PEES emphasizes the importance of developing private-public partnerships to invest in infrastructure. Areas that have been identified as requiring infrastructure upgrades include the development of multimodal transport networks, electricity transmission lines, water distribution systems, drainage works and communications. Concrete steps have been taken to improve the investment climate in Paraguay. These include the installation of a new electricity infrastructure to meet demand for energy, the preparation of projects granting concessions for highways, airports and waterways and the implementation of a master plan to enhance the business climate. Improving the business climate for investment is one of the objectives highlighted in the PEES.

Paraguay has BITs with 27 countries. Paraguay has not entered into any new BITs since 2007. Paraguay has double taxation agreements with the following countries: Germany (air transport, 1985); Argentina (air, river and road transport, 2000); Belgium (air transport, 1987); Chile (air, river and road transport, 1995, and income and wealth tax, 2008); China (income tax, 2010); and Uruguay (air transport, 1993). An agreement with Uruguay on road transport is pending ratification. An agreement with Brazil on income tax was rejected by the Congress.

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 Penal Code (effective in mid-2009), with stricter provisions on money laundering, human trafficking, and intellectual property rights.

Paraguay is also a member of 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 flows (excluding real estate investments by binational entities) totaled US$1.2 billion between 2007 and the first half of 2012.

In 2007, FDI flows totaled US$201.8 million. FDI flows totaled approximately US$208.5 million in 2008, and declined substantially in 2009 (US$94.6 million) in the wake of the global economic crisis, recovered by more than twice in 2010 (US$228.8 million) and increased again in 2011 (US$248.1 million). FDI for the period from 2007 to the first half of 2012 mainly originated from the United States, which accounted for US$1.0 billion of capital flows, representing almost 80% of total FDI flows. The second largest contributor to FDI was Brazil, with US$133.0 million.

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

Annual FDI Flows by Country of Origin

Country	2007	2008	2009	2010	2011	For the six months ended June 30, 2012(1)
	(in thousands of US$ and percentages)					
United States	$106,655	$190,186	$111,313	$265,243	$119,148	$221,416
Brazil	41,021	41,521	(25,999)	29,677	8,529	38,225
Spain	18,978	11,218	15,557	23,602	(4,843)	24,966
Japan	(13,004)	(36,895)	(9,694)	(47,430)	831	24,322
Argentina	(16,767)	5,943	23,243	7,558	17,782	9,082
United Kingdom	595	(1,720)	3,448	1,674	17,980	2,104
The Netherlands	(30,187)	20,494	(27,949)	4,425	8,605	287
Germany	2,051	2,556	1,696	1,527	0	0
Chile	1,882	(3,036)	(13,823)	(12,869)	(257)	(47)
Italy	5,603	10,618	306	5,157	14,256	(2,358)
Switzerland	5,923	9,663	7,718	(7,033)	22,797	(2,952)
Mexico	0	0	(8,364)	(17,895)	45,118	(7,039)
Panama	26,008	(12,930)	(534)	24,769	(13,287)	(8,389)
Luxemburg	69,282	23,012	12,831	(45,711)	16,053	(79,856)
Others(2)	(16,290)	(52,102)	4,845	(4,080)	(4,604)	(45)
Total	$201,750	$208,528	$94,593	$228,793	$248,108	$219,714

(1) June 2012 data is preliminary.
(2) Includes Colombia, Ecuador, Taiwan, Uruguay, Sweden, France and Portugal and Hong Kong.
Source: Central Bank of Paraguay.

MONETARY SYSTEM

The Central Bank

The Central Bank of Paraguay 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. A new charter of the Central Bank was approved by Congress 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 are the component of the financial sector; and through the Superintendence of Insurance which is in charge of supervising insurance and reinsurance entities. The main legal instrument governing the financial sector is the General Law on Banks, Finance Companies and other Credit Institutions (the "Law 861/96"). This law provides rules for the creation and supervision of financial entities, as well as for the protection of the financial system as a whole. Law 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 861/96 establishes that foreign investment in financial entities will receive the same treatment as domestic capital. According to Law 861/96 (Article 23), owners of shares in a bank that allow them to exercise shareholder control or decisively influence the corporate will 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 may be the principal shareholder of an insurance company.

Law 2334/03 creates a deposit guarantee fund, and sets up a procedure for winding down companies based on a system of transfer of assets and liabilities intended to ensure rapid and efficient liquidation. See "—Reorganization Regime" and "—Deposit Guarantee Fund."

As of December 31, 2011, the Central Bank had negative equity of G.1,975.9 billion (approximately US$471 million). The Central Bank's negative equity was 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 since the mid-1990s, when it confronted a series of problems in the financial system, including by 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 its strategy of providing a framework for medium- and long-term macroeconomic stability, the government addressed the Central Bank's negative equity and adopted measures to strengthen the financial position of the Central Bank. In April 2010, Congress enacted Law 3974/10, which authorized the Ministry of Finance to issue and transfer to the Central Bank of Paraguay securities in an aggregate principal amount of up to 6.25% of 2009 GDP (approximately US$1 billion) in exchange for the irrevocable cancellation and discharge of all debt, nonperforming legacy claims held by the Central Bank of Paraguay against public entities and the assignment to the Ministry of Finance of any remaining legal claims on guarantees by third parties. Interest rates and maturities on the bonds to be transferred were to be agreed between the Central Bank of Paraguay and the Ministry of Finance. On December 20, 2012, both institutions signed an agreement defining the financial conditions and this agreement was ratified by the President of the Republic on the same date. The Ministry of Finance issued a perpetual bond, having a principal amount of G.3,927.5 billion (about US$ 0.9 billion) initially carrying a 0.25% 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.

Supervisory and Reporting Requirements

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.

Under Law 861/96, the Superintendence of Banks requires financial institutions to maintain a minimum total capital to risk-weighted assets (loans) ratio of 8%. This minimum total capital to risk-weighted assets ratio requirement could increase to 12%. As of June 30, 2012, 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. 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 30 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 of Paraguay.

The following table sets forth the classification of aggregate loan assets of the Paraguayan banking system by categories as at June 30, 2012.

Classification of Aggregate Loan Assets of the Paraguayan Banking System

	As of June 30, 2012							
	1	**1a**	**1b**	**2**	**3**	**4**	**5**	**6**
	(in percentages of total loan assets)							
Stated-owned bank (BNF)	96.2%	1.1%	1.3%	0.2%	0.1%	0.1%	0.1%	0.9%
Branches of foreign banks	89.6	5.4	3.6	0.0	0.8	0.0	0.1	0.5
Majority Foreign Participation	83.6	8.5	3.3	1.5	1.3	0.3	0.3	1.0
Private domestic local majority property	81.9	10.8	2.3	1.9	1.2	1.0	0.4	0.8
Banks	83.5	9.3	2.7	1.6	1.2	0.5	0.3	0.9
Financial companies	76.5	13.8	3.8	1.3	1.1	0.8	1.0	1.7

Source: Central Bank of Paraguay.

The Superintendence of Banks may conduct inspections of the institutions it supervises whenever it deems necessary. In practice, these inspections are conducted at least annually. Based on the findings of these inspections or daily reports submitted by the institutions, 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 2334/03 provides that all financial sector entities must submit a reorganization plan that must be approved by the Superintendence of Banks in case 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 semester 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 enforced, 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 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 also bolstered in 2003 by the establishment through Law 2334/03 of the FGD. The FGD functions as a bank deposit insurance program, and is financed by contributions from financial institutions (including the subsidiaries of foreign banks) and the Central Bank and guarantees deposits up to an amount equivalent to 75 minimum wages, per natural or legal person, in the event of a financial institution being liquidated.

The deposit insurance system is broadly consistent with international standards. The agency works as a pay-box and can contribute to the bank resolution process under the "least-cost solution." Coverage is at US$28.068 or 7.3 times GDP per capita as of December 2012. 19% of deposits are fully covered. Accordingly, the risk premium is also among the highest in the region. 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. 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 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 regulation, intended to overhaul the country's financial system. Law 489 and Law 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 the region 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 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 2008, 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 2008 regulation for past due terms and provisions was changed in 2011. In addition, further regulation introduced in 2008 establishes 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 strengthening of on-site and off-site supervision and the supervisory capacity of the Superintendence of Banks through the creation of the Financial Stability Intendancy in the Superintendence of Banks, which is in charge of writing the report about financial stability in Paraguay. 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, which stood at 27% in 2005, has increased to 63% by the end of 2010.

As of July 2012, Paraguay's financial sector consisted of 16 banks (including one state-owned bank, eight private domestic banks and seven branches of foreign banks), 11 financial companies, 26 savings and loan cooperatives, four warehousing companies, 31 foreign exchange trading institutions and 34 insurance companies.

Paraguay's banking sector is regulated by Law 861/96 and supervised by the Superintendence of Banks. Under Law 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.

At June 2012, the assets of banks operating in Paraguay amounted to G.57,481.5 billion (US$13.0 billion), equivalent to approximately 50.8% of 2012 GDP, while bank deposits amounted to G.42,387.8 billion (US$9.6 billion). As of June 30, 2012, the finance companies were holding G.2,577.9 billion (US$582 million) in assets and G.1,855.1 billion (US$419 million) in deposits. Bank loans to clients represent about 61.7% of bank assets. The rest are predominantly liquid resources held in Central Bank accounts. About 73.7% of bank liabilities are deposits, while the rest 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 June 30, 2012.

Aggregate Balance Sheet of Banks

As of June 30, 2012
(in percentage of total assets and liabilities)

Assets		Liabilities	
Cash	9.7%	Deposits	73.7%
In Guaraníes	*3.8*	*In Guaraníes*	*43.2*
In U.S. dollars	*5.9*	*In U.S. dollars*	*30.5*
Legal Reserves	10.9	Discount Facilities owed to the Central Bank	0.4
Free Reserves	3.3	Foreign Creditor Liabilities	5.9
Total Investment	9.7	Other Liabilities	9.3
Publics Instrument	9.5	Net Worth	10.7
Others	0.1		
Credits (Net of Provisions)	61.7		
Financial Sector	*4.7*		
Banking Sector	-		
Non-Financial Sector	*57.4*		
NPL	*1.3*		
Provisions	*(1.7)*		
Other Assets	4.7		
Total Assets	100.0%	Total Liabilities	100.0%

Source: Central Bank of Paraguay.

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 them, but are also subject to the same obligations applicable to domestic banks under the Law 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. In June 2012, direct foreign subsidiaries and banks with majority foreign participation held 45.7% of bank assets and 44.4% of deposits, while the majority locally-owned banks had 48.7% of assets and 49.5% of deposits.

In June 2012, the four largest banks (two of them with majority foreign participation) controlled 61% of total bank assets; these were Banco Itaú Paraguay S.A. (16.51% of the total assets of the financial system), Banco Continental S.A.E.C.A. (15.85%), Banco Regional S.A.E.C.A. (15.62%) and Banco Bilbao Vizcaya Argentaria Paraguay S.A. (12.74%).

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 June 2012, the BNF held 5.6% of banking system assets and 6.2% of deposits.

Financial companies (*empresas financieras*) are also regulated by Law 861/96 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 June 30, 2012, financial companies were the second most important providers of loans and holders of deposits in the Paraguayan financial system, accounting for G.1,868.0 billion (approximately US$422 million) in loans, and G.1,855.1 billion (approximately US$419 million) in deposits. The Central Bank also supervises financial leasing companies, mutual funds, securitization companies and financial trusts.

Savings and loan cooperatives are regulated by the savings and loan cooperatives law enacted in October 1994, 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.

Warehousing companies and foreign exchange trading institutions are also supervised by the Superintendence of Banks. Warehousing companies issue commodity warrants evidencing agricultural products deposited with the warehousing companies. The commodity warrants are 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 provide loans or take deposits. The principal law governing insurance activity provides the procedures for establishing, operating and winding down insurance companies and the responsibilities and obligations of the supervisory authority, among other provisions. 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 Development Finance Agency (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 June 30, 2012.

Financial Sector of Paraguay

	As of June 30, 2012			
	Loans	% of Total	Deposits	% of Total
	(in millions of US$ and percentages)			
Private domestic local majority property	$ 4,081	44.5%	$ 4,731	46.7%
Branches of foreign banks	3,239	35.3	3,726	36.8
BNF (state-owned)	274	3.0	586	5.8
Direct foreign subsidiaries	414	4.5	524	5.2
Financial Companies	445	4.9	419	4.1
Savings and loan cooperatives	728	7.9	145	1.4
Total	$ 9,182	100.0%	$ 10,130	100.0%

Source: Central Bank of Paraguay.

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, 2011					As of June 30,
	2007	2008	2009	2010	2011	2012
	(in millions of US$)					
Private domestic local majority property	863	1,391	2,559	3,210	4,601	4,731
Branches of foreign banks	1,335	2,266	2,403	3,094	3,840	3,726
BNF (state-owned)	313	411	444	476	541	586
Direct foreign subsidiaries	999	1,143	531	570	528	524
Financial Companies	354	360	293	311	433	419
Savings and loan cooperatives		145	157	146	155	145(1)
Total	3,863	5,715	6,386	7,808	10,099	10,130

(1) As of May 2012.
Source: Central Bank of Paraguay.

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

Deposits in the Financial Sector as a Percentage of Total

	As of December 31,					As of June 30,
	2007	2008	2009	2010	2011	2012
	(in percentages)					
Private domestic local majority property	22	24	40	41	46	47
Branches of foreign banks	35	40	38	40	38	37
BNF (state-owned)	8	7	7	6	5	6
Direct foreign subsidiaries	26	20	8	7	5	5
Financial Companies	9	6	5	4	4	4
Savings and loan cooperatives	-	3	2	2	2	1(1)
Total	100	100	100	100	100	100

(1) As of May 2012.
Source: Central Bank of Paraguay.

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 June 30,
	2007	2008	2009	2010	2011	2012
	(in millions of US$)					
Private domestic local majority property	592	1,161	1,846	2,749	4,060	4,081
Branches of foreign banks	907	1,694	1,693	2,586	3,399	3,239
Direct foreign subsidiaries	646	833	360	416	395	414
Financial Companies	358	363	296	357	492	444
BNF (state-owned)	82	122	139	155	251	274
Total	2,586	4,172	4,335	6,263	8,597	8,452

Source: Central Bank of Paraguay.

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

	% of Total As of December 31,					% of Total for six months ended June 30,
	2007	2008	2009	2010	2011	2012
	(in percentages)					
Private domestic local majority property	23	28	43	44	47	48
Branches of foreign banks	35	41	39	41	40	38
Direct foreign subsidiaries	25	20	8	7	5	5
Financial Companies	14	9	7	6	6	5
BNF (state-owned)	3	3	3	2	3	3
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Central Bank of Paraguay.

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 June 30,
	2007	2008	2009	2010	2011	2012
Insurance companies	N/A	33	33	33	34	34
Foreign exchange trading	24	27	32	33	31	31
Private Banks	12	14	14	15	14	15
Financial companies	14	12	11	10	11	11
Warehousing companies	4	4	4	4	4	4
Public Banks	1	1	1	1	1	1

Source: Central Bank of Paraguay.

The following table sets forth main efficiency indicators of Paraguay's financial system.

Indicators of Financial System Efficiency

	2007	2008	2009	2010	2011	For the seven months ended July 31, 2012
			(in percentages)			
Return on assets	2.8	3.2	2.4	2.4	2.3	2.6
Return on equity	25.7	28.4	23.2	22.3	22.4	26.5
Non-Performing Loans as a percentage of total loans	3.2	2.6	2.3	2.0	2.7	2.3
Gross Operational Margin/Assets	5.7	5.6	4.9	5.0	5.4	3.2
Operating Expenses/Operating Revenues	76.9	89.0	82.5	85.5	88.6	92.6
Operating Expenses/Total Assets	18.9	44.9	23.0	29.3	41.9	39.8
Regulatory capital to risk weighted assets	16.9	16.3	16.3	15.4	14.9	16.8

Source: Central Bank of Paraguay.

Anti-Money Laundering

In recent years, Paraguay has enhanced its anti-money laundering regulations designed to combat the financing of terrorism ("AML/CFT") regime by approving important legislation and strengthening its supervision and control system. The Financial Action Task Force ("FATF") noted that Paraguay had largely met its commitments in its action plan regarding the strategic deficiencies that the FATF had identified in February 2010. For example, the *Secretaría de Prevención de Lavado de Dinero o Bienes* ("SEPRELAD") implemented regulations relating to remittances not made through banks or other financial institutions and regulations requiring originator information in relation to wire transfers. Pursuant to these regulations, Paraguay performed offsite and onsite inspections of money transfer companies and issued written warnings to companies that did not comply with the new procedures, requiring the warned entities to adhere to the newly-implemented regulations within a specific time period. In addition, Paraguay implemented regulations relating to cross-border cash transactions by maintaining cross-border posts staffed with customs personnel after having carried out cross-border control exercises with international organizations. As a result, Paraguay is no longer subject to its monitoring process under the FATF's ongoing global AML/CFT compliance process.

Paraguay is currently working with the assistance of the IDB and the IMF in the design of a national strategy for the further strengthening of the AML/CFT regime. The national strategy is expected to be approved by the government by April 2013.

Securities Markets

The Asunción Stock Exchange (the "BVPASA"), established in 1993, is the only securities exchange in Paraguay. In 2011, the total trading volume was represented by non-governmental securities, principally for working capital financing.

The Paraguayan equity and bond market is governed by the capital markets law adopted in 1991 and amended in 1998 (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, in the third quarter of 2010, of an electronic trading system for securities and the first issue of Treasury Bonds (medium- and long-term) through BVPASA in 2012 of approximately US$5 million 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

	2007	**2008**	**2009**	**2010**	**2011**	**Six months ended July 31, 2012**
			(in thousands of US$)			
Number of listed companies (end of period)	66	70	70	67	69	67
Private sector securities						
Equities	44,516	99,825	32,670	41,611	37,749	21,315
Certificates of deposit and others	53,355	77,564	90,144	156,663	112,537	66,830
Public Sector Securities	-	-	-	-	-	4,960
Bonds	-	-	-	-	-	4,960
Total	97,871	177,389	122,814	198,274	150,286	93,105

Source: Asunción Stock Exchange

In 2012, the stock market companies signed an agreement with members of the Rosario Stock Exchange in Argentina to develop the U.S. dollar/Guaraníes futures market so that companies can be covered against the risk of exchange rate volatility.

Monetary Policy

The fundamental objectives of the Central Bank are to preserve and safeguard the stability of the currency and promote efficiency and stability of the financial system.

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 of the inflation targeting system 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 the first of two Monetary Policy Reports, which are published semi-annually, the first in September and the second in April of the following year. The objectives of the Monetary Policy Report are to:

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

(ii) make public the analytical framework which is 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 and develop the money market, in order to increase efficiency and deepen the transmission of its monetary policy decisions. The operational instruments are:

(i) the short-term liquidity facility;

(ii) the interbank liquidity window;

(iii) monetary regulation instrument ("IRM");

(iv) legal reserves;

(v) market operations in the money market; and

(vi) money desk operations.

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 benchmark rate (IRM-14 days). 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 an intra-day repos.

The Central Bank manages its financial liabilities by placing long-term bills, the IRM, which are issued with quarterly expiration dates (March, June, September and December). The auctions are held once a month and the expiration date of the IRM is the last Friday of each quarter business day.

The purpose of the IRM loans is to manage financial system liquidity in the longer term, as well as certain legacy liabilities of the Central Bank incurred in the 1990s in the context of one or more of the financial crises that affected Paraguay.

As a result of the various measures taken in the 2009-2012 period and in response to the internal and external macroeconomic environment, the profile of monetary policy during this period adjusted from a more expansive profile to a more contractive or neutral profile. Thus, the monetary policy rate weighted average in 2008 was 6.0%, reaching its lowest level in 2009 (2.2%), to reverse this trend in 2011 (8.0%) reaching its highest level for the period of analysis, which allowed the inflation rate to remain within the target range (5.0% plus/minus 2.5%).

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

Weighted Average Interest Rate of IRM

	in percentages
2007	6.2%
2008	6.0
2009	2.2
2010	2.6
2011	8.1
2012	6.1

Source: Central Bank of Paraguay.

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)

	As of December 31,					As of June 30,
	2007	2008	2009	2010	2011	2012
	(in millions of US$)					
Currency in circulation, including cash in vaults at banks	892.0	1,008.9	1,203.9	1,440.0	1,635.6	1,466.1
Banks' reserves at the Central Bank	443.4	536.1	1,004.9	814.0	954.6	879.5
Monetary Base	1,335.3	1,545.0	2,208.8	2,254.0	2,590.2	2,345.7
International reserves (net)	2,461.8	2,864.3	3,860.7	4,168.2	4,983.7	4,968.4

Source: Central Bank of Paraguay.

The ratio of the Central Bank international reserves (net) to the monetary base was approximately 1.93 to 1 as of December 31, 2011. This ratio increased to approximately 2.05 to 1 as of June 30, 2012. See "–Foreign Exchange and International Reserves."

The following table sets forth liquidity and credit aggregates as of the dates indicated.

Liquidity and Credit Aggregates

	As of December 31,					As of June 30,
	2007	2008	2009	2010	2011	2012
	(in millions of US$)					
Liquidity aggregates						
Currency in circulation, excluding cash in vaults at banks	764	926	897	1,120	1,412	1,177
Deposits in current accounts	1,060	1,336	1,677	1,938	2,442	2,165
M1	1,824	2,262	2,575	3,058	3,854	3,342
Savings and term deposits	528	970	1,083	1,376	2,033	2,084
M2	2,352	3,233	3,657	4,435	5,886	5,426
Deposits in foreign currency	1,310	2,050	2,002	2,810	3,403	3,661
M3	3,662	5,282	5,660	7,244	9,289	9,087
Credit aggregates						
Private sector credit	1,982	3,397	3,651	5,453	7,687	7,629
Public sector credit	644	770	820	866	837	793
Total domestic credit	2,626	4,167	4,471	6,319	8,524	8,422

Source: Central Bank of Paraguay.

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,					As of June 30,
	2007	2008	2009	2010	2011	2012
	(percentage change from previous year in Guaraníes)					
Currency in circulation, including cash in vaults at banks	28.3	15.0	11.3	18.5	11.6	14.7
M1[(1)]	38.5	7.5	29.6	13.4	11.6	8.6
M2[(2)]	39.4	19.1	28.8	15.7	17.5	12.9
M3[(3)]	31.4	25.0	22.0	22.2	13.5	15.1
Credit from the financial system[(4)]	41.5	36.6	22.8	36.2	21.4	20.8
Deposits in the financial system[(4)]	33.9	24.4	27.0	17.8	15.3	15.7

(1) Currency in circulation, excluding cash in vaults at banks, plus Guaraníes-denominated current accounts.
(2) M1 plus Guaraníes-denominated savings and term deposits.
(3) M2 plus foreign currency deposits.
(4) Includes banks and financial companies. Excludes cooperatives.
Source: Central Bank of Paraguay.

In the 2007-2011 period, the average annual change in Paraguay's monetary aggregate M2 was 24.1%. However, this did not cause inflationary issues since average GDP growth during the same period was 5.0%. In addition, during the same period, the increased use of financial intermediaries, which is reflected in the increase in the monetary aggregates M2 and M3, is attributable to GDP growth, which reached 13.1% in 2010.

M2 grew by 108.7% in the 2007-2011 period because the Central Bank increased the amount of currency in circulation to provide adequate liquidity consistent with non-inflationary growth during the same period. In the 2007-2011 period, M3 increased by 111.5%. However, in the 2008-2011 period, M3 grew at a slower pace of 69.1%, reflecting the shift from foreign currency-denominated deposits to Guaraníes-denominated deposits, which reduced the dollarization of the economy.

Private sector credit consists primarily of trade, consumer and service/financial sector credit. In the 2007-2011 period, credit extended to private sector borrowers increased by 223.3% as a result of general economic growth and the increase in imports and domestic consumption as reflected in the trade balance deficit during such period. On the other hand, public sector credit increased at a much lower average rate of 8.4% in the same period.

As of December 31, 2011, total outstanding loans in the financial system, which includes loans by banks and other financial companies to the non-financial system, amounted to G.35,287.6 billion or US$8.4 billion, which represents an increase of US$2.3 billion from the level of outstanding loans as of December 31, 2010. These figures exclude loans from one financial institution to another. Total deposits in the financial system increased by 15.3% in Guaraníes terms from 2010 to 2011 and amounted to US$9.7 billion, as of December 31, 2011, which represents an increase of US$2.3 billion from the level of deposits as of December 31,2010. This increase in total deposits was mainly the result of the appreciation of the Guaraní vis-à-vis the U.S. dollar. As of June 30, 2012, loans amounted to G.36,679.0 billion, or US$ 8.3 billion, and deposits to G.43,368.2 billion, or US$9.8 billion.

Inflation

The following table shows changes in the CPI for the periods indicated.

Percentage Change of Consumer Price Index from Previous Year

	CPI % change
2007	6.0
2008	7.5
2009	1.9
2010	7.2
2011	4.9
2012	4.0

Source: Central Bank of Paraguay.

The Central Bank has adopted an inflation targeting scheme in order to maintain relatively low rates of inflation. The Central Bank's targeting scheme establishes a target rate of 5.0% annual inflation with a floor of 2.5% and a ceiling of 7.5%. 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.

In the 2007-2012 period, the annual inflation rate, CPI, remained within the government target range of 5% (with a floor of 2.5% and a ceiling of 7.5%) except in 2009, when CPI increased by only 1.9%, which is below the floor of the target range. Inflation was 6.0% in 2007, 7.5%, in 2008, 1.9% in 2009, 7.2% in 2010, 4.9% in 2011 and 4.0% in 2012.

During this period, the inflation dynamics are explained by the wide fluctuations in food prices and oil derivatives. In 2008 and 2010, the rising prices of sugar, cereals and beef resulted from increases in agricultural commodity prices and increased exports of beef destined for the Chilean and Russian markets. Increases in the price of petroleum products were the result of an increase in the international price of crude oil. Given that Paraguay is a net importer of crude oil, increases in international crude oil prices usually result in increases in domestic price.

In a short-term perspective, since the beginning of 2011, the inflation rate observed a downward trend as a result of reductions in food prices, and mainly because of a reduction in the price of beef.

Foreign Exchange and International Reserves

Foreign Exchange

Paraguay has maintained a managed free floating exchange rate system since 1989. Paraguay has also maintained the 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.

During 2008 there had been a process of national currency appreciation mainly the result of private capital inflows. This trend was reversed by the end of 2008 and 2009. During the first half of 2012, the U.S. dollar has shown a slight increase, coinciding with the Brazilian currency trend and others in the region, owing to both domestic and external factors.

Since then, the Guaraníes exchange rate has stabilized primarily because of the Central Bank's operations during the first quarter of 2012. As a result of the substantial depreciation of the Brazilian Real against major currencies in the beginning of 2012, the period end exchange rate depreciated by approximately 0.8% in the six months ended June 30, 2012.

Exchange Rates

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	Low	Average[(2)]	Period End[(3)]
		(Guaraníes per US$)		
2007	5,270.0	4,600.0	5,032.7	4,875.0
2008	4,970.0	3,870.0	4,363.1	4,945.0
2009	5,190.0	4,480.0	4,966.6	4,610.0
2010	4,948.4	4,436.4	4,739.5	4,565.3
2011	4,652.9	3,723.3	4,196.2	4,492.0
2012	4,730.2	4,157.7	4,423.2	4,305.6

(1) Exchange rates for transactions between financial institutions and non-financial clients.
(2) Annual arithmetic average of monthly average bid/offer exchange rates.
(3) Average bid/offer US$/G. exchange rate as of the close of business for the last business day of December each year, as reported by the Central Bank of Paraguay.
Source: Central Bank of Paraguay.

International Reserves

The following table sets forth the net international reserves of the Central Bank for the periods indicated.

International Reserves (Net) of the Central Bank

	As of December 31,					
	2007	2008	2009	2010	2011	2012
	(in millions of US$)					
Gold[(1)]	-	18.4	23.2	26.4	30.5	437.5
Foreign Exchange	2,313.2	2,767.4	3,630.4	3,947.0	4,749.7	4,353.7
Subtotal	2,313.2	2,785.8	3,653.6	3,973.4	4,780.3	4,791.3
Special Drawing Rights	117.5	44.7	173.2	163.3	169.5	170.0
Reserve Position at IMF	31	33.4	33.7	31.6	34.1	33.1
Subtotal	148.5	78.2	206.9	194.9	203.6	203.1
Total	2,461.4	2,864.1	3,860.7	4,168.2	4,983.9	4,994.4

(1) Gold valued for each period at London market prices at the end of each period shown.
Source: Central Bank of Paraguay.

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 net international reserves of the Central Bank increased consistently between 2007 and 2011. This was mainly the result of sustained current account surpluses and inflows of foreign capital through the financial account during the 2006-2012 period. In particular, there was an increase in FDI and repatriation of deposits held with foreign financial institutions during this period while the share of loan disbursements began to decline. In 2012, international reserves (net) increased by US$10.5 million.

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 (including the social security system, departments, national universities, and the customs department and other decentralized governmental entities). Central government revenues are derived mainly from tax collection (value-added tax, corporate 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 capacity generated in Itaipú and Yacyretá, respectively, and unused by Paraguay, and social security contributions). Central government expenditures consist mainly of wages and salaries, payments for goods and services, transfer payments, interest on public debt and investments in infrastructure. The Central bank generally runs an operating deficit due to interest payments on its instruments of monetary policy and its operating costs.

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. Public sector institutions must obtain the authorization from both the government and Congress to obtain medium- and long-term financing, and the amount and sources of such financing must be contemplated in the Annual Budget; 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, which would not be recourse to the central government. Accordingly, all information regarding the consolidated public sector finances excludes any finances related to municipalities.

The Franco administration has focused on defining and implementing a medium- and long-term policy of economic development with emphasis on the reduction of poverty and inequality. In this regard, the central government has been substantially increasing investment in health, education, housing, land reform and economic and social infrastructure.

The following table sets forth consolidated public sector finances for the periods indicated.

Consolidated Public Sector

	2007	2008	2009	2010	2011
	(in millions of US$)				
Current Revenues	3,879	5,347	4,761	5,544	7,481
Non-Financial Public Sector	3,714	5,104	4,629	5,412	7,263
Central Government	2,148	2,915	2,744	3,359	4,367
Other General Government	475	662	619	759	1,047
State Owned Enterprises	1,090	1,527	1,266	1,294	1,848
Central Bank	109	96	64	52	57
Other Financial Institutions	57	146	67	80	161
Current Expenditures	3,003	4,116	4,114	4,540	5,846
Non-Financial Public Sector	2,930	3,986	4,023	4,431	5,710
Central Government	1,582	2,054	2,135	2,504	3,330
Other General Government	366	494	553	657	842
State Owned Enterprises	983	1,438	1,335	1,270	1,538
Central Bank	32	47	48	40	53
Other Financial Institutions	41	84	43	69	83
Current Balance	876	1,230	647	1,004	1,635
Capital Revenues	35	41	116	88	253
Non-Financial Public Sector	7	13	84	79	169
Central Government	5	6	51	68	154
Other General Government	1	5	6	9	13
State Owned Enterprises	0	1	27	1	2
Central Bank	10	11	6	6	12
Other Financial Institutions	18	17	26	3	72
Capital Expenditures	554	564	802	937	1,205
Non-Financial Public Sector	541	551	798	899	1,190
Central Government	459	456	655	680	1,009
Other General Government	13	19	15	9	70
State Owned Enterprises	69	76	128	210	111
Central Bank	12	12	3	10	4
Other Financial Institutions	2	2	1	28	11
Lending Minus Repayments	42	(22)	76	56	117
Loans	221	208	305	355	498
Reimbursements	179	230	228	300	381
Primary Surplus/deficit	441	858	27	199	657
Overall Surplus/deficit	314	729	(116)	99	566

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 quickly translated into an improvement of central government balances.

In 2000, 2001 and 2002, public sector finances deteriorated further. 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 2008, central government primary expenditures totaled US$2.4 billion, an increase of 24.1% compared to 2007. Central government revenues in 2008 totaled US$2.9 billion, an increase of 35.7%, compared to 2007. The central government overall balance recorded a surplus of US$420 million (2.3% of GDP). The central government primary balance showed a surplus equivalent to 2.8% of GDP.

In 2009, central government primary expenditures totaled US$2.7 billion, an increase of 12.5% compared to 2008. Central government revenues in 2009 totaled US$2.8 billion, a decrease of 4.3%, compared to 2008. The central government overall balance recorded a surplus of US$99 million (0.1% of GDP). The central government primary balance showed a surplus equivalent to 0.6% of GDP.

In 2010, central government primary expenditures totaled US$3.1 billion, an increase of 15.1% compared to 2009. Central government revenues in 2010 totaled US$3.4 billion, an increase of 22.6%, compared to 2009. The central government overall balance recorded a surplus of US$248 million (1.2% of GDP). The central government primary balance showed a surplus equivalent to 1.6% of GDP.

In 2011, central government primary expenditures totaled US$4.3 billion, an increase of 37.3% compared to 2010. Central government revenues in 2011 totaled US$4.5 billion, an increase of 31.9%, compared to 2010. The central government overall balance recorded a surplus of US$188 million (0.7% of GDP). The central government primary balance showed a surplus equivalent to 1.0% of GDP.

Preliminary data for 2012 indicates that the central government primary expenses totaled US$5.1 billion, an increase of 18.4% compared to 2011. Central government revenues in 2012 totaled US$4.6 billion, an increase of 2.7%, compared to 2011. The central government overall balance recorded a deficit of US$465 million (1.8% of GDP). The central government primary balance showed a deficit equivalent to 1.6% of GDP.

The central government ran primary and overall surpluses consistently from 2007 until 2011. Although Paraguay was affected by the negative impact of the global financial crisis that began in 2008, the central government maintained a disciplined fiscal policy. The central government ran a G.787 billion (approximately US$188 million, or 0.7% of GDP), fiscal surplus in 2011 in spite of the automatic adjustment clauses contemplated in existing legislation that increased wages and salaries for public sector employees without generating additional revenue. Salaries and wages of public sector employees increased by approximately 30% in 2012 and such increase represented 2.1% of GDP.

The following table sets forth a summary of the central government's overall balance for the periods indicated.

Central Government Overall Balance

	As of December 31,				
	2007	**2008**	**2009**	**2010**	**2011**
Overall Balance (in millions of US$)	117.8	419.5	9.0	247.7	187.5
Overall Balance/GDP (%)	0.9	2.3	0.1	1.2	0.7

Source: Ministry of Finance.

Economic reforms aimed at increasing the formality of the Paraguayan economy have been a priority for the government. New tax laws and improved collection initiatives have generated a steady increase in tax revenue . Value-added tax ("VAT") collections, the central government's main source of tax revenues, has grown on average 20.1% per year since 2005. Another indication that economic reform measures are proving successful is the number of taxpayers registered, which has risen steadily in recent years. The number of registered taxpayers at the end of 2011 was 604,602, an increase of 8.4% from the end of 2010.

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,				
	2007	**2008**	**2009**	**2010**	**2011**
Taxpayers (percentage increase from the previous year)	11.8	9.7	9.0	8.5	8.4

Source: Ministry of Finance.

The increase in the number of registered taxpayers has contributed to an increase in income tax revenues. Total tax revenues in 2011 amounted to G.13.211 billion (approximately US$3.1 billion), equivalent to a tax burden of 12.3% of GDP. In 2007, the tax burden stood at around 10.1%, which means that in the period 2007-2011, this index increased by about 2.2 percentage points.

The central government's policy for public spending since 2008 has prioritized social services so as to create a real impact on an 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 2007, social spending accounted for 49.4% of total central government expenditure and by 2011 social spending increased to 53.0% of total central government expenditure.

The following table sets forth a summary of central government revenues and expenditures for the periods indicated.

Central Government Finances

	As of December 31,				
	2007	**2008**	**2009**	**2010**	**2011**
			(in millions of U.S.$)		
Tax Revenue	*$ 1,394.6*	*$ 1,983.9*	*$ 1,853.8*	*$ 2,406.5*	*$ 3,148.4*
Value-added taxes	699.7	1,034.4	896.0	1,246.6	1,617.2
Corporate income taxes	244.1	360.6	441.5	442.2	622.2
Excise taxes	260.2	318.5	300.3	375.1	475.5
Foreign trade taxes	166.4	243.3	196.8	321.9	406.1
Other taxes	24.2	27.1	19.1	20.8	27.5
Non-Tax Revenue	*555.2*	*636.9*	*661.6*	*652.6*	*869.7*
Royalties(1)	405.8	429.1	456.4	411.9	553.7
Social Security	149.4	207.8	205.2	240.7	316.0
Other Revenue(2)	*203.5*	*300.6*	*279.4*	*368.9*	*503.2*
Total Revenue	2,153.4	2,921.4	2,794.7	3,428.0	4,521.3
Current Expenditures	*1,582.5*	*2,054.0*	*2,135.5*	*2,504.3*	*3,330.2*
Wages and salaries	885.4	1,206.2	1,223.9	1,466.5	1,917.8
Goods and Services	140.4	164.3	213.9	272.5	396.9
Transfer payments	451.0	574.9	597.1	679.3	925.1
Interest on debt	101.9	102.0	87.5	73.1	67.7
Other Expenditures	3.8	6.5	13.0	12.9	22.6
Capital Expenditures	*459.0*	*455.8*	*655.4*	*679.9*	*1,008.8*
Capital Formation	300.9	283.4	415.6	477.9	580.0
Other Cap. Invest	158.1	172.3	239.8	202.1	428.8
Lending Minus Repayments	*(5.9)*	*(7.9)*	*(5.1)*	*(3.9)*	*(5.2)*
Total Expenditures	2,035.6	2,501.9	2,785.7	3,180.4	4,333.8
Overall Balance	117.8	419.5	9.0	247.7	187.5

(1) Includes royalty payments from Itaipú and Yacyretá binationals and compensation payments by Brazil and Argentina for sales of unused capacity generated by Itaipú and Yacyretá.
(2) Includes income from donations, transfers, other non-tax revenue, other current and capital income.
Source: Ministry of Finance.

The following table sets forth central government sector finances as a percentage of total GDP for the periods indicated.

Central Government Finances as a Percentage of GDP

	2007	2008	2009	2010	2011
			(as percentage of GDP)		
Tax Revenue	*10.1*	*10.7*	*11.6*	*12.0*	*12.1*
Value-added taxes	5.1	5.6	5.6	6.2	6.2
Corporate income taxes	1.8	1.9	2.8	2.2	2.4
Excise taxes	1.9	1.7	1.9	1.9	1.8
Foreign trade taxes	1.2	1.3	1.2	1.6	1.6
Other taxes	10.1	10.7	0.1	0.1	0.1
Non-Tax Revenue	*4.0*	*3.4*	*4.1*	*3.3*	*3.3*
Royalties(1)	2.9	2.3	2.9	2.1	2.1
Social Security	1.1	1.1	1.3	1.2	1.2
Other Revenue(2)	*1.5*	*273.9*	*1.8*	*1.8*	*1.9*
Total Revenue	15.6	15.8	17.5	17.1	17.4
Current Expenditures	*11.4*	*11.1*	*13.4*	*12.5*	*12.8*
Wages and salaries	6.4	6.5	7.7	7.3	7.4
Goods and Services	1.0	0.9	1.3	1.4	1.5
Transfer payments	3.3	3.1	3.7	3.4	3.6
Interest on debt	0.7	0.6	0.5	0.4	0.3
Other Expenditures	-	-	0.1	0.1	0.1
Capital Expenditures	*3.3*	*2.5*	*4.1*	*3.4*	*3.9*
Capital Formation	2.2	1.5	2.6	2.4	2.2
Other Cap. Invest	1.1	0.9	1.5	1.0	1.6
Lending Minus Repayments	-	-	-	-	-
Total Expenditures	14.7	13.5	17.5	15.9	16.7
Overall Balance	0.9	2.3	0.1	1.2	0.7

(1) Includes royalty payments from Itaipú and Yacyretá binationals and compensation payments by Brazil and Argentina.
(2) Includes income from donations, transfers, other non-tax revenue and other current and capital income.
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.

Central Government Revenue as a Percentage of Total Government Revenue

	2007	**2008**	**2009**	**2010**	**2011**
	(as percentage of total revenue)				
Tax Revenue	*64.8*	*67.9*	*66.3*	*70.2*	*69.6*
Value-added taxes	32.5	35.4	32.1	36.4	35.8
Excise taxes	12.1	11.0	10.8	11.0	10.7
Corporate income taxes	11.3	12.3	15.8	12.9	13.8
Foreign trade taxes	7.7	8.3	7.0	9.4	9.0
Other taxes	1.1	0.9	0.6	0.5	0.4
Non-Tax Revenue	*32.5*	*32.1*	*33.7*	*29.8*	*30.4*
Royalties(1)	18.8	14.7	16.3	12.0	12.2
Social Security	6.9	7.1	7.3	7.0	7.0
Capital Revenue	0.2	0.2	1.8	2.0	3.4
Other	9.2	10.1	8.2	8.8	7.7
Total Revenue	100	100	100	100	100

(1) Includes payments from Itaipú Binational and Yacyretá Binational.
Source: Ministry of Finance.

Tax Revenue

Tax revenues have increased steadily since 2007 as a result of reforms in tax legislation and improved management of tax administration. Tax revenues have increased on average 18.5% annually for the period 2003-2011. This in turn has caused the tax burden to rise from 8.7% of GDP in 2003 to 12.1% of GDP in 2011.

From 2007-2011, tax revenues averaged 67.8% of total central government revenues.

Consumption Taxes. In 2011, consumption taxes (VAT and excise taxes) represented 66.5% of total tax revenues. Tax rates are moderate with the general VAT rate being 10%, and a reduced rate of 5% applying to certain household necessities, pharmaceuticals and books. Livestock, soybeans and other agricultural products in their natural state are exempt from VAT. However, a draft bill proposed to Congress would subject such goods to a rate of 5% VAT. Excise tax is levied primarily on fuel, beverages and cigarettes. Cigarettes are taxed at 13%, alcohol at 10% and non-essential goods at 1-5%. In contrast, fuel is subject to a special tax at a rate of up to 50%.

Income Taxes and Other Taxes. Revenues from corporate income taxes amounted to 13.8% of total central government tax revenues in 2011. Corporate income is taxed at a rate of 10% for commercial and industrial activity and services, but gross profits are taxed at 5% for distributors and a 15% withholding tax applies on any payments to non-residents. Agricultural activities are taxed at 10% for large businesses and 2.5% for medium-sized business. Small businesses are exempt.

The Personal Income Tax ("PIT"), at a rate of 10%, became effective in 2012, after being postponed several times since its proposal during the Administrative Reorganization and Fiscal Adjustment tax reforms in 2004. PIT is imposed on personal income, capital income, capital gains and other income after certain exemptions and deductions. PIT is applied to net income, which is equal to the difference between revenues and expenditures or is based on a presumed net income of 30% of gross income.

Import duties represented approximately 12.9% of total tax revenues in 2011.

Non-tax Revenue

Non-tax revenues represent on average 26.1% of total central government revenues for the 2007-2011 period. 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 2007-2011 accounted for an average of 14.8% of total central government revenues. Social security contributions also represent a significant source of non-tax revenue.

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 Electrobras at cost in accordance with the Treaty. The amount of the compensation is negotiated between both governments and currently is US$9 per MgW/hour. In 2011, Paraguay received royalty payments and compensation payments of US$386.5 million, equivalent to 1.5% of GDP. Total revenues relating to Itaipú grew by 15% in 2007 to US$420.2 million, declined by 19.5% in 2008 to US$338.2 million, grew by 2.2% in 2009 to US$345.6 million and declined by 8.7% in 2010 to US$315.6 million. In 2011, revenues increased by 22.4% to US$386.5 million. Revenues fluctuate as a result of the total production of electricity, which itself depends on the water flow of the Paraná river. While compensation payments have increased as a result of the increases negotiated with the Brazilian government, they would decrease to the extent that energy generated by Itaipú is consumed domestically.

Expenditures

Central government expenditures consist primarily of current expenditures and capital expenditures. Current expenditures comprise payments of wages and salaries, goods and services, interests on public debt, transfers funds (retirement and pension) and other expenses. For the 2007-2011 period, current expenditures have averaged 78.3% of total revenue. Of these, the main component is payments in wages and salaries, representing an average of approximately 45.0% of total expenditures. Transfers funds also represent an important component accounting for an average of 21.3% of total expenditures. Transfers funds are mainly transfers to the financial public institutions, non-financial public institutions and retirement and pension payments.

The following table sets forth government expenditures by category 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.

Central Government Expenditures

	2007	2008	2009	2010	2011
	(as percentage of total expenditure)				
Current Expenditures	*77.7*	*82.1*	*76.7*	*78.7*	*76.8*
Wages and Salaries	43.5	48.2	43.9	46.1	44.3
Transfers Funds	22.2	23.0	21.4	21.4	21.3
Goods and Services	6.9	6.6	7.7	8.6	9.2
Interest on debt	5.0	4.1	3.1	2.3	1.6
Other expenditures	0.2	0.3	0.5	0.4	0.5
Capital Expenditures	*22.6*	*18.2*	*23.5*	*21.4*	*23.3*
Capital Formation	14.8	11.3	14.9	15.0	13.4
Other Cap. Invest.	7.8	6.9	8.6	6.4	9.9
Lending Minus Repayments	(0.3)	(0.3)	(0.2)	(0.1)	(0.1)
Total Expenditures	100.0	100.0	100.0	100.0	100.0

Source: Ministry of Finance.

Capital expenditures comprise payments for the construction of infrastructure such as roads, buildings, hospitals and schools, as well as research laboratories, computers and modern equipment. From the period 2007-2011, capital expenditures have averaged 21.8% of total expenditures. Capital formation is the main component of capital expenditures, which represents approximately 57.5% of capital expenditures.

The following table sets forth government expenditures by purpose for the periods indicated.

Government Expenditures by Purpose

	2007	2008	2009	2010	2011
	(in millions of US$)				
Social Services	1,120.5	1,417.9	1,568.0	1,746.0	2,471.2
Health	206.5	239.3	325.1	389.8	544.9
Promotion and social action	122.1	140.3	249.8	246.4	450.0
Social security	252.0	315.0	298.1	320.8	407.4
Education and culture	482.0	656.8	660.3	751.1	1,002.8
Science, technology and dissemination	1.5	1.6	3.0	6.1	14.3
Labor	1.1	1.6	1.3	2.0	3.7
Housing and community	11.4	39.8	28.2	29.8	48.1
Others	43.9	23.5	2.3	0.0	0.0
General Services	592.4	766.7	821.5	1,005.0	1,399.6
Public services	360.9	463.1	482.7	581.6	836.1
Defense and security services	231.5	303.6	338.8	423.4	563.5
Economic Services	227.1	225.6	316.9	373.1	407.7
Energy, fuels and mining	0.0	0.0	0.8	1.0	1.1
Communications	5.4	6.7	6.7	7.3	0.0
Transport	0.3	0.8	1.2	2.9	5.8
Ecology and environment	3.1	5.1	3.5	0.7	0.7
Agriculture, livestock and fishing	42.7	54.3	73.0	98.2	71.8
Manufacturing	3.6	5.2	2.5	3.6	8.3
Commerce, storage and tourism	8.6	11.7	11.6	13.1	18.6
Insurance and finance	18.3	0.0	0.0	0.0	0.0
Economic services and public work	145.2	141.9	217.5	246.3	301.4
Public debt service	327.2	337.1	372.8	359.6	387.5
Total	2,267.3	2,747.3	3,079.3	3,483.7	4,666.0

Source: Ministry of Finance

The following table sets forth government expenditures by purpose as a percentage of total expenditures as of the dates indicated.

Percentage Distribution of Government Expenditures by Purpose

	As of December 31,				
	2007	**2008**	**2009**	**2010**	**2011**
	(as percentage of total expenditure)				
Social services	49.4	51.6	50.9	50.1	53.0
Health	9.1	8.7	10.6	11.2	11.7
Promotion and social action	5.4	5.1	8.1	7.1	9.6
Social security	11.1	11.5	9.7	9.2	8.7
Education and culture	21.3	23.9	21.4	21.6	21.5
Science, technology and dissemination	0.1	0.1	0.1	0.2	0.3
Labor	0.0	0.1	0.0	0.1	0.1
Housing and community	0.5	1.4	0.9	0.9	1.0
Others	1.9	0.9	0.1	0.0	0.0
General services	26.1	27.9	26.7	28.8	30.0
Public services	15.9	16.9	15.7	16.7	17.9
Defense and security services	10.2	11.1	11.0	12.2	12.1
Economic services	10.0	8.2	10.3	10.7	8.7
Energy, fuels and mining	0.0	0.0	0.0	0.0	0.0
Communications	0.2	0.2	0.2	0.2	0.0
Transport	0.0	0.0	0.0	0.1	0.1
Ecology and environment	0.1	0.2	0.1	0.0	0.0
Agriculture, livestock and fishing	1.9	2.0	2.4	2.8	1.5
Manufacturing	0.2	0.2	0.1	0.1	0.2
Commerce, storage and tourism	0.4	0.4	0.4	0.4	0.4
Insurance and finance	0.8	0.0	0.0	0.0	0.0
Economic services and public work	6.4	5.2	7.1	7.1	6.5
Public debt service	14.4	12.3	12.1	10.3	8.3
Total	100	100	100	100	100

Source: Ministry of Finance

While there has been a slight reduction in non-discretionary expenditures in the last few years, non-discretionary government expenditures still represent a high percentage of total expenditures. In 2007, non-discretionary expenditures amounted to US$1.4 billion, which represented 70.5% of total expenditures. Non-discretionary expenditures amounted to US$1.9 billion in 2008, which represented 75.0% of total expenditures in 2008, US$1.9 billion in 2009, which represented 68.4% of total expenditures in 2009, US$2.2 billion in 2010, which represented 69.7% of total expenditures in 2010, and US$2.9 billion in 2011, which represented 67.1% of total expenditures in 2011.

Much of the increases in non-discretionary current expenditures have resulted from the introduction of new laws that increased wages and salaries for public sector employees without generating additional revenue. Pursuant to these laws, salaries and wages increased by approximately 30% in 2012, representing 1% of GDP. However, pursuant to the 2013 Budget Law described below, there are no such increases scheduled for 2013.

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 (the "Annual 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 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 the Annual Budget to the Chamber of Deputies by September 1 of each year.

A special commission of 15 members of the Senate and 15 members of 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 delivered to the Senate and the Chamber of Deputies, for an additional 15-day review period. Congress may modify the Annual Budget, but if Congress determines to increase expenditures, it is required to identify the source of funding.

The president may veto the congressionally amended budget, but following such a veto, the Annual Budget from the preceding year remains in effect until Congress and the president agree on a new budget. 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 budget the external borrowings it needs according to estimates of payments for projects underway and projects pending approval by the 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 makes adjustments to the budget (including the reduction of expenditures to the extent that revenues contemplated in the budget do not materialize) and is the plan actually 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.

2013 Annual Budget

Paraguay's 2013 Annual Budget, enacted on January 2, 2013, sets forth the priorities of the Franco Administration of funding public infrastructure projects and improving the provision of basic services so as to raise the standard of living of the general population.

The figures set forth below represent Paraguay's forecast for the Paraguayan economy in 2013. While Paraguay believes that these assumptions were reasonable when made, some are beyond the control or significant influence of the government, and actual outcomes will depend on future events. Accordingly, no assurance can be given that economic or fiscal results will not differ materially from the figures set forth below.

The following table sets forth the government's main macroeconomic assumptions for 2013 that were established in 2012 at the time of submission of the 2013 budget in 2012.

Main Macroeconomic Assumptions for 2013

Real GDP Growth	8.5%
Inflation (CPI)	5.0%
Real Growth in Public Sector Wages	(0.8)%
Nominal Growth in Imports	28%
Average Nominal G./US$ Exchange Rate[(2)]	G.4,429

(1) Based on an estimate of end of 2012 results.
(2) The average exchange rate for 2012 (based on preliminary data) was 4,434 G./US$. The assumption, therefore, estimates an appreciation of the Guaraní of 0.1% in 2013 compared to 2012.
Source: Ministry of Finance.

***Revenue**s*. The 2013 budget includes an estimated 7.2% increase in tax revenues, which historically represents approximately 60% of total revenue. Consumption taxes (VAT and excise taxes) are expected to be the largest source of tax revenues as a result of an increase in domestic consumption.

Revenues generated by binationals (including compensation for sales of energy to Brazil at current rates without taking into consideration increases that are being negotiated) are forecasted at G.1.7 billion (approximately US$383.6 million) in 2013, representing an increase of 21.5% over such revenues for 2012.

Expenditures. The 2013 budget contemplates an increase in central government expenditures of 12% mainly due to funding the continuation of important governmental social programs and new large infrastructure projects.

The following table sets forth a summary of the 2012 and 2013 budgets.

Summary 2012/2013 Budgets

	2012[(2)]	2013[(1)]
	(in millions of US$ and percentages)	
Total revenue	$ 6,144	$ 6,482
Total expenditures	6,444	7,201
Primary results	(238)	(617)
% of GDP	(0.9)	(2.1)
Overall result	(300)	(719)
% of GDP	(1.2)	(2.5)

(1) The exchange rate used for 2013 numbers was G.4,429/U.S.$1.
(2) 2012 budget.
Source: Ministry of Finance.

Because financial results depend on assumptions that are not within the control of the government, and because the government may adjust expenditures and modify its revenue plans (within the limits set forth in the budget), the government anticipates a deficit in the range of 2.5% of GDP for the central government in 2013, mostly as a result of the decision to execute major public works in spite of moderate revenues, projected at 23% of estimated GDP. Public works will be financed in part by current revenues and the balance with the proceeds of debt that the government expects to incur with multilateral and bilateral organizations. No assurance can be given that the government's expectations for 2013 will materilize or that its objective in terms of overall public results can be achieved.

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 (the "IPS") 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) municipal employees; and

(vii) Itaipú workers.

The Caja Fiscal has a direct impact on the central government's fiscal balance because it relates to central government employees.

The social security system provides coverage to approximately 50% of Paraguay's labor force. 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. The benefits can be generally 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 under the Ministry of Finance and administers the pension system for public sector employees. However, it does not cover health insurance and is divided into two broad schemes: the capitalization and the non-capitalization schemes. The capitalization scheme covers the armed forces, the police force, university professors, national teachers, judicial magistrates and public officials and employees. In 2011, the contributive scheme had a surplus of G.52 billion (approximately US$12.5 million, representing approximately 0.05% of GDP), which contrasts with successive deficits during the 2001-2010 period.

The non-capitalization scheme covers veterans of the Chaco War and gratuitous pensions granted to individuals who have no retirement funds. The non-capitalization scheme is composed mainly of pensions provided by the government and has significantly influenced the overall result of the Caja Fiscal, because it represents only expenditures without any contribution in return. In 2011, disbursements totaled G.399 billion (approximately US$95 million), generating an overall deficit of G.347 billion (approximately US$89 million, representing approximately 0.3% of GDP) for the Caja Fiscal. However, the Caja Fiscal's deficit has decreased in recent years from a deficit of 0.8% of GDP in 2007 to a deficit of 0.3% of GDP in 2011.

Any individual covered by the Caja Fiscal who has worked for at least 10 years and reaches 62 years of age is required to retire. Individuals of 50 years or older that who have worked for at least 20 years are eligible for retirement benefits.

PUBLIC SECTOR DEBT

General

Paraguayan public sector debt is composed of debt incurred by the central government, financial public institutions (BNF, AFD, Fondo Ganadero, and Credito Agricola 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 December 31, 2011, 100% of public sector external debt and 6.4% 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.

The government limits public sector domestic debt to the amount authorized by Congress in the government 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 registered exports of goods. As of December 31, 2011, these ratios were 10.6% and 2.7%, respectively. The external public sector debt to exports ratio has fallen constantly for Paraguay and significantly as a result of primary fiscal surpluses and strong GDP growth in the last seven years (with the exception of 2009 and 2012).

The following table sets forth a summary of Paraguay's total gross public sector debt as a percentage of GDP.

Public Sector Debt

	As of December 31,											
	2007	% of GDP	2008	% of GDP	2009	% of GDP	2010	% of GDP	2011	% of GDP	2012	% of GDP
	(in millions of US$ and percentages)											
Public Sector External Debt ...	$2,130	15.4%	$2,194	11.9%	$2,212	13.9%	$2,340	11.7%	$2,288	8.9%	$2,250	8.8%
Public Sector Domestic Debt..	346	2.5	367	2.0	496	3.1	500	2.5	458	1.8	1,346(1)	5.2
Total Public Sector Debt ...	2,476	17.9	2,561	13.8	2,707	17.0	2,839	14.2	2,746	10.6	3,596	14.1

(1) The increase in domestic debt is mainly the result of the capitalization of Central Bank in the amount of US$ 915.5 million, through the issuance of a perpetual bond. This amount represented 3.6% of GDP and 26% of total public debt at the end of 2012.

Source: Ministry of Finance.

Public Sector External Debt

Paraguay's current strategy focuses on minimizing the cost of its public sector external debt. As of December 31, 2011, the public sector external debt represented 83.3% 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.

Gross Public Sector External Debt by Creditor

	As of December 31,											
	2007		2008		2009		2010		2011		2012	
	(in millions of US$ and as a % of total public sector external debt)											
	US$	%	US$	%	US$	%	US$	%	US$	%	US$	%
Official creditors	**1,685.3**	**79.1%**	**1,785.5**	**81.4%**	**1,853.6**	**83.8%**	**2,006.1**	**85.7%**	**1,989.1**	**86.9%**	**1,994.4**	**88.7%**
Multilateral organizations	**1,252.0**	**58.8%**	**1,269.3**	**57.9%**	**1,337.8**	**60.5%**	**1,483.1**	**63.4%**	**1,498.1**	**65.5%**	**1,585.2**	**70.5%**
IDB	945.9	44.4%	972.2	44.3%	979.1	44.3%	1,106.8	47.3%	1,103.1	48.2%	1,102.5	49.0%
IBRD	211.1	9.9%	203.5	9.3%	274.4	12.4%	253.6	10.8%	244.6	10.7%	331.3	14.7%
CAF	36.8	1.7%	32.0	1.5%	23.6	1.1%	64.2	2.7%	95.2	4.2%	88.9	4.0%
FONPLATA	31.3	1.5%	29.2	1.3%	30.2	1.4%	26.6	1.1%	21.5	0.9%	26.2	1.2%
IFAD	4.0	0.2%	4.2	0.2%	3.7	0.2%	7.6	0.3%	11.6	0.5%	14.2	0.6%
IDA	17.8	0.8%	16.3	0.7%	14.7	0.7%	13.2	0.6%	11.7	0.5%	10.5	0.5%
OPEC	5.1	0.2%	12.0	0.5%	12.0	0.5%	11.2	0.5%	10.4	0.5%	11.6	0.5%
Other	26.8	1.3%	32.4	1.5%	30.4	1.4%	32.0	1.4%	33.6	1.5%	36.3	1.6%
Bilateral organizations	**433.3**	**20.3%**	**516.2**	**23.5%**	**515.8**	**23.3%**	**522.9**	**22.4%**	**491.0**	**21.5%**	**409.2**	**18.2%**
JICA	317.1	14.9%	416.2	19.0%	430.1	19.4%	456.8	19.5%	438.6	19.2%	361.2	16.1%
KFW	45.5	2.1%	38.1	1.7%	33.1	1.5%	25.3	1.1%	20.8	0.9%	24.9	1.1%
USAID	0.6	0.0%	0.5	0.0%	0.4	0.0%	0.3	0.0%	0.2	0.0%	0.1	0.0%
FINAME	36.1	1.7%	28.9	1.3%	21.7	1.0%	14.4	0.6%	7.2	0.3%	0.0	0.0%
ICO	26.8	1.3%	26.2	1.2%	24.8	1.1%	21.4	0.9%	20.2	0.9%	19.4	0.9%
NATEXIS	7.3	0.3%	6.3	0.3%	5.7	0.3%	4.7	0.2%	3.9	0.2%	3.5	0.2%
Other	70.8	3.3%	61.9	2.9%	52.6	2.5%	40.8	1.9%	31.6	1.5%	23.1	1.0%
Private creditors	**444.4**	**20.9%**	**408.4**	**18.6%**	**358.2**	**16.2%**	**333.6**	**14.3%**	**299.3**	**13.1%**	**255.2**	**11.3%**
Banks	**108.9**	**5.1%**	**98.7**	**4.5%**	**87.2**	**3.9%**	**75.6**	**3.2%**	**67.1**	**2.9%**	**61.7**	**2.7%**
BBVA Spain	8.9	0.4%	6.4	0.3%	3.9	0.2%	1.6	0.1%	0.7	0.0%	0.0	0.0%
EXIMBANK CHINA	100.0	4.7%	92.3	4.2%	83.3	3.8%	74.0	3.2%	66.3	2.9%	61.7	2.7%
Bonds	**335.5**	**15.8%**	**309.7**	**14.1%**	**271.0**	**12.3%**	**258.1**	**11.0%**	**232.3**	**10.1%**	**193.5**	**8.6%**
Total public sector external debt	2,129.7	100%	2,193.9	100%	2,211.8	100%	2,339.7	100%	2,288.5	100%	2,249.6	100%

Source: Ministry of Finance.

As of December 31, 2011, Paraguay's gross public sector external debt was US$2.3 billion, a decrease of approximately 2.2% from the end of 2010. Central government borrowings represented 84.7% of Paraguay's gross total public sector external debt.

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,											
	2007	% of Total	2008	% of Total	2009	% of Total	2010	% of Total	2011	% of Total	2012	% of Total
	(in millions of US$ and percentages)											
Central Government	$1,821.5	85.5%	$1,846.7	84.2%	$1,882.9	85.1%	$1,983.5	84.8%	$1,939.2	84.7%	$1,905.3	84.7
Financial public sector(1)	19.3	0.9	63.0	2.9	61.1	2.8	73.4	3.1	86.4	3.8	114.9	5.1
Non-financial public sector	288.9	13.6	284.2	12.9	267.8	12.1	282.8	12.1	262.9	11.5	229.5	10.2
Total	2,129.7	100	2,193.9	100	2,211.8	100	2,339.7	100	2,288.5	100	2,249.6	100
Total public sector external debt/GDP (%)	15.4		11.9		13.9		11.7		8.9		8.8	

(1) Includes the Central Bank of Paraguay.
Source: Ministry of Finance.

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,					
	2007	2008	2009	2010	2011	2012
	(in millions of US$)					
Total gross public sector external debt	2,129.7	2,193.9	2,211.8	2,339.7	2,288.5	2,249.6
Less: Central Bank gross international reserves	2,461.8	2,864.1	3,860.7	4,168.2	4,983.9	4,994.4
Total public sector external debt, net of international reserves	(332.1)	(670.2)	(1,648.9)	(1,828.5)	(2,695.4)	(2,744.8)

Source: Ministry of Finance.

Paraguay has historically relied on multilateral organizations, bi-lateral loans and commercial banks as sources of public sector external debt. Multilateral organizations and foreign governments accounted for 89.9% of total gross public sector external debt outstanding at the end of 2011. The IDB and the World Bank are currently Paraguay's largest creditors, accounting for 73.6% and 16.3% as at December 31, 2011, respectively, of gross total public sector external debt owed to multilateral organizations and 48% and 11% of total public sector external debt. Paraguay's borrowings from multilateral organizations are used primarily for infrastructure and social development programs.

The following table sets forth information regarding gross public sector external debt service.

Public Sector Gross External Debt Service

	As of December 31,									
	2007	% of Total	2008	% of Total	2009	% of Total	2010	% of Total	2011	% of Total
	(in millions of US$ and percentages)									
Interest payments[(1)]	$ 99.8	31.1%	$ 93.6	28.5%	$ 79.7	23.1%	$ 62.9	20.4%	$ 58.9	21.3%
Principal amortization	221.4	68.9	234.5	71.5	265.7	76.9	244.5	79.6	217.9	78.7
Total	321.2	100.0	328.1	100.0	345.4	100.0	307.4	100.0	276.8	100.0
Debt service as a percentage of registered exports	5.7%		4.2%		5.9%		3.6%		2.7%	

(1) Includes financial costs.
Source: Ministry of Finance.

The following table sets forth Paraguay's gross public sector external debt principal amortization schedule by type of creditor for outstanding debt as of December 31, 2011.

Gross Public Sector External Debt Amortization Schedule by Creditor[(1)]

	Total Outstanding Gross Public Sector Debt as of December 31, 2011	2012	2013	2014	2015	2016	2017 and thereafter
				(in millions of US$)			
Multilateral organizations	1,498.14	83.50	119.33	95.90	94.73	92.66	1,012.03
Foreign governments	558.10	45.12	48.46	48.10	48.03	48.88	319.52
Bonds	232.26	25.81	25.81	25.81	25.81	25.81	103.23
Total	2,288.50	154.42	193.59	169.80	168.56	167.35	1,434.77

(1) Includes only loans approved by Congress and not those under negotiation or pending approval by Congress.
Source: Ministry of Finance.

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 June 30,
	2007	% of Total	2008	% of Total	2009	% of Total	2010	% of Total	2011	% of Total	2012
	(in millions of US$ and percentages)										
Fixed Rate	$992.1	46.6%	$1,082.5	49.3%	$1,425.8	64.5%	$1,394.8	59.6%	$1,303.8	57.0%	$1,234.8
0-3%	680.2	31.9	758.3	34.6	757.1	34.2	766.6	32.8	736.0	32.2	703.0
3%-6%	300.3	14.1	314.6	14.3	661.2	29.9	623.0	26.6	564.6	24.7	529.6
6%-9%	11.7	0.5	9.6	0.4	7.4	0.3	5.2	0.2	3.3	0.1	2.3
Floating Rate(1)	1,137.6	53.4	1,111.4	50.7	786.0	35.5	944.9	40.4	984.7	43.0	959.5
Total	2,129.7	100.0	2,193.9	100.0	2,211.8	100.0	2,339.7	100.0	2,288.5	100.0	2,194.3

(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

	As of December 31,										As of June 30,
	2007	% of Total	2008	% of Total	2009	% of Total	2010	% of Total	2011	% of Total	2012
	(in millions of US$ and percentages)										
0-5 years	$0.1	0.0%	$0.1	0.0%	$0.1	0.0%	-	-	-	-	-
Over 5 up to 10 years	103.4	4.9	87.0	4.0	70.6	3.2	$53.4	2.3%	$36.9	1.6%	$30.5
Over 10 up to 15 years	306.9	14.4	307.7	14.0	304.2	13.8	324.2	13.9	326.0	14.2	308.1
More than 15 years	1,719.3	80.7	1,799.1	82.0	1,837.0	83.1	1,962.1	83.9	1,925.6	84.1	1,855.7
Total	2,129.7	100	2,193.9	100	2,211.8	100	2,339.7	100	2,288.5	100	2,194.3

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 December 31, 2011	% of Total	As of June 30, 2012
		(in millions of US$)	
United States Dollar	$ 1,725.2	75.4%	$ 1,663.6
Japanese Yen	457.0	20.0	430.2
Euro	59.0	2.6	55.6
Canadian Dollar	26.7	1.2	25.8
Special Drawing Rights(1)	11.6	0.5	12.4
Swiss Franc	3.4	0.2	3.2
Currency Basket(2)	1.8	0.1	-
British Pound	1.6	0.1	1.5
Swedish Krona	1.5	0.1	1.4
Norwegian Krone	0.7	-	0.6
Total	2,288.5	100	2,194.3

(1) Represents units of account utilized by the International Monetary Fund and reflects disbursements from the International Fund for Agricultural Development, an agency of the United Nations.
(2) Currencies consisting primarily of US$, Japanese Yen, Euro and Swiss Franc from disbursements to Paraguay by the International Development Bank.
Source: Ministry of Finance.

Public Sector External Debt Owed to Multilateral Organizations and Credit Agencies

IDB. IDB is Paraguay's principal multilateral financial institution creditor. At December 31, 2011, the balance of this multilateral debt was US$1.1 billion, representing 48.2% of Paraguay's total public sector external debt.

IDB has financed refundable and non-refundable projects in, among others, the following priority areas for the period 2009-2013:

- Strengthening governance and government institutions;
- Creating the foundation for sustainable growth, strengthening the free market economy and supporting greater regional and global integration; and
- Reducing poverty and improving the quality of life of the low-income population through the development of human capital and creating greater access to higher quality basic services.

JICA. Paraguay's second largest creditor is the Japan International Cooperation Agency ("JICA"). JICA funds projects focused on health, assistance to small farmers and improving water supply systems in rural areas. At December 31, 2011, refundable projects financed by JICA totaled US$438.6 million, representing 19.2% of Paraguay's total public sector external debt.

World Bank. The World Bank is another major multilateral financial institution active in Paraguay, which is supporting lending operations, funding studies and providing technical and financial assistance. At December 31, 2011, the projects financed by the World Bank totaled US$244.6 million, representing 10.7% of Paraguay's total public sector external debt.

The World Bank finances projects in, among others, the following priority areas:

- Reducing poverty and promoting social equity, financing operations in the areas of human development and social infrastructure and providing technical assistance in improving access to land;

- Modernizing state institutions developing a countercyclical fiscal policy to offset the effects of the 2008 global financial crisis; and

- Promoting good governance, accountability, transparency and integrity.

- The following table sets forth the loans provided by official institutions in 2012.

Loans Issued in 2012

Creditor	Project/Program	Date	Amount (US$)	Original Currency	Objective
IDB	Program to Support Modernization of BNF	13-Feb-12	5,720,000	US$	Modernize and strengthen the institutional capacity of the BNF in order to enable it to increase lending to micro, small and medium enterprises (MSMEs) and low-income sectors.
IDB	Third Program to Finance AFD	15-Feb-12	50,000,000	US$	Continue to support the strengthening of competitiveness and job creation in the productive sector of Paraguay through medium- and long-term financing.
World Bank	Support of Development Policies (DPL II)	02-Mar-12	100,000,000	US$	Provide financial support for the budget and contribute to the efficiency and effectiveness of the public sector.
IDB	Job Placement Program	16-Mar-12	5,000,000	US$	Support the Ministry of Justice and Labor in expanding the coverage and effectiveness of labor market policies to improve the employability and productivity of workers, in particular, helping to improve the employability of young people participating in new job trainings.
IDB	Early Child Development Program	16-Mar-12	27,000,000	US$	Helping improve the levels of cognitive, emotional and physical development of children under 5, detecting early problems in development and facilitating timely access to treatment.
FONPLATA	Rehabilitation and Paving Project (Sta. Rosa Aguaray - Cap. Bado)	23-Mar-12	97,928,094	US$	Enhancing the competitiveness of domestic production and raising the standard of living of the rural population by improving road infrastructure.
IDB	Program for the Modernization of Public Management II	27-Jul-12	100,000,000	US$	Improving public expenditure and administrative management by contributing to improving the quality, efficiency and transparency of public expenditure management.
IFAD[(1)]	Project to Improve Economic Efficiency of Family Agriculture	01-Aug-12	9,800,700	SDR	Helping improve incomes and quality of life of family farming and the rural poor, by inserting it in a sustainable manner and through their representative social organizations in value chains, with a gender perspective and respecting environmental conservation.
Total			386,428,094		

(1) International Fund for Agricultural Development.
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 (in the case of the Central Bank) or bonds (either treasury or other decentralized institutions). 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 IRM 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 tenor/maturity of domestic instruments issued by the government currently ranges from one to eight years.

As of December 31, 2011, gross public sector domestic debt outstanding was approximately US$457.9 million, of which US$392.6 million was issued by the central government and US$65.1 million was issued by AFD. 6.4% of public sector domestic debt was denominated in foreign currency.

The following table sets forth Paraguay's public sector domestic debt outstanding as at the dates indicated.

Gross Public Sector Domestic Debt

	As of December 31,					% of Total 2011	2012	% of Total 2012
	2007	2008	2009	2010	2011			
	(in millions of US$ and percentages)							
Central Government								
Guaraní-denominated[(1)]	240.1	261.1	417.9	438.1	363.6	79.4%	1,275.0	94.7%
Foreign currency-denominated[(2)]	105.5	93.1	51.0	43.5	29.0	6.3%	1.0	0.1%
Subtotal	345.6	354.2	468.9	481.6	392.6	85.7%	1,276.0	94.8%
AFD								
Guaraní-denominated[(1)]	0.4	0.4	26.5	17.9	65.1	14.2%	69.9	5.2%
Foreign currency-denominated[(2)]	0.2	12.2	0.1	0.1	0.2	0.0%	-	-
Subtotal	0.6	12.6	26.6	18.0	65.3	14.3	69.9	5.2
Total	346.2	366.8	495.5	499.6	457.9	100.0	1,345.9	100.0%

(1) Converted at average Paraguayan Guaraníes to U.S. dollar exchange as of the close of business for the last business day of December of each year as reported by the Central Bank of Paraguay.
(2) In U.S. dollars.
Source: Ministry of Finance.

The following table sets forth the amortization schedule of Paraguay's outstanding public sector domestic debt as of the end of 2011.

Public Sector Domestic Debt Amortization Schedule

	Total Outstanding Public Sector Domestic Debt as of December 31, 2011	2012	2013	2014	2015	2016	2017 to Final Maturity
Central Government							
Guaraní-denominated[(1)]	363.6	71.2	37.5	25.9	27.8	49.1	151.9
Foreign currency-denominated[(2)]	29.0	0.2	0.1	0.1	0.1	0.1	28.3
Subtotal	392.6	71.4	37.7	26.1	28.0	49.3	180.2
Financial public sector							
Guaraní-denominated[(1)]	65.1	9.2	17.7	32.0	5.5	-	0.7
Foreign currency-denominated[(2)]	0.1	0.1	-	-	-	-	-
Subtotal	65.3	9.3	17.7	32.0	5.5	-	0.7
Total	457.9	80.8	55.3	58.1	33.5	49.3	180.9

(1) Converted at average Paraguayan Guaraníes to U.S. dollar exchange as of the close of business for the last business day of December of each year as reported by the Central Bank of Paraguay.
(2) U.S. dollars in its entirety.
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 eight years, with the largest placement of bonds having a maturity of three years (representing 36.8% of the total amount placed in the period 2007-2012). Long-term bonds, which are bonds that have maturities of five or more years, have been issued since 2010 and only in Guaraníes.

In 2012, Paraguay issued eight bonds through the Central Bank and BVPASA, amounting to a total of G.1,027.1 billion (about US$231.6 million).

The following table sets forth Paraguay's treasury bond issuances since 2007.

Paraguay's Treasury Bonds

Maturity (in years)	2007	Average interest rate	2008	Average interest rate	2009	Average interest rate	2010	Average interest rate	2011[(1)]	Average interest rate	2012[(2)]	Average interest rate
(issued in Guaraníes, but presented in millions of US$, except percentages)												
1-2.7					$ 66.8	4.8%	$ 42.7	4.9%	-	-	$ 20.9	6.8%
3-3.7	$ 58.5	12.7%	$ 12.7	12.5%	50.3	6.7	14.8	7.1	-	-	56.7	8.1
4-4.7					20.1	8.0	17.9	8.0	-	-	70.5	9.0
5											76.4	9.8
6											5.7	10.75
7											1.1	11.25
8									-	-	0.3	11.75
Total	58.5		12.7		137.2		75.4				231.6	
(issued in US$ and presented in millions of US$, except percentages)												
3	$ 7.1	8.4%	$ 13.9	8.2%								

(1) In 2011, there were no issuances.
(2) The exchange rate used for conversions into U.S. dollars is the arithmetic average of monthly average exchange rates as of November 30, 2012 (4,435 G./US$).
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 re-negotiated. According to historical records, payments of principal and interest on the 1871-1872 Bonds were completely paid 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.

1935 Bonds. In 1935, the government issued domestic bonds to finance expenses related to the 1932-35 Chaco war with Bolivia (the "1935 Bonds"). The 1935 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. 1.521/96, the 1935 Bonds are considered to be without any legal or financial validity by the Ministry of Finance. The 1935 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 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.

Chinese Bonds

On July 26, 1999, Paraguay issued bonds for an aggregate principal amount of US$400 million in Taipei, Taiwan, Republic of China (the "Chinese Bonds"), which mature on July 26, 2019. The Chinatrust Commercial Bank, OBU is the fiscal and paying agent.

The principal amount of the bonds was to be repaid in thirty-one equal installments. Originally, repayment commenced on July 26, 2004, but the grace period was extended until July 26, 2005. The bonds bear interest at a rate of six-month LIBOR, reset semiannually, plus 1% per each semiannual interest payment period.

As of December 2012, the amortized debt amounted to US$206 million (equivalent to 51.5% of the principal amount) and the outstanding principal amount was US$194 million.

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.

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. See "Monetary System—The Central Bank."

Economic Recovery Structural Adjustment Loan

In 2002, further to the effects of the economic downturn, the volatility in the region 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$70 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. This IDB loan has not been used.

Contingencies

Gramont Berres Litigation

In 1979, Gustavo Gramont Berres was appointed Honorary Consul of 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 loan, Banque Bruxelles Lambert (Suisse) SA, D.G. Bank (Schweiz) AG, Banque Paribas, Union de Banques Arabes et Françaises, Cassa de Risparmio de Torino, Banca di Roma International, Mecfint (Jersey) Ltd., Sanpaolo-Lariano Bank SA, Banca Popolare di Milano and the Republican National Bank of New York (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 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 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.

On May 31, 2005, the Swiss Federal Court issued a judgment (4C.380/2004) finding Paraguay liable for approximately US$85 million (plus interest). Paraguay is exploring the possibility of appealing before the International Court of Justice of the United Nations. As of December 31, 2012, none of the Swiss Bank Creditors had attempted to enforce the judgment against Paraguay.

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 favorable judgment to the other nine banks, BNP reinstated its complaint. On September 30, 2012, the complaint was sustained. The amount claimed by Banque Paribas is CHF10 million.

BIVAC and SGS Arbitrations

In January 1996, the Minister of Finance was authorized to hire the professional services of two companies: Bureau Inspection Valuation Assessment Control International, Bureau Veritas Group ("BIVAC"), from France and Société Générale de Surveillance S.A. ("SGS"), from Switzerland. The services consisted of an assessment of goods in the country of origin and/or source that were destined to be delivered to Paraguay in order to verify the quantity, quality and accurate description thereof for proper classification.

In May 1996, the Minister of Finance entered into two three-year contracts each with BIVAC and SGS to provide pre-shipment inspection of imports services. In February 1999, however, the Minister of Finance was authorized to communicate in writing the decision to not renew the contracts with BIVAC and SGS (the term of the agreements was three years, commencing on July 15, 1996).

The BIVAC Claim. Upon termination of the contracts, BIVAC notified Paraguay that out of 35 issued invoices, only 16 were paid and alleged that 19 were pending payment, which amounted to a total of US$22 million, without interest, and US$36 million, including interest (BIVAC requested that the interests be calculated until the payment date).

In April 2007, ICSID registered an arbitration request filed by BIVAC alleging US$36 million in damages. As of August 31, 2011, this amounted to approximately US$64 million. In October 2012, ICSID concluded that Paraguay did not abuse its sovereign authority under the BIT and that the issue was a contract dispute better suited for the courts of Paraguay and remanded BIVAC seek relief in the Paraguayan court system in the first instance. The tribunal suspended the proceedings to allow BIVAC to decide whether to pursue local remedies. On December 27, 2012, BIVAC filed a claim in the Paraguayan courts. The ICSID panel will retain jurisdiction over the case "for a reasonable period of time" while the litigation takes place and requires the parties to report back every six months.

The SGS Award. In November 2007, SGS filed an arbitration request with ICSID. The amount of the claim was US$39 million plus interest of US$16 million for a total amount claimed of US$55 million as of May 2007.

In February 2012, the ICSID tribunal concluded that Paraguay breached its obligations under Article II of the BIT for failure to observe commitments it entered into with SGS and awarded SGS US$39 million plus interest. As of February 29, 2012, this amounted to approximately US$58 million.

A nullity and suspension request of the arbitration award was filed by Paraguay and the General Secretary of ICSID registered the request on June 8, 2012. The annulment proceeding remains pending and a stay of execution is in effect. SGS is currently challenging the stay of execution pending the annulment proceeding.

Petropar's Debt to Venezuela's PDVSA

In 2004, the presidents of Paraguay and Venezuela signed the Energy Cooperation Agreement of Caracas. This agreement provides that Venezuela will provide Paraguay with 18.6 million barrels per day (or its energy equivalent) of crude oil, refined products and gas liquid 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 the region 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 debt with Venezuela. 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$37.7 million. Negotiations are currently underway between Petropar and PDVSA.

DESCRIPTION OF THE BONDS

The Bonds will be issued under an indenture, dated as of January 25, 2013 between Paraguay and Citibank, N.A., as trustee.

This section of this Offering Circular 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 and the Luxembourg listing agent, 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 general, direct, unconditional, unsubordinated and unsecured obligations of Paraguay and will be backed by the full faith and credit of Paraguay;
- be initially issued in an aggregate principal amount of US$500,000,000;
- not be subject to optional redemption prior to their scheduled maturity;
- have a final maturity date of January 25, 2023;
- be issued in denominations of US$200,000 and in integral multiples of US$1,000 in excess thereof;
- not be entitled to the benefit of a sinking fund; and
- be represented by one or more registered bonds in global form, but in certain limited circumstances may be represented by bonds in certificated form. See "Book-Entry Settlement and Clearance."

Interest

Interest on the Bonds will:

- accrue at the rate of 4.625% per annum;
- accrue from the date of issuance or the most recent interest payment date;
- be payable semi-annually in arrears on January 25 and July 25 of each year, commencing on July 25, 2013 to the holders of record on the January 10 and July 10 immediately preceding the related interest payment date; and
- be computed on the basis of a 360-day year comprised of twelve 30-day months.

Payment

Principal of, 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 payment agents specified on the inside back cover page of this Offering Circular). Payment of principal of and interest on Bonds in global form registered in the name of or held by The Depository Trust Company (or "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 for distribution to the holders. Payments may be made by wire transfer to a U.S. dollar account maintained by the registered holder, provided that such registered holder so elects by giving written notice to the trustee or paying agent designating such account at least three business days prior to the related payment date. If any of the Bonds are no longer represented by global bonds, payment of principal of and interest on the Bonds in physical, certificated form 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 bonds at the corporate trust office or at the offices of one of the other paying agents).

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 on the applicable record date.

Paraguay will maintain a principal paying agent, a transfer agent and a registrar in New York City and a paying agent and a transfer agent in at least one member state of the European Union ("European Union Member") (which, so long as the Bonds are listed on the Euro MTF market of the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require, will be in Luxembourg). Paraguay has initially appointed Banque Internationale à Luxembourg SA to serve as Luxembourg paying agent, transfer agent and listing agent. Paraguay undertakes that it will ensure that it maintains a paying agent in a European Union Member that will not be obliged to withhold or deduct tax pursuant to the directive regarding taxation of savings income. 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, and that is not a day on which banking or trust institutions are authorized generally or obligated by law, regulation, or executive order to close in New York City.

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) 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.

Definitive Bonds

Paraguay may issue definitive Bonds in certain limited circumstances. See "Book-Entry, Delivery and Form—Definitive Registered Bonds."

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 agents specified on the inside back cover page of this Offering Circular) 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, 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 bonds having the same terms and conditions as the Bonds in all respects, except for issue date, issue price and the first payment of interest thereon; *provided* that such additional bonds are fungible for U.S. federal income tax purposes with the Bonds offered hereby. Additional bonds issued in this manner will be consolidated with and will form a single series with the previously outstanding Bonds.

Ranking

The Bonds will be general, direct, unconditional, unsubordinated and unsecured External Debt of Paraguay and will be backed by the full faith and credit of Paraguay. The Bonds will rank equally in right of payment with all existing and future unsubordinated and unsecured External Debt of Paraguay.

Additional Amounts

Payments of principal of 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. Paraguay will make payments in respect of the Bonds without withholding or deduction for any present or future taxes imposed by Paraguay or any of its political subdivisions or taxing authorities, unless otherwise required by Paraguayan law. If Paraguayan law requires Paraguay or any of its political subdivisions or taxing authorities to deduct or withhold taxes, Paraguay will pay the holders the additional amounts necessary to ensure that they receive the same amount as they would have received without such withholding or deduction.

Paraguay will not, however, pay any additional amounts where the holder or beneficial owner is subject to such withholding or deduction due to one of the following reasons:

- the holder or beneficial owner has some connection with Paraguay other than merely owning the Bond or the receipt of principal of or interest on the Bond;
- the holder or beneficial owner has failed to comply with any certification, identification or other reporting requirement concerning its nationality, residence, identity or connection with Paraguay, provided that:
    - compliance is required by Paraguay, or any of its political subdivisions or taxing authorities, as a precondition to exemption from such withholding or deduction;
    - at least 30 days prior to the first payment date with respect to which such requirements will apply, Paraguay notifies all holders or beneficial owners of Bonds that the holders or beneficial owners will be required to comply with these requirements; and
    - these 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 Forms W-8 and W-9); or
- the holder or beneficial owner has failed to present its Bond (where such presentation is required by the terms of the Bonds) within 30 days from when Paraguay makes available to the holder or beneficial

owner a payment of principal or interest except to the extent the holder or beneficial owner would have been entitled to additional amounts in presenting the Bond for payment on any date during such 30-day period.

All references in this Offering Circular to principal of or interest on the Bonds will include any additional amounts payable by Paraguay in respect of such principal or interest.

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. 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.

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:

1. *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
2. *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 1 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
3. *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
4. *Moratorium*: declaration by Paraguay of a general suspension of, or a moratorium on, payments of Public External Debt; or
5. *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

6. *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, the SGS Award or the BIVAC Claim; or

7. *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 trustee, by written notice to Paraguay, or the holders of not less than 25% of the aggregate principal amount of the outstanding Bonds may, by written notice to Paraguay with a copy to the trustee (if such written notice is sent by holders), 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 trustee or the holders of the Bonds may exercise these acceleration rights only by providing such written notice to Paraguay, with a copy to the trustee (in the case of a declaration by holders), 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 of not less than a majority of the aggregate 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

Any modification, amendment, supplement or waiver to the indenture or to the terms of the Bonds may be made or given pursuant to (a) a written action of the holders of the Bonds without the need for a meeting, or (b) by vote of the holders of the Bonds taken at a meeting of holders thereof.

Paraguay may call a meeting of the holders of the Bonds at any time regarding the Bonds or the indenture. Paraguay will determine the time and place of the meeting and will notify the holders of the time, place and purpose of the meeting not less than 30 and not more than 60 days before the date set for the meeting.

In addition, 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 the trustee requesting such meeting and setting forth the action they propose to take. The trustee will notify the holders of the time, place and purpose of any meeting called by the holders not less than 30 and not more than 60 days before the meeting.

Only holders or their proxies are entitled to vote at a meeting of holders. Holders or proxies representing a majority of the aggregate principal amount of the outstanding Bonds will normally constitute a quorum. However, if a meeting is adjourned for lack of a quorum, then holders or proxies representing not less than 25% of the aggregate principal amount of the outstanding Bonds will constitute a quorum when the meeting is rescheduled. In the absence of a quorum, a meeting may be adjourned for a period of not less than 10 days. Notice of the reconvening of any meeting need be given only once, but must be given not less than 10 days and not more than 20 days prior to the reconvened meeting. For purposes of a meeting of holders that proposes to discuss "reserved matters" (specified below), holders or proxies representing not less than 75% of the aggregate principal amount of the outstanding debt securities of the affected series (66 2/3% of the aggregate principal amount of the outstanding debt securities of all series in the case of reserved matters with respect to all series) will constitute a quorum. The trustee will set the procedures governing the conduct of any meeting.

Paraguay, the trustee and the holders may generally modify or take actions with respect to the terms of the debt securities of a series or the indenture insofar as it affects the debt securities of that series:

- with the affirmative vote of the holders of not less than 66 2/3% of the aggregate principal amount of the outstanding debt securities of that series that are represented at a duly called and held meeting; or

- with the written consent of the holders of not less than 66 2/3% of the aggregate principal amount of the outstanding debt securities of that series (without the need for a meeting of holders or a vote of such holders at a meeting).

However, special requirements apply with respect to any amendment, modification, change or waiver with respect to the Bonds or the indenture insofar as it affects the Bonds that would:

- change the due date or dates for the payment of principal of, or interest on, the Bonds;

- reduce the principal amount of the Bonds;

- reduce the principal amount of the Bonds that is payable upon acceleration of the maturity date;

- reduce the interest rate applicable to the Bonds;

- change the currency in which any amount in respect of the Bonds is payable or the place or places in which such payment is to be made;

- reduce the percentage of the aggregate principal amount of the outstanding Bonds held by holders whose vote or consent is needed to modify, amend or supplement the terms and conditions of the Bonds or the indenture or to make, take or give any request, demand, authorization, direction, notice, consent, waiver or other action;

- change the definition of "outstanding" with respect to the Bonds;

- change Paraguay's obligation to pay any additional amounts in respect of the Bonds as set forth under "—Additional Amounts;"

- change the governing law provision of the Bonds;

- change the courts of the jurisdiction of which Paraguay has submitted, Paraguay's obligation to appoint and maintain an agent for the service of process in New York City or Paraguay's agreement not to claim, and to waive irrevocably, immunity (sovereign or otherwise) in respect of any suit, actions or proceedings arising out of or relating to the indenture or to the Bonds;

- authorize the trustee, on behalf of all holders of the Bonds, to exchange or substitute all the Bonds for, or convert all the Bonds into, other obligations or securities of Paraguay or any other Person; or

- change the ranking of the Bonds, as described under "—Ranking."

The above-listed matters are "reserved matters" and any amendment, modification, change or waiver with respect to a reserved matter is a "reserved matter modification." A reserved matter modification, including a change to the payment terms of the Bonds, may be made without a holder's consent, as long as the requisite supermajority of the holders (set forth below) agrees to the reserved matter modification.

Any reserved matter modification to the terms of the Bonds or to the indenture insofar as it affects the Bonds may generally be made, and future compliance therewith may be waived, with the consent of the holders of not less than 75% in aggregate principal amount of the Bonds at the time outstanding.

If Paraguay proposes any reserved matter modification to the terms of multiple series of debt securities issued pursuant to the indenture (including the Bonds) or to the indenture insofar as it affects multiple series of debt securities issued pursuant to the indenture (including the Bonds), in either case as part of a single transaction, Paraguay may elect to proceed pursuant to provisions of the indenture providing that such reserved matter modifications may be made, and future compliance therewith may be waived, for any affected series if made with the consent of Paraguay and:

- holders of not less than 85% in aggregate principal amount of the outstanding debt securities of all the series affected by that reserved matter modification (taken in aggregate); and

- holders of not less than 66 2/3% in aggregate principal amount of the outstanding debt securities of each of such affected series (taken separately).

If any reserved matter modification is sought in the context of a simultaneous offer to exchange the debt securities for new debt securities of Paraguay or of any other Person, Paraguay will ensure that the relevant provisions of the affected debt securities, as amended by such reserved matter modification, are no less favorable to the holders thereof than the provisions of the new debt security being offered in the exchange, or, if more than one debt security is so offered, no less favorable than the new debt security issued having the largest aggregate principal amount.

Paraguay agrees that it will not issue new debt securities of a series or reopen any existing series of debt securities with the intention of placing debt securities of that series with holders expected to support any modification proposed or to be proposed by Paraguay for approval pursuant to the modification provisions of the indenture or the terms of any series of debt securities outstanding.

Any modification consented to or approved by the holders of the debt securities of a series pursuant to the above provisions will be conclusive and binding on all holders of the debt securities of such series (whether or not such holders have given such consent or were present at a meeting of holders at which such action was taken) and on all future holders of the debt securities of such series (whether or not notation of such modification is made upon the debt securities of such series). Any instrument given by or on behalf of any holder of a bond in connection with any consent to or approval of any such modification will be conclusive and binding on all subsequent holders of that bond.

Before seeking the consent of any holder of a Bond to a reserve matter modification affecting that series, Paraguay shall provide to the trustee (for onward distribution to the holders of the Bonds) the following information:

- a description of the economic or financial circumstances that, in Paraguay's view, explain the request for the proposed modification;

- if Paraguay shall at the time have entered into a standby, extended funds or similar program with the International Monetary Fund, a copy of that program (including any related technical memorandum); and

- a description of Paraguay's proposed treatment of its other major creditor groups (including, where appropriate, Paris Club creditors, other bilateral creditors and internal debtholders) in connection with Paraguay's efforts to address the situation giving rise to the requested modification.

Paraguay and the trustee may, without the vote or consent of any holder of the Bonds, modify, amend or supplement the Bonds or the indenture insofar as it affects Bonds for any of the following purposes:

(a) to convey, transfer, assign, mortgage or pledge any property or assets to the trustee as security for the Bonds, when legally possible and subject to and complying with the laws and regulations applicable to such property or assets;

(b) to change the terms and conditions of the Bonds or the indenture in any manner which Paraguay and the trustee may determine so long as any such change does not, and will not, adversely affect the interests of any holder; or

(c) to cure any ambiguity or to correct or supplement any provision contained herein or in the Bonds or in any supplemental indenture Bonds or in any supplemental indenture; or to make such other provisions in regard to matters or questions arising under this Indenture, the Bonds or under any supplemental indenture as Paraguay and the trustee may deem necessary or desirable and which shall not adversely affect the interests of the holders of the Bonds.

For purposes of determining whether the required percentage or percentages of holders of the Bonds are present at a meeting of holders for quorum purposes or have approved any amendment, modification or change to, or waiver of, the Bonds or the indenture insofar as it affects the Bonds, or whether the required percentage or percentages of holders have delivered a written notice of acceleration of the Bonds, any Bonds owned or controlled, directly or indirectly, by or on behalf of Paraguay or any public sector instrumentality of Paraguay will be disregarded and deemed not to be "outstanding," except that in determining whether the trustee will be protected in relying upon any amendment, modification, change or waiver, or any notice from holders, only Bonds that a responsible officer of the trustee knows to be so owned will be so disregarded.

As used in the preceding paragraph, "public sector instrumentality" means (i) the Central Bank of Paraguay (ii) any department, ministry or agency of Paraguay and (iii) any corporation, trust, financial institution or other entity owned or controlled by Paraguay or any of the foregoing. The term "control" means, in turn, the power, directly or indirectly, through the ownership of voting securities or other ownership interests, or otherwise, to direct the management of, or elect or 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 a corporation, trust, financial institution or other entity.

Prior to any vote or consent on a reserved matter modification affecting the Bonds, Paraguay will deliver to the trustee a certificate signed by an authorized representative of Paraguay specifying, for Paraguay and each relevant public sector instrumentality, any Bonds deemed to not be outstanding as described above or, if no Bonds are owned or controlled by Paraguay or any public sector instrumentality, a certificate signed by an authorized representative of Paraguay to that effect.

Notices

Paraguay will mail notices to holders at their registered addresses, as reflected in the books and records of the trustee. Paraguay will consider any mailed notice to have been given five business days after it has been sent.

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 *d'Wort - Luxemburger Wort für Wahrheit und Recht*. 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 indenture and the Bonds will be 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 will 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 211 East 43rd Street Suite 400, 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 through Euroclear or Clearstream (as indirect participants in DTC). 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 physical delivery of definitive registered bonds.

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$2,000 principal amount or less may be redeemed in part.

Payments on Global Bonds

Paraguay will make payments of any amounts owing in respect of the Global Bonds (including principal, premium, if any, interest, additional interest, if any) to DTC or its nominee, which will distribute such payments to participants in accordance with its procedures; *provided* that, at Paraguay's option, payment of interest may be made by check mailed to the address of the holders of the Bonds as such address appears in the note register. Paraguay will make payments of all such amounts without deduction or withholding for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature except as may be required by law. Paraguay expects that standing customer instructions and customary practices will govern payments by participants to owners of Book-Entry Interests held through such participants.

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 respective 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 "Definitive Registered Bonds"), and to distribute Definitive Registered Bonds 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. 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.

Definitive Registered Bonds

Under the terms of the Indenture, owners of the Book-Entry Interests will receive Definitive Registered Bonds:

- 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 Definitive Registered Bonds, the holder of a Definitive Registered Bond 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 Definitive Registered Bonds represented by one Definitive Registered Bond, a Definitive Registered Bond shall be issued to the transferee in respect of the part transferred, and a new Definitive Registered Bond 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 Definitive Registered Bond in a denomination less than US$2,000 shall be issued. Paraguay will bear the cost of preparing, printing, packaging and delivering the Definitive Registered Bonds.

Paraguay shall not be required to register the transfer or exchange of Definitive Registered Bonds 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 Definitive Registered Bond, 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. Such holders must surrender the Bonds to a Paying Agent to collect principal payments.

If Definitive Registered Bonds are issued and a holder thereof claims that such Definitive Registered Bonds have been lost, destroyed or wrongfully taken or if such Definitive Registered Bonds 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 Definitive Registered Bond if the Trustee's and Paraguay's requirements are met. The Trustee or Paraguay may require a holder requesting replacement of a Definitive Registered Bond to furnish indemnity and security sufficient in the judgment of both the Trustee and Paraguay to protect us, 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 Definitive Registered Bond is replaced. Paraguay may charge for Paraguay's expenses in replacing a Definitive Registered Bond. In case any such mutilated, destroyed, lost or stolen Definitive Registered Bond 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 Definitive Registered Bond, pay, redeem or purchase such Definitive Registered Bond, as the case may be. Definitive Registered Bonds 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. 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 Definitive Registered Bonds 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 Circular was written to support the promotion or marketing of this Offering Circular. 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.

Under Paraguayan law, as currently in effect, 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 offices in Paraguay. If you are a Non-Resident Holder and you obtain capital gains resulting from any trades of bonds effected between or in respect of accounts maintained by or on your behalf, you will not be subject to PIT or other Paraguayan taxes.

Article 14 of Paraguayan Law 2421/04, Of Administrative Reordering and Fiscal Adjustment, provides that interests and profits resulting from the greater value obtained from sales of stock-exchange bonds placed through the stock-market, as well as those from public debt securities issued by the Paraguayan State or by its municipalities are exempted from Paraguayan income tax. Investors are not obligated to provide certification of non-residency status under Paraguayan law.

United States Federal Income Tax Considerations

United States Internal Revenue Service Circular 230 Notice: To ensure compliance with Internal Revenue Service Circular 230, prospective investors are hereby notified that: (a) any discussion of U.S. federal tax issues contained or referred to in this Offering Circular or any other document referred to herein is not intended or written to be used, and cannot be used by prospective investors for the purpose of avoiding penalties that may be imposed on them under the United States Internal Revenue Code; (b) such discussions are written for use in connection with the promotion or marketing of the transactions or matters addressed herein; and (c) prospective investors should seek advice based on their particular circumstances from an independent tax advisor.

This section describes the material United States federal income tax consequences of owning the Bonds we are offering. It applies to you only if you acquire Bonds in the offering at the offering price and you hold your Bonds as capital assets for 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 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 United States holder (as defined below) whose functional currency for tax purposes is not the US$.

If you purchase Bonds at a price other than the offering 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 United States Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations under the United States Internal Revenue Code, published rulings and court decisions, all as currently in effect. These laws are subject to change, possibly on a retroactive basis.

If a partnership holds the Bonds, the United States federal income tax treatment of a partner will generally depend on the status of the partner and the tax treatment of the partnership. A partner in a partnership holding the Bonds should consult its tax advisor with regard to the United States 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 United States Internal Revenue Code and the laws of any other taxing jurisdiction.

United States Holders

This subsection describes the tax consequences to a United States holder. You are a United States holder if you are a beneficial owner of a Bond and you are:

- a citizen or resident of the United States,
- a domestic corporation,
- an estate whose income is subject to United States federal income tax regardless of its source, or
- a trust if a United States court can exercise primary supervision over the trust's administration and one or more United States persons are authorized to control all substantial decisions of the trust.

If you are not a United States holder, this subsection does not apply to you. If you are a United States alien holder (as defined below), you should refer to "United States Alien Holders" below.

Payments of Interest. You will be taxed on interest on your Bonds 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 United States holder and will, depending on your circumstances, be either "passive" *or* "general" income for purposes of computing the foreign tax credit.

Purchase, Sale, Retirement, and Other Disposition of the Bonds. Your tax basis in a Bond generally will be its cost. 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 your tax basis in your Bond. Capital gain of a noncorporate United States holder is generally taxed at preferential rates where the United States holder has held the property for more than one year at the time of disposition.

Medicare Tax. For taxable years beginning after December 31, 2012, a United States 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 United States holder's "net investment income" for the relevant taxable year and (2) the excess of the United States holder's modified adjusted gross income 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 its net gains from the disposition of Bonds, unless such interest income or net gains are 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 United States holder that is an individual, estate or trust, you are urged to consult your tax advisors regarding the applicability of the Medicare tax to your income and gains in respect of your investment in the Bonds.

United States Alien Holders

This subsection describes the tax consequences to a United States alien holder. You are a United States alien holder if you are a beneficial owner of a Bond and you are, for United States federal income tax purposes:

- a nonresident alien individual,
- a foreign corporation or
- an estate or trust that in either case is not subject to United States federal income tax on a net income basis on income or gain from a Bond.

If you are a United States holder, this subsection does not apply to you.

Interest. Under United States federal income and estate tax law, and subject to the discussion of backup withholding below, if you are a United States alien holder of a Bond, interest on a Bond paid to you is exempt from United States federal income tax, including withholding tax, unless:

- you are an insurance company carrying on a United States insurance business to which the interest is attributable, within the meaning of the Internal Revenue 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 its own account.

Purchase, Sale, Retirement and Other Disposition of the Bonds. If you are a United States alien holder of a Bond, you generally will not be subject to United States federal income tax on gain realized on the sale, exchange, retirement or other disposition of a Bond unless:

- the gain is effectively connected with your conduct of a trade or business in the United States, under the circumstances described in "Interest", above, 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.

For purposes of the United States 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.

Information With Respect To Foreign Financial Assets

Owners of "specified foreign financial assets" with an aggregate value in excess of US$50,000 (and in some circumstances, a higher threshold) may be required to file an information report with respect to such assets with their tax returns. "Specified foreign financial assets" may include financial accounts maintained by foreign financial institutions, as well as the following, but only if they are not held in accounts maintained by financial institutions: (i) stocks and securities issued by non-United States persons, (ii) financial instruments and contracts held for investment that have non-United States persons as issuers or counterparties, and (iii) interests in foreign entities. Holders are urged to consult their tax advisors regarding the application of this legislation to their ownership of the Bonds.

Backup Withholding and Information Reporting

Payments in respect of the Bonds that are paid to United States holders within the United States or through certain financial intermediaries related to the United States are subject to information reporting and may be subject to backup withholding unless the United States holder (i) is a corporation or other exempt recipient, or (ii) in the case of backup withholding, provides a taxpayer identification number and certifies that it has not lost its exemption from backup withholding. Payments to United States alien holders generally are not subject to information reporting or backup withholding; however, any such holder may be required to provide a certification to establish its non-United States status in connection with payments received within the United States or from certain payors related to 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 United States federal income tax liability provided the required information is timely furnished to the Internal Revenue Service.

PLAN OF DISTRIBUTION

Citigroup Global Markets Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated 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 the date of this Offering Circular, 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 Purchaser	Principal Amount of Bonds
Citigroup Global Markets Inc.	$ 437,500,000
Merrill Lynch, Pierce, Fenner & Smith Incorporated	62,500,000
Total	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. 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 Circular within the United States to qualified institutional buyers (as defined in Rule 144A) in reliance on Rule 144A and outside the United States in reliance on Regulation S. 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. 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.

The Bonds will constitute a new class of securities with no established trading market. Application has been 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 develop and 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.

Paraguay estimates that its portion of the total expenses of this offering will be approximately US$3,600,000.

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 January 25, 2013 which will be the fifth business day following the date of this Offering Circular (such settlement being referred to as "T+ 5"). 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 three 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 will be required, by virtue of the fact that the Bonds initially settle in T+ 5, 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.

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. Certain of the initial purchasers or their affiliates that have a lending relationship with Paraguay routinely hedge their credit exposure to Paraguay consistent with their customary risk management policies. Typically, such initial purchaser 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. Any such short positions could adversely affect future trading prices of the Bonds. 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 Circular.

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 90 days from the date of this Offering Circular, without first obtaining the prior written consent of Citigroup Global Markets and Merrill Lynch, Pierce, Fenner & Smith Incorporated, 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 United Kingdom

In the purchase agreement, each initial purchaser has represented and agreed that:

- it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000) received by it in connection with the issue or sale of the Bonds in circumstances in which Section 21(1) of the Financial Services and Markets Act 2000 does not apply to the Issuer; and

- it has complied and will comply with all applicable provisions of the Financial Services and Markets Act 2000 with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom.

Notice to Prospective Investors in France

Neither this Offering Circular nor any other offering material relating to the Bonds described in this Offering Circular 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 Circular 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 circular have been registered with the Spanish Securities Market Commission (*Comisión Nacional del Mercado de Valores*) and therefore the offering circular is not intended for any public offer of the Bonds in Spain.

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 (a) to "professional investors" as defined in the Securities and Futures ordinance (Cap. 571, Laws of Hong Kong) and any rules made under that Ordinance or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance (Cap. 32, Laws of Hong Kong) or which do not constitute an offer to the public within the meaning of that Ordinance. 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 the issue, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to the Securities which are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) or any rules made under that Ordinance.

Notice to Prospective Investors in Japan

The Bonds offered in this Offering Circular have not been registered under the Securities and Exchange Law of Japan. The Bonds have not been offered or sold and will not be offered or sold, directly or indirectly, in Japan or to or for the account of any resident of Japan, except (i) pursuant to an exemption from the registration requirements of the Securities and Exchange Law and (ii) in compliance with any other applicable requirements of Japanese law.

Notice to Prospective Investors in Singapore

This Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this Offering Circular and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Bonds may not be circulated or distributed, nor may the Bonds be offered or sold, 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 Future Act, Chapter 289 of Singapore (the "SFA"), (ii) to a "relevant person" as defined in Section 275(2) of the SFA, 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 and purchased under Section 275 of the SFA by a relevant person that is:

(i) 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

(ii) a trust (where the trustee is not an accredited investor (as defined in Section 4A of the SFA)) whose sole purpose is to hold investments and each beneficiary is an accredited investor;

shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferable within 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) and in accordance with the conditions, specified in Section 275 of the SFA; (ii) (in the case of a corporation) where the transfer arises from an offer referred to in Section 275(1A) of the SFA, or (in the case of a trust) where the transfer arises from an offer that is made on terms that such rights or interests are acquired at a consideration of not less than $200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets; (iii) where no consideration is or will be given for the transfer; or (iv) where the transfer is by operation of law.

By accepting this Offering Circular, the recipient hereof represents and warrants that he is entitled to receive it in accordance with the restrictions set forth above and agrees to be bound by limitations contained herein. Any failure to comply with these limitations may constitute a violation of law.

Notice to Prospective Investors in Switzerland

This Offering Circular does not constitute an issue prospectus pursuant to Article 652a or Article 1156 of the Swiss Code of Obligations and the Bonds will not be listed on the SIX Swiss Exchange. Therefore, this Offering Circular may not comply with the disclosure standards of the listing rules (including any additional listing rules or prospectus schemes) of the SIX Swiss Exchange. Accordingly, the Bonds may not be offered to the public in or from Switzerland, but only to a selected and limited circle of investors who do not subscribe to the Bonds with a view to distribution. Any such investors will be individually approached by the Initial Purchasers from time to time.

Notice to Prospective Investors in the Dubai International Financial Centre

This Offering Circular relates to an Exempt Offer in accordance with the Offered Securities Rules of the Dubai Financial Services Authority ("DFSA"). This Offering Circular is intended for distribution only to persons of a type specified in the Offered Securities Rules 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 Circular nor taken steps to verify the information set forth herein and has no responsibility for the Offering Circular. The securities to which this Offering Circular 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 Circular you should consult an authorized financial advisor.

Notice to Prospective Investors in Chile

The offer of the Bonds will begin on January 11, 2013 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 11 de enero, del 2013 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 publica 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 on the Colombian National Registry of Securities and Issuers (*Registro Nacional de Valores y Emisores*) or in the Colombian Stock Exchange. Therefore, the Bonds may not be publicly offered in Colombia. This material is for your sole and exclusive use as a determined entity, including any of your shareholders, administrators or employees, as applicable. You acknowledge the Colombian laws and regulations (specifically foreign exchange and tax regulations) applicable to any transaction or investment consummated pursuant hereto and represent that you are the sole liable party for full compliance with any such laws and regulations.

Notice to Prospective Investors in Peru

The Bonds have not been and will not be approved by or registered with the Peruvian securities regulatory authority, the Superintendency of the Securities Market (*Superintendencia del Mercado de Valores*). However, the Bonds have been registered with the Superintendency of Banking, Insurance and Private Pension Funds (*Superintendencia de Bancos, Seguros y Administradoras Privadas de Fondos de Pensiones*) in order to be offered or sold in private placement transactions addressed to Peruvian institutional investors such as Peruvian private pension funds.

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 (*Comision Nacional de Valores*) or in 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:

- within the United States to “Qualified Institutional Buyers,” in accordance with Rule l44A (“Rule 144A”) under the Securities Act; and
- outside the United States to persons other than 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:

1. 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.

2. 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.

3. 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 (8) or (9) 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.

4. 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.

5. 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.

6. You understand and agree that the Bonds initially offered to qualified institutional buyers in reliance on Rule 144A will be represented by Rule 144A global securities, and with respect to any transfer of any interest in a Rule 144A security, (i) if to a transferee that takes delivery in the form of interests in the Rule 144A global security, 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 Regulation S global security, a written certification from the transferor to the effect that the transfer complies with Rule 903 or 904 of Regulation S will be required.

7. 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 Regulation S global securities and with respect to any transfer of any interest in a Regulation S global security on or prior to the applicable Distribution Compliance Period, to a transferee who takes delivery in the form of an interest in the Rule 144A global security, the Principal Paying Agent will require written certification from the transferor 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.

8. You understand that the Rule 144A global securities 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 Regulation S global security 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 UNITED STATES 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 THESE BOND WERE FIRST OFFERED AND (2) THE DATE OF ISSUANCE OF THESE BONDS, 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 211 East 43rd Street Suite 400, New York, NY 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 of Paraguay 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 Manuel Ferreira Brusquetti, 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 Sullivan & Cromwell LLP, special 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 211 East 43rd Street, Suite 400, New York, NY 10017.

GENERAL INFORMATION

1. The issuance of the Bonds was authorized by Law 4,848, dated January 2, 2013, of the Paraguayan Congress, Decree No. 10,480, dated January 2, 2013 and a final authorizing decree of the Executive Power of Paraguay. 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 issue 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 Circular.

3. The Bonds will be accepted for clearance through DTC. The Bonds will be accepted for clearance through Euroclear and Clearstream clearance systems. The CUSIP number and ISIN number for the Bonds offered pursuant to 144A and Regulation S are as follows:

Bonds Offered	CUSIP Number	ISIN Number	Common Code
Rule 144A.....................................	699149 AA8	US699149AA82	087907155
Regulation S	P75744 AA3	USP75744AA38	087907058

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, you may receive copies, free of charge, of the following documents on any business day at the offices of the paying agent in Luxembourg:

- the Constitution;
- the most recent annual reports of the Ministry of Finance and the Central Bank of Paraguay (of which English translations will be made available); and
- this Offering Circular.

5. There has been no material adverse change in the financial condition of Paraguay which is material in the context of the issue of the Bonds since January 17, 2013.

APPENDIX

Paraguay: Gross Public Sector External Debt as of December 31, 2011

Creditor	Issue date	Currency	Maturity (years)	Type of Interest Rate	Spread (%)	Interest rate (%)	Outstanding Debt as of December 31, 2011 (in millions of US$)
Multilateral							
IDB	11/9/66	CAD	50	Fixed	0.00	0.50	0.10
IDB	9/19/74	USD	40	Fixed	0.00	2.00	0.74
IDB	3/14/75	USD	40	Fixed	0.00	2.00	3.92
IDB	12/19/74	USD	40	Fixed	0.00	2.00	0.50
IDB	1/21/77	USD	40	Fixed	0.00	2.00	2.00
IDB	11/29/77	USD	40	Fixed	0.00	2.00	1.22
IDB	1/23/78	USD	41	Fixed	0.00	2.00	1.47
IDB	1/26/79	USD	40	Fixed	0.00	0.00	0.04
IDB	12/14/78	USD	40	Fixed	0.00	2.00	1.19
IDB	1/26/79	USD	40	Fixed	0.00	2.00	1.11
IDB	1/26/79	USD	40	3-month Libor	0.84	Variable	1.17
IDB	1/26/79	EUR	40	Fixed	0.00	2.00	0.11
IDB	5/22/79	USD	40	Fixed	0.00	2.00	0.48
IDB	5/22/79	JPY	40	Fixed	0.00	2.00	0.34
IDB	5/22/79	USD	40	Fixed	0.00	2.00	1.22
IDB	5/22/79	EUR	40	3-month Libor	0.84	Variable	0.06
IDB	9/4/79	USD	40	Fixed	0.00	2.00	1.63
IDB	7/16/80	USD	40	Fixed	0.00	2.00	0.21
IDB	7/16/80	CAD	40	3-month Libor	2.89	Variable	0.22
IDB	7/16/80	EUR	40	3-month Libor	2.89	Variable	1.31
IDB	7/16/80	GBP	40	3-month Libor	2.89	Variable	0.18
IDB	7/16/80	USD	40	3-month Libor	2.89	Variable	1.11
IDB	7/16/80	EUR	40	Fixed	0.00	2.00	1.05
IDB	7/16/80	EUR	40	Fixed	0.00	2.00	0.37
IDB	10/30/80	USD	40	Fixed	0.00	2.00	0.25
IDB	10/30/80	SEK	40	Fixed	0.00	2.00	0.57
IDB	10/30/80	EUR	40	3-month Libor	2.89	Variable	0.24
IDB	10/30/80	JPY	40	Fixed	0.00	2.00	1.98
IDB	10/30/80	CHF	40	Fixed	0.00	2.00	0.96
IDB	10/30/80	USD	40	Fixed	0.00	2.00	1.94
IDB	10/30/80	EUR	40	Fixed	0.00	2.00	0.12
IDB	3/16/82	USD	40	Fixed	0.00	2.00	2.43
IDB	10/22/81	USD	40	Fixed	0.00	2.00	10.77
IDB	11/10/82	USD	40	Fixed	0.00	0.02	0.47
IDB	11/10/82	CAD	40	3-month Libor	2.89	Variable	0.09

Creditor	Issue date	Currency	Maturity (years)	Type of Interest Rate	Spread (%)	Interest rate (%)	Outstanding Debt as of December 31, 2011 (in millions of US$)
IDB	11/10/82	GBP	40	3-month Libor	2.89	Variable	0.27
IDB	11/10/82	CHF	40	3-month Libor	2.89	Variable	0.34
IDB	11/10/82	NOK	40	3-month Libor	2.89	Variable	0.28
IDB	11/10/82	USD	40	3-month Libor	2.89	Variable	5.51
IDB	11/10/82	EUR	40	Fixed	0.00	2.00	0.02
IDB	11/10/82	EUR	40	Fixed	0.00	2.00	0.76
IDB	2/10/83	CAD	40	Fixed	0.00	2.00	5.26
IDB	12/17/82	USD	41	Fixed	0.00	2.00	3.33
IDB	1/28/83	USD	40	Fixed	0.00	2.00	4.39
IDB	11/17/83	USD	40	Fixed	0.00	2.00	6.60
IDB	3/27/84	USD	40	Fixed	0.00	2.00	2.37
IDB	4/6/88	IDB	25	3-month Libor	1.86	Variable	1.32
IDB	5/19/88	USD	40	Fixed	0.00	2.00	6.62
IDB	9/16/88	USD	40	Fixed	0.00	2.00	27.31
IDB	11/17/89	PYG	40	Fixed	0.00	0.00	0.09
IDB	4/2/90	USD	40.5	Fixed	0.00	2.00	11.50
IDB	6/4/90	USD	40	Fixed	0.00	2.00	18.12
IDB	12/21/91	IDB	20	3-month Libor	2.23	Variable	3.98
IDB	9/23/92	USD	40	Fixed	0.00	2.00	21.75
IDB	9/23/92	IDB	20	3-month Libor	2.23	Variable	2.34
IDB	3/25/92	IDB	25	3-month Libor	4.43	Variable	4.51
IDB	3/25/92	USD	40	Fixed	0.00	2.00	34.03
IDB	12/16/92	IDB	25	3-month Libor	4.43	Variable	3.03
IDB	12/19/92	IDB	20	3-month Libor	2.23	Variable	0.79
IDB	12/9/92	IDB	20	3-month Libor	2.23	Variable	5.62
IDB	3/26/93	IDB	30	3-month Libor	4.43	Variable	4.09
IDB	3/26/93	IDB	30	3-month Libor	4.43	Variable	13.03
IDB	9/30/93	IDB	19	3-month Libor	4.43	Variable	1.48
IDB	9/30/93	USD	40	Fixed	0.00	2.00	38.57
IDB	12/29/93	IDB	25	3-month Libor	4.43	Variable	1.87
IDB	12/23/93	USD	40	Fixed	0.00	2.00	1.25
IDB	12/29/93	IDB	25	3-month Libor	4.43	Variable	4.18
IDB	4/26/95	IDB	20	3-month Libor	4.43	Variable	23.35
IDB	4/26/95	IDB	20	3-month Libor	4.43	Variable	16.66
IDB	2/13/95	IDB	20	3-month Libor	4.43	Variable	7.37
IDB	3/23/93	USD	20	Fixed	0.00	5.39	18.03
IDB	6/27/96	USD	15	Fixed	0.00	5.39	29.25
IDB	6/26/96	IDB	20	Fixed	0.00	4.83	11.33
IDB	6/27/96	IDB	20	3-month Libor	4.43	Variable	12.05
IDB	5/22/97	EUR	15	3-month Libor	4.99	Variable	20.39

Creditor	Issue date	Currency	Maturity (years)	Type of Interest Rate	Spread (%)	Interest rate (%)	Outstanding Debt as of December 31, 2011 (in millions of US$)
IDB	7/18/97	USD	19	3-month Libor	1.85	Variable	7.14
IDB	5/22/98	USD	20	Fixed	0.00	5.39	12.02
IDB	9/7/98	USD	20	Fixed	0.00	5.39	23.50
IDB	2/12/99	USD	15	Fixed	0.00	5.39	3.15
IDB	3/6/00	IDB	15	3-month Libor	4.43	Variable	45.95
IDB	8/3/00	IDB	20	3-month Libor	4.43	Variable	30.96
IDB	8/3/00	IDB	20	3-month Libor	4.43	Variable	4.03
IDB	8/3/00	IDB	19	3-month Libor	4.43	Variable	3.45
IDB	3/17/01	IDB	15	3-month Libor	4.43	Variable	4.11
IDB	3/17/01	IDB	18	3-month Libor	4.43	Variable	4.64
IDB	3/17/01	IDB	15	3-month Libor	4.43	Variable	75.90
IDB	3/17/01	IDB	25	3-month Libor	4.43	Variable	10.07
IDB	3/8/02	IDB	20	3-month Libor	4.43	Variable	6.13
IDB	1/8/03	IDB	25	3-month Libor	4.43	Variable	11.67
IDB	3/26/03	IDB	20	3-month Libor	4.43	Variable	7.11
IDB	1/8/03	IDB	0	3-month Libor	1.86	Variable	0.51
IDB	8/15/03	IDB	20	3-month Libor	4.43	Variable	21.01
IDB	11/10/05	USD	25	3-month Libor	0.84	Variable	28.00
IDB	4/10/06	USD	20	3-month Libor	0.84	Variable	4.11
IDB	4/10/06	USD	25	3-month Libor	0.84	Variable	0.97
IDB	12/22/06	USD	25	3-month Libor	0.84	Variable	119.18
IDB	12/22/06	USD	25	3-month Libor	1.85	Variable	51.28
IDB	3/13/07	USD	25	3-month Libor	0.84	Variable	6.28
IDB	3/13/07	USD	25	3-month Libor	0.84	Variable	2.64
IDB	6/6/07	USD	25	3-month Libor	0.84	Variable	0.31
IDB	4/4/08	USD	30	Fixed	0.00	Variable	5.17
IDB	4/4/08	USD	40	Fixed	0.00	0.25	1.29
IDB	4/4/08	USD	25	Fixed	0.00	4.49	1.07
IDB	4/4/08	USD	40	Fixed	0.00	0.25	0.27
IDB	4/4/08	USD	30	Fixed	0.00	4.49	4.39
IDB	4/4/08	USD	40	Fixed	0.00	0.25	1.10
IDB	4/4/08	USD	30	Fixed	0.00	4.49	40.00
IDB	4/4/08	USD	40	Fixed	0.00	0.25	10.00
IDB	10/9/08	USD	-	3-month Libor	0.84	Variable	0.93
IDB	3/27/09	USD	30	3-month Libor	0.84	Variable	1.27
IDB	3/27/09	USD	40	Fixed	0.00	0.25	0.32
IDB	7/7/09	USD	20	3-month Libor	0.84	Variable	100.00
IDB	6/30/09	USD	30	Fixed	0.00	3.95	20.00
IDB	6/30/09	USD	40	Fixed	0.00	0.25	5.00
IDB	9/25/09	USD	25	3-month Libor	0.84	Variable	8.83

Creditor	Issue date	Currency	Maturity (years)	Type of Interest Rate	Spread (%)	Interest rate (%)	Outstanding Debt as of December 31, 2011 (in millions of US$)
IDB	3/20/10	USD	-	3-month Libor	0.84	Variable	2.02
IDB	4/20/10	USD	-	3-month Libor	0.84	Variable	2.72
International Development Association (IDA)	12/26/63	USD	50	Fixed	0.00	0.75	0.20
IDA	4/4/66	USD	48	Fixed	0.00	0.75	1.09
IDA	6/25/69	USD	50	Fixed	0.00	0.75	1.15
IDA	12/22/72	USD	50	Fixed	0.00	0.75	1.61
IDA	9/6/74	USD	50	Fixed	0.00	0.75	4.27
IDA	10/17/75	USD	50	Fixed	0.00	0.75	1.62
IDA	12/22/76	USD	50	Fixed	0.00	0.75	1.74
World Bank	4/28/92	USD	21	Fixed	0.00	2.94	1.77
World Bank	9/19/92	USD	21	Fixed	0.00	3.09	2.77
World Bank	1/19/94	USD	20	Fixed	0.00	3.08	16.50
World Bank	2/22/94	USD	20	Fixed	0.00	3.08	11.24
World Bank	2/14/95	USD	17	Fixed	0.00	2.94	0.04
World Bank	9/29/96	USD	18	Fixed	0.00	3.66	2.23
World Bank	10/27/97	USD	18	6-month Libor	0.23	Variable	6.06
World Bank	10/27/97	USD	18	Fixed	0.00	4.35	7.57
World Bank	5/14/02	USD	17	6-month Libor	0.30	Variable	5.39
World Bank	9/10/03	USD	23	6-month Libor	0.25	Variable	18.42
World Bank	12/16/03	USD	23	6-month Libor	0.25	Variable	25.00
World Bank	6/13/05	USD	23	6-month Libor	0.25	Variable	13.33
World Bank	10/13/06	USD	23	6-month Libor	0.25	Variable	27.05
World Bank	6/24/08	USD	23	6-month Libor	0.05	Variable	3.77
World Bank	4/27/09	USD	27	6-month Libor	1.45	Variable	3.49
World Bank	5/26/09	USD	27	6-month Libor	1.45	Variable	100.00
Fondo Financiero para el Desarrollo de la Cuenca del Plata (FONPLATA)	2/4/94	USD	15	Fixed	0.00	0.08	2.51
FONPLATA	2/4/94	USD	15	6-month Libor	7.04	Variable	2.10
FONPLATA	2/4/94	USD	15	6-month Libor	7.04	Variable	1.60
FONPLATA	5/29/03	USD	10	6-month Libor	3.25	Variable	15.33
International Fund Agricultural Development (IFAD)	1/25/96	SDR	14	Fixed	0.00	0.55	1.06
IFAD	6/22/06	SDR	38	Fixed	0.00	0.75	10.50
Andean Development Corporation (CAF)	5/22/00	USD	6	6-month Libor	3.10	Variable	0.01
CAF	2/18/05	USD	10	6-month Libor	2.65	Variable	5.69
CAF	3/17/06	USD	10	6-month Libor	3.19	Variable	7.91
CAF	7/23/09	USD	10.5	6-month Libor	2.80	Variable	60.60
CAF	7/23/09	USD	10.5	6-month Libor	2.80	Variable	21.03
Organization of the Petroleum Exporting Countries (OPEC)	6/1/05	USD	15	Fixed	0.00	3.50	10.38
Bilateral							
Kreditanstalt für Wiederaufbau (KFW)	7/5/82	EUR	31	Fixed	0.00	3.00	0.36

Creditor	Issue date	Currency	Maturity (years)	Type of Interest Rate	Spread (%)	Interest rate (%)	Outstanding Debt as of December 31, 2011 (in millions of US$)
KFW	7/5/82	EUR	30	Fixed	0.00	2.00	0.07
KFW	7/26/82	EUR	30	Fixed	0.00	2.00	0.32
KFW	12/1/83	EUR	30	Fixed	0.00	2.00	0.40
KFW	12/16/93	EUR	30	Fixed	0.00	2.00	15.84
KFW	12/16/93	EUR	20	Fixed	0.00	4.50	0.35
KFW	12/16/93	EUR	30	Fixed	0.00	4.50	1.58
KFW	10/10/94	EUR	30	Fixed	0.00	2.00	1.74
KFW	4/22/97	EUR	20	Fixed	0.00	4.50	0.12
Instituto de Crédito Oficial (ICO)	11/24/97	USD	30	Fixed	0.00	1.03	0.54
ICO	11/24/97	USD	30	Fixed	0.00	1.03	0.16
ICO	11/24/97	USD	30	Fixed	0.00	1.03	0.71
ICO	11/24/97	USD	30	Fixed	0.00	1.03	6.98
ICO	11/24/97	USD	30	Fixed	0.00	1.03	3.39
ICO	11/24/97	USD	30	Fixed	0.00	1.03	2.30
ICO	12/10/97	USD	30	Fixed	0.00	1.03	6.16
Japan International Cooperation Agency (JICA)	8/26/87	JPY	25	Fixed	0.00	4.75	6.86
JICA	7/12/90	JPY	30	Fixed	0.00	2.90	51.70
JICA	2/25/94	JPY	30	Fixed	0.00	3.00	25.36
JICA	11/28/94	JPY	30	Fixed	0.00	3.00	44.38
JICA	9/8/95	JPY	25	Fixed	0.00	3.00	34.47
JICA	2/16/06	JPY	40	Fixed	0.00	0.75	14.55
NATEXIS Banque Populaires (NATEXIS)	11/7/83	EUR	30	Fixed	0.00	2.00	0.93
NATEXIS	11/14/84	EUR	32	Fixed	0.00	2.00	2.98
JICA	8/10/98	JPY	18	Fixed	0.00	2.70	151.21
JICA	8/10/98	JPY	18	Fixed	0.00	2.70	110.07
The Export-Import Bank of China (China EXIM)	12/1/98	USD	15	6-month Libor	1.00	Variable	10.67
China EXIM	12/1/98	USD	15	6-month Libor	1.00	Variable	37.33
China EXIM	8/22/02	USD	20	6-month Libor	1.00	Variable	18.33
D. B. PTY LTD	8/9/77	ZAR	18	Fixed	0.00	5.00	0.02
Financiamento de Máquinas e Equipamentos (FINAME)	6/7/01	USD	8	6-month Libor	2.25	Variable	7.22
United States Agency for International Development (USAID)	2/6/73	USD	41	Fixed	0.00	3.00	0.24
BBVA (Spain)	12/10/97	USD	8	Fixed	0.00	6.77	0.74
Bonds							
China Trust Commercial Bank	7/26/99	USD	19	6-month Libor	1.00	Variable	232.26

Source: Ministry of Finance.

ISSUER

República del Paraguay
Ministerio de Hacienda
Chile 128 e/ Palma y Pdte. Franco
Asunción, Paraguay

TRUSTEE

Citibank, N.A.
480 Washington Boulevard,
30th Floor,
Jersey City,
New Jersey 07310,
United States of America

LUXEMBOURG LISTING AGENT

Banque Internationale à Luxembourg, S.A.
69 route d'Esch
L - 2953 Luxembourg

INITIAL PURCHASERS

Citigroup Global Markets Inc.
388 Greenwich Street
New York, NY 10013
United States of America

Merrill Lynch, Pierce, Fenner & Smith Incorporated
Bank of America Tower
One Bryant Park
New York, New York 10036
United States of America

LEGAL ADVISORS

To Paraguay as to United States law:

Sullivan & Cromwell LLP
125 Broad Street
New York, New York 10004-2498
United States of America

To Paraguay as to Paraguayan law:

Parquet & Asociados
Azara 1595 esq. Coronel Irrazabal
Asunción, Paraguay

To the Initial Purchasers as to United States law:

Cleary Gottlieb Steen & Hamilton LLP
One Liberty Plaza
New York, New York 10006
United States of America

To the Initial Purchasers as to Paraguayan law:

Gross Brown
Benjamin Constant 624
Asunción, Paraguay

REPUBLIC OF PARAGUAY

OFFERING CIRCULAR

Global Coordinator:

Citigroup

Joint Book-Runners:

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