OFFERING MEMORANDUM

REPUBLIC OF PARAGUAY

US$600,000,000

5.000% Bonds due 2026

We are offering US$600,000,000 aggregate principal amount of 5.000% bonds due 2026 (the "Bonds") of the Republic of Paraguay (the "Republic" or "Paraguay") that will bear interest on their outstanding principal amount from the date of issuance, expected to be March 31, 2016 (the "Settlement Date"), at a rate of 5.000%, payable semi-annually (other than the first interest period) in arrears on April 15 and October 15 of each year (each, an "Interest Payment Date"), commencing on October 15, 2016 and ending on April 15, 2026 (the "Maturity Date"). The Bonds constitute and will constitute direct, general, unconditional and unsubordinated External Debt (as defined herein) of the Republic for which the full faith and credit of the Republic is pledged. The Bonds rank and will rank without any preference among themselves and equally with all other unsubordinated External Debt of the Republic. It is understood that this provision shall not be construed so as to require the Republic to make payments under the Bonds ratably with payments being made under any other External Debt. The Bonds will contain provisions, commonly known as "collective action clauses." Under these provisions, which differ from the terms of our external debt issued prior to the date hereof, we may amend the payment provisions of any series of debt securities issued under the indenture (including the Bonds) and other reserved matters listed in the indenture with the consent of the holders of: (1) with respect to a single series of debt securities, more than 75% of the aggregate principal amount of the outstanding debt securities of such series; (2) with respect to two or more series of debt securities, if certain "uniformly applicable" requirements are met, more than 75% of the aggregate principal amount of the outstanding debt securities of all series affected by the proposed modification, taken in the aggregate; or (3) with respect to two or more series of debt securities, more than 66 ⅔% of the aggregate principal amount of the outstanding debt securities of all series affected by the proposed modification, taken in the aggregate, and more than 50% of the aggregate principal amount of the outstanding debt securities of each series affected by the proposed modification, taken individually. See "Description of the Bonds—Meetings, Amendments and Waivers—Collective Action."

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

See "Risk Factors" beginning on page 10 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."

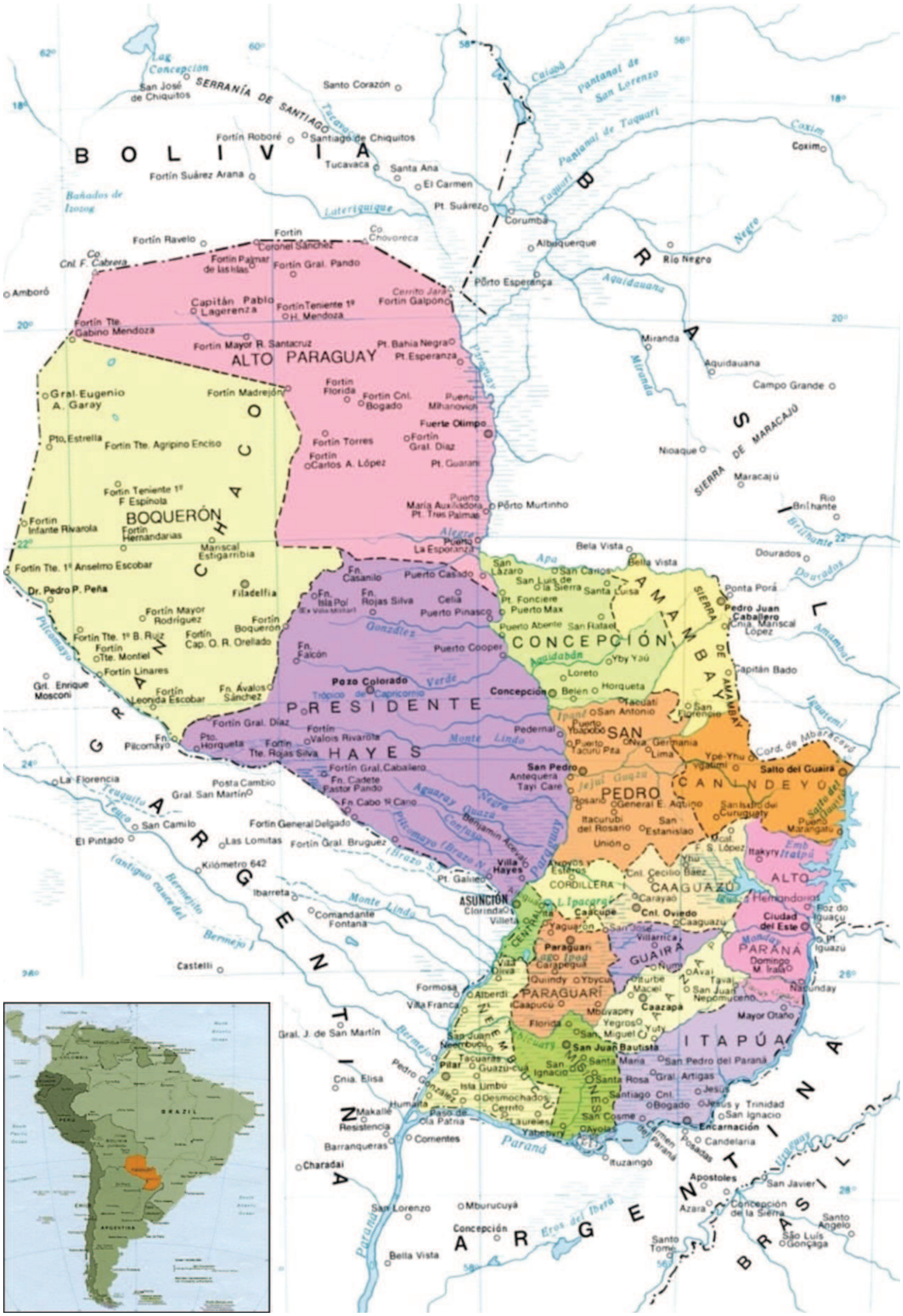
Public Price: 99.997% plus accrued interest, if any, from March 31, 2016.

Delivery of the Bonds in book-entry form will be made through the facilities of The Depository Trust Company ("DTC") and its direct and indirect participants, including Euroclear Bank S.A./N.V. ("Euroclear") and Clearstream Banking, Luxembourg, *société anonyme* ("Clearstream") on March 31, 2016.

Joint Book-Runners:

BofA Merrill Lynch | **Itaú BBA**

The date of this Offering Memorandum is March 23, 2016.


BOLIVIA
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MISIONES
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San José de Chiquitos
Santo Corazón
Fortín Roboré
Santiago de Chiquitos
Fortín Suárez Arana
Tucavaca
Santa Ana
El Carmen
Pt. Suárez
Corumbá
Albuquerque
Rio Negro
Coxim
Bañados de Izozog
Fortín Ravelo
Fortín Coronel Sánchez
Fortín Palmar de las Islas
Fortín Gral. Pando
Cnl. F. Cabrera
Amboró
Capitán Pablo Lagerenza
Fortín Teniente 1º H. Mendoza
Fortín Galpón
Porto Esperança
Fortín Tte. Gabino Mendoza
Fortín Mayor R. Santacruz
Pt. Bahía Negra
Pt. Esperanza
Miranda
Aquidauana
Campo Grande
Gral. Eugenio A. Garay
Fortín Madrejón
Fortín Florida
Fortín Cnl. Bogado
Puerto Mihanovich
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Fortín Torres
Fortín Gral. Díaz
Fortín Carlos A. López
Pt. Guaraní
Nioaque
Maracajú
Fortín Teniente 1º F. Espínola
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Fortín Infante Rivarola
Fortín Hernandarias
Mariscal Estigarribia
Puerto La Esperanza
Bela Vista
Bella Vista
Dourados
Fortín Tte. 1º Anselmo Escobar
Dr. Pedro P. Peña
Filadelfia
Fn. Casanillo
Puerto Casado
San Lázaro
San Carlos
San Luis de la Sierra
Santa Luisa
Ponta Porã
Pedro Juan Caballero
Fn. Isla Poí
Fn. Rojas Silva
Celia
Puerto Pinasco
Pt. Fonciere
Puerto Max
Fortín Mayor Rodríguez
Fortín Boquerón
Fortín Cap. O. R. Orellado
Fortín Tte. 1º B. Ruiz
Fortín Tte. Montiel
Fortín Linares
Fn. Falcón
Puerto Cooper
Puerto Abente
San Rafael
Loreto
Yby Yaú
Capitán Bado
Grl. Enrique Mosconi
Fortín Leonida Escobar
Fn. Ávalos Sánchez
Pozo Colorado
Trópico de Capricornio
Concepción
Belén
Horqueta
Tacuatí
San Antonio
Fortín Gral. Díaz
Fortín Valois Rivarola
Pto. Horqueta
Fortín Tte. Rojas Silva
Pedernal
Puerto Ybapobo
Puerto Tacurú Pytá
Nva. Germania
Lima
Ype-Yhu
Ygatimí
Salto del Guairá
Fn. Pilcomayo
La Florencia
Posta Cambio
Gral. San Martín
Fortín Gral. Caballero
Fn. Cadete Pastor Pando
Fn. Cabo 1º Cano
San Pedro
Antequera
Tayí Caré
Rosario
General E. Aquino
Itacurubí del Rosario
San Estanislao
Unión
San Isidro del Curuguaty
Puerto Marangatú
San Camilo
Fortín General Delgado
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Las Lomitas
Fortín Gral. Bruguez
Kilómetro 642
Villa Hayes
Pt. Galileo
Cnl. Oviedo
Itakyry
Ibarreta
Comandante Fontana
ASUNCIÓN
Clorinda
Villeta
Caacupé
Carayaó
Caaguazú
Hernandarias
Foz do Iguaçu
Ciudad del Este
Pt. Iguazú
Yaguarón
Paraguarí
Villarrica
Castelli
Carapeguá
Quiindy
Ybycuí
Mbocayaty
Iturbe
Maciel
Avaí
Tavaí
Domingo M. Irala
Formosa
Alberdi
Caapucú
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Isla Umbú
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San Javier
Azara
Concepción de la Sierra
Santo Ângelo
São Luís Gonçaga
San Lorenzo
Mburucuyá
Concepción
Santo Tomé
Bella Vista
Esteros del Iberá
Paraná
Paraguay
Pilcomayo
Bermejo
Teuquito
Monte Lindo
Aquidabán
Apa
Jejuí Guazú
Tebicuary
Uruguay
Iguazú
Amambaí
Ivinheima
Negro
Taquari
Pantanal de São Lorenzo
Pantanal de Taquari
Tucavaca
Laterigüigue
Lago Ypoá
Lago Ypacaraí
Emb. Itaipú
Cord. de Mbaracayú
BRAZIL

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

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NOTICE TO INVESTORS

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

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

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

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

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

Paraguay is entitled to withdraw this offering at any time before closing. Paraguay is making this offering subject to the terms described in this Offering Memorandum and the purchase agreement relating to the Bonds offered.

Paraguay confirms that, to the best of its knowledge, the information given in that part of the Offering Memorandum for which it is responsible is in accordance with the facts and contains no omissions likely to affect the import of the Offering Memorandum on the Official List of the Luxembourg Stock Exchange. This Offering Memorandum constitutes a Prospectus for the purpose of Luxembourg law dated July 10, 2005 on Prospectus for Securities, as amended. Paraguay accepts responsibility for the information it has provided in this Offering Memorandum.

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

NOTICE TO UNITED KINGDOM RESIDENTS ONLY

THIS COMMUNICATION IS ONLY BEING DISTRIBUTED TO AND IS ONLY DIRECTED AT (i) PERSONS WHO ARE OUTSIDE THE UNITED KINGDOM OR (ii) INVESTMENT PROFESSIONALS FALLING WITHIN ARTICLE 19(5) OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2005 (THE "ORDER") OR (iii) HIGH NET WORTH COMPANIES, AND OTHER PERSONS TO WHOM IT MAY LAWFULLY BE COMMUNICATED, FALLING WITHIN ARTICLE 49(2)(a) TO (d) OF THE ORDER (ALL SUCH PERSONS TOGETHER BEING REFERRED TO AS "RELEVANT PERSONS"). THE BONDS ARE ONLY AVAILABLE TO, AND ANY INVITATION, OFFER OR AGREEMENT TO SUBSCRIBE, PURCHASE OR OTHERWISE ACQUIRE SUCH BONDS WILL BE ENGAGED IN ONLY WITH, RELEVANT PERSONS. ANY PERSON WHO IS NOT A RELEVANT PERSON SHOULD NOT ACT OR RELY ON THIS DOCUMENT OR ANY OF ITS CONTENTS.

CONVENTIONS

Unless otherwise specified or unless the context requires so, "dollars," "U.S. dollars" and "US$" refer to United States dollars and "G." or "Guaraníes" refer to Paraguayan Guaraníes. Where noted, exchanges from Guaraníes to U.S. dollars have been provided solely for the convenience of the reader. Figures converted from Guaraníes to U.S. dollars in this document were converted at a rate of G.4,196 for 2011 figures, G.4,422 for 2012 figures, G.4,304 for 2013 figures, G.4,462 for 2014 figures, G.5,205 for 2015 figures and G.6,100 for 2016 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, which is used as a reference rate by financial institutions in the commercial market, as reported by the Central Bank of Paraguay for March 21, 2016, was Guaraníes 5,668. 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 Memorandum have been subject to rounding adjustments; accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them. All references herein to the "government" are to the central government of Paraguay (including governmental agencies and subdivisions and excluding financial and non-financial public sector institutions and the Itaipú and Yacyretá hydroelectric plants).

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.

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

Paraguay's official financial aid and economic statistics are subject to a review process by the Central Bank. Accordingly, certain financial and economic information in this document may be subsequently adjusted or revised. In addition, the information and data provided for 2014, 2015 and 2016 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 preliminary statistics to be material, but cannot assure you that material changes will not be made to preliminary data. The Bureau of Statistics, Surveys and Census of Paraguay (*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.

Unless otherwise indicated in this document, the information and data provided in this document have been prepared and published in accordance with the International Monetary Fund's ("IMF") Government Finance Statistics Manual 2001 ("GFSM 2001") standards.

CAUTIONARY STATEMENT REGARDING PROJECTIONS AND OTHER INFORMATION ABOUT FUTURE EVENTS

This Offering Memorandum may contain, and Paraguay's officials and representatives may from time to time make, projections and forward-looking statements concerning financial information, future economic performance or international dispute resolution or international institution decisions and expectations, plans and objectives relating to economic policy, budgets, plans and expectations, and assumptions underlying these projections and statements. These projections and forward-looking statements are not historical facts but instead represent the central government's belief regarding 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 10. 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, the Inter-American Development Bank ("IDB") or MERCOSUR (as defined herein);
  - adverse court decisions;
  - a downgrade of Paraguay's credit ratings by international rating agencies;
  - changes in MERCOSUR 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;
  - 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 MEMORANDUM SUMMARY

The following summary is qualified in its entirety by, and should be read in conjunction with, the more detailed information appearing elsewhere in this Offering Memorandum. It is not complete and may not contain all the information that you should consider before purchasing the Bonds. You should carefully read the entire Offering Memorandum, including "Risk Factors" (beginning on page 10), before purchasing the Bonds.

Selected Economic Information

THE ECONOMY	2011	2012	2013(1)	2014(1)	2015(1)
GDP (2) (in millions of US$)	$25,149	$24,691	$28,915	$30,657	$27,715
% Change of Real GDP from the Previous Year	4.3%	(1.2)%	14.0%	4.7%	3.0%
Population (in thousands) (3)	6,562	6,673	6,783	6,894	7,003
Per Capita GDP (in millions of US$)	$3,833	$3,700	$4,263	$4,447	$3,958
Inflation Rate (4)	4.9%	4.0%	3.7%	4.2%	3.1%
Unemployment Rate	5.6%	4.9%	5.0%	6.0%	n.a. (8)
Exchange Rate (Guaraníes/per US$)(5)	G.4,196	G.4,422	G.4,304	G.4,462	G.5,205

BALANCE OF PAYMENTS(6)	2011	2012	2013(1)	2014(1)	2015(1)
	(in millions of US$)				
Export of Goods (FOB)	12,633	11,648	13,599	13,099	10,939
Imports of Goods	(11,779)	(11,077)	(11,937)	(12,073)	(10,309)
Current Account Surplus (Deficit)	109	(501)	477	(127)	(487)
Net Foreign Direct Investment	557	738	72	346	368
Overall Balance of Payments Surplus (Deficit)	783	(25)	1,036	1,131	(451)
Total International Reserves (end of period)	4,984	4,994	5,871	6,891	6,200

PUBLIC SECTOR FINANCES(7)	2011	2012	2013	2014	2015(1)
	(in millions of US$ and percentage of total GDP)				
Central Government Revenues	$4,520.6	$4,666.7	$4,983.6	$5,534.2	$5,103.8
% of real GDP	18.0%	19.0%	17.1%	17.9%	18.5%
Central Government Expenditures	$3,684.6	$4,425.3	$4,794.6	$5,139.3	$4,868.2
% of real GDP	14.7%	18.0%	16.5%	16.6%	17.6%
Central Government Balance	$251.2	$(410.3)	$(490.1)	$(343.2)	$(484.7)
% of real GDP	1.0%	(1.7)%	(1.7)%	(1.1)%	(1.8)%
Consolidated Public Sector Revenues	$7,494	$7,678	$8,531	$8,867	N/A
Consolidated Public Sector Expenditures	$5,967	$6,727	$7,498	$7,736	N/A
Consolidated Public Sector Balance	$1,526	$951	$1,032	$1,049	N/A

PUBLIC SECTOR DEBT	*2011*	*2012*	*2013*	*2014(1)*	*2015(1)*
	(in millions of US$ and percentage of total GDP)				
Public Sector Domestic Debt	$458.0	$1,350.8	$1,500.1	$1,718.4	$1,469.6
Public Sector External Debt	$2,288.5	$2,240.2	$2,674.0	$3,682.0	$3,994.7
Total Public Sector Debt	$2,746.5	$3,591.0	$4,174.2	$5,400.3	$5,464.3
% of GDP	10.9%	14.5%	14.4%	17.6%	19.7%

(1) Preliminary data.
(2) GDP includes Paraguay's share of Itaipú Binational and Yacyretá Binational.
(3) Population data is based on projections contained in the 2002 census.
(4) Percentage change of consumer prices measured by CPI over the 12-month period ended December 31 of each year.
(5) Annual arithmetic average of monthly average bid/offer exchange rates. *Source*: Central Bank of Paraguay

(6) Includes Paraguay's exports of Itaipú Binational and Yacyretá Binational electricity, trade registered by customs and re-exports, among others.
(7) Negative amounts indicate budget deficit.
(8) Unemployment rate data for the year 2015 is not available as of the date of this Offering Memorandum.
Source: Ministry of Finance and Central Bank of Paraguay.

Republic of Paraguay

Paraguay is located in central South America and, based on projections contained in the 2002 census, as of 2015, had an estimated population of approximately 7.0 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. It 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 intended to increase the overall income levels of Paraguay's population through investment in infrastructure, education and health. Such policies are designed to provide a foundation for sustainable economic development and diversification of productive capacity across the country.

Paraguayan Economy

In 2015, real GDP grew by 3.0%, driven mainly by growth in the agriculture, construction and services sectors, which grew by 5.0%, 6.0% and 3.2%, respectively, and real GDP per capita increased by 1.4%. In 2015, exports decreased 2.0%, mainly due to the decline in international commodities prices. In 2014, real GDP grew by 4.7%, driven mainly by growth in the construction, manufacturing and services sectors, which grew by 13.8%, 9.5% and 6.0%, respectively. In 2014, exports increased by 4.3% as a result of the combination of an increase of beef exports and soybean flour exports, which was offset by a decrease in soybean exports, cereals (corn, wheat) exports and electrical energy exports.

As of January 2016, the Paraguayan economy continued its expansion, driven mainly by the livestock, construction and electricity sectors. The Monthly Indicator of Economic Activity in Paraguay (IMAEP) recorded a cumulative increase of 1.8% (1.1% if agriculture and binationals are excluded), compared to January of 2015. The IMAEP, which is part of the System of National Accounts, is a monthly volume index used to measure the short-term performance of the Paraguayan economy although it does not include all the information used to calculate GDP. IMAEP does not include fishery, taxes and rental housing activities.

Agriculture continues to dominate the Paraguayan economy, representing 18.7% of GDP in 2015, compared to 18.3% in 2014. The agricultural sector grew by 5.0% in 2015, and 2.2% in 2014, mainly due to a significant increase in the production of certain selected agricultural products (particularly, soybeans) in recent years.

Other important sectors of the Paraguayan economy include commerce and manufacturing, which represented 14.5% and 10.5%, respectively, of GDP in 2015, compared to 14.9% and 10.6%, respectively, in 2014. Commerce grew in real terms by 0.1% in 2015 and by 5.8% in 2014. Manufacturing increased in real terms by 2.0% in 2015 and by 9.5% in 2014.

In 2015, the government approved two public-private partnership projects in the transportation sector. The government's objective with these projects is to improve the efficiency and quality of Paraguay's infrastructure. One of the projects is aimed at the expansion and renovation of Highway Routes 2 and 7, servicing Yparacai, Ciudad Coronel Oviedo and San Lorenzo, and the second project is aimed at the expansion and upgrade of the Silvio Pettirossi International Airport, serving Asunción. International tenders for both projects are currently open until March 29, 2016 and April 26, 2016, respectively. The construction of the highway expansion is expected to be completed by March 2019 and the Pettirossi construction is expected to be completed by December 2018.

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. According to preliminary data, electricity accounted for approximately 25% of Paraguay's total exports. Each hydroelectric plant is managed and operated by a binational company created pursuant to a treaty between Paraguay and Brazil, in the case of Itaipú

Binational, and Paraguay and Argentina, in the case of Yacyretá Binational. Paraguay owns a 50% equity stake in each binational entity and is entitled to 50% of the electricity produced by each of the two plants. Revenues generated by its participation in each of the Itaipú and the Yacyretá hydroelectric plants contribute significantly to Paraguay's GDP, representing about 8.8% of total real GDP in 2015, compared to 9.1% in 2014.

Balance of Payments and Foreign Trade

In 2011, 2013 and 2014, Paraguay recorded balance of payments surpluses, resulting from an improvement in the export of goods and services coupled with an increase in foreign currency income from exports of electricity from Itaipú Binational and Yacyretá Binational, remittances by Paraguayans working abroad and increased stability of net capital inflows, mainly into the private sector. The balance of payments surplus for 2014 was US$1,131 million (3.7% of GDP), for 2013 US$1,036 million (3.6% of GDP) and for 2011 US$783 million (3.1% of GDP). In 2012, the balance of payments recorded a deficit of US$25 million (0.1% of GDP), as a result of a drop in net exports and higher deficit in the net income balance; nevertheless, the capital account surplus remained stable. According to preliminary data, the deficit for 2015 is US$451 million (1.6% of GDP), which is primarily due to a deficit in the current account resulting from a significant reduction in prices of our main commodities exports, and a reduced surplus in the financial account resulting from a decreased inflow from foreign direct investment ("FDI") and a lower amount of sovereign bonds issued in the international capital markets in 2015. Paraguay's international reserves increased by US$1.2 billion from 2011 to 2015, resulting in total international reserves of US$6.2 billion at December 30, 2015. Paraguay's net international reserves stood at US$6.0 billion on March 18, 2016.

According to preliminary data, Paraguay recorded a current account deficit of US$487 million in 2015 (1.8% of GDP) caused by a lower surplus in the trade balance and a larger deficit in the services sector and in the net income balance when compared to 2014. In 2014, the current account deficit was US$127 million (0.4% of GDP), whereas the trade balance had a surplus of US$1,026 million (3.3% of GDP) and the net income balance had a deficit of US$1,500 million (5.0% of GDP). In 2013, Paraguay recorded a current account surplus of US$477 million (1.7% of GDP) due to a larger surplus in the trade balance. In 2012, Paraguay recorded a current account deficit of US$501 million (2.0% of GDP) caused mainly by a drought that reduced the export of soybeans and soy products. In 2011, Paraguay recorded a current account surplus of US$109 million (0.4% of GDP) driven by a surplus in the trade balance and by less outflows of income. According to preliminary data for 2015, the capital and financial account recorded a surplus of US$178 million (0.6% of GDP), explained mainly by FDI flows and the sovereign bonds issued in the international capital markets in 2015. In 2014, the capital and financial account recorded a surplus of US$1,706 million (5.6% of GDP) as a result of a higher amount of sovereign bonds issued in the international capital markets in 2014 and other FDI flows.

Paraguay's trade is primarily with MERCOSUR members, countries in the European Union, Russia and China. MERCOSUR has been Paraguay's main export partner since 2012. Paraguayan exports to MERCOSUR increased from US$1.1 billion in 2011 to US$1.5 billion in 2015. Exports to MERCOSUR in 2015 accounted for 24.5% of Paraguay's total exports, with the European Union and Russia accounting for 21.7% and 12.0%, respectively. Brazil is Paraguay's largest trading partner, accounting for 31.7% and 25.4% of registered exports and imports, respectively, during 2015, followed by Argentina, with 7.0% and 14.8% of registered exports and imports, respectively.

Foreign direct investment flows (excluding real estate investments by binational entities) totaled US$2.1 billion between 2011 and 2015. The activities that have attracted most of the foreign direct investment in this period have been financial intermediation and the agricultural and livestock sectors. According to the Economist Intelligence Unit rankings, Paraguay has the highest degree of economic openness in the region (economic openness is measured as the ratio of a country's total trade to GDP).

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 in the financial system. The Central Bank has focused its efforts on maintaining a stable and predictable level of inflation.

Paraguay has a floating exchange rate regime. From time to time, the Paraguayan Central Bank intervenes in the foreign exchange market in order to stabilize the Paraguayan Guaraní. In 2015, the Guaraní depreciated 25.3% due mainly to the appreciation of the US dollar in the international markets. In addition, in the local market, income in foreign currency has decreased as a consequence of the reduction in international prices of certain products exported by Paraguay (principally, soybeans). However, the negative impact of this decrease in prices on the trade balance has been mitigated by the reduction in oil prices.

The Central Bank has anchored its monetary policy with an inflation targeting scheme. In December 2014, the Central Bank set the annual inflation rate (CPI) target at 4.5%, within a range of 2.5% to 6.5%. This reduction was implemented as of January 1, 2015. In the 2011-2015 period, the average annual inflation rate was 4%, and in each year the actual inflation rate fell within the Central Bank's target range. Inflation was 3.1% in 2015, 4.2% in 2014, 3.7% in 2013, 4.0% in 2012 and 4.9% in 2011. During the 2011-2015 period, the variations in the inflation rate can be explained by the fluctuations in food and oil prices. Decreases in the price of petroleum products were the result of the international trend of declining crude oil prices. Paraguay is a net importer of crude oil, hence, decreases in international crude oil prices result in decreases in domestic prices for oil. In January 2016, inflation was 2.6% due to an increase in food prices. The Central Bank is committed to developing a monetary policy that focuses primarily on achieving price stability and maintaining low inflation levels.

The downward trajectory of the inflation rate (CPI) from 2011 through most of 2013 was the result of monetary policy decisions and falling food prices, mainly of beef. At the end of 2013 and the beginning of 2014, the inflation rate increased, driven by the expectation of increases in minimum salary, transportation costs and the depreciation of the Guaraní that followed the U.S. Federal Reserve Bank's announcement of its intention to taper its quantitative easing policy. The Central Bank responded by increasing the monetary policy interest rate to 6.75% in February 2014. Lower inflationary pressure in 2015 allowed the Central Bank to reduce the monetary policy interest rates repeatedly: in March 2015, it was reduced to 6.5%, in April 2015 to 6.25%, in June 2015 to 6.0%, and in July 2015 to 5.75%. In February 2016, the monetary policy interest rate was increased to 6.0% due to economic conditions in the region, coupled with the initiation of a less accommodative monetary policy profile by the U.S. Federal Reserve Bank.

Paraguay experienced five financial crises during the 1995-2003 period, causing significant adverse consequences on Paraguay's financial system. In response, Paraguay has strengthened its regulatory system, evidenced by the Financial Sector Assessment Program, which has the objective of identifying the strengths and weaknesses of the Paraguayan financial system. As a result, Paraguay adjusted its regulations and domestic indicators to align them with international standards. Recently, the Central Bank and the central government proposed to Congress new reforms to the financial system. As part of the reform proposal, the Central Bank prepared an initiative to reform its Organic Law (Law No. 489/95) with the purpose of providing it with better and more dynamic instruments to supervise the financial sector, including granting the Superintendency of Banks the authority to periodically adapt some of the requirements of financial supervision in response to developments affecting the financial markets. In addition, the central government proposed an amendment to the General Law on Banks, Finance Companies and other Credit Institutions (Law No. 861/96) to shift the regulation regime from traditional financial regulation to a risk-based regulatory system by reference to international standards. Both laws were submitted to Congress in March 2015 and are pending congressional approval. In this respect, while the proposal to reform the Organic Law is still in the process of initial evaluation by the appropiate chamber, the proposal to reform the General Law on Banks, Finance Companies and other Credit Institutions (Law No. 861/96) has already been approved by the Senate and the Chamber of Deputies (although with changes by the latter, and so subject to a re-affirmation process).

Public Sector Finances

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

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

Municipalities are not included in the government's annual budget and do not require authorization from the government to obtain financing. However, there would be no recourse to the central government for any such financing. Accordingly, all information regarding the consolidated public sector finances excludes any finances related to municipalities.

In 2015, the central government's fiscal balance (net lending/borrowing) recorded a deficit of US$484.7 million (1.8% of GDP), while the central government's primary balance showed a deficit equivalent to 1.1% of GDP. In 2014, the central government's fiscal balance recorded a deficit of US$343.2 million (1.1% of GDP), while the central government primary balance showed a deficit equivalent to 0.7% of GDP. In 2013, the central government's fiscal balance recorded a deficit of US$490.1 million (1.7% of GDP), while the central government primary balance showed a deficit equivalent to 1.4% of GDP. In 2012, the central government's fiscal balance recorded a deficit of US$410.3 million (1.7% of GDP), while the central government primary balance showed a deficit equivalent to 1.4% of GDP. In 2011, the central government's fiscal balance recorded a surplus of US$251.2 million (1.0% of GDP) while the central government primary balance showed a surplus equivalent to 1.3% of GDP. During the first two months of 2016, the central government's fiscal balance recorded a deficit of US$6.6 million, compared to a deficit of US$30.9 million for the same period in 2015, mainly due to a stricter control of current expenses along with non-recurrent income received in the first two months of 2016.

In 2013, Congress passed the Fiscal Responsibility Law (the "FRL"). The FRL, which governs the preparation and approval of budgets, but not their execution, is intended to prevent discretionary increases in expenditures and sets targets for the central government's overall balance. Ultimately, the FRL seeks to facilitate the adoption of balanced budgets that conform to the financial capacity of the government. The FRL came into effect with the budget for 2015 (the "2015 Annual Budget"), and the draft budget for 2016 (the "2016 Annual Budget") that was submitted by the central government to Congress was in accordance with the FRL. The 2016 Annual Budget contemplates a lower level of expenditures than the 2015 Annual Budget. The budgeted expenditures relating to the compensation of employees increased 2.8% as a result of the projected increase in employment that is expected to be necessary for developing planned social and infrastructure programs. The central government's fiscal balance (net lending/borrowing) recorded a deficit of 1.8% of GDP in 2015. However, excluding expenditures in infrastructure financed by sovereign bonds issued in the international capital markets, the deficit stood at 0.5% of GDP, complying with the FRL's ceiling of 1.5% of GDP for 2015.

From 2011 to 2015, tax revenues averaged 68.9% of total central government revenues, and the majority of tax revenues were provided by consumption taxes (including VAT and excise tax), which accounted for 67.1% of total tax revenues. Excise taxes are levied primarily on fuel, beverages and cigarettes. In 2013, Congress passed the Agricultural Activities Income Tax and extended the application of VAT to agricultural products at a rate of 5%. Personal income taxes were first introduced in 2012 and are levied on personal income, capital income, capital gains and other income after certain exemptions and deductions. These recent amendments in Paraguay's taxing system are expected to continue to increase the central government's revenues over time. The central government's non-tax revenues (including grants and social contributions) represented, on average, 31.1% of total central government revenue for the 2011-2015 period. Itaipú Binational and Yacyretá Binational are the largest contributors to the central government's non-tax revenue, accounting for an average 10.0% of total central government revenues in the 2011-2015 period.

The main component of Paraguay's central government expenditures in the 2011-2015 period was compensation of employees, representing on average approximately 52.8% of total expenditures (excluding the acquisition of non-financial assets).

During January 2016, central government revenues totaled US$356 million, an increase of 14.8% compared to January 2015. Tax revenues during January 2016 totaled US$250.6 million, representing approximately 70.3% of total central government revenue; central government expenditures during January 2016 totaled US$332.5 million, an increase of 27.1% compared to January 2015. Compensation of employees during January 2016 totaled US$163.1 million, representing approximately 49.0% of total central government expenditures during that month.

Public Sector Debt

The ratio of total public sector debt to GDP stood at 19.7% at December 31, 2015, up from 17.6% at December 31, 2014. Paraguay's public sector external debt totaled US$3.99 billion at December 31, 2015, an increase of approximately 8.5% from the end of 2014. At December 31, 2015, the total outstanding public sector domestic debt was approximately US$1.5 billion, of which US$1.2 billion was incurred by the central government; 0.1% of such debt was denominated in foreign currencies, and 99.9% was denominated in Guaraníes.

The IDB and the World Bank are Paraguay's largest creditors, accounting, as of December 31, 2015, for 27.2% and 10.6%, respectively, of Paraguay's total public sector external debt. Paraguay's borrowings from multilateral organizations are used primarily for infrastructure and social development programs.

In January 2013, Paraguay made its first issuance of sovereign bonds in the international capital markets for an aggregate principal amount of US$500 million, which bonds will mature in 2023 (the "2013 Bonds"). In August 2014, Paraguay made a second issuance of bonds for an aggregate principal amount of US$1.0 billion, which will mature in 2044. In April 2015, Paraguay reopened the 2013 Bonds and issued an aggregate principal amount of US$280 million in new bonds that were consolidated with the 2013 Bonds. Paraguay has issued treasury bonds in the domestic market through the Central Bank since 2006 and on the Asunción Stock Exchange since 2012. In 2015 Paraguay issued bonds through the Central Bank amounting to a total of approximately US$107.5 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 Memorandum.

Issuer	Republic of Paraguay.
Securities Offered	US$600,000,000 principal amount of 5.000% Bonds due 2026.
Issue Price of the Bonds	99.997% of the principal amount of the Bonds, plus accrued interest, if any, from March 31, 2016.
Maturity Date	April 15, 2026.
Interest	The Bonds will bear interest on their outstanding principal amount from their date of issuance, at a fixed rate of 5.000%, payable semi-annually (other than the first interest period) in arrears on April 15 and October 15 of each year, commencing on October 15, 2016.
Status	The Bonds constitute and will constitute direct, general, unconditional and unsubordinated External Debt of the Republic for which the full faith and credit of the Republic is pledged. The Bonds rank and will rank without any preference among themselves and equally with all other unsubordinated External Debt of the Republic. It is understood that this provision shall not be construed so as to require the Republic to make payments under the Bonds ratably with payments being made under any other External Debt.
Use of Proceeds	Paraguay will use the net proceeds to finance infrastructure and capital expenditures and to refinance a portion of its outstanding debt in accordance with the Annual Budget Law No. 5554/2016 (*Ley No. 5554/2016 del Presupuesto General de la Nación*).
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 Memorandum. 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 10 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.
Indenture	The Bonds will be issued under an indenture to be dated on or about March 31, 2016 between Paraguay and The Bank of New York Mellon, as trustee, which indenture provides for the issuance from time to time of one or more series of debt securities.
Trustee, Paying Agent, Transfer Agent and Registrar	The Bank of New York Mellon.
Luxembourg Listing Agent, Paying Agent and Transfer Agent	The Bank of New York Mellon (Luxembourg) S.A.
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

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

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

Currently, there are two outstanding judgments against Paraguay, issued by the Swiss Federal Tribunal. The first judgment was issued in 2005 in favor of nine banks for approximately US$85 million (the "2005 Judgment"). In addition, after the 2005 Judgment, one of the banks that had withdrawn its complaint reinstated its complaint, and obtained a judgment against Paraguay in September 2010 in the amount of approximately CHF10 million (approximately US$10.2 million as of March 16, 2016) plus interest (the "2010 Judgment" and, together with the 2005 Judgment, the "Swiss Judgments").

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

In July 2015, SACE filed an action in the U.S. District Court for the District of Columbia (the "D.C. District Court") seeking recognition of the Swiss Judgments against Paraguay. On January 21, 2016, Paraguay filed a motion to dismiss for lack of jurisdiction on grounds of sovereign immunity. On March 21, 2016, SACE filed a motion in opposition of Paraguay's motion to dismiss, wherein SACE reaffirms its arguments that Paraguay is bound by the Swiss Judgments. As of the date of this Offering Memorandum, the D.C. District Court has yet to rule on either of the motions.

Should SACE or any other creditors of Paraguay be successful in having their judgments or awards recognized by a court and, in turn, having a court attach part of the proceeds of the offering, Paraguay could not receive part or all of the proceeds of the offering. See "Public Sector Debt—Contingencies—Gramont Berres Litigation."

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

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 in favor of nine banks in the amount of approximately US$85 million, and a judgment in favor of one additional bank in the amount of approximately CHF10 million (approximately US$10.2 million as of March 16, 2016) plus interest outstanding against Paraguay. In July 2015, SACE filed an action in D.C. District Court seeking recognition of the Swiss Judgments against

Paraguay, in which SACE holds rights as a result of a settlement agreement between SACE and each of the ten banks. For more information on these outstanding judgments and the pending SACE action, see "—Part of the offering proceeds could be attached by creditors to satisfy outstanding judgments against Paraguay." If SACE or other creditors are successful in attaching payments to holders of the Bonds, Paraguay may not be able to make payments to holders of the Bonds. See "Public Sector Debt—Contingencies—Gramont Berres Litigation."

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 2015. Paraguay's economy is therefore very susceptible to severe weather conditions, such as droughts and floods, which can significantly affect crop production. For example, soybeans accounted for approximately 43.3% of Paraguay's agricultural production in 2015, which is 11.2% lower, in volume, than in 2014. This drop in soy production was partially due to an outbreak of the *roya* fungus that affected certain harvest areas. In addition, the 2011-2012 soybean harvest contracted by approximately 47.7% compared to 2010-2011 as a result of an extended drought. Further, recent floods have made roads used for transporting agricultural and livestock products inaccessible and have rendered some ports temporarily unoperational, thereby adversely affecting the agricultural sector in 2015. The floods have also adversely affected the livestock sector by flooding fields used for cattle grazing. 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.

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

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 in August 2012, having determined that the impact of President Lugo's impeachment would be limited. In June 2014, Standard & Poor's raised its long-term foreign and local currency sovereign credit ratings on the Republic of Paraguay to 'BB' from 'BB-'. In January 2015, Fitch Ratings upgraded Paraguay to 'BB' with a Stable outlook. In March 2015, Moody's Credit Ratings ("Moody's") also raised its rating of Paraguay's long-term foreign and local currency rating to 'Ba1' from 'Ba2'. As of the date of this Offering Memorandum, Paraguay's ratings remain the same as those listed above. However, Paraguay's ratings or outlooks may be downgraded or placed on watch by Standard & Poor's, Fitch and Moody's or any other rating agency in the future, making any financing more costly for Paraguay than in the past and, potentially, altogether unavailable. Successive ratings downgrades could occur as Paraguay's borrowing needs increase. If Paraguay increases its sovereign debt levels materially, its ratings could be adversely affected and cut.

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

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

A decrease in Brazilian demand for electricity 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 2014 and 2015, payments to Paraguay with respect to energy generated at the Itaipú hydroelectric plant accounted for approximately 1.9% and 2.2% of Paraguay's GDP, respectively. 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 to Brazil of the unused portion of Paraguay's share of the electricity produced at Itaipu. The two governments negotiate the amount of the compensation from time to time. The compensation was US$10.6 per MW/hour in 2015, up from US$9.0 per MW/hour in 2014. 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. At December 31, 2015, Itaipú Binational owed Electrobras and the National Treasury of Brazil approximately US$11.1 billion, and had a total outstanding indebtedness of approximately US$11.4 billion. 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 15% of Brazil's electricity needs and approximately 75% of Paraguay's electricity needs in 2015. 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.

Yacyretá Binational administers, supervises and operates the Yacyretá hydroelectric plant. The company is owned by Paraguay's state-owned power company Administración 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, Argentina unilaterally decided in 1992 that accumulated royalties and compensation for the years 1994 to 2004 should be deferred until 2019. However, since Yacyretá commenced operations in 1994, Paraguay has received royalties and compensation payments from Yacyretá Binational, although a substantial part of such payments is at Yacyretá Binational's discretion and is subject to agreement by Argentina and Paraguay on an annual basis. Beginning in 2014, the Argentine government halted the transfer of any revenue from Yacyretá to Paraguay. After Argentina's new president, Mauricio Macri, took office in December 2015, Argentina promised to honor the royalties and compensation payments for 2014 and 2015 due to Paraguay from the Yacyretá hydroelectric plant. In 2015, Paraguay received US$108 million (which accounted for approximately 0.4% of Paraguay's GDP) as discretionary payments from Yacyretá Binational on account of royalties and compensation corresponding to the negotiated royalties and compensation agreements for the years 2014 and 2015. As of the date of this Offering Memorandum, US$24 million are still pending to be received under the 2015 royalties and compensation agreement. Negotiations are currently underway between Paraguay and Argentina to determine the amount of royalties and compensations that Yacyretá Binational will pay to Paraguay with respect to year 2016. Should Yacyretá Binational decide 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 economic conditions of Paraguay's main trading partners and the demand that such economies have for Paraguay's exports;
- changes in governmental economic or tax policies;
- the imposition of trade barriers by the government or by third parties, including sanctions imposed by other governments on any country with which Paraguay has significant trade relationships;
- general economic and business conditions in Paraguay;
- 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 experienced real GDP growth of 4.3% in 2011, followed by a decline of 1.2% in 2012 and then real GDP growth of 14% in 2013, 4.7% in 2014 and 3% in 2015. As a result, from 2011 to 2015, real GDP grew at an annual average rate of 5.0%. Paraguay cannot assure investors 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 for Paraguayan exports, economic conditions in the countries that serve as Paraguay's most important trading partners, climatic factors affecting Paraguay's agricultural sector, fiscal and monetary policies, confidence among Paraguayan consumers and foreign and domestic investors and their rates of investment in Paraguay, the willingness and ability of businesses to engage in new capital spending, the exchange rate and the rate of inflation. Some of these factors are outside Paraguay's control. A sustained recession could result in a material decrease in Paraguay's fiscal revenues, or a significant depreciation of the Guaraní over an extended period of time could adversely affect Paraguay's debt/GDP ratio, either of which in turn would materially and adversely affect the ability of Paraguay to service its public debt, particularly its debt obligations denominated in foreign currencies, including the Bonds.

Fluctuations in exchange rates between 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. In 2015, the Guaraní depreciated 25.3% due mainly to the appreciation of the US dollar in the international markets. As of December 31, 2015, the exchange rate was G.5,807 per U.S. dollar. As of March 21, 2016, the exchange rate was G.5,668 per U.S. dollar.

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

Paraguay's economy is exposed to commodity price volatility, especially with regard to soybeans, which made up approximately 43.3% of Paraguay's agricultural production in 2015 and 19.1% of total exports that year. 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 third largest export product in 2015 (after soy and electrical energy), making up approximately 14.1% of all exports. Although Paraguay is no longer banned from exporting beef to Chile or the European Union, further outbreaks of species-based diseases affecting livestock could result in further restrictions on exports. Although efforts are being made to prevent this situation, outbreaks of these diseases or concerns that these diseases may occur and spread in the future, whether or not resulting in regulatory action, may lead to cancellation of orders by customers of Paraguayan beef products and create adverse publicity that may have a material adverse effect on customer demand for Paraguayan beef products. A 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 affecting other emerging market sovereigns, which could adversely affect its ability to grow, as well as Paraguay's ability to service its public debt.

Paraguay's economy remains vulnerable to external shocks, including those relative to or similar to the global economic crisis that began in 2008 and the subsequent uncertainties surrounding European sovereign debt. Paraguay's economy has grown on average since 2010, but continued economic growth remains vulnerable to conditions and events in the European Union and Latin America and other international economic and political developments, which are outside the control of the central government.

Paraguay's balance of trade and economic growth are also vulnerable to adverse developments affecting its principal trading partners (which include Brazil, which has shown weak GDP growth and has suffered a strong depreciation of its currency; Argentina, which has shown negative shocks derived mainly from its exports tax scheme and foreign exchange control; and Russia, which is facing adverse developments from its geopolitical tensions with Ukraine, depreciation of its currency and a deceleration of its economy). 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 was 1.9% in 2009 before increasing to 7.2% in 2010 and then decreasing to 4.9% in 2011. In response, Paraguay's Central Bank has adopted an inflation targeting scheme to stabilize inflation rates. The Central Bank, in an effort to combat inflationary increases in 2011, increased the benchmark 14-day interest rate by 300 basis points to 5.5% between November 2011 and September 2012. Additionally, in order to maintain inflation within the applicable target rate, between December 2013 and February 2014, the Central Bank increased the interest rate by 125 basis points and between March 2014 and December 2015 the Central Bank reduced the interest rate by 100 basis points. Inflation remained relatively stable in 2012 (4.0%), 2013 (3.7%), 2014 (4.2%) and 2015 (3.1%). The target rate for 2016 has been set at 4.5%. In the future, significant inflation may cause Paraguay to impose controls on credit and/or prices, or to take other action, which could inhibit Paraguay's economic growth. In addition, inflation can result in greater market volatility by causing economic uncertainties and reduced consumption, GDP growth and consumer confidence. Inflation, measures to combat inflation and public speculation about possible additional actions have also contributed to economic uncertainty in Paraguay in the past and could produce uncertainty in the future. Any of these factors can have a material adverse effect on Paraguay's results of operations and financial condition.

Political tensions in Paraguay in connection with land disputes and political instability may affect Paraguay's economy and foreign trade.

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. The impeachment of Mr. Lugo was heavily criticized by countries in the region, especially by members of the Common Market of the South (El Mercado Común del Sur – "MERCOSUR"), who refused to recognize the government of President Federico Franco, who succeeded President Lugo. The impeachment resulted in Paraguay's temporary suspension from MERCOSUR, which provided approximately 42% of Paraguay's imports in 2013 and constitutes Paraguay's largest export market, accounting for approximately 21% of Paraguay's exports in 2013. Following the April 2013 election of President Horacio Cartes and the formation of a coalition in Congress that enabled the passage of important legislation proposed by President Cartes, the Paraguayan political landscape regained stability, and in August 2013 Paraguay was re-admitted to MERCOSUR. An unstable political environment in the future, however, whether due to disputes relating to land reform, the formation of different voting blocks and coalitions in Congress, or as a result of other developments, could significantly and adversely affect Paraguay's economy and Paraguay's ability to perform its obligations under the Bonds.

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. Due to the challenges that social unrest in rural areas creates for the government, in August 2013, Congress granted President Cartes the authority to deploy troops to address security challenges in the northern departments of Concepción, San Pedro and Amambay without having to declare a formal state of emergency. Any worsening of the internal security situation may have a negative effect in the future on

Paraguayan economic and political conditions. As a result, Paraguay's ability to make payments on its outstanding public debt generally, including the Bonds, could be adversely affected.

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

If interest rates outside Paraguay increase significantly, Paraguay's trading partners, in particular, the European Union and Brazil, could find it more burdensome 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.

During the 2014-2015 period, the nominal exchange rate of the Guaraní appreciated, year over year, on average by approximately 18.4% against the Brazilian Real and depreciated 2.1% against the Argentine Peso. The depreciation of the currencies of one or more of Paraguay's trade partners (including, Brazil and Argentina) or trade competitors relative to 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.

In 2009 and 2010, Paraguay's exports to MERCOSUR countries declined by 74.2% and 11.3%, respectively. 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 automatic importing licenses, and the application of advance import declarations and sanitary and phytosanitary controls on the borders. From 2011 to 2015, exports to MERCOSUR increased 9.1% on an annual average. During 2015, however, exports decreased year-on-year by 10.6% due to a decrease in the sales of soybeans, frozen meats, corn and rice. 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.

A new government in Argentina took office in December 2015 and replaced the requirement of affidavits for imported goods with a more flexible and predictable system for the monitoring of imports, among other measures. Nevertheless, during prior years, the Argentine government implemented trade barriers and import controls, such as requirement of affidavits prior to importing consumer goods, elimination of automatic licenses of imports and restrictions to the river transportation of Paraguayan exports aiming to protect the Argentine domestic industry. Argentina is one of Paraguay's most important trade partners, accounting for approximately 14.8% and 7.0% of Paraguay's total imports and exports, respectively, for 2015. In the event that Argentina maintains, reinstates or expands protectionist policies, specifically those affecting the agribusiness sector, Paraguay's economy and its ability to perform its obligations under the Bonds may be adversely affected.

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. In addition, in a recent policy change, Argentina has reduced the number of foreign vessels that can pass through its waters with tug boats, thereby reducing the amount of goods that can be transported on each trip resulting in delivery delays. Paraguay's economy may be adversely affected in the future if Argentine ports resume a blockade of Paraguayan vessels' exports and imports or otherwise limit the ability of Paraguayan vessels to transport goods across the Argentine border.

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

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

The Bonds will contain provisions, commonly known as "collective action clauses." Under these provisions, certain key terms of the Bonds may be amended, including the maturity date, interest rate and other reserved matters listed in the indenture with the consent of the holders of: (1) with respect to a single series of debt securities, more than 75% of the aggregate principal amount of the outstanding debt securities of such series; (2) with respect to two or more series of debt securities, if certain "uniformly applicable" requirements are met, more than 75% of the aggregate principal amount of the outstanding debt securities of all series affected by the proposed modification, taken in the aggregate; or (3) with respect to two or more series of debt securities, more than 66 ⅔% of the aggregate principal amount of the outstanding debt securities of all series affected by the proposed modification, taken in the aggregate, and more than 50% of the aggregate principal amount of the outstanding debt securities of each series affected by the proposed modification, taken individually. See "Description of the Bonds—Meetings, Amendments and Waivers—Collective Action." These provisions permit defined majorities to bind all holders of the Bonds including holders who did not attend and vote at the relevant meeting and holders who voted in a manner contrary to the majority.

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 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. In June 2014, the Supreme Court of the United States denied a petition by Argentina for a writ of certiorari, leaving the Second Circuit ruling standing.

In requiring payment on defaulted debt in order to effect payment on new, performing debt issued as part of a restructuring, the Second Circuit decision could potentially hinder or impede future sovereign debt restructurings and distressed debt management. Paraguay cannot predict what the consequences of the Second Circuit decision will be in any future restructurings by Paraguay and, consequently, what impact this uncertainty would have on the market value of the Bonds.

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

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

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

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

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

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

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

USE OF PROCEEDS

The net proceeds of the issuance and sale of the Bonds, after deduction of expenses, including underwriting fees and commissions, are anticipated to be approximately US$599.374.500. Paraguay intends to use the net proceeds to finance infrastructure and capital expenditures and to refinance a portion of its outstanding debt in accordance with the Annual Budget Law No. 5554/2016 (*Ley No. 5554/2016 del Presupuesto General de la Nación*).

REPUBLIC OF PARAGUAY

Introduction

Paraguay is located in central South America and, based on projections contained in the 2002 census, as of 2015 had an estimated population of approximately 7.0 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. It 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 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 having one of the highest growth rates in GDP of any country in Latin America.

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

Territory and Population

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

Based on projections contained in the 2002 census, Paraguay's population was approximately 7.0 million in 2015, with 59.5% of the population living in urban areas (7.6% in Asunción as of 2013). From 2011 to 2015, the population grew at an average rate of 1.66%.

Spanish and Guaraní are the official languages of Paraguay.

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

Comparative Per Capita GDP and Other Statistics

	Paraguay(1)	Guatemala	Honduras	Bolivia	Colombia	Brazil	Peru	Venezuela	Argentina	United States of America
Per Capita GNP(2) (*US$*)	7,643	6,929	3,938	5,760	12,040	15,175	11,015	16,159	22,050	52,947
United Nations Index of Human Development (World Ranking)(3)	112	128	131	119	97	75	84	71	40	8
Life Expectancy at Birth (*years*)(3)	73	71.8	73.1	68.3	74.0	74.5	74.6	74.4	76.3	79.1
Infant Mortality (*per 1,000 live births*)(4)	19	26	19	31	15	12	13	13	12	6
Adult Literacy Rate(5)(*%*)	93.9	78.3	85.4	94.5	93.6	91.3	93.8	95.5	97.9	n.a.
Population below the poverty line(6)(*%*)	7.2	13.5	16.5	8.0	5.6	3.8	2.9	n.a	1.4	n.a.

(1) This data may differ from official Government data.
(2) 2014 data.

(3) 2014 data.
(4) 2014 data.
(5) Data is the most recent year available between 2005 and 2013.
(6) Data is the most recent year available between 2002 and 2012. The international poverty line is defined as the population living on a daily per capita income of US$1.25 or less, adjusted for purchasing power parity.

Source: United Nations Development Programme, *Human Development Report 2015*.

As of 2013, approximately 74% of the population was under 40.

2013 Population by Gender and Age Group[(1)]

			Gender	
Age /years	**Total population**	**Cumulative Percentage**	**Men**	**Women**
0-4	741,550	10.9	377,989	363,561
5-9	730,893	21.7	372,142	358,751
10-14	715,369	32.3	364,020	351,350
15-19	690,683	42.4	351,038	339,645
20-24	654,561	52.1	331,748	322,813
25-29	600,419	60.9	303,291	297,128
30-34	510,104	68.5	257,335	252,770
35-39	404,209	74.4	203,351	200,858
40-44	347,177	79.5	173,976	173,202
45-49	318,427	84.2	160,044	158,383
50-54	278,709	88.3	140,818	137,891
55-59	236,931	91.8	120,438	116,493
60-64	187,848	94.6	95,424	92,423
65-69	135,401	96.6	67,623	67,777
70-74	98,431	98.0	47,778	50,653
75-79	67,779	99.0	31,694	36,085
80 and above	64,882	100.0	27,800	37,082
Total	**6,783,374**	**100.0**	**3,426,508**	**3,356,867**

(1) Based on estimates derived from the 2002 national census.

Source: General Direction of Statistics, Surveys and Census, Statistical Compendium 2013.

History, Government and Political Parties

Paraguay declared its independence from Spain in 1811 after almost 300 years of colonial rule. In 1864, Paraguay was involved in a five-year war against Argentina, Brazil and Uruguay (known as the "Triple Alliance"), during which half of Paraguay's population was killed. Brazilian troops occupied the country for a decade, until 1874. A succession of presidents governed Paraguay under the banner of the Colorado Party (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*. As the Colorado Party presidential candidate, Stroessner was elected president of Paraguay in 1954. President Stroessner remained in power until 1989. During his 34-year presidency, the Colorado Party dominated Paraguayan politics.

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

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

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

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

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

In the 2008 general elections, a non-politician and former Roman Catholic Bishop, Fernando Lugo, was elected president and Federico Franco was elected vice president. With the support of the 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. This was the first time since 1954 that the Colorado Party had lost a presidential election.

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

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

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

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

Constitution

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

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

Executive. The president is the head of the executive branch and commander-in-chief of both the armed forces and the police. The president and vice president are elected jointly and directly by the people for a five-year term; neither can be re-elected. The vice president assumes all presidential powers in case of disability or temporary absence of the president, or the permanent vacancy of the presidential office. The vice president is eligible to become president in forthcoming general elections if the vice president resigns from office six months prior to the general election. The next presidential elections are expected to take place in 2018.

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 2018.

The following table sets forth the representation of each major political party in the Paraguayan Congress as of December 31, 2015.

Congressional Representation by Parties

	Senate		**Chamber of Deputies**	
Party	**Seats**	**%**	**Seats**	**%**
Colorado Party (*Asociación Nacional Republicana–Partido Colorado*)	19	42.0%	46	58.0%
Liberal Party (*Partido Liberal Radical Auténtico*)	13	29.0%	28	35.0%
(*Concertación Nacional Frente Guasú*)	5	11.0%	1	1.0%
National Union of Ethical Citizens (*Unión Nacional de Cuidadanos Eticos*)	2	4.0%	0	0.0%

Party	Senate Seats	Senate %	Chamber of Deputies Seats	Chamber of Deputies %
Democratic Progressive Party (*Partido Democrático Progresista*)	3	7.0%	0	0.0%
(*Avanza País*)	2	4.0%	2	3.0%
(*Partido Encuentro Nacional*)	1	2.0%	2	3.0%
Independent Party	0	0.0%	1	1.0%
Total	**45**	**100.0%**	**80**	**100.0%**

Source: National Congress of Paraguay.

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 constitute the Republic of Paraguay.

The departments of Presidente Hayes, Boquerón and Alto Paraguay are situated in the large western region of the country, covering 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 96 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 OAS and the World Trade Organization (the "WTO"). It is also a member of the IMF, the World Bank, the Multilateral Investment Guarantee Agency of the World Bank Group (the "MIGA"), the International Finance Corporation, the IDB, the Andean Development Corporation (the "ADC") and UNASUR. Other memberships include the Latin American Integration Institute, the International Atomic Energy Agency and the International Telecommunications Union. For more information on our foreign relations, see "—History, Government and Political Parties."

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, the Community of Latin American and Caribbean States (the "CELAC"), which is the successor of the Río Group, and the Latin American and Caribbean Summit on Integration and Development (the "CALC"), an organization composed of Latin American and Caribbean countries with the purpose of promoting political, economic and social integration.

In 1991, Argentina, Brazil, Paraguay and Uruguay signed the Treaty of Asunción, which resulted in the creation of MERCOSUR. MERCOSUR provides for the gradual integration of the four members' economies, gradual economic convergence and macroeconomic policy coordination. MERCOSUR is also under trade negotiations with the European Union, the Gulf Cooperation Council (the "GCC"), Jordan and members of the Andean Pact in order to establish free trade agreements. For more information on MERCOSUR, see "Balance of Payments and Foreign Trade—MERCOSUR" and "—History, Government and Political Parties."

Paraguay, as a member state of MERCOSUR, has also signed trade agreements with countries of the Pacific Alliance, including the Economic Complementation Agreement ("ECA") No. 35 with Chile in 1996, the ECA No. 54 with Mexico in 2002, the ECA No. 59 with Colombia in 2004, and the ECA No. 58 with Peru in 2005. According to MERCOSUR's Decision No. 32/00, Paraguay, as a member state of MERCOSUR, may sign new trade agreements that grant preferential commercial terms to a non-member state only if that trade agreement has been negotiated by MERCOSUR.

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

Recently, Paraguay became the second South American state to ratify the WTO's Trade Facilitation Agreement, which contains provisions for expediting the movement, release and clearance of goods and delineates measures for the effective cooperation between the countries' customs officers and other relevant authorities on trade facilitation and customs compliance.

Developments in the Agricultural Sector

Agricultural production in Paraguay features a sector of well-capitalized, efficient producers and another sector with a larger number of farmers with smaller plots, composed of subsistence-level individual farmers. Well-capitalized producers tend to focus on the production of grains and meat, which have large, well-developed markets for domestic sale and export. By contrast, individual farmers typically produce only enough to provide 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 is aware of the importance of developing other opportunities for participants in the subsistence-level subsector of the agricultural economy. Lack of opportunity for many living in rural areas has led to conflicts, some of them violent. President Lugo's initiatives to address such inequalities in the agricultural sector failed, and outbreaks of violence in the sector in certain regions of Paraguay led to the events that ultimately resulted in his impeachment and removal from office in June 2012.

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. In an attempt to ease tensions that resulted in the conflict that led to Mr. Lugo's impeachment, in June 2014 President Cartes signed into law a bill that mandated returning a vast tract of ancestral land to the Sawhoymaxa community in furtherance of the decision rendered by the Inter-American Court of Human Rights in March 2006. It marked the first time that the Paraguayan state has taken steps to favor one of its indigenous groups in a land dispute and evidences the Cartes administration’s commitment to resolve the disputes that have persisted in the agricultural sector for decades.

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

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

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

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

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

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

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

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

The 1995-2003 Period

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

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

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

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

In 2002, further to the effects of the economic downturn, the volatility in 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 Superintendency of Banks responded more appropriately and timely to the 2002 and 2003 crises by closing the failing banks, with a cost to the public sector equivalent to approximately 1% of GDP.

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

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

Economic Recovery Structural Adjustment Loan

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

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

The average annual real GDP growth from 1992 to 2002 in Paraguay was approximately 1.8%, well below the average growth rates of 8.9% and 4.2% during the 1970s and 1980s, respectively. This decline in the average real GDP growth for the period was mainly the result of an economic slowdown that affected the Paraguayan economy in 1999-2002, including declines of 2.3% in 2000, 0.8% in 2001 and 0.02% in 2002. A significant economic recovery driven by agriculture, construction and trade sectors began in 2003. During the 2003-2008 period, Paraguay experienced an average annual real GDP growth of 4.5%.

Current Economic Policy

Since 2003, the succeeding administrations have adopted macroeconomic and financial strategies aimed at consolidating the pillars for sustainable medium- and long-term economic growth. Presidents Lugo and Franco continued implementing policies aimed at achieving fiscal balance in the medium term and reinforcing the low inflation targets set by the Central Bank, in the context of floating exchange rates. Personal Income Tax became effective in August 2012, and bills designed to further increase tax revenues were submitted to Congress and approved during the Franco administration. The Central Bank's ability to conduct monetary policy was strengthened through the recapitalization agreed in 2012. Finally, a wide range of programs designed to enhance the productivity of the Paraguayan labor force, mitigate the volatility created by Paraguay's dependence on the agricultural sector and improve infrastructure were initiated between 2008 and 2013. Some of these programs will continue as part of the National Plan of Development 2014-2030.

Strong and consistent economic policies strengthened economic performance. Successive governments ran substantial primary surplus in the period 2003-2012 that reduced public debt to less than 12.0% of GDP by 2012. The Central Bank's policies reduced inflation to an average of 4.0% during the 2011-2015 period, while maintaining exchange rate flexibility. Structural reforms advanced in several areas, including financial supervision, budget management, and the tax system. As a result, during the period 2003-2015 real GDP grew by an average of 4.7% per year, helping to reduce poverty. Total international reserves rose to US$6.2 billion by the end of 2015 and the financial sector was strengthened.

During the first months of President Cartes' administration, Congress approved important economic laws that had been submitted during the Franco administration. President Cartes' administration has made the responsible use of public sector resources and fiscal sustainability the cornerstones of his administration's economic policies. Through an enhanced and more efficient use of public resources, President Cartes' government seeks to generate opportunities for private sector participation in an expanded and more sustainable program of economic development. Building on those cornerstones, during the first 20 months of the Cartes administration, the government has deployed the following initiatives.

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

The FRL came into effect with the 2015 Annual Budget, and the draft budget that was submitted by the central government to Congress was in accordance with the FRL. In adopting the 2015 Annual Budget, Congress increased certain items of expenditure beyond those proposed by the central government, but excluded expenditures in infrastructure financed by international bond issuances from the basis used to calculate the government's fiscal deficit subject to the FRL's ceiling. With respect to the 2016 Annual Budget, for the first time, the budget expenditure decreased from that approved in the previous year. To ensure that spending does not exceed the 2016 Annual Budget and is also consistent with the FRL, the central government has built a team that will evaluate the fulfillment of the quarterly targets of the financial plan and will focus on making the adjustments required to satisfy those goals.

Gradual strengthening of fiscal balance. Improving tax revenues and collections have been a centerpiece of the administration's efforts to reduce the fiscal deficit and point back to a fiscal balance in the medium term. Amendments to the agricultural income tax and the application of VAT to previously exempt agricultural products, in a framework of greater transparency, have contributed to the central government's revenues. While these reforms have been implemented only recently, during December 31, 2015, increased capital spending has contributed to a primary deficit of G.1.6 billion (approximately US$313 million) (1.1% of GDP), compared to a primary deficit of G.1.0 billion (approximately US$225 million) (0.7% of GDP) in 2014 and a primary deficit of G.1.6 billion (approximately US$394 million) (1.4% of GDP) in 2013. For 2016, a deficit of 1.5% of GDP is budgeted.

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

Investing in infrastructure. The Cartes administration seeks to promote infrastructure development by committing public funding and stimulating the involvement of private sector players. Completing unfinished works, accelerating the construction of existing projects and calling for bids on large infrastructure projects is expected to boost employment and generate additional economic activities throughout the country. The government intends to rely on multilateral as well as bilateral official sector financing, in addition to part of the proceeds of the Bonds, to advance its infrastructure development agenda. In addition, through the AFD, the government has made US$237.3 million of financing available to private sector participants in the infrastructure projects during 2015. As part of this plan, the PPP Law, approved on October 28, 2013 provides a framework for the formation of partnerships between the public sector and private companies to finance and provide services required for building infrastructure. The Cartes administration has announced intentions to channel any increased expenditures of the public sector (as a percentage of total GDP) primarily into activities and investments that seek to enhance the productivity of the Paraguayan economy as a whole. In this regard, in 2015, the government approved two PPP projects in the transportation sector aimed at improving the efficiency and quality of Paraguay's infrastructure. One of the projects is aimed at the expansion and renovation of Highway Routes 2 and 7, servicing Yparacai, Ciudad Coronel Oviedo and San Lorenzo (expected to be completed by March 2019), and the other project is aimed at the expansion and upgrade of the Silvio Pettirossi International Airport, serving Asunción (expected to be completed by December 2018). See "—State Owned Enterprises—Public-Private Partnerships."

Structural reforms and diversification. By reforming Paraguay's pension system to strengthen its institutions, increase coverage and protect its long-term sustainability, the government seeks to generate medium and long-term expectations of economic growth in the population. A bill designed to increase transparency and the accountability of pension fund managers was drafted and is expected to be submitted to Congress for approval in the short term. In addition, the government is projecting the creation of a guaranty fund for small- and medium-sized enterprises designed to give this sector of the Paraguayan economy access to working capital on terms that will allow them to participate in and contribute to an increasingly dynamic economy. A bill concerning the creation of the guaranty fund was submitted to Congress and has been approved by one of its chambers. Industrial activities have provided opportunities for growth and diversification in recent years. Multinational grain trading companies have invested in facilities that increased soybean crushing capacity from 6.200 to 16.100 tons per day, positioning Paraguay third in the region in terms of total processing capacity. Paraguay is also taking advantage of its location to produce and export automotive parts to Brazil under the "Maquila" regime, established in 1967.

Gross Domestic Product and Structure of the Economy

During the 2011-2015 period, real GDP grew at an annual average rate of 5.0%. Total GDP in real terms increased by 4.3% in 2011, declined by 1.2% in 2012, and increased by 14.0%, 4.7% and 3.0% in 2013, 2014 and 2015, respectively. GDP per capita increased in real terms at an average annual rate of 3.3% from 2011 to 2015. GDP per capita grew in real terms by 2.6% in 2011, decreased by 2.9% in 2012, and increased by 12.2%, 3.0% and 1.4% in 2013, 2014 and 2015, respectively.

As of January 2016, the Paraguayan economy continued its expansion, driven mainly by the livestock, construction and electricity sectors. The Monthly Indicator of Economic Activity in Paraguay (IMAEP) recorded a cumulative increase of 1.8% (1.1% if agriculture and binationals are excluded), compared to January of 2015. The IMAEP, which is part of the System of National Accounts, is a monthly volume index used to measure the short-term performance of the Paraguayan economy although it does not include all the information used to calculate GDP. IMAEP does not include fishery, taxes and rental housing activities.

In 2011, real GDP grew by 4.3%. Results in the agricultural sector, which benefited from high yields in its main crops and favorable weather conditions, contributed positively to this growth. The commercial, financial and communications sectors also contributed to economic growth in 2011. However, this growth was offset by: decreases in the livestock sector as a result of an FMD outbreak in September 2011; shortages in the production and supply of cement that affected the construction sector, mainly due to a malfunction in the state-owned cement company's machinery and to shortages in the supply of clinker and fuel (raw materials for the production of cement); and a decrease in sales of fuel oil and other imported products due to adverse conditions affecting the transport of such products, such as a decrease in the water level of the Paraguay River.

In 2012, real GDP decreased by 1.2%, mainly due to the impact of a drought that adversely affected productivity in the agricultural sector and an outbreak of FMD in 2011 and January 2012 that affected beef exports. The decrease in agricultural production and exports was partially offset by improved results in non-agricultural sectors, such as manufacturing, which increased by 4.6%. In addition, the government sector grew by 25.5%, driven by the implementation of wage and salary increases of public sector employees, which helped the economy to remain stable.

In 2013, real GDP grew by 14.0%, driven mainly by the agricultural and livestock sectors, which grew by 67.1% when combined. Total exports increased about 18.4% as a result of the increased production and export of soybeans, and the livestock sector increased as a result of the recovery of key export markets for Paraguayan beef. The services sector grew by approximately 8.6%, including growth in transportation (20.0%), commerce (10.5%), financial intermediation services (9.6%) and communications (7.5%). Government services increased by 4.9% in 2013, while its participation in total real GDP decreased slightly to 8.3% in 2013, compared to 9.0% in 2012 and 7.1% in 2011. In 2012, public consumption increased, in both current and real terms, due to government expenditures related to salaries and purchases of intermediate goods and services to compensate for a decline in purchases of consumer and capital goods. In 2012, gross fixed investment decreased as a result of a significant decline in imports of machinery and equipment that resulted from decreased agricultural production due to a heavy drought and FMD outbreak. However, in 2013, gross fixed investment recovered growing by 11.9%, while public consumption kept growing by 3.5%.

In 2014, real GDP grew by approximately 4.7%, driven mainly by growth in the construction, manufacturing and services sectors, which grew by 13.8%, 9.5% and 6.0%, respectively.

According to preliminary information, real GDP grew by approximately 3.0%, in 2015. This growth was primarily driven by the agriculture, construction and financial sectors, which grew by 5.0%, 6.0% and 12.0%, respectively, and made up 18.7%, 3.8% and 3.2% of real GDP in 2015, respectively. On the demand side, the main drivers of real GDP growth were government consumption and gross fixed investment, which expanded by 6.0% and 6.3%, respectively. Nominal GDP, which is calculated based on current prices, declined in 2015 because of a reduction in the price of commodities, despite an increase in production.

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

Nominal GDP and Domestic Expenditures

	2011	2012	2013[(1)]	2014[(1)]	2015[(1)]
	(in millions of US$, at current prices)				
GDP	$25,149	$24,691	$28,915	$30,657	$27,715
Imports of goods and services	12,647	12,026	12,889	13,184	11,165
Total supply of goods and services	37,796	36,717	41,804	43,841	38,880
Less: Exports of goods and services	13,212	12,326	14,243	14,350	11,602
Total goods and services available for domestic expenditures	$24,584	$24,391	$27,561	$29,491	$27,278
Allocation of goods and services					
Private Consumption	17,628	17,544	19,559	20,762	19,075
Public Consumption	2,667	3,124	3,546	3,763	3,565
Total Consumption	20,295	20,668	23,105	24,525	22,639
Gross fixed investment	4,119	3,740	4,370	4,865	4,743
Changes in inventory	170	(17)	85	102	(104)
Total domestic expenditure	**$24,584**	**$24,391**	**$27,561**	**$29,491**	**$27,278**

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

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

Nominal GDP by Expenditures

	2011	2012	2013[(1)]	2014[(1)]	2015[(1)]
	(as percentage of total nominal GDP)				
Government consumption	10.6	12.7	12.3	12.3	12.9
Private consumption	70.1	71.1	67.6	67.7	68.8
Gross fixed investment	16.4	15.1	15.1	15.9	17.1
Changes in inventories	0.7	(0.1)	0.3	0.3	(0.4)
Exports of goods and services	52.5	49.9	49.3	46.8	41.9
Imports of goods and services	50.3	48.7	44.6	43.0	40.3
GDP	100.0	100.0	100.0	100.0	100.0

(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

	2010	2011	2012	2013[(1)]	2014[(1)]	2015[(1)]
	(percentage change from previous year)					
Government consumption	12.0	5.3	21.0	3.5	4.2	6.0
Private consumption	13.5	5.6	2.8	4.6	3.7	2.8
Gross fixed investment	21.7	11.0	(7.7)	11.9	8.8	6.3
Changes in inventories	42.0	7.5	(110.4)	1,207.2	43.7	(51.8)
Exports of goods and services	19.9	6.2	(6.7)	18.4	4.3	(2.0)
Imports of goods and services	24.8	10.4	(3.5)	6.8	5.3	(2.9)
GDP	13.1	4.3	(1.2)	14.0	4.7	3.0

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

Principal Sectors of the Economy

The composition of GDP by economic sector has remained generally stable from 2011 to 2015, with the exception of 2012 which was marked by decreased activity in the agricultural sector. On average, agriculture, commerce and electricity production from binationals constitute the largest components of real GDP, representing 18.7%, 14.5% and 8.8%, respectively, of real GDP in 2015, compared to 18.3%, 14.9% and 9.1%, respectively, in 2014. In 2013, these sectors represented 18.8%, 14.8% and 10.5%, respectively, compared to 13.6%, 15.2% and 11.9%, respectively, in 2012, and 18.7%, 15.5% and 11.2%, respectively, in 2011.

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

Nominal GDP by Sector

	2011	2012	2013[(1)]	2014[(1)]	2015[(1)]
	(in millions of current US$, at current prices)				
Goods					
Agriculture	$ 3,303	$ 2,438	$ 3,853	$ 3,579	$ 2,781
Livestock	1,402	1,214	1,396	1,701	1,452
Forestry	338	369	391	394	370
Fishery	12	11	11	10	9
Mining	33	34	40	44	40
Manufacturing	2,758	2,709	3,045	3,327	2,936
Construction	1,696	1,742	2,010	2,319	2,195
Total production of Goods	***9,541***	***8,516***	***10,746***	***11,374***	***9,783***
Services					
Electricity and Water	295	294	322	324	299
Transportation	735	756	840	918	824
Communications	636	685	825	873	815
Commerce	3,813	3,486	4,029	4,288	3,835
Finance	1,039	1,182	1,381	1,509	1,510
Housing	214	227	250	257	237
Business Services	565	566	611	650	599
Restaurants and Hotels	251	254	289	380	361
Household Services	1,250	1,277	1,452	1,604	1,476
Government	2,477	3,036	3,482	3,519	3,333
Total production of Services	***11,277***	***11,763***	***13,481***	***14,323***	***13,289***
Gross Value Added	*20,818*	*20,279*	*24,227*	*25,697*	*23,072*
Taxes on products	2,459	2,427	2,666	2,996	2,829
Total	*23,276*	*22,706*	*26,893*	*28,692*	*25,901*
Binationals[(2)]	1,873	1,985	2,021	1,965	1,814
Total GDP	***$ 25,149***	***$ 24,691***	***$ 28,915***	***$ 30,657***	***$ 27,715***

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

	2011	2012	2013(1)	2014(1)	2015(1)
			(in percentages)		
Goods					
Agriculture	18.7	13.6	18.8	18.3	18.7
Livestock	4.8	5.2	5.0	5.5	5.2
Forestry	1.2	1.3	1.1	1.1	1.1
Fishery	0.1	0.1	0.1	0.1	0.1
Mining	0.1	0.1	0.1	0.1	0.1
Manufacturing	10.1	10.7	10.1	10.6	10.5
Construction	3.5	3.5	3.4	3.7	3.8
Total production of Goods	***38.5***	***34.5***	***38.6***	***39.3***	***39.5***
Services					
Electricity and Water	1.6	1.8	1.6	1.7	1.8
Transportation	3.2	3.3	3.4	3.5	3.6
Communications	4.0	4.6	4.3	4.2	4.2
Commerce	15.5	15.2	14.8	14.9	14.5
Finance	2.5	2.9	2.8	2.9	3.2
Housing	1.4	1.4	1.3	1.3	1.2
Business Services	2.3	2.4	2.2	2.2	2.2
Restaurants and Hotels	1.0	1.0	1.0	1.0	1.0
Household Services	5.0	5.2	4.9	5.1	5.0
Government	7.1	9.0	8.3	8.3	8.6
Total production of Services	***43.6***	***46.8***	***44.6***	***45.1***	***45.2***
Gross Value Added	*82.0*	*81.3*	*83.2*	*84.4*	*84.7*
Taxes on products	6.7	6.8	6.4	6.5	6.5
Total	*88.8*	*88.1*	*89.5*	*90.9*	*91.2*
Binationals(2)	11.2	11.9	10.5	9.1	8.8
Total GDP	***100.0%***	***100.0%***	***100.0%***	***100.0%***	***100.0%***

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

	2011	2012	2013(1)	2014(1)	2015(1)
	(percentage change from previous year, at constant prices)				
Goods					
Agriculture	7.0	(28.3)	57.5	2.2	5.0
Livestock	(7.1)	7.2	9.6	14.4	(1.8)
Forestry	3.0	2.3	(1.2)	3.5	7.0
Fishery	2.0	1.5	1.5	1.4	1.5
Mining	5.3	1.5	8.9	9.5	4.5
Manufacturing	(1.6)	4.6	7.9	9.5	2.0
Construction	1.5	1.0	9.6	13.8	6.0
Total production of Goods	***2.1***	***(11.5)***	***27.5***	***6.8***	***3.4***
Services					
Electricity and Water	8.7	7.0	7.1	8.0	6.5
Transportation	2.5	1.1	20.0	7.5	3.9
Communications	15.0	13.1	7.5	3.2	1.0
Commerce	3.0	(2.6)	10.5	5.8	0.1
Finance	17.3	13.0	9.6	10.6	12.0
Housing	2.2	2.5	2.5	2.5	2.5
Business Services	4.0	2.8	2.8	4.4	3.0
Restaurants and Hotels	6.0	4.5	8.0	6.9	6.0
Household Services	6.5	2.3	7.8	7.9	3.0
Government	6.0	25.5	4.9	5.0	6.0
Total production of Services	***5.9***	***6.1***	***8.6***	***6.0***	***3.2***
Gross Value Added	*4.1*	*(2.1)*	*16.6*	*6.4*	*3.3*
Taxes on products	3.0	(0.3)	6.9	6.0	3.8
Total	*4.0*	*(2.0)*	*15.9*	*6.3*	*3.3*
Binationals(2)	7.1	4.8	0.3	(9.0)	(0.3)
Total GDP	***4.3%***	***(1.2)%***	***14.0%***	***4.7%***	***3.0%***

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

Production of Goods

The primary sectors in the production of goods, namely agriculture, livestock, forestry and fishery, represented 25.1% of real GDP in 2015.

Agriculture. The agricultural sector grew at an average annual rate of 8.7% from 2011 to 2015. In 2015, the agricultural sector accounted for 18.7% of real GDP. In 2011, the agricultural sector increased by 7.0%. In 2012, a drought affected the agricultural sector, causing production to decrease by 28.3%. In 2013, the agricultural sector recovered strongly, growing by 57.5%. In 2014 and 2015, the sector grew by 2.2% and 5.0%, respectively.

Soybeans, corn, sugar cane, manioc, wheat, rice and sunflowers are the main crops of the Paraguayan agricultural sector, representing the largest share of Paraguay's agricultural production from 2011 to 2015. 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 2013, the agricultural sector experienced fluctuations in production that was buoyed by strong international prices. However, since the second half of 2014, international commodity prices have consistently declined, affecting adversely prices of soybeans (one of the main crops of Paraguay's agricultural sector). For example, soybeans accounted for approximately 43.3% of Paraguay's agricultural production in 2015, which is 11.2% lower, in volume, than in 2014. This drop in soy production is primarily due to the significant decrease in international commodities prices and, to a lower extent, explained by an outbreak of the *roya* fungus that affected certain harvest areas and agricultural producers' prioritization of the corn harvest over the production of soy in 2014. This drop in soybean prices was partially offset by the depreciation of the local currency against the U.S. dollar.

The growth of the agricultural sector has been driven mainly by an increase in corn production, as well as an increase in other products such as wheat and rice. During the five-year period ending 2015, 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 by the United States Agricultural Department (USDA) for the third consecutive year in 2015. 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 (ADM), resulted in increased domestic soybean production. In addition, Complejo Agroindustrial Angostura S.A. (CAIASA), a Bunge and Louis Dreyfus joint-venture soybean crushing company, initiated operations in Villeta at the beginning of May 2013, with an investment of US$170 million that started in March 2012. The Paraguayan Chamber of Oilseeds and Cereals Processors and Exporters (CAPPRO) gathers the most important oilseed crushing companies (including ADM and CAISA, among others), and it members account for 90% of Paraguayan produced and exported soybean, oil and flour. As of August 2015, CAPPRO processed 2.66 million tons, of which 2.62 million tons were of soybeans.

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

Selected Agricultural Production

	2011	**2012**	**2013**	**2014**	**2015[(1)]**
			(in tonnes)		
Soybeans	8,309,793	4,344,960	9,086,000	9,975,000	8,856,312
Corn	3,345,877	3,079,525	4,120,000	3,200,000	4,985,881
Manioc	2,453,837	1,685,600	2,800,000	3,060,000	3,168,055
Wheat	1,463,881	1,560,600	1,430,000	840,000	1,139,147
Sugar Cane	5,339,010	4,186,000	5,544,797	6,372,000	6,701,433
Rice	408,246	396,000	617,400	804,000	857,771
Beans	53,237	26,438	56,000	58,100	57,294
Sunflower	108,609	78,950	115,500	111,600	100,988
Cotton	30,612	28,800	49,500	15,400	14,820
Peanuts	24,032	11,875	30,000	25,000	26,432
Tobacco	6,441	4,848	5,375	5,616	5,883

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

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

Selected International Commodity Prices[(1)]

	2011	2012	2013	2014	2015
			(in US$)		
Soybeans (US$/ton.)[(2)]	$484.4	$536.1	$519.7	$458.3	$347.6
Soybeans Oil (US$/ton.)[(2)]	1,216.0	1,151.9	1,011.3	812.7	672.3
Soybeans Meal (US$/ton.)[(2)]	343.7	429.4	433.0	426.7	352.3
Beef (US$/ton.)[(3)]	2,525.2	2,704.0	2,784.3	3,329.1	3,238.8
Corn (US$/ton.)[(2)]	267.6	272.6	228.9	163.6	148.5
Sunflower Seeds (US$/ton.)[(4)]	583.8	629.7	551.6	454.2	439.4
Wheat (US$/ton.)[(2)]	261.0	276.7	251.6	216.5	186.6

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

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

Selected Agricultural Production

	2011	2012	2013[(1)]	2014[(1)]	2015[(1)]
			(Percentage change from previous year)		
Soybeans	11.4%	(47.7)%	109.1%	9.8%	(11.2)%
Corn	7.6	(8.0)	33.8	(22.3)	55.8
Manioc	(6.5)	(31.3)	66.1	9.3	3.5
Wheat	4.4	6.6	(8.4)	(41.3)	35.6
Sugar Cane	4.1	(21.6)	32.5	14.9	5.2
Rice	29.5	(3.0)	55.9	30.2	6.7
Beans	9.1	(50.3)	111.8	3.8	(1.4)
Sunflower	(58.6)	(27.3)	46.3	(3.4)	(9.5)
Cotton	103.3	(5.9)	71.9	(68.9)	(3.8)
Peanuts	(9.5)	(50.6)	152.6	(16.7)	5.7
Tobacco	1.6	(24.7)	10.9	4.5	4.8

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

Livestock. In 2015, the livestock sector represented 5.2% of real GDP and declined by 1.8% in real terms when compared to 2014, mainly due to lower prices of livestock and beef in the international markets. In 2011, the livestock sector declined by 7.1% in real terms primarily due to the FMD outbreak in the second half of the year. In 2012, the sector recovered, growing by 7.2% in real terms. In 2013, the World Assembly of World Organization for Animal Health Delegates granted Paraguay the same status of FMD-free country with vaccination that Paraguay had held prior to the 2011 FMD outbreak, and the livestock sector grew by 9.6% in real terms. In 2014, the sector grew by 14.4% in real terms.

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

Selected Livestock Production

	2011	2012	2013(1)	2014(1)	2015(1)
	(in millions of current US$, at current prices)				
Livestock	$1,402	$1,214	$1,396	$1,701	$1,452

(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

	2011	2012	2013(1)	2014(1)	2015(1)
	(percentage change from previous year, at constant prices)				
Livestock	(7.1)%	7.2%	9.6%	14.4%	(1.8)%

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

Growth in the livestock sector over the last few years is in part the product of investments in genetics, general infrastructure and the health and sanitation system (including vaccinations against diseases such as FMD), all of which have improved the quality of cattle stock. This has allowed Paraguay to diversify its meat exports to markets such as Russia, Chile, Brazil, Israel and Kuwait in recent years. In 2015, Paraguay exported beef to Russia (31.0% of Paraguay's total beef exports), Chile (28.1% of Paraguay's total beef exports), Brazil (10.6% of Paraguay's total beef exports), Israel (7.1% of Paraguay's total beef exports) and Kuwait (3.5% of Paraguay's total beef exports). The Russian economy has recently suffered a deceleration that has adversely affected Paraguayan meat processing plants. However the recent market diversification of Paraguayan meet products exports has offset the adverse effects caused by the deceleration of the Russian economy. During the two-month period ending February 29, 2016, meat and edible meat offal exports totaled US$168,954, a 9.9% decrease from the same period in 2015.

In September 2011 and January 2012, FMD outbreaks were detected in the department of San Pedro, as a result of which Paraguay's main meat producers were denied access to major international markets, including the European Union and Chile. The FMD outbreaks also resulted in reduced volumes of meat processed in Paraguay in 2012. The outbreaks have since been controlled and Paraguayan producers have regained access to many of their main export markets. Paraguay subsequently regained its status as an FMD-free country with vaccination in 2013. In 2014, the country became the sixth largest exporter of beef worldwide (in nominal U.S. dollar terms) and in 2015, the European Union provided Paraguay with a 1000-ton Hilton quota for high value beef cuts.

The following table sets forth the main destinations of Paraguayan beef exports as of December 31, 2015.

Main Destinations of Paraguayan Beef Exports[(1)(2)]

	As of December 31, 2015
	(% of Total)
Russia	31.0%
Chile	28.1%
Brazil	10.6%
Israel	7.1%
Kuwait	3.5%
Vietnam	3.4%
Hong Kong	2.8%
Iraq	1.7%
Gabon	1.6%
Others	10.2%
Total	**100.0%**

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

Manufacturing. In 2015, the manufacturing sector represented 10.5% of real GDP. In 2011, the sector declined by 1.6% but increased by 4.6% in 2012. The manufacturing sector continued its expansion by increasing 7.9% in 2013, 9.5% in 2014, and 2.0% in 2015.

Manufacturing in Paraguay primarily focuses on the production of foodstuffs for human and animal consumption, such as dairy products, meat, animal feed, beverages and tobacco, and textiles. Paraguay's manufacturing sector is characterized by small- and medium-sized enterprises in various industries, larger and more developed beverage companies that produce alcoholic and non-alcoholic beverages, and manufacturers of dairy products.

Dairy production has developed significantly, producing many diverse export-quality products such as yogurt, probiotic yogurt, cheese, caramel (dulce de leche), cream and ultra-high temperature processing milk, among others. In 2015, Paraguay began to export milk powder to new markets, such as Bolivia, Nigeria, Russia and Brazil. In 2015, 1.5 million liters of milk per day were processed, amounting to approximately 565 million liters for the year. In addition, the dairy sector is currently working on projects to construct new powdered milk processing plants to improve its performance and increase production. 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 more investments to the manufacturing sector. In this regard, the Paraguayan government granted benefits of approximately US$520 million under Law No. 60/90 (the "Investment Incentives Law") to 162 investment projects during 2015. It is estimated that the implementation of the Investment Incentives Law created approximately 5,641 new jobs in Paraguay. Further, the Maquila Regime is a priority for the government. See "—Current Economic Policy" for more information on the Maquila Regime. There are 63 enterprises operating in the departments of Central, Alto Paraná, Amambay, Caaguazú, Presidente Hayes, Canindeyú and Guairá that exported manufactured goods amounting to US$284.9 million in 2015. The main exported products were automotive spare parts and clothing and textile articles.

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

	2011	% of Total	2012	% of Total	2013(1)	% of Total	2014(1)	% of Total	2015(1)	% of Total
	(in millions of US$, at current prices)									
Processed Meats	$ 770	27.9%	$ 692	25.5%	$ 810	26.6%	$ 983	29.6%	$ 820	27.9%
Beverages and Tobacco	492	17.9	510	18.8	560	18.4	574	17.2	489	16.7
Textiles and Clothing	300	10.9	312	11.5	383	12.6	391	11.7	359	12.2
Timber	129	4.7	134	5.0	144	4.7	152	4.6	146	5.0
Chemicals	108	3.9	111	4.1	124	4.1	131	4.0	130	4.4
Milling and Bakery	102	3.7	97	3.6	123	4.0	131	4.0	97	3.3
Paper and Paper Products	101	3.7	111	4.1	124	4.1	129	3.9	128	4.4
Oil Products(2)	85	3.1	81	3.0	85	2.8	100	3.0	95	3.2
Leather and Shoes	59	2.2	59	2.2	63	2.1	63	1.9	52	1.8
Sugar	55	2.0	51	1.9	42	1.4	34	1.0	29	1.0
Other Foodstuff	55	2.0	57	2.1	58	1.9	63	1.9	57	2.0
Dairy Products	38	1.4	42	1.6	45	1.5	52	1.6	48	1.6
Non-Metallic Products	187	6.8	193	7.1	222	7.3	250	7.5	232	7.9
Machinery and Equipment	102	3.7	95	3.5	94	3.1	93	2.8	88	3.0
Base Metal Products	49	1.8	40	1.5	37	1.2	40	1.2	40	1.4
Other Manufactured Products	125	4.5	124	4.6	131	4.3	140	4.2	125	4.2
Total	**$ 2,758**	**100.0%**	**$ 2,709**	**100.0%**	**$ 3,045**	**100.0%**	**$ 3,327**	**100.0%**	**$ 2,936**	**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 percentage changes from the previous year in selected manufacturing products at constant prices for the periods indicated.

Selected Manufacturing Products

	2011	2012	2013(1)	2014(1)	2015(1)
	(percentage change from previous year, at constant prices)				
Processed Meats	(16.7)%	7.0%	14.0%	18.1%	(4.0)%
Beverages and Tobacco	7.0	5.0	1.0	4.9	(2.5)
Textiles and Clothing	2.0	7.4	20.1	4.7	3.0
Timber	7.0	1.5	2.0	6.7	8.5
Chemicals	8.5	5.0	7.5	7.3	8.0
Milling and Bakery	6.0	5.0	1.0	2.4	7.0
Paper and Paper Products	6.8	5.0	6.3	8.2	13.0
Oil Products(2)	3.5	(1.3)	6.0	18.0	9.7

	2011	2012	2013(1)	2014(1)	2015(1)
	(percentage change from previous year, at constant prices)				
Leather and Shoes	(1.5)	2.0	6.5	(2.1)	(6.0)
Sugar	(5.5)	3.5	(3.3)	1.3	(1.5)
Other Foodstuff	4.5	10.1	2.5	22.1	9.0
Dairy Products	30.3	20.5	5.1	9.5	9.0
Non-Metallic Products	(8.2)	4.5	11.5	12.8	3.0
Machinery and Equipment	4.3	(1.5)	(3.4)	2.0	6.0
Base Metal Products	(6.5)	(10.5)	(6.9)	12.6	10.0
Other Manufactured Products	1.5	2.5	4.0	9.8	3.5
Total	**(1.6)**	**4.6**	**7.9**	**9.5**	**2.0**

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

Construction. The construction sector, which focuses mainly on residential housing and commercial buildings, represented 3.8% of real GDP in 2015, according to preliminary data. In 2011, the construction sector grew by 1.5%. In 2012, the construction sector slowed its growth rate to 1.0%. In 2013, the sector grew by 9.6%, as a result of an increase in public and private constructions, driven by the anticipation and subsequent passage of the PPP Law. The construction sector contributes significantly to the economy and has recovered significant domestic and international investment during the latest years. For example, in Asunción many international hotel chains have opened hotels and restaurants and construction of commercial real estate has increased significantly. The city of Encarnación has also seen a surge in construction of hotels and restaurants. All these resulting in a growth rate of 13.8% for the construction sector in 2014. According to preliminary data, in 2015, the construction sector grew at a rate of 6.0%.

Mining. Mining consists primarily of the extraction of kaolin, gypsum and limestone. In recent years, metallic mining has shown positive growth. In 2015, the mining sector accounted for 0.1% of real GDP. At present, there are approximately 40 companies holding licenses for prospecting and exploration of metallic and non-metallic mineral mines.

Services. In 2015, the services sector accounted for 45.2% of real GDP. The services sector grew by 6.0% on average in real terms for the five-year period ending in 2015. The services sector grew by 5.9% in 2011 to US$11.3 billion, by 6.1% in 2012 to US$11.8 billion, by 8.6% in 2013 to US$13.5 billion, by 6.0% in 2014 to US$14.3 billion and by 3.2% in 2015 to US$13.3 billion.

Commerce. Most of the commercial activity centers on agricultural, manufacturing and imported goods. In 2015, commerce represented 14.5% of real GDP. Commerce grew by 3.0% in 2011 and declined by 2.6% in 2012. Commerce recovered in 2013 by growing 10.5%, and 5.8% in 2014, whereas in 2015, the growth rate in this sector decreased by 0.1%, mainly due to a reduction in imported goods. Growth in the sector during the 2011-2015 period was mainly driven by a growing domestic demand, a higher volume of trade in agricultural goods and the increase in 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 2015, the government sector represented 8.6% of real GDP. The sector grew at an average annual rate of 9.5% in the 2011-2015 period. This sector grew by 6.0% in 2011, 25.5% in 2012, 4.9% in 2013, 5.0% in 2014, and 6.0% in 2015. In 2012, the acceleration in the sector was mainly the result of the implementation of extraordinary increases in compensation of public sector employees.

Communications. The communications sector is comprised of telecommunication companies operating in the country and mail services, such as private courier companies. The sector grew at an average annual rate of 8.0% in the 2011-2015 period. The sector grew by 15.0% in 2011, 13.1% in 2012, 7.5% in 2013, 3.2% in 2014 and 1.0% in 2015. In the last decade, the communications sector has experienced strong growth, mainly due to high levels of investment by telecommunication companies, particularly investments in mobile technology after a shortage in the supply of fixed-line telephone services and consumer dissatisfaction with telephony services. This led to consistent expansion in the communications industry during the 2011-2013 period. Currently, smartphones are making available new channels of communication, prompting users to shift from traditional calls and SMS to lower cost communication options. As a result of this shift, the communications sector expansion slowed in the 2014-2015 period, while telecommunications companies invested in upgrading other technologies and services, such as internet and cable TV, in an effort to satisfy new consumer demands.

Finance. The finance sector includes all the banks, financial and insurance companies in the financial system. The sector experienced solid growth in the 2011-2015 period, with an average annual growth rate of 12.5%. In 2015, the finance sector represented 3.2% of real GDP. The sector grew by 17.3% in 2011, 13.0% in 2012, 9.6% in 2013, 10.6% in 2014 and 12.0% in 2015. 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 hotel and restaurants. Transportation grew by 2.5% in 2011, 1.1% in 2012, 20.0% in 2013, 7.5% in 2014, and 3.9% in 2015. Household services grew by 6.5% in 2011, 2.3% in 2012, 7.8% in 2013, 7.9% in 2014, and 3.0% in 2015. Finally, hotel and restaurant services grew by 6.0% in 2011, 4.5% in 2012, 8.0% in 2013, 6.9% in 2014, and 6.0% in 2015.

In general, developments in the transportation sector 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. Hotel 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. According to preliminary data, electricity accounted for approximately 25% of Paraguay's total exports. 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 8.8% of real GDP in 2015 (according to preliminary estimates), is included in the calculation of Paraguay's GDP. Acaray, a hydroelectric facility owned by ANDE, is also a part of the energy system, and its production is used entirely locally. Moreover, as of January 2014, according to the Commission for Regional Energy Integration (*La Comisión de Integración Energética Regional*), Paraguay had one of the lowest energy costs in the region at US$55 MW/hour.

Itaipú. Itaipú, the world's largest hydroelectric plant measured by annual electricity generation, is located on the Paraná River in eastern Paraguay on the border with Brazil. Itaipú has an installed capacity of 14,000 MW/hour, and its construction extended over 17 years at a cost of US$18.0 billion. Not only is Itaipú a significant source of low-cost electric power for Paraguay, but it is also a significant source of revenues in U.S. dollars for the government. During the first two months of 2016, the accumulated electricity generation at Itaipú amounted to 17.236 Gw/hour, a 19% increase with respect to the same period in 2015.

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 2015 reached 89.2 million MW/hour and supplied 75% and 15% 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. In 2014, the amount of compensation stood at US$9.0 per MW/hour and at US$10.6 per MW/hour in 2015. Paraguay received royalty payments and compensation payments of US$611 million (2.2% of GDP) in 2015, US$565 million in 2014, US$635 million in 2013, US$566 million in 2012 and US$387 million in 2011. From 2011 to 2015, revenues increased by 58.0%. However, during this period, revenues fluctuated as a result of the variation in the total production of electricity, which itself depends on the water flow of the Paraná River. In particular, the drought that affected Brazil and Paraguay in 2014 caused water flows of the Paraná River to decrease significantly, with a resulting reduction in electricity production and a decrease in revenues at Itaipú.

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

Revenues from Itaipú

	2011	2012	2013	2014	2015
			(in millions of US$)		
Royalties	222.8	246.7	258.9	273.2	250.5
Compensation	163.6	306.7	344.8	298.7	360.2
Total	**386.5**	**553.4**	**603.7**	**571.9**	**610.7**

Source: Itaipú.

Electrobras provided 85% of the financing for the construction of Itaipú, with third parties providing the balance. After startup of operations, when the debt began to amortize, Itaipú Binational experienced difficulties in servicing its debt to 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 (i) 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. At December 2015, Itaipú Binational owed Electrobras and the National Treasury of Brazil approximately US$11.1 billion, and had a total outstanding indebtedness of approximately US$11.4 billion.

Under the Itaipú Treaty, Itaipú Binational receives the revenues required to cover its operating expenses, service its debt obligations and to 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 Electrobras, at a rate that at December 31, 2015 was approximately US$10.6 per MW/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 is currently operating at its planned total capacity of 3,200 MW/hour.

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

The construction of Yacyretá began in 1975. Yacyretá's first turbine commenced operations in 1994, and currently there are 20 turbines in operation. Yacyretá's production of electricity during 2015 reached 19,939 Gw/hour. The Yacyretá Treaty remains in force until Argentina and Paraguay mutually agree to terminate the treaty.

According to the Yacyretá Treaty, Paraguay receives (i) royalty payments and (ii) compensation payments based on revenues from the sale of Paraguay's unused electricity to Argentina. The latter is paid by Yacyretá Binational directly to Paraguay. The construction of Yacyretá was originally largely financed by loans from the World Bank and the IDB to Yacyretá Binational, which were guaranteed by Argentina. Argentina is currently the creditor of such debt. As of December 31, 2013, Yacyretá Binational's total outstanding debt was US$3.4 billion (excluding accrued interest), and there have been no further payments on such debt since that date. Paraguay is now in the process of negotiating the outstanding debt with the new Argentine government that took office in December 2015.

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

Revenues received by Paraguay from Yacyretá Binational totaled US$ 229 million in 2010, US$233 million in 2011, US$183 million in 2012 and US$125 million in 2013, in each case based on revenues from the sale of Paraguay's unused electricity to Argentina. In 2015, Paraguay received US$108 million (which accounted for approximately 0.4% of Paraguay's GDP) as discretionary payments from Yacyretá Binational on account of compensation which is in the process of being allocated to prior years. As of the date of this Offering Memorandum, US$24 million are still pending to be received by Paraguay from Yacyretá Binational under the 2015 royalties and compensation agreement. Negotiations are currently underway between Paraguay and Argentina to determine the amount of royalties and compensations that Yacyretá Binational will pay to Paraguay with respect to year 2016.

The Yacyretá Treaty provides that the financial terms contained in Annex C of the treaty are to be renegotiated at 40 years from the effective date of the Yacyretá Treaty. In accordance with those terms, renegotiations of the financial terms began in June 2014 between representatives of Paraguay and Argentina and, as of the date of this Offering Memorandum, are still ongoing.

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

Revenues from Yacyretá[1]

	2010	2011	2012	2013
	(in millions of US$)			
Administrative Expenses[2]	$ 120.3	$ 72.3	$ 59.1	$ 28.4
Other[3]	109.0	160.8	124.2	96.4
Total	**$ 229.3**	**$ 233.0**	**$ 183.3**	**$ 124.8**

(1) In 2015, Paraguay received US$108 million on account for prior years, but allocation of such payment has not yet been completed.
(2) Corresponds to payments received from Yacyretá Binational in connection with Paraguay's share of operating expenses relating to Yacyretá Binational.
(3) Corresponds to compensation for flooded land, energy assignment and capital utilities and compensation.

Source: Central Bank of Paraguay.

Pursuant to the Law No. 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"). In the aggregate, the SOEs generate positive net revenue for the government, and the SOEs with the highest share of total revenues from SOEs are ANDE, responsible for 47.7% of total SOE revenues, and Petroleos Paraguayos ("PETROPAR"), responsible for 34.9% of total SOE revenues. Of the nine SOEs, three operate in goods-producing sectors such as alcohol, oil and cement, and the other six are principally engaged in providing services.

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

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

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

SOEs Wholly-Owned by Paraguay	SOEs Majority Owned by Paraguay	Privatized Former SOEs
ANNP	FEPASA	
DINAC		

Source: Ministry of Finance.

SOEs have played a significant role in the Paraguayan economy, accounting for roughly 5% of GDP and 20.8% of the public sector budget. Although SOEs provide essential goods and services—including petroleum, water, telecommunications and electricity—their service delivery and management performance are limited, in part due to the distorted or monopolized markets in which they operate. In many cases, SOEs show high levels of underinvestment, significant delays in their payments, increased levels of indebtedness and material inefficiencies. In March 2016, the Ministry of Finance pledged to repay G.200 billion (US$35.1 million) of a total of G.400 billion owed to ANDE since 2013. In 2016, the president of ANDE stated that the firm will recover nearly half of the debt owed for electrification projects that ANDE completed years ago and for which payments were never made. Moreover, in an effort to remedy high levels of underinvestment in ANDE's electrical substations, the Paraguayan government is negotiating a loan with the Latin American Development Bank ("CAF") for approximately US$150 million that will be used to fund the replacement of conductors at six electrical substations in Asunción's metropolitan area.

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

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

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

(i) financial liquidity;

(ii) basic debt service of controlled entities;

(iii) achievement of goals measured by technical indicators;

(iv) creation of specialized technical teams;

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

(vi) publication of annual external audits; and

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Following the adoption of the Strategic Plan, CNEP has taken significant steps toward implementing the guidelines. One such step was the approval of Resolution No. 11 in September 2014, which established heightened requirements for SOEs seeking debt financing. Progress has been also made in reducing the debt held by basic services companies, such as companies providing water, electricity and telecommunication services. At December 31, 2015, the debt held by SOEs was reduced by 6%, and further reduction (aimed at 20%) is expected in 2016. In addition, with the objective of bringing greater transparency to the management of SOEs, a newly instituted review and approval process for SOE management contracts has been implemented. According to such process, SOEs submitted efficiency plans for CNEP's approval for the 2015-2017 period. Such efficiency plans will serve as the basis for reviewing SOE management contracts signed for such two-year period. Further, CNEP has approved proposals relating to the development of a Corporate Governance framework in accordance with internationally recognized best practices for public enterprises. CNEP is also in the process of proposing an amendment to the Law on Public Contracts (Law No. 2051/03) aimed at providing greater flexibility in the ability to purchase stakes in SOEs.

Public-Private Partnerships

At present, the Cartes administration has begun to implement the PPP Law, which allows different types of partnerships to operate the services. Paraguay believes that the following sectors and activities could benefit from public-private partnerships: waterways, dredging and maintenance of the navigability of the rivers, international airports, construction, rehabilitation and maintenance of roads and highways, construction and maintenance of bridges, water and sanitation facilities, the generation, transmission and distribution of electrical energy, the production of goods and services, production and marketing of cement, the production, refining and marketing of hydrocarbons and telecommunications services.

In 2015, the government approved two PPP projects in the transportation sector aimed at improving the efficiency and quality of Paraguay's infrastructure. One of the projects is aimed at the expansion and renovation of Highway Routes 2 and 7, servicing Yparacai, Ciudad Coronel Oviedo and San Lorenzo, and the other project is aimed at the expansion and upgrade of the Silvio Pettirossi International Airport, serving Asunción. International tenders for both projects are currently open until March 29, 2016 and April 26, 2016, respectively. The construction of the highway expansion is expected to be completed by March 2019 and the Pettirossi construction is expected to be completed by December 2018. Each project entails the creation of a special purpose vehicle that will be in charge of the design, construction, maintenance, operation and financing of the projects. In addition, shareholders of the special purpose vehicles will have certain equity contributions requirements. The structuring of the financing is expected to be a responsibility of the private parties to the projects.

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 penalties include fines and imprisonment. A national prosecutor is responsible for investigating and prosecuting environmental offenses under the criminal code.

Recent environmental regulation includes two 2006 laws that promote the conservation, protection, recovery and sustainable development of Paraguay's biodiversity and natural resources through the evaluation and fair remuneration of timely and adequate environmental services and direct funding of conservation projects. In addition, in 2007, a law was passed that regulates the sustainable and integrated use of water, and in 2013 the Zero Deforestation Law, which prohibits deforestation in the Upper Paraná Atlantic forests in the eastern region of Paraguay, was extended until December 2018.

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, from time to time each of the binational companies implements remedial measures to mitigate any environmental damage that the operation of hydroelectric plants could cause, such as reforestation of adjacent areas and conservation of the underwater ecosystem.

Employment and Labor

The labor force in Paraguay has increased from 3.2 million in 2011 to 3.5 million in 2014. The labor force includes any person above the age of 10 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

	2011	**2012**	**2013**	**2014**
		(% by sector)		
Primary Sector				
Agriculture, Livestock, Hunting and Fishing	26.4%	27.2%	23.4%	22.8%
Secondary Sector				
Manufacturing	10.5	10.5	10.0	11.3
Construction	6.6	5.5	6.5	7.1
Total	17.1	16.0	17.0	18.4
Services Sector				
Trade, Restaurants and Hotels	25.3	25.5	25.7	26.2
Community, Social and Personal	21.8	21.7	24.3	22.7

	2011	2012	2013	2014
		(% by sector)		
Others(1)	9.2	9.6	9.9	9.8
Total	**56.3%**	**56.8%**	**59.9%**	**58.7**

(1) Includes Electricity, Gas and Water, Transport, Storage and Communications, and Finance, Insurance and Real Estate.
Source: Bureau of Statistics and Census.

In 2009, 2,377 labor unions were active, primarily in the manufacturing and government services sectors of the economy. The Constitution provides that workers have a right to strike when disputes among workers and employers are not settled according to the process established by the labor law. However, workers that provide essential services such as water, electricity and hospital services are limited in their right to strike. The Constitution does not allow members of the military and police to strike. Strikes and other labor actions by unions have tended to be brief and they occur infrequently.

Employment

The estimated unemployment rate in Paraguay for 2014 was 6.0%. Workers are defined as unemployed if they are not employed and are actively seeking employment.

As of the end of 2014, approximately 43.0% of the people employed or their dependents were covered by a retirement or pension system. More women (53.8%) were covered by a retirement or pension system than men (38.0%). This discrepancy is a result of the predominance of female workers in the services sector, which includes all public sector institutions, like education and health.

The estimated underemployment rate in Paraguay in 2014 was 19.9%, a slight increase from 2013 (19.1%). 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.

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

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

Estimated Urban Unemployment and Underemployment

	2011	2012	2013	2014
		(in percentages)		
Unemployment rate	5.6	4.9	5.0	6.0
Underemployment rate	22.0	20.4	19.1	19.9

Source: Bureau of Statistics and Census.

Wages

Workers of 18 years of age or older, and formally employed are entitled to a minimum monthly wage of approximately US$408.8. Based on the annual employment survey of 2014, 62.7% of the workforce receives a monthly salary that exceeds the minimum monthly 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.

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

Changes in Nominal Wages[(1)]

Year	% change
2011	8.7
2012	4.4
2013	5.0
2014	6.9
2015	3.6[(2)]

(1) Wage index based on survey conducted by the Central Bank of Paraguay.
(2) Percentage of change recorded as of June 30, 2015 compared to June 30, 2014.
Source: Central Bank of Paraguay.

Wages in the public sector increased by 30% in 2012 due to the adoption of new laws that automatically increased public sector wages. The increase was primarily the result of upward adjustments to salaries of police, military, teachers, public healthcare personnel and civil servants in the executive branch. No adjustments of public sector wages in were made in 2013, 2014 and 2015, other than for police and military forces who had a wage increase. There are no planned salary increases in 2016.

Education

The total literacy rate in Paraguay was 95.7% in 2014.

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

Illiteracy Rate

	2010	2011	2012	2013	2014
	(in percentages of total population)				
Illiterate	5.3%	4.7%	4.6%	4.1%	4.3%

Source: Bureau of Statistics and Census.

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

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

In 2014 and 2015, the Ministry of Education granted 3,656 and 4,128 higher education scholarships throughout the country, respectively.

Until the early 1990s, there were only two universities in Paraguay, the public National University and the Catholic University of Asunción. In recent years, the government has authorized through law the establishment of new private universities. As of December 31, 2014, there are 54 private universities established in Paraguay, some of them servicing rural areas.

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

Educational Levels

	2010	2011	2012	2013	2014
	(in percentages)				
Population uneducated	3.8%	3.1%	3.0%	2.6%	3.0%
From 1 to 6 years of study	42.0	39.4	38.4	36.8	35.5
From 7 to 12 years of study	40.4	41.1	42.8	41.4	42.6
From 13 to 18 years of study	13.6	16.3	15.8	19.1	19.0

Source: Bureau of Statistics and Census.

Non-attendance in school increases with age.

66.9% of those 19 to 25 years old do not study. For those aged 13 to 18 years old, this rate drops to 19.1% and 5.8% for those aged 5 to 12 years old. The school absenteeism rate in children and young people is higher in the poorer segment of the population. Approximately 68.6% of persons aged 5 years and over attend public institutions, while 26.3% attend private institutions. Among the extremely poor and poor, 90.1% attend public institutions together with 61.3% of the non-poor.

The average years of schooling for persons aged 15 years and older is 9 years. This average is clearly differentiated by poverty level, with the non-poor having an average of 9.5 years of schooling, while the non-extreme poor have an average of 7.1 years and the extreme poor an average of 6.1 years of schooling.

Poverty and Income Distribution

According to preliminary data of a survey conducted by the Bureau of Statistics and Census ("DGEEC") in 2014, 10.5% of the Paraguayan population is considered to be extremely poor and 22.6% 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$140.3 or less and the extremely poor received a monthly income of US$83.4 or less, while poor people in other urban areas receive a monthly income of approximately US$100.3 or less, and the extremely poor receive a monthly income of approximately US$64.0 or less and poor people in rural areas receive a monthly income of approximately US$86.6 or less, and the extremely poor receive a monthly income of about US$59.2 or less. According to the same survey, an estimated 10% of the Paraguayan population received an overall monthly income of approximately US$41.0 or less. Poverty in Paraguay is primarily attributable to the low level of education and economic activity. As of December 31, 2014, according to DGEEC, 4.3% 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 2014, 22.6% of the population was living in poverty or extreme poverty, as noted above. This percentage has been declining significantly over the past five years, especially the extreme poverty, which was 23.8% in 2013, 26.9% in 2012 and 32.4% in 2011. However, extreme poverty slightly increased in 2014 by 0.4%. In 2014, people living in extreme poverty represented 10.5% of the population, 10.1% in 2013, 13.8% in 2012 and 18.0% in 2011.

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 2011.

Changes in Poverty and Extreme Poverty Rates

	2010	2011	2012	2013	2014
			(in percentages)		
Total Poverty	34.7%	32.4%	26.9%	23.8%	22.6%
Extreme poverty	19.4	18.0	13.8	10.1	10.5
No extreme poverty	15.3	14.4	13.1	13.7	12.1
No Poverty	65.3	67.6	73.1	76.2	77.4

Source: Bureau of Statistics and Census.

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 0.510 in 2014, 0.478 in 2013, 0.476 in 2012 and 0.520 in 2011.

The average monthly household salary in 2014 was approximately G.4,893,000 (approximately US$1096.7), The disposable income for the wealthiest 20% of Paraguayans is ten 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

	2010	2011	2012(2)	2013	2014
			(in US$)		
Top 20%	$ 1,447	$ 2,087	n.a	$ 2,120	$ 2,416
20% below	633	845	n.a	943	987
20% below	453	551	n.a	664	708
20% below	290	366	n.a	470	464
Lowest 20%	149	182	n.a	247	248
Total	**$ 684**	**$ 915**	**n.a**	**$ 998**	**$ 1,097**

(1) Calculated based on the annual average exchange rate.
(2) No official information published for the year 2012.
Source: Bureau of Statistics and Census.

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

Tekopora is a monthly cash transfer with co-responsibilities granted by the Social Action Secretariat to previously selected families. It is intended for households living in extreme poverty in urban and rural areas and seeks to ensure access to health, education and food security for children, pregnant women, the elderly, indigenous communities and people living with disabilities. As of December 2014, 101,440 families were receiving benefits under the Tekopora program.

The Food Pension for Seniors in Poverty Law (which became effective in 2012) establishes the right to maintenance for senior adults in poverty who do not receive state pension or retirement payments, and it determines pension payments for people aged 65 and over, corresponding to 25% of the minimum wage. As of January 31, 2016, approximately 148,825 seniors were receiving pension payments.

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

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

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 Memorandum for any period or date commencing January 1, 2011 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.

Balance of Payments

In 2011, 2013 and 2014, Paraguay recorded balance of payments surpluses, resulting from improvements in the exports of goods and services coupled with an increase in foreign currency income from exports of electricity from Itaipú Binational and Yacyretá Binational, remittances by Paraguayans working 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 in 2014 was US$1,131 million (3.7% of GDP), US$1,036 million (3.6% of GDP) in 2013 and US$783 million (3.1% of GDP) in 2011. In 2012, the balance of payments recorded a deficit of US$25 million (0.1% of GDP), as a result of a drop in net exports and a higher deficit in the net income balance; nevertheless, the capital account surplus remained stable. The estimated deficit for 2015 is US$451 million (1.6% of GDP), mainly due to a higher deficit in the current account resulting from a decrease in prices of main Paraguayan commodities exports, as well as a lower surplus in the financial account, explained mainly by a lower inflow from FDI and a lower amount of sovereign bonds issued in the international capital markets in 2015. These results generated an increase of US$1.2 billion from 2011 to 2015 in the Central Bank's international reserves, which resulted in total international reserves of US$6.2 billion as of December 30, 2015. Paraguay's net international reserves stood at US$6.0 billion on March 18, 2016.

Additionally, capital and financial account surpluses have also contributed to the increase in international reserves. The private sector has received foreign capital as foreign investment primarily for financial intermediation, wholesale and retail trade, agribusiness companies, food and beverage production, manufacture of chemical products and transportation, among other activities, and as a result of proceeds from loans and bond offerings and returns on deposits held abroad. In the last five years, foreign direct investment originated primarily from the United States, Brazil and the Netherlands. Based on preliminary data, the public sector and binational hydroelectric entities made net repayments of their debts, receiving aggregate disbursements of US$1.1 billion between 2011 and 2015, while making payments of US$3.7 billion of principal in that period. The net result is a decrease in the external debt of the central government and the binational hydroelectric entities.

The net international reserves of Paraguay in December 2015 represented 22.4% of GDP, and provided 9.8 months of coverage for importation of goods in 2015 (excluding goods for re-export).

Balance of Payments

	2011	2012	2013[(1)]	2014[(1)]	2015[(1)]
			(in millions of US$)		
Current account	**109.0**	**(501.4)**	**477.4**	**(127.0)**	**(486.6)**
Trade balance[(2)]	854.2	570.8	1,662.3	1,026.0	630.6
Exports	12,632.8	11,647.8	13,598.9	13,099.4	10,939.2
Imports	(11,778.7)	(11,077.0)	(11,936.6)	(12,073.4)	(10,308.6)
Services balance	(180.6)	(170.2)	(219.4)	(222.3)	(241.2)
Transportation (net)	(309.4)	(295.9)	(275.9)	(310.9)	(341.0)
Travel (net)	67.0	57.7	29.7	32.7	39.7
Other services (net)[(3)]	61.8	68.0	26.8	55.8	60.2
Income (net)	(1,278.2)	(1,660.7)	(1,685.5)	(1,536.9)	(1,538.0)
Current transfers (net)[(4)]	713.6	758.7	719.9	606.2	662.0

	2011	2012	2013[1]	2014[1]	2015[1]
			(in millions of US$)		
Capital and financial account	**468.2**	**923.3**	**89.8**	**1,705.8**	**177.9**
Capital account	40.0	51.0	61.2	141.0	118.6
Financial account	428.2	872.3	28.6	1,564.8	59.3
Direct investment (net)	557.0	737.7	71.7	345.7	367.6
Portfolio investment[5]	100.0	500.0	500.0	1,300.0	291.8
Other investment	(228.7)	(365.4)	(543.2)	(80.9)	(600.2)
Trade credits (net)	(70.7)	156.6	(287.4)	100.3	(42.6)
Loans	(193.2)	(598.2)	(483.5)	(594.5)	(761.4)
Assets	162.1	(86.1)	187.1	9.3	(120.8)
Liabilities	(355.3)	(512.1)	(670.6)	(603.8)	(640.6)
of which:					
Disbursements to public sector	163.9	202.6	208.3	213.4	107.8
Payments by public sector	(223.7)	(233.6)	(204.8)	(197.8)	(156.2)
Disbursements to binational entities	87.3	48.2	13.0	0.0	13.0
Payments by binational entities	(490.4)	(522.1)	(555.1)	(554.5)	(607.6)
Currency and deposits (net)	(140.0)	(22.3)	(64.0)	11.4	(32.2)
Other assets and liabilities (net)	43.9	92.0	508.8	56.9	34.2
Errors and omissions	206.2	(446.4)	468.6	(447.7)	(142.5)
Total balance of payments	**783.4**	**(24.5)**	**1,035.7**	**1,131.1**	**(451.3)**

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

Current Account. According to preliminary data, Paraguay recorded a current account deficit of US$487 million in 2015 (1.8% of GDP) caused by a smaller surplus in the trade balance and a larger deficit in the services sector and in the net income balance when compared to 2014. In 2014, Paraguay recorded a current account deficit of US$127 million (0.4% of GDP) caused by a smaller surplus in the trade balance and a larger deficit in the net income balance, this is in contrast to a current account surplus of US$477 million (1.7% of GDP) in 2013, which was due to a larger surplus in the trade balance. In 2012, Paraguay recorded a current account deficit of US$501 million (2% of GDP) caused mainly by a drought that reduced the export of soybeans and soy products and a surplus of US$109 million (0.4% of GDP) in 2011, driven by a surplus in the trade balance and by less outflows of income.

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

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

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 2011-2015 period. This was mainly the result of debt service payments by the binational entities, and remittances and dividend payments by majority foreign-owned companies to their foreign shareholders and affiliates.

Current Transfers. Current transfers surplus increased 9.2% in 2015. In 2013 and 2014 there was a reduction due to a decrease in economic activities and the strengthening of foreign exchange controls in Argentina, the main recipient of Paraguayan immigrants. Transfers are mainly composed of workers' remittances and donations received from abroad and from the public and private sectors. In 2015 remittances totaled an amount equal to 8.6% of Paraguay's total international reserves as of December 30, 2015.

Capital and Financial Accounts. In 2015, the capital and financial account recorded a surplus of US$178 million (0.6% of GDP), lower than the surplus of US$1,706 million (5.6% of GDP) recorded in 2014 mainly as a result of a decreased inflow from FDI and a lower amount of sovereign bonds issued in the international capital markets in 2015. In 2013, the capital and financial account generated a surplus of US$90 million (0.3% of GDP) due to a decrease in FDI. In 2012, the capital and financial account generated a surplus of US$923 million (3.7% of GDP) and in 2011 it generated a surplus of US$468 million (1.9% of GDP). The private sector is a large recipient of capital inflows, mainly through foreign direct investment, return on deposits and loans. FDI is the main long-term source of funds for the private sector. The public sector received a large amount of capital inflows in 2013, 2014 and 2015 derived from the issuance of sovereign bonds in the international capital markets. Since 2011, borrowing (net) has been negative as the public sector has been a net payer of external financing resources, except for 2013 and 2014.

Foreign Trade

Trade

Paraguay's trade (excluding electricity exports) is primarily with other MERCOSUR members, the European Union, Russia and China. Paraguayan exports to MERCOSUR rose from US$1.1 billion in 2011 to US$1.5 billion in 2015, becoming Paraguay's main export market in 2015. Exports to MERCOSUR in 2015 accounted for almost 24.5% of Paraguay's total exports.

Exports to the European Union, the second most important market for Paraguayan exports, reached US$1.0 billion in 2012, increased to US$1.4 billion in 2013, remained stable in 2014 and decreased to US$1.3 billion in 2015. The main reason for this decline was the reduction of exports of soybean due to lower international prices. In 2015, the value of exports to the European Union accounted for approximately 21.7% of total exports. Paraguayan exports to the European Union have benefited from the implementation of the program of Generalized System of Preferences (GSP) that grants Paraguay preferential access to an important market for its exports. Although, as of January 2014, the European Union has reduced the application of GSP to fewer countries, Paraguay's exports will continue to have access to the GSP.

The European Union also allows Paraguay to export 1,000 tons of beef with a preferential tariff under the Hilton quota arrangement. The preferential access, however, was temporarily suspended in 2011 due to the outbreak of FMD in the Department of San Pedro (northeast Paraguay). In 2013, the Scientific Committee of the World Organization for Animal Health (OIE) concluded that the conditions for the return of the health status of FMD-free zone with vaccination were met. The World Assembly of OIE Delegates acknowledged the opinion of the Commission and decided that as of November 1, 2013, Paraguay had complied with the prerequisites to recover its FMD-free country status. The recovery of health status was required to be certified by the European Union to recover the Hilton quota, which Paraguay achieved in March 2015.

In 2015, exports to Russia decreased by 27.2%, from US$1.0 billion in 2014 to US$757.8 million, mainly due to the deceleration of the Russian economy which resulted in a reduction of Paraguayan bovine meat exports. Exports to Russia represented 12% of total exports in 2015, making Russia the third-largest export market for Paraguay.

According to the Economist Intelligence Unit rankings, Paraguay has the highest degree of economic openness in the region (economic openness is measured as the ratio of a country's total trade to GDP). Paraguay's main import trade partners are the MERCOSUR members, accounting for US$4,281.4 billion (41.6% of total imported goods in 2015), and Asian countries (especially China), which accounted for US$2.4 billion in 2015 (23.5% of total imported goods).

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 first imported to Paraguay and then re-exported, mainly to Brazil, through unregistered retail sales made to day-tourists in the border region. Re-export activity has decreased as a result of Brazil's weaker GDP growth and currency depreciation. With the reduction of tariff rates among MERCOSUR members, incentives for smuggling or unregistered trade between the MERCOSUR nations have been reduced and registered trade has grown. According to the IMF, since mid-2012, unregistered imports from Argentina have increased in Paraguay as a result of the price advantages that stemmed from the widening gap between official and informal exchange rates of Argentina's peso and also as a consequence of the export tax regime and the subsidized prices policy that have been implemented by Argentina. In December 2015, Argentina's recently elected president, Mauricio Macri, removed export taxes on agricultural products such as wheat, beef and corn and reduced taxes on soybeans. President Macri's administration has also lifted currency controls, allowing the Argentine peso to float freely.

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	2011	2012	2013	2014	2015	% change 2014–2015	% of total exports 2015
	Exports by geographical distribution (in millions of US$, FOB value of exports)						
Exports							
LAIA	$ 2,036.0	$ 1,870.2	$ 2,399.4	$ 2,703.3	$ 2,409.2	(10.9)%	38.3%
Chile	541.4	191.5	528.7	669.6	582.4	(13.0)	9.3
Peru	215.4	163.2	192.6	125.5	161.2	28.4	2.6
Bolivia	55.7	89.1	75.0	106.8	68.5	(35.9)	1.1
Colombia	74.9	48.7	35.8	37.2	4.1	(89.0)	0.1
Ecuador	31.6	11.8	16.7	39.9	50.7	27.1	0.8
Cuba	0.3	0.6	0.5	0.2	0.5	133.8	0.0
MERCOSUR	1,116.6	1,365.4	1,550.1	1,724.2	1,541.8	(10.6)	24.5
North America Free Trade Agreement (NAFTA)	203.4	236.5	523.6	340.2	250.5	(26.4)	4.0
Central American Integration System (SICA)	12.2	53.4	102.3	70.9	33.3	(53.0)	0.5
Caribbean Community (CARICOM)	5.8	5.8	4.5	4.6	2.6	(43.5)	0.0
Rest of the Caribbean	30.8	68.7	39.1	14.7	16.6	13.4	0.3
European Union	1,538.7	1,062.0	1,418.1	1,417.9	1,364.4	(3.8)	21.7
Russia	405.3	708.7	946.8	1,041.0	757.8	(27.2)	12.0
Rest of Europe	19.4	23.5	66.1	14.9	17.3	16.0	0.3
East Asia	*238.4*	*164.1*	*314.5*	*379.0*	*220.1*	*(41.9)*	*3.5*
China	30.4	42.0	57.1	48.4	30.0	(38.0)	0.5
South Korea	106.7	31.6	51.7	60.6	37.1	(38.8)	0.6
Japan	52.0	29.2	84.4	105.2	79.2	(24.8)	1.3
Rest of East Asia	49.3	61.3	121.3	164.8	73.9	(55.2)	1.2
Association of Southeast Asian Nations (ASEAN)	177.8	155.9	248.5	299.8	168.9	(43.7)	2.7
Western Asia	*493.7*	*351.4*	*590.8*	*540.8*	*432.6*	*(20.0)*	*6.9*
Gulf Cooperation Council (GCC)	78.7	81.6	106.9	51.1	74.4	45.6	1.2
Other countries of Western Asia	415.0	269.9	483.9	489.8	358.2	(26.9)	5.7
Rest of Asia	101.0	72.8	168.3	341.7	293.1	(14.2)	4.7
Africa	*227.6*	*261.6*	*361.0*	*300.1*	*309.0*	*3.0*	*4.9*

Trade Blocs	2011	2012	2013	2014	2015	% change 2014–2015	% of total exports 2015
	Exports by geographical distribution (in millions of US$, FOB value of exports)						
Southern African Custom Union (SACU)	7.9	7.8	10.9	3.6	29.4	727.6	0.5
Other countries of Africa	219.7	253.9	350.1	296.6	279.5	(5.7)	4.4
Australia & New Zealand (Closer Economic Relations (CER))	0.4	0.7	1.5	1.6	2.4	50.7	0.0
Rest of theWorld	18.7	16.3	11.2	5.4	14.2	163.1	0.2
Total	**$ 5,509.1**	**$ 5,051.7**	**$ 7,195.7**	**$ 7,476.0**	**$ 6,292.0**	**(15.8)**	**100.0**
% Change	22.2%	(8.3)%	42.4%	3.9%	(15.8)%		

Source: Ministry of Finance and Central Bank.

Trade Blocs	2011	2012	2013	2014	2015	% change 2014–2015	% total imports 2015
	Imports by geographical distribution (in millions of US$, CIF value of imports)						
Imports							
LAIA	$ 5,803.5	$ 5,125.2	$ 5,311.7	$ 5,563.0	$ 4,524.5	(18.7)%	44.0%
Chile	153.9	148.4	148.6	157.3	160.8	2.2	1.6
Bolivia	26.0	29.6	43.9	70.9	42.0	(40.7)	0.4
Colombia	22.5	21.2	19.2	20.7	24.4	17.9	0.2
Peru	7.9	10.9	11.4	13.6	9.9	(26.8)	0.1
Ecuador	2.4	3.8	4.2	5.0	4.7	(5.7)	0.0
Cuba	1.4	0.8	0.7	4.8	1.2	(74.9)	0.0
MERCOSUR	5,589.3	4,910.5	5,083.7	5,290.0	4,281.4	(19.1)	41.6
North America Free Trade Agreement (NAFTA)	862.7	1,117.3	979.9	1,208.9	989.6	(18.1)	9.6
Central American Integration System (SICA)	11.1	39.6	37.9	90.2	86.0	(4.6)	0.8
Caribbean Community (CARICOM)	15.4	1.0	0.4	0.4	1.0	114.9	0.0
Rest of the Caribbean	0.8	2.3	4.6	5.7	2.7	(53.6)	0.0
European Union	770.8	758.0	1,032.8	1,019.6	875.6	(14.1)	8.5
Russia	15.7	165.4	212.6	103.3	211.7	104.9	2.1
Rest of Europe	129.5	81.9	100.3	52.7	69.4	31.7	0.7
East Asia	*4,396.4*	*3,882.4*	*4,049.4*	*3,705.1*	*3,039.5*	*(18.0)*	*29.5*
China	3,662.4	3,183.8	3,434.1	3,078.3	2,417.0	(21.5)	23.5
South Korea	218.0	276.5	243.6	271.1	278.0	2.5	2.7
Japan	394.9	311.2	278.4	262.6	234.1	(10.9)	2.3
Rest of East Asia	121.1	110.9	93.3	93.1	110.5	18.7	1.1
Association of Southeast Asian Nations (ASEAN)	184.1	210.7	218.8	176	158.4	(10.0)	1.5
Western Asia	*66.4*	*60.0*	*61.5*	*80.8*	*122.7*	*51.8*	*1.2*
Gulf Cooperation Council (GCC)	10.4	4.2	11.6	16.7	62.1	273.0	0.6
Other countries of Western Asia	55.9	55.8	49.9	64.1	60.5	(5.6)	0.6
Rest of Asia	78.8	81.6	96.8	118	178.5	51.3	1.7
Africa	*25.6*	*24.6*	*31.3*	*41*	*22.8*	*(45.0)*	*0.2*
Southern African Custom Union (SACU)	4.3	4.9	5.9	8.0	12.6	57.3	0.1
Other countries of Africa	21.4	19.7	25.4	33.4	10.2	(69.5)	0.1
Australia & New Zealand (Closer Economic Relations (CER))	3.3	4.8	3.6	1.9	5.5	198.7	0.1
Rest of the World	3.3	0.3	0.3	1.5	3.3	120.3	0.0
Total	**$12,367.4**	**$11,555.1**	**$12,142.1**	**$12,168.6**	**$10,291.2**	**(15.4)**	**100.0**
% Change	23.3%	(6.6)%	5.1%	0.2%	(15.4)%		

Source: Ministry of Finance and Central Bank.

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 2015, exports of oil seeds (including soybeans), fats and oils, meat and cereal grains totaled US$4.7 billion and accounted for 74.7% of Paraguay's total registered exports, a decrease of 19.0% from US$5.8 billion in 2014.

Exports of oil seeds (including soybeans), fats and oils, cereal grains and leather products decreased by 20.8% in 2015, from US$ 4.7 billion in 2014 to US$ 3.7 billion in 2015. Such exports had decreased by 23.3% in 2012, from US$3.6 billion in 2011 to US$2.8 billion in 2012, and increased by 71.1% in 2013 to US$4.7 billion. Beef exports increased by 5.7% in 2012, from US$759.4 million in 2011 to US$802.7 million in 2012, by 33.4% in 2013 to US$1.1 billion, by 29.3% in 2014 to US$1.4 billion and decreased by 13.7% in 2015 to US$1.2 billion.

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

Total Exports by Products

Sector[1]	2011	2012	2013	2014	2015	% of Change 2015
	(in millions of US$ in FOB prices)					
Exports						
Oil seeds (including soybeans)	$ 2,388.5	$ 1,665.1	$ 2,609.1	$ 2,435.6	$ 1,688.9	(31)%
Vegetable oils and fats	726.6	383.9	1,431.9	1,622.2	1,371.2	(15.5)
Bovine meat products	759.4	802.7	1,070.5	1,384.6	1,195.0	(13.7)
Cereal grains nec	348.8	552.1	464.7	357.7	444.8	24.4
Chemical, rubber, plastic products	213.3	218.6	231.8	223.2	197.5	(11.5)
Leather products	124.7	150.1	201.4	236.8	180.3	(23.9)
Wheat	169.3	372.0	146.1	79.4	152.9	92.4
Machinery and equipment nec	36.9	58.6	72.8	133.1	146.3	9.9
Paddy rice	33.8	41.3	67.1	156.0	120.0	(23.1)
Textiles	72.9	77.5	83.7	113.4	100.7	(11.2)
Metals nec	52.2	63.3	80.9	69.6	74.1	6.5
Sugar	91.2	80.5	75.7	80.2	68.9	(14.1)
Animal products nec	25.8	37.7	61.4	73.2	61.9	(15.5)
Food products nec	65.2	69.6	110.8	67.2	61.6	(8.4)
Petroleum, coal products	13.2	38.0	21.2	42.5	53.7	26.5
Transport equipment nec	0.1	0.3	16.9	32.9	53.7	63.1
Wood products	59.2	53.2	46.5	50.4	47.4	(6.0)
Wearing apparel	40.4	35.9	36.2	39.6	35.0	(11.6)
Coal	37.1	34.7	35.5	34.9	31.4	(10.0)
Paper products, publishing	19.4	14.8	17.7	21.3	25.9	21.5
Beverages and tobacco products	51.9	73.7	53.1	47.9	21.4	(55.2)
Meat products nec	7.2	11.6	21.3	25.0	21.4	(14.7)
Crops nec	17.2	15.8	15.5	18.7	19.8	5.8
Manufactures nec	17.9	13.5	13.7	12.7	19.0	49.7
Ferrous metals	28.7	27.6	25.6	29.6	18.4	(38.0)
Mineral products nec	10.3	11.0	16.9	16.5	18.0	9.3
Electronic equipment	5.4	6.0	4.3	9.8	11.6	19.1
Vegetables, fruit, nuts	7.4	4.4	7.6	10.7	11.1	3.6
Processed rice	51.3	76.6	98.3	21.5	9.8	(54.6)
Other	33.8	61.7	57.7	29.7	30.3	1.8
Total	**$ 5,509.1**	**$ 5,051.7**	**$ 7,195.7**	**$ 7,476.0**	**$ 6,292.0**	**(15.8)**
% Change	22.2%	(8.3)%	42,4%	3.9%	(15.8)%	

(1) Sectors are classified according to the Global Trade Analysis Project (GTAP) sector classifications of goods.
Source: Ministry of Finance and Central Bank.

Percentage of Total Exports by Products

Sector[(1)]	2011	2012	2013	2014	2015
			(in percentages)		
Oil seeds (including soy beans)	43.4%	33.0%	36.3%	32.6%	26.8%
Vegetable oils and fats	13.2	7.6	19.9	21.7	21.8
Bovine meat products	13.8	15.9	14.9	18.5	19.0
Cereal grains	6.3	10.9	6.5	4.8	7.1
Chemical, rubber, plastic products	3.9	4.3	3.2	3.0	3.1
Leather products	2.3	3.0	2.8	3.2	2.9
Wheat	3.1	7.4	2.0	1.1	2.4
Machinery and equipment	0.7	1.2	1.0	1.8	2.3
Paddy rice	0.6	0.8	0.9	2.1	1.9
Textiles	1.3	1.5	1.2	1.5	1.6
Metals	0.9	1.3	1.1	0.9	1.2
Sugar	1.7	1.6	1.1	1.1	1.1
Animal products	0.5	0.7	0.9	1.0	1.0
Food products	1.2	1.4	1.5	0.9	1.0
Petroleum, coal products	0.2	0.8	0.3	0.6	0.9
Transport equipment	0.0	0.0	0.2	0.4	0.9
Wood products	1.1	1.1	0.6	0.7	0.8
Wearing apparel	0.7	0.7	0.5	0.5	0.6
Coal	0.7	0.7	0.5	0.5	0.5
Paper products, publishing	0.4	0.3	0.2	0.3	0.4
Beverages and tobacco products	0.9	1.5	0.7	0.6	0.3
Meat products	0.1	0.2	0.3	0.3	0.3
Crops	0.3	0.3	0.2	0.3	0.3
Manufactures	0.3	0.3	0.2	0.2	0.3
Ferrous metals	0.5	0.5	0.4	0.4	0.3
Mineral products	0.2	0.2	0.2	0.2	0.3
Electronic equipment	0.1	0.1	0.1	0.1	0.2
Vegetables, fruit, nuts	0.1	0.1	0.1	0.1	0.2
Processed rice	0.9	1.5	1.4	0.3	0.2
Other	0.6	1.2	0.8	0.4	0.5
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

(1) Sectors are classified according to the Global Trade Analysis Project (GTAP) sector classifications of goods.
Source: Ministry of Finance and Central Bank.

Imports are more diversified than exports. The leading imports in recent years have been chemical, rubber and plastic products, machinery and equipment, petroleum and coal products, electronic equipment, motor vehicles and parts, which together generated 70.2% of the import bill in 2015, and accounted for approximately US$7.3 billion of total imports. As compared to the same period in 2014, imports of these goods have decreased by 15.1%. During 2015, the most significant reductions in imports were in minerals (69.2%), electronic equipment (31.5%) and manufactures (28.6%). On the other hand, wood products, motor vehicles and parts and animals products increased by 80.1%, 28.5% and 46.2% in 2015, respectively.

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

Imports by Economic Sector

Sector[1]	2011	2012	2013	2014	2015	% of Change 2015
			(in millions of US$ in CIF prices)			
Chemical, rubber, plastic products	$ 2,311.0	$ 2,210.2	$ 2,419.3	$ 2,421.9	$ 2,306.5	(0.0)%
Machinery and equipment	1,848.2	1,533.4	1,898.5	2,182.2	1,661.7	(23.9)
Petroleum, coal products	1,638.9	1,844.2	1,726.3	1,807.4	1,401.0	(22.5)
Electronic equipment	2,083.9	1,772.3	1,830.3	1,451.5	994.3	(31.5)
Motor vehicles and parts	1,004.6	929.7	973.1	707.4	908.7	28.5
Manufactures	626.9	522.8	465.1	493.7	352.7	(28.6)
Food products.	328.8	329.9	355.4	389.2	347.6	(10.7)
Beverages and tobacco products	261.5	262.9	254.8	292.8	269.5	(8.0)
Ferrous metals	279.0	274.9	315.7	370.6	266.7	(28.0)
Textiles	299.8	266.6	261.0	261.4	254.5	(2.6)
Paper products, publishing	272.0	230.5	225.4	246.8	248.7	0.8
Metal products	213.9	258.4	222.5	248.9	228.6	(8.2)
Mineral products	222.6	206.7	221.1	228.4	197.3	(13.6)
Transport equipment	242.6	197.2	199.3	213.2	178.3	(16.3)
Leather products	154.2	145.0	151.9	170.2	130.6	(23.3)
Crops	149.4	146.0	144.1	151.8	126.2	(16.9)
Wearing apparel	103.9	95.9	103.5	96.4	86.2	(10.6)
Metals	56.6	55.3	59.2	65.5	69.6	6.3
Wood products	48.5	45.1	49.0	25.4	45.8	80.1
Cereal grains	59.6	65.5	79.0	37.6	44.3	18.0
Animal products	25.2	23.5	26.0	24.2	35.4	46.2
Vegetables, fruit, nuts	20.2	20.6	19.3	24.9	31.4	25.9
Minerals	16.8	18.5	24.9	84.7	26.0	(69.2)
Vegetable oils and fats	22.6	22.4	21.7	26.2	24.3	(7.3)
Dairy products	24.8	25.1	22.8	26.5	22.2	(16.2)
Other	51.8	52.4	72.9	119.7	32.9	(72.5)
Total	**$12,367.4**	**$11,555.1**	**$12,142.1**	**$12,168.6**	**$10,291.2**	**(15.4)%**
	23.3%	(6.6)%	5.1%	0.2%	(15.4)%	

(1) Sectors are classified according to the Global Trade Analysis Project (GTAP) sector classifications of goods.
Source: Ministry of Finance and Central Bank.

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

Sector[1]	2011	2012	2013	2014	2015
			(in percentages)		
Chemical, rubber, plastic products	19%	19%	20%	20%	22%
Machinery and equipment	14.9	13.3	15.6	17.9	16.1
Petroleum, coal products	13.3	16.0	14.2	14.9	13.6
Electronic equipment	16.8	15.3	15.1	11.9	9.7
Motor vehicles and parts	8.1	8.0	8.0	5.8	8.8
Manufactures	5.1	4.5	3.8	4.1	3.4
Food products	2.7	2.9	2.9	3.2	3.4
Beverages and tobacco products	2.1	2.3	2.1	2.4	2.6
Ferrous metals	2.3	2.4	2.6	3.0	2.6
Textiles	2.4	2.3	2.1	2.1	2.5
Paper products, publishing	2.2	2.0	1.9	2.0	2.4
Metal products	1.7	2.2	1.8	2.0	2.2
Mineral products	1.8	1.8	1.8	1.9	1.9
Transport equipment	2.0	1.7	1.6	1.8	1.7
Leather products	1.2	1.3	1.3	1.4	1.3

Sector[(1)]	2011	2012	2013	2014	2015
			(in percentages)		
Crops	1.2	1.3	1.2	1.2	1.2
Wearing apparel	0.8	0.8	0.9	0.8	0.8
Metals	0.5	0.5	0.5	0.5	0.7
Wood products	0.4	0.4	0.4	0.2	0.4
Cereal grains	0.5	0.6	0.7	0.3	0.4
Animal products	0.2	0.2	0.2	0.2	0.3
Vegetables, fruit, nuts	0.2	0.2	0.2	0.2	0.3
Minerals	0.1	0.2	0.2	0.7	0.3
Vegetable oils and fats	0.2	0.2	0.2	0.2	0.2
Dairy products	0.2	0.2	0.2	0.2	0.2
Other	0.4	0.5	0.6	1.0	0.3
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

(1) Sectors are classified according to the Global Trade Analysis Project (GTAP) sector classifications of goods.
Source: Ministry of Finance and Central Bank.

MERCOSUR

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

As a consequence of Mr. Lugo's impeachment and removal, during the MERCOSUR Presidential Council Summit in June 2012, the then presidents of Argentina, Brazil and Uruguay suspended Paraguay's membership in MERCOSUR until the country held its next presidential elections or until the next democratically elected president took office. Citing the Ushuaia Protocol, these countries alleged that a *coup* 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* as it was performed pursuant to article 225 of the National Constitution of Paraguay and because Mr. Lugo accepted the decision of Congress. Shortly after suspending Paraguay's membership, the remaining MERCOSUR members voted to admit Venezuela – a move that had been blocked by Paraguay prior to its suspension.

Following President Horacio Cartes' election in April 2013, the presidents of MERCOSUR member states concluded that the election of the new government satisfied the conditions for the restoration of Paraguay's status as a full member of MERCOSUR. In turn, President Cartes submitted the Protocol of Accession of Venezuela to MERCOSUR to Congress for approval as a way of evidencing Paraguay's good will to MERCOSUR and to restore Paraguayan relations with other members of the regional bloc. Congress approved Venezuela's admission in December 2013.

MERCOSUR formally re-admitted Paraguay as a full member on August 15, 2013, and Paraguay has since returned to participate fully in MERCOSUR's 2014 meetings. Paraguay held the pro-tempore presidency of MERCOSUR from July to December 2015 and it is expected that it will hold the pro-tempore presidency again in 2018.

Among the main initiatives resulting during Paraguay's former pro-tempore presidency of MERCOSUR were the approval of an action plan to strengthen trade and economic pillars of MERCOSUR by promoting free circulation of goods, services and factors of production in intra-zone trade, and the elimination of tariff, non-tariff barriers and equivalent effect measures affecting the relative competitiveness of the countries. Another initiative was a 10-year extension of the Structural Convergence Fund of MERCOSUR (FOCEM) to strengthen regional integration.

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

As of December 2015, 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, cover 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 ratified the Protocol in July 2014. The Protocol is for an indefinite term and is intended to implement the provisions of the Treaty of Asunción relating to services by establishing a program for the liberalization of intra-MERCOSUR trade in services.

MERCOSUR, as a group, acceded to the Global System of Trade Preferences among developing countries in 2006. Free-trade agreements have been signed by MERCOSUR with Israel (2007), Egypt (2010), Palestine (2011) and SACU (2008), which includes Botswana, Lesotho, Namibia, South Africa, and Swaziland. With the exemption of MERCOSUR-Israel agreement, these agreements 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) and Morocco (2004). These framework agreements generally involve the establishment of a negotiating committee, composed of the respective parties, to exchange information and propose measures, inter alia.

In addition, Memoranda of Understanding on the promotion of trade and investment have been signed by MERCOSUR with the Republic of Korea (2009), Singapore (2007), Russia (2006), Guyana (2013), Trinidad and Tobago (1999), Lebanon (2014) and Tunisia (2014). These cover; inter alia, exchange of information, identification of areas of mutual interest and measures for expanding trade and investment.

During the first semester of 2015, MERCOSUR's State Parties approved the accession protocol of the Plurinational State of Bolivia and the status of partner-states of MERCOSUR of the Republic of Surinam and Co-operative Republic of Guyana.

As of the date of this Offering Memorandum, the negotiations between MERCOSUR and the Pacific Alliance were in a preliminary stage and the parties are working to establish a date to meet and define an action plan to be implemented for the forthcoming dialog between the two trade blocs. Negotiations on an interregional association agreement between the European Union and MERCOSUR are also under way.

Other Preferential Trade Relationships

Paraguay offers preferential access to imports from a total of 13 countries: Argentina, Brazil, Uruguay, Venezuela, Bolivia, Chile, Colombia, Cuba, Ecuador, Mexico, Peru, India and Israel (the first four being MERCOSUR member states). These preferences are granted through its participation in MERCOSUR, MERCOSUR agreements with countries outside the region and preferences negotiated in the context of Paraguay's membership of the LAIA, including preferences granted under the Regional Tariff Preference Agreement No. 4, Economic Complementary Agreements and Regional Scope Agreements. The arithmetic mean of applied most favored nation ("MFN") rates in 2015 was 8.3%, lower than the 8.9% recorded in 2004, mainly owing to the lowering of tariffs on capital goods. The average applied MFN tariff is 9.78% for agricultural products (WTO definition) and 8.17% for non-agricultural products. Paraguay grants at least MFN treatment to all of its trading partners. All rates are levied on the CIF value of the product imported. Paraguay did not make use of temporary or variable levies on imports between 2009 and 2015.

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

In addition to tariffs, imports are subject to other duties and taxes, including 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. Value-added tax ("VAT") is imposed on sales of imported and domestic goods and services alike. In 2014, 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. The sales of agricultural products in their natural condition are taxed at 5%. 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

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

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

Paraguay has entered into BITs with 28 countries. The latest BIT was signed with Italy in 2013. Paraguay has double taxation agreements with Germany (air transport, 1985), Belgium (air transport, 1987), Uruguay (air transport, 1993), Chile (air and ground transport, 1995 and income and wealth tax, 2008), Argentina (air, river and ground transport, 2000) and China (income tax, 2010).

In order to improve the business and investment environment, Paraguay has developed and implemented reforms of its judicial system, including the introduction of amendments to the Criminal Code (made effective in 2009), with stricter provisions on money laundering, human trafficking and intellectual property rights.

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

FDI is the main long-term source of funds for the private sector. FDI stocks have been increasing in relative importance from 15.4% of nominal GDP in 2011 to 21.1% in 2015. FDI flows (excluding real estate investments by binational entities) totaled US$2.1 billion between 2011 and 2015. After the wake of the global economic crisis, FDI flows recovered in 2011 to a total of US$557 million, followed by record increases in 2012 (US$738 million). In 2013, FDI flows were reduced to US$72 million caused mainly by larger remittances of profits (mainly by non-financial entities) and larger amounts of loan payments. For 2014, FDI flows totaled US$346 million, which can be explained by an increase in equity capital and reinvested earnings that were partly offset by loan repayments. Preliminary data for 2015 indicates FDI flows totaling US$368 million, mainly due to an increase in equity capital and reinvested earnings compensated by loan repayments. For the period 2011-2015, the largest source of FDI in Paraguay was the United States with almost 38.0% of FDI flows while the second largest source was Brazil with 17.4% of FDI flows.

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

Annual FDI Flows by Country of Origin

Country	**2011**	**2012**	**2013(1)**	**2014(1)**	**2015(1)**
			(in thousand US$)		
United States	315,102.7	52,811.3	(76,491.2)	(31,248.2)	530,632.3
Brazil	71,433.5	179,407.5	41,019.7	218,263.7	(149,216.3)
Argentina	45,897.1	80,733.1	30,559.7	(17,157.5)	(19,467.3)
Spain	(8,350.8)	66,066.2	(4,892.0)	19,457.3	(48,526.8)
The Netherlands	8,556.9	35,030.2	25,001.1	75,861.6	124,469.2
Luxembourg	34,603.6	55,590.7	(45,603.7)	12,885.7	(13,287.0)
United Kingdom	15,034.5	48,658.7	13,721.4	31,099.9	(109.0)
Panama	17,180.7	11,746.9	7,316.4	26,587.7	(70,954.0)
Switzerland	18,402.7	60,360.8	5,001.2	(20,970.8)	110.3
Chile	(204.0)	2,662.9	19,658.7	(3,576.9)	(598.8)
Mexico	7,202.2	73,170.6	10,870.5	(3,394.9)	9,099.3
Portugal	1,295.3	4,696.9	8,826.0	(8,225.0)	2.4
Italia	9,854.9	7,212.1	2,632.6	7,758.3	(3,264.1)
Colombia	(513.7)	442.3	154.6	25,668.1	(37,346.7)
Others(2)	21,471.2	59,110.0	33,964.8	12,683.1	46,089.8
Total	**556,966.7**	**737,700.0**	**71,740.0**	**345,692.0**	**367,633.4**

(1) Preliminary data.
(2) Includes Guatemala, Uruguay, Hong Kong, Colombia, Canada, France, Sweden, Korea, Ecuador, Taiwan and Japan.
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, exercises supervision powers over all 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 No. 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 No. 861/96 incorporates the Basel Committee on Banking and Supervision ("Basel") provisions relating to the supervision of banks and minimum capital requirements. The Board of the Central Bank must authorize the opening of banks, finance companies and other credit institutions. There are no limits on the participation of foreign capital in financial entities or requirements with respect to the nationality of the members of the board of directors or the shareholders. Law No. 861/96 establishes that foreign investment in financial entities will receive the same treatment as domestic capital. According to Law No. 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.

In 2015, the Central Bank and the central government proposed new reforms to the financial system to the Congress. As part of the reform proposals, the Central Bank prepared an initiative to reform its Organic Law (Law No. 489/95) with the purpose of providing it with enhanced and more dynamic instruments to supervise the financial sector, including granting the Superintendence of Banks the authority to periodically adapt some of the requirements of financial supervision in response to developments affecting the financial markets. In addition, the central government proposed a reform to the General Law on Banks, Finance Companies and other Credit Institutions (Law No. 861/96) to shift the regulation regime from traditional financial regulation to a risk-based regulatory system by reference to international standards.

Law No. 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, 2015, the Central Bank had a negative equity of G.3,577.8 billion (approximately US$687.4 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 2010, Congress enacted Law No. 3974/10, which authorized the Ministry of Finance to issue and transfer to the Central Bank securities in an aggregate principal amount of up to 6.25% of 2009 GDP (approximately US$1.0 billion) in exchange for the irrevocable cancellation and discharge of all debt, nonperforming legacy claims held by the Central Bank against public entities and the assignment to the Ministry of Finance of any remaining legal claims on guarantees by third parties. Interest rates and maturities on the bonds to be transferred were to be agreed between the Central Bank and the Ministry of Finance. In 2012, both institutions signed an agreement defining the financial conditions and this agreement was ratified by the President of the Republic of Paraguay on the same date. The Ministry of Finance issued a perpetual bond, having a principal amount of G.3,927.5 billion (approximately US$0.9 billion) initially carrying a 0.25% annual interest rate. Pursuant to a request by the Central Bank to the Ministry of Finance, the interest rate can be adjusted to offset losses the Central Bank may incur in connection with the implementation of its monetary policy.

Financial Supervision

The Superintendence of Banks has the authority to establish the accounting principles under which banks, financial companies, warehousing companies and foreign exchange trading institutions must prepare their books and records. These books and records must be audited annually by external independent auditors. As part of its supervisory powers, the Superintendence of Banks also requires these institutions to submit to the Central Bank daily and monthly reports regarding their operations. In addition, the Superintendence of Banks requires banks to publish annual and quarterly financial statements together with the names of directors and managers in a national newspaper. The Superintendence of Banks may also require the disclosure of any other financial information that it deems necessary to present to the public.

Under Law No. 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% in certain circumstances. As of December 31, 2015, all Paraguayan banks and financial institutions 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. A loan is deemed non-performing after obligations under the loan have been past due for more than 60 days. The objective of the Superintendency of Banks is to comply with the Basel Core Principles for Effective Banking Supervision. In that regard, Basel I standards are currently in effect in Paraguay, with some elements of Basel II, which standards would be completely implemented if the amendment to the General Law on Banks, Finance Companies and other Credit Institutions (Law No. 861/96) is passed by Congress.

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 of December 31, 2015.

Classification of Aggregate Loan Assets of the Paraguayan Banking System

	As of December 31, 2015							
	1(1)	**1a**(2)	**1b**(3)	**2**(4)	**3**(5)	**4**(6)	**5**(7)	**6**(8)
	(in percentages of total loan assets)							
Stated-owned bank (BNF)	92.5%	1.3%	2.9%	0.6%	0.5%	0.1%	0.3%	1.9%
Branches of foreign banks	95.0%	2.5%	0.7%	0.1%	0.1%	0.3%	0.8%	0.5%
Majority Foreign Participation	84.6%	8.6%	2.7%	1.5%	0.5%	0.6%	0.3%	1.1%
Private domestic local majority property	77.8%	12.3%	3.0%	3.2%	1.4%	0.8%	0.6%	0.9%
Total Banks	81.3%	10.3%	2.8%	2.4%	1.0%	0.7%	0.5%	1.0%
Total Financial companies	78.9%	11.2%	3.2%	1.8%	1.3%	1.0%	0.9%	1.7%

(1) No delay in payment.
(2) Delays of payment between 1-30 days.
(3) Delays of payment between 31-60 days.
(4) Delays of payment between 61-90 days.
(5) Delays of payment between 91-150 days.
(6) Delays of payment between 151-180 days.
(7) Delays of payment between 181-270 days.
(8) Delays of payment of more than 270 days.
Source: Central Bank of Paraguay.

The Superintendence of Banks may conduct inspections to 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 institution to monitor its day-to-day operations. Alternatively, the Superintendence of Banks may conduct a full audit. All financial institutions are required to give access to the Superintendence of Banks to conduct such investigations. If the Superintendence of Banks finds management deficiencies or liquidity problems, it may make specific recommendations including a change of senior management and/or the board of directors.

Reorganization Regime

Law No. 2334/03 provides that all financial sector entities must submit a reorganization plan that must be approved by the Superintendence of Banks in case 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 is given that the entity is acting in a way that endangers the safety of public deposits or the liquidity and capital situation of the entity.

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

Deposit Guarantee Fund

Confidence in the Paraguayan banking sector was bolstered in 2003 by the establishment through Law No. 2334/03 of the Deposit Guarantee Fund. The Deposit Guarantee Fund 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 times the minimum wage, per natural or legal person, in the event that a financial institution is liquidated.

The deposit insurance system is broadly consistent with international standards. The agency works as a pay-box and can contribute to the bank liquidation process under the "least-cost solution." Coverage is at US$26,284 or 6.6 times per capita GDP as of December 2015, and 15% 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. We believe that the inadequate response to the 1995 crisis was mainly responsible for the 1997 crisis. Lack of regulatory capacity and generous *de facto* deposit guarantees allowed financial institutions to pay insufficient attention to risk. In 1998, the failure of the fourth largest bank that held approximately 6% of total deposits and whose liquidity dried up while depending increasingly on public sector deposits had consequences for the financial system as a whole.

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

In 2002, further to the effects of the economic downturn, 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 No. 2334/03 to provide additional protection to depositors and establish a new liquidation procedure for insolvent entities. The main purpose of this law was to give additional certainty to depositors by preserving public confidence, maintaining stability of the banking sector and providing incentives to encourage the banking sector's discipline.

Paraguay continues to strengthen its regulatory framework and supervision of the financial sector, evidenced by its Financial Sector Assessment Program. Reforms include more stringent information requirements for the granting of loans, stricter conditions for classifying assets and a higher level of reserves requirement. In 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. In August 2015, in an effort to protect consumer rights and market conditions, Paraguay enacted Law No. 5.476 that regulates the credit card business. This law provides, among other things, for a limit on interest rates that financial institutions can charge for credit card use, which is currently set at three times the average of passive interest rates that are periodically published by the Superintendency of Banks. Other institutional reforms introduced include the adoption of new regulations on the opening of financial institutions and the strengthening of on-site and off-site supervision and the supervisory capacity of the Superintendence of Banks through the creation of 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 with Basel principles, which stood at 27% in 2005, had increased to 63% by the end of 2010. With the objective of implementing the Basel Core Principles for Effective Banking Supervision (principles suggested in order to strengthen banking systems) and consolidate the risk based supervision process with the implementation of a risk matrix, the IMF is granting technical assistance to Paraguay.

In December 2015, Paraguay's financial sector consisted of 17 banks (including one state-owned bank, nine private domestic banks and seven branches of foreign banks), 9 financial companies, 27 savings and loan cooperatives, 4 warehousing companies, 30 foreign exchange trading institutions and 35 insurance companies.

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

In December 2015, the assets of banks operating in Paraguay amounted to G.106,089.6 billion (US$20 billion), equivalent to approximately 70.89% of GDP for the year 2015, while bank deposits amounted to G.73,786.4 billion (US$14 billion). In December 2015, the financial companies were holding G.4,124.3 billion (US$792.39 million) in assets and G.2,971.5 billion (US$570.9 million) in deposits. Bank loans to clients represent about 66.2% of bank assets, while the rest are predominantly liquid resources held in Central Bank accounts. Approximately 69.6% 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. As of December 31, 2015 the ratio of loans to GDP, expressed as a percentage, was 51.6% and the ratio of deposits to GDP, expressed as a percentage, was 53.4%.

The following table sets forth the aggregate balance sheet of banks as of December 31, 2015.

Aggregate Balance Sheet of Banks

As of December 31, 2015
(in percentage of total assets and liabilities)

Assets		**Liabilities**	
Cash	7.8%	Deposits	69.6%
In Guaraníes	*2.4%*	*In Guaraníes*	*35.6%*
In U.S. dollars	*5.4%*	*In U.S. dollars*	*33.9%*
Legal Reserves	9.7%	Liabilities of the Central Bank	0.1%
Free Reserves	4.2%	International Financial Liabilities	7.1%
Total Investment	6.3%	Other Liabilities	12.9%
Publics Instrument	*5.9%*	Net Worth	10.4%
Others	*0.3%*		
Credits (Net of Provisions	66.2%		
Financial Sector	*4.5%*		
Banking Sector	*0.1%*		
Non-Financial Sector	*62.0%*		
NPL	*1.6%*		
Provisions	*(1.9)%*		
Other Assets	5.8%		
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 domestic banks, but are also subject to the same obligations applicable to them under Law

No. 861/96. Branches of foreign banks are not required to have a board of directors; however, each branch must have at least two officers with full authority to operate such branches. In addition, branches of foreign banks are required to provide to the Central Bank letters of guarantee from their parent bank for all aspects of their foreign branch operations in Paraguay. As of December 2015, direct foreign subsidiaries and banks with majority foreign participation held 42.3% of bank assets and 43.3% of deposits, while the majority of locally-owned banks had 52.0% of assets and 51.3% of deposits.

As of December 2015, the four largest banks (two of them with majority foreign participation) controlled 60.7% of total bank assets. Such were Banco Continental S.A.E.C.A. (18.0% of the total assets of the financial system), Banco Itau Paraguay S.A. (17.5%), Banco Regional S.A.E.C.A. (14.4%) and Banco Bilbao Vizcaya Argentaria Paraguay S.A. (10.8%).

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 December 2015, the BNF held 5.7% of banking system assets and 5.5% of deposits.

Financial companies (*empresas financieras*) are also regulated by Law No. 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 December 31, 2015, financial companies were the third most important providers of loans and holders of deposits in the Paraguayan financial system, accounting for G.3,430.83 billion (approximately US$659 million) in loans, and G.2,971.5 billion (approximately US$571 million) in deposits. The Central Bank also supervises financial leasing companies, mutual funds, securitization companies and financial trusts.

Savings and loan cooperatives ("Cooperatives") are regulated by the Savings and Loan Cooperatives Law (Law No. 438/94) enacted in October 1994, and they 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 can be pledged to banks and financial companies as collateral for financing. Foreign exchange trading institutions purchase and sell foreign currencies on the spot market.

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

The Financial Development Agency ("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 December 31, 2015.

Financial Sector of Paraguay

	As of December 31, 2015			
	Loans	% of Total	Deposits	% of Total
	(in millions of US$ and percentages)			
Private domestic local majority property	$ 7,765	48.6%	$ 7,266	44.8%
Branches of foreign banks	5,133	32.1	5,703	35.2
BNF (state-owned)	449	2.8	779	4.8
Direct foreign subsidiaries	224	1.4	428	2.6
Financial Companies	659	4.1	571	3.5
Savings and loans associations (Cooperatives)*	1,740	10.9	1,469	9.1
Total	**$ 15,970**	**100.0%**	**$ 16,216**	**100.0%**

* Data provided by the INCOOP (Instituto Nacional de Cooperativismo).
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, 2015				
	2011	2012	2013	2014	2015
	(in millions of U.S. dollars)				
Private domestic local majority property	4,601	5,125	6,479	7,234	7,266
Branches of foreign banks	3,840	3,868	5,114	5,699	5,703
BNF (state-owned)	541	601	728	813	779
Direct foreign subsidiaries	528	485	442	522	428
Financial Companies	433	471	648	821	571
Savings and loans associations (Cooperatives)*	1,039	1,113	1,382	1,574	1,469
Total	**10,982**	**11,663**	**14,792**	**16,663**	**16,216**

* Data provided by the INCOOP (Instituto Nacional de Cooperativismo).
Source: Central Bank of Paraguay.

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

Deposits in the Financial Sector as a Percentage of Total

	As of December 31, 2015				
	2011	2012	2013	2014	2015
	(in percentages)				
Private domestic local majority property	41.9%	43.9%	43.8%	43.4%	44.8%
Branches of foreign banks	35.0%	33.2%	34.6%	34.2%	35.2%
BNF (state-owned)	4.9%	5.2%	4.9%	4.9%	4.8%
Direct foreign subsidiaries	4.8%	4.2%	3.0%	3.1%	2.6%
Financial Companies	3.9%	4.0%	4.4%	4.9%	3.5%
Savings and loans associations (Cooperatives)*	9.5%	9.5%	9.3%	9.4%	9.1%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

* Data provided by the INCOOP (Instituto Nacional de Cooperativismo).
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, 2015				
	2011	2012	2013	2014	2015
	(in millions of U.S. dollars)				
Private domestic local majority property	3,942	4,696	5,974	7,045	7,765
Branches of foreign banks	3,147	3,378	4,361	5,029	5,133
Direct foreign subsidiaries	244	227	255	243	224
Financial Companies	477	544	725	888	659
BNF (state-owned)	248	322	415	466	449
Savings and loans associations (Cooperatives)*	1,111	1,283	1,525	1,679	1,740
Total	**9,169**	**10,450**	**13,256**	**15,350**	**15,970**

* Data provided by the INCOOP (Instituto Nacional de Cooperativismo).
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 below.

Loans in the Financial Sector as a Percentage of Total

	As of December 31, 2015				
	2011	2012	2013	2014	2015
	(in percentages)				
Private domestic local majority property	43.0%	44.9%	45.1%	45.9%	48.6%
Branches of foreign banks	34.3%	32.3%	32.9%	32.8%	32.1%
Direct foreign subsidiaries	2.7%	2.2%	1.9%	1.6%	1.4%
Financial Companies	5.2%	5.2%	5.5%	5.8%	4.1%
BNF (state-owned)	2.7%	3.1%	3.1%	3.0%	2.8%
Savings and loans associations (Cooperatives)*	12.1%	12.3%	11.5%	10.9%	10.9%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

* Data provided by the INCOOP (Instituto Nacional de Cooperativismo).
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, 2015				
	2011	2012	2013	2014	2015
Insurance companies	34	34	34	35	35
Foreign exchange trading	31	31	31	32	31
Private Banks	14	15	15	15	16
Financial companies	11	11	11	12	9
Warehousing companies	4	4	4	4	4
Public Banks	1	1	1	1	1
Total	**95**	**96**	**96**	**99**	**96**

Source: Central Bank of Paraguay.

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

Indicators of Financial System Efficiency

Indicators of Banks' Efficiency

	As December 31, 2015				
	2011	**2012**	**2013**	**2014**	**2015**
Return on assets	2.4%	2.4%	2.3%	2.4%	2.3%
Return on equity	29.4%	28.3%	27.8%	28.3%	27.8%
Non-Performing Loans as a percentage of total loans	2.0%	1.8%	2.5%	1.8%	2.5%
Gross Operational Margin/Assets	5.1%	4.9%	5.1%	4.9%	5.1%
Operating Expenses/Operating Revenues	85.9%	86.9%	89.3%	86.9%	89.3%
Operating Expenses/Total Assets	30.9%	32.5%	43.1%	32.5%	43.1%
Regulatory capital to risk weighted assets	14.6%	15.2%	16.2%	15.2%	16.2%

Source: Central Bank of Paraguay.

Indicators of Financial Companies' Efficiency

	As December 31, 2015				
	2011	**2012**	**2013**	**2014**	**2015**
Return on assets	3.0%	2.2%	2.2%	2.6%	2.5%
Return on equity	21.3%	16.0%	19.0%	23.6%	22.6%
Non-Performing Loans as a percentage of total loans	4.3%	4.3%	4.1%	4.2%	5.1%
Gross Operational Margin/Assets	11.1%	10.2%	9.5%	9.6%	9.8%
Operating Expenses/Operating Revenues	75.4%	81.7%	80.2%	82.3%	89.0%
Operating Expenses/Total Assets	34.0%	45.3%	38.4%	44.4%	79.4%
Regulatory capital to risk weighted assets	15.4%	14.7%	13.9%	15.5%	15.3%

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 monitoring under the FATF's ongoing global AML/CFT compliance process.

Paraguay developed a national strategy for the further strengthening of the AML/CFT regime with the assistance of the IDB and the IMF. The national strategy was approved by the government in 2013. In March 2015, the Public Prosecutor established a unit specialized in money-laundering and financial terrorism.

Securities Markets

The Asunción Stock Exchange (the "BVPASA"), established in 1993, is the only securities exchange in Paraguay. In 2015, the total trading volume was represented mainly by non-governmental securities but there were also offerings of public sector securities.

The Paraguayan equity and bond market is governed by the capital markets law No. 94/91 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 of an electronic trading system for securities in the third quarter of 2010 and the first issue of Treasury Bonds (medium- and long-term) through BVPASA of approximately US$5 million in 2012 demonstrates Paraguay's commitment to providing transparent and secure securities markets.

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

Asunción Stock Exchange: Listed Companies and Trading Volume

	As of December 31, 2015				
	2011	**2012**	**2013**	**2014**	**2015**
	(in thousands of US$)				
Number of listed companies (end of period)	69	67	74	70	73
Private sector securities					
Equities	36,967	56,824	100,239	73,111	132,647
Certificates of deposit and others	113,823	104,292	131,137	204,381	593,831
Public Sector Securities	–	10,014	–	22,084	14,553
Bonds	–	10,014	–	22,084	14,553
Total	**150,790**	**171,130**	**231,376**	**299,577**	**741,031**

Source: Central Bank of Paraguay.

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. The market has not started operations but the efforts and actions to develop it continue in place.

Monetary Policy

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

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

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

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

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

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

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

(i) the short-term liquidity facility;

(ii) the short-term liquidity deposit;

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

(iv) legal reserves; and

(v) market operations in the money market.

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

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

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

As a result of the various measures taken in the 2011-February 2016 period and in response to the internal and external macroeconomic environment, the profile of the monetary policy during this period went from an accommodative monetary policy profile to support growth in 2015 to a slightly accommodative monetary policy profile in February 2016. Thus, the weighted average monetary policy rate in 2011 was 8.1%, the highest level for the period of analysis, which allowed the inflation rate to remain within the target range (5.0% plus/minus 2.5%). In 2012, the weighted average monetary policy rate decreased (6.1%), continued its downward trend in 2013 (5.4%), slightly increased in 2014 (6.2%) and remained unchanged in 2015 (6.2%). In February 2016, the monetary policy interest rate was increased to 6.0% due to economic conditions in the region, coupled with the initiation of a less accommodative monetary policy by the U.S. Federal Reserve Bank.

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)
2011	8.1%
2012	6.1
2013	5.4
2014	6.2
2015	6.2

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 below.

Monetary Base and the Central Bank's International Reserves (Net)

	As of December 31, 2015				
	2011	2012	2013	2014	2015
	(in millions of US$)				
Currency in circulation, including cash in vaults at banks in US$	$ 1,636	$ 2,037	$ 2,125	$ 2,293	$ 1,881
Banks' reserves at the Central Bank	955	1,180	746	859	704
Monetary Base	2,590	3,218	2,871	3,152	2,584
International reserves (net)	4,984	4,994	5,871	6,891	6,200

Source: Central Bank of Paraguay.

The ratio of the Central Bank international reserves (net) to the monetary base was approximately 1.55 to 1 as of December 31, 2012, increasing to 2.04 to 1 as of December 31, 2013. This ratio decreased to 2.19 to 1 as of December 31, 2014 and increased to 2.40 to 1 as of December 31, 2015. See "—Foreign Exchange and International Reserves."

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

Liquidity and Credit Aggregates

	As of December 31,				
	2011	2012	2013	2014	2015
	(in millions of US$)				
Liquidity aggregates					
Currency in circulation, excluding cash in vaults at banks	1,412	1,499	1,699	1,809	1,664
Add: Deposits in current accounts	2,442	2,510	3,032	3,174	2,767
M_1	3,854	4,010	4,730	4,983	4,431
Add: Savings and term deposits	2,033	2,276	2,861	2,909	2,726
M_2	5,886	6,286	7,592	7,891	7,156
Add: Deposits in foreign currency	3,403	3,600	4,775	5,694	6,254
M_3	9,289	9,886	12,366	13,586	13,410
Credit aggregates					
Private sector credit	7,687	8,213	10,454	12,207	12,866
Public sector credit	837	1,209	534	639	593
Total domestic credit	**8,524**	**9,422**	**10,988**	**12,846**	**13,459**

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 below.

Selected Monetary Indicators

	As of December 31,				
	2011	**2012**	**2013**	**2014**	**2015**
	(percentage change from previous year in Guaraníes)				
Currency in circulation, including cash in vaults at banks	11.6%	17.5%	13.2%	8.9%	2.9%
M_1(1)	11.6%	9.7%	14.8%	9.2%	3.7%
M_2(2)	17.5%	12.6%	17.5%	7.8%	5.8%
M_3(3)	13.5%	12.2%	21.7%	13.9%	15.1%
Credit from the financial system(4)	21.4%	13.6%	25.2%	21.7%	20.0%
Deposit in the financial system (4)	15.3%	11.1%	22.5%	16.1%	14.4%

(1) Currency in circulation, excluding cash in vaults at banks, plus Guaraníes-denominated current accounts.
(2) M_1 plus Guaraníes-denominated savings and term deposits.
(3) M_2 plus foreign currency deposits.
(4)Includes banks and financial companies. Excludes Cooperatives.
Source: Central Bank of Paraguay.

In the 2011-2015 period, the average annual change in Paraguay's monetary aggregate M2 was 13.3% while 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 4.3% in 2011, (1.2)% in 2012, 14.0% in 2013, 4.7% in 2014, and 3.0% in 2015.

M2 grew by 50.8% in the 2011-2015 period because the Central Bank increased the amount of currency in circulation to provide adequate liquidity consistent with non-inflationary growth. In the 2011-2015 period, M3 increased by 79.1%.

Private sector credit consists primarily of trade, consumer and service/financial sector credit. In the 2011-2015 period, credit extended to private sector borrowers increased by 107.6% as a result of general economic growth and the increase in imports and domestic consumption. During the same period, public sector credit was reduced by 12.2%.

As of December 31, 2015, total outstanding loans in the financial system, which includes loans by banks and other financial companies to the non-financial system, amounted to G.73,311.1 billion or US$14.1 billion, which represents an increase of US$0.4 billion from the level of outstanding loans as of December 31, 2014. These figures exclude inter-bank loans. Total deposits in the financial system increased by 14.4% in Guaraníes from 2014 to 2015 and amounted to US$14.2 billion at December 31, 2015. This increase was mainly due to an increase in private deposits in Guaraníes and U.S. dollars in commercial banks. Amongst the deposits in Guaraníes, those medium and long term deposits were the ones that experienced the greatest increase.

Inflation

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

Percentage Change of Consumer Price Index from Previous Year

	CPI % change
2011	4.9
2012	4.0
2013	3.7
2014	4.2
2015	3.1

Source: Central Bank of Paraguay.

The Central Bank has adopted an inflation targeting scheme in order to maintain relatively low rates of inflation. In December 2014, the Central Bank set the target annual inflation rate at 4.5% within a range of 2.5% and 6.5%. This rate is still effective for the year 2016. This reduction was implemented as of January 1, 2015. 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 2011-2015 period, the annual inflation rate (CPI) remained within the government target range. Inflation was 3.1% in 2015, 4.2% in 2014, 3.7% in 2013, 4.0% in 2012 and 4.9% in 2011. During this period, the inflation dynamics can be primarily explained by the fluctuations in food prices and oil derivatives. Decreases in the price of domestic petroleum products were the result of the downward trend of the international price for crude oil. Given that Paraguay is a net importer of crude oil, decreases in international crude oil prices resulted in decreases in domestic price.

Foreign Exchange and International Reserves

Foreign Exchange

Paraguay has maintained a managed free floating exchange rate system since 1989. Paraguay has also maintained free capital flows; there are no restrictions on the purchase or sale of foreign exchange by Paraguayan residents or on the repatriation of funds in foreign currency by foreign investors in Paraguay.

Government revenues from Itaipú and Yacyretá are denominated in U.S. dollars whereas most of the government's expenses are denominated in local currency. The Central Bank buys the government's U.S. dollar revenues in return for local currency, and conducts compensatory operations selling those U.S. dollars back into the market through planned and pre-announced auctions.

Exchange Rates

Paraguay has a floating exchange rate regime. From time to time, the Paraguayan Central Bank intervenes in the foreign exchange market in order to stabilize the Paraguayan Guaraní, without changing the market trend. During the first quarter of 2016, the Guaraní appreciated due mainly to the depreciation of the U.S. dollar in the international markets. In addition, in the local market, income in foreign currency has decreased as a consequence of the reduction in international prices of certain products exported by Paraguay (principally, soybeans). However, the negative impact on the balance of payments of Paraguay of this decrease in the prices of Paraguay's exports could be mitigated by the reduction in oil prices.

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 below.

Exchange Rates(1)

	High(2)	Low(2)	Average(3)	Period End(4)
		(Guaraníes per US$)		
2011	4,652.9	3,723.3	4,196.2	4,492.0
2012	4,730.2	4,157.7	4,422.1	4,238.0
2013	4,610.9	3,902.6	4,303.9	4,598.2
2014	4,692.8	4,157.3	4,462.2	4,635.7
2015	5,872.4	4,618.8	5,204.9	5,806.9

(1) Exchange rates for transactions between financial institutions and non-financial clients.
(2) Daily Bid and Offer exchange rates for transactions between financial institutions and non-financial clients.
(3) Annual simple average of monthly average bid/offer exchange rates.
(4) Average bid/offer US$/G. exchange rate as of the close of business for the last business day of December each year.

Source: Central Bank of Paraguay

International Reserves

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

International Net Reserves of the Central Bank

	As of December 31, 2015				
	2011	**2012**	**2013**	**2014**	**2015**
	(in millions of U.S. dollars)				
Gold(1)	32.5	437.5	317.8	317.2	279.6
Foreign Exchange	4,748.7	4,353.7	5,350.0	6,382.4	5,737.3
Subtotal	4,781.2	4,791.2	5,667.8	6,699.6	6,016.8
Special Drawing Rights	169.8	170.0	170.4	160.3	153.5
Reserve Position at IMF	33.0	33.0	33.1	31.1	29.8
Subtotal	202.7	203.0	203.5	191.4	183.3
Total	**4,983.9**	**4,994.3**	**5,871.2**	**6,891.0**	**6,200.1**

(1) Gold valued for each period at London market prices at the end of each year.
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 international reserves of the Central Bank increased consistently between 2011 and 2014. This was mainly the result of trade balance surpluses and inflows of foreign capital through the financial account during this 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 2015, the international reserves of the Central Bank declined, mainly due to the selling of foreign currency to mitigate the appreciation of the U.S. dollar.

PUBLIC SECTOR FINANCES

General

Paraguay's public sector consists of the central government, financial public institutions (including the Central Bank and the BNF), non-financial public institutions (including SOEs) and other general government agencies (including the social security system, departments, national universities, and the custom department and other decentralized government entities). Central government revenues are derived mainly from tax collection (VAT, excise taxes, corporate income tax and personal income tax since 2013) and non-tax revenue (royalty payments from Itaipú Binational and Yacyretá Binational, compensation payments from the Brazilian and Argentine governments for sales of capacity generated in Itaipú and Yacyretá, respectively, and unused by Paraguay, and social security contributions). Central government expenditures consist mainly of compensation of employees, payments for goods and services, interest paid on public debt and transfer payments to other public sector institutions. Other public sector institutions derive revenue from operating income or transfers from the central government. The budgets of all public sector institutions (including SOEs) are included in the government's annual budget for each year. Public sector institutions must obtain authorization from both the government and Congress to incur medium-and long-term financing, and the amount and sources of such financing must be contemplated in the annual budget. See "Public Sector Debt."

Municipalities are not included in the government's annual budget and do not require authorization from the government to obtain financing. However, there would be no recourse to the central government for any such financing. Accordingly, all information regarding the consolidated public sector finances excludes any finances related to municipalities.

President Cartes' administration has focused on implementing macroeconomic policies and financial strategies seeking to consolidate the pillars for sustainable medium- and long-term economic growth. In this regard, the central government has been substantially increasing investment in health, education and great emphasis is given to economic and social infrastructure.

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

Consolidated Public Sector

	2010	2011	2012	2013	2014
	(in millions of U.S. dollars)				
Current Revenues	$ 5,547.0	$ 7,493.7	$ 7,678.2	$ 8,530.8	$ 8,867.3
Non-Financial Public Sector	5,414.7	7,290.1	7,515.8	8,317.5	8,626.0
Central Government	3,359.7	4,367.3	4,558.9	4,935.4	5,002.7
Other Central Government(1)	761.3	1,074.8	1,155.6	1,595.6	1,932.7
State Owned Enterprises	1,293.7	1,848.1	1,801.3	1,786.6	1,690.6
Central Bank	52.1	56.9	50.5	74.3	73.4
Other Financial Institutions(2)	80.1	146.7	111.8	138.9	168.0
Current Expenditures	4,752.3	5,967.4	6,726.8	7,498.4	7,736.0
Non-Financial Public Sector	4,643.5	5,844.9	6,591.5	7,327.8	7,548.7
Central Government	2,504.3	3,041.2	3,933.7	4,380.2	4,551.3
Other Central Government(1)	869.0	1,144.7	926.6	1,315.0	1,394.4
State Owned Enterprises	1,270.1	1,659.0	1,731.2	1,632.5	1,603.0
Central Bank	39.6	53.3	55.6	72.1	70.8
Other Financial Institutions(2)	69.2	69.2	79.7	98.5	116.6
Current Balance	958.4	1,526.3	951.3	1,032.4	1,048.8
Capital Revenues	101.3	252.9	181.0	277.2	518.8
Non-Financial Public Sector	78.7	169.0	161.2	174.2	376.6
Central Government	68.3	153.8	108.6	49.5	68.6
Other Central Government(1)	9.5	13.1	19.0	67.8	89.5
State Owned Enterprises	0.9	2.1	33.6	56.9	218.4

	2010	2011	2012	2013	2014
		(in millions of U.S. dollars)			
Central Bank	6.3	11.9	4.8	1.6	0.0
Other Financial Institutions(2)	16.2	72.0	15.1	101.4	142.2
Capital Expenditures	936.9	1,268.0	1,476.0	1,625.1	1,525.7
Non-Financial Public Sector	899.0	1,260.3	1,464.3	1,490.5	1,510.3
Central Government	585.0	921.4	1,182.9	1,158.7	1,062.9
Other Central Government(1)	104.1	163.9	96.7	125.3	145.9
State Owned Enterprises	209.9	175.0	184.6	206.5	301.5
Central Bank	9.8	3.7	9.0	4.4	3.4
Other Financial Institutions(2)	28.2	4.1	2.6	130.2	12.0
Borrowing Minus Repayments	55.7	121.4	151.0	179.6	196.7
Loans	355.3	491.9	587.8	668.4	706.8
Reimbursements(3)	299.6	370.5	436.8	488.8	510.1
Primary Surplus/deficit	440.3	481.5	(415.2)	(372.3)	(306.6)
Overall Surplus/deficit	340.6	389.8	(494.6)	(495.0)	(464.8)

(1) Comprised of decentralized, district government agencies (as opposed to the Central Government), social security institutions and national universities.
(2) Comprised of public financial institutions, including the BNF, AFD, the Fondo Ganadero and Credito Agricola de Habilitación. Only the deposits of the general public held by BNF are guaranteed by the central government. The other public financial institutions are ultimately backed by the state.
(3) Reimbursements are repayments on loans.
Source: Ministry of Finance.

During the 1980s, the public sector ran significant deficits. A complex tax regime lacking consistency and clarity resulted in weak enforcement and an increasing deterioration of central government revenues. In 1991, Congress passed a comprehensive tax reform that reduced the number of taxes, eliminated complexity and introduced VAT. These developments translated into an improvement of central government balances.

In 2000, 2001 and 2002, public sector finances once again deteriorated materially. During 2003, in the aftermath of the economic and financial crisis of 2002, measures were adopted to improve central government efficiency by streamlining public procurement procedures and further simplifying the tax regime. The combined effect of these initiatives, the economic growth experienced during the period, and the efforts undertaken to control central government expenditures resulted in central government primary surpluses from 2004 through 2011.

Central Government Fiscal Balance

In 2011, central government primary expenditures (which exclude interest payments, but include the net acquisition of non-financial assets) totaled US$3.6 billion, an increase of 17.1% 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$251.2 million (1.0% of GDP). The central government primary balance showed a surplus equivalent to 1.3% of GDP.

In 2012, central government primary expenditures totaled US$4.4 billion, an increase of 20.7% compared to 2011. Central government revenues in 2012 totaled US$4.7 billion, an increase of 3.2%, compared to 2011. The central government's overall balance recorded a deficit of US$410.3 million (1.7% of GDP). The central government primary balance showed a deficit equivalent to 1.4% of GDP.

In 2013, central government primary expenditures totaled US$4.7 billion, an increase of 7.6% compared to 2012, driven largely by increases in compensation of public sector employees and transfers. Central government revenues in 2013 totaled US$5.0 billion, an increase of 6.8%, compared to 2012. The central government's overall balance recorded a deficit of US$490.1 million (1.7% of GDP). The central government primary balance showed a deficit equivalent to 1.4% of GDP.

In 2014, central government primary expenditures totaled US$5.0 billion, an increase of 6.9% compared to 2013. Central government revenues in 2014 totaled US$5.5 billion, an increase of 11.0% compared to 2013. The central government's overall balance recorded a deficit of US$343.2 million (1.1% of GDP). The central government primary balance showed a deficit equivalent to 0.7% of GDP.

In 2015, central government primary expenditures totaled US$4.7 billion, a decrease of 6.5% compared to 2014. Central government revenues in 2015 totaled US$5.1 billion, a decrease of 7.8% compared to 2014. The central government's overall balance recorded a deficit of US$484.7 million (1.8% of GDP). The central government primary balance showed a deficit equivalent to 1.1% of GDP. During the first two months of 2016, the central government's fiscal balance recorded a deficit of US$6.6 million, compared to a deficit of US$30.9 million for the same period in 2015, mainly due to a stricter control of current expenses along with non-recurrent income received in the first two months of 2016.

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.1,053.9 billion (approximately US$251.2 million, or 1.0% of GDP) fiscal surplus in 2011 in spite of the automatic adjustment clauses contemplated in existing legislation that increased compensation for public sector employees without generating additional revenue. Salaries and wages of public sector employees increased by 29.8% in 2012, representing 2.2% of GDP and by 11.4% in 2013, representing 0.9% of GDP. However, in 2014 and 2015, compensation of employees increased only by 6.0% and 8.8%, representing 0.5% and 0.7% of GDP, respectively.

In 2013, Congress passed the FRL. The FRL, which governs the preparation and approval of budgets, but not their execution, is intended to prevent discretionary increases in expenditures and sets targets for the central government's overall balance. Ultimately, the FRL seeks to facilitate the adoption of balanced budgets that conform to the financial capacity of the government. The FRL came into effect with the 2015 Annual Budget, and the 2016 Annual Budget that was submitted by the central government to Congress was in accordance with the FRL. The 2016 Annual Budget contemplates a lower level of expenditures than the 2015 Annual Budget. The budgeted expenditures relating to the compensation of employees increased 2.8% as a result of the projected increase in employment that is expected to be necessary for developing planned social and infrastructure programs. The central government's fiscal balance (net lending/borrowing) recorded a deficit of 1.8% of GDP in 2015. However, excluding expenditures in infrastructure financed by sovereign bonds issued in the international capital markets, the deficit stood at 0.5% of GDP, complying with the FRL's ceiling of 1.5% of GDP for 2015. The following table sets forth a summary of the central government's overall balance for the periods indicated below.

Central Government Fiscal Balance

	As of December 31,				
	2011	**2012**	**2013**	**2014**	**2015**
Net Lending/Borrowing (in millions of US$)	251.2	(410.3)	(490.1)	(343.2)	(484.7)
Net Lending – Borrowing/GDP (%)	1.0	(1.7)	(1.7)	(1.1)	(1.8)

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 increases in tax revenue. VAT collection, the central government's main source of tax revenues, has grown on average 16.0% per year since 2004 until 2015. The number of registered taxpayers has also risen in recent years. After an update and purge of taxpayers accounts by the tax administration, which explains the reduction in the number of registered tax payers in 2012 as compared to 2011, the number of registered taxpayers as of December 31, 2015 was 684,048, a 7.8% increase compared to 634,801 registered taxpayers as of December 31, 2014.

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,				
	2011	2012	2013	2014	2015
Taxpayers (percentage increase from the previous year)	8.4	(12.3)	9.6	9.1	7.8

Source: Ministry of Finance.

The increase in the number of registered taxpayers in 2015 and the introduction of personal income tax have contributed to an increase in income tax revenues. Tax revenues in 2015 totaled G.18.1 billion (approximately US$3.5 billion), equivalent to a tax burden of 12.6% of GDP (a decrease of 0.1% of GDP from 2014). Since 2004, tax revenue has increased by an average of 14.5% per year.

The central government's policy for public spending since 2008 has prioritized social services to focus on effective reduction of poverty and inequality. The government regards social spending as a key component of public spending. In recent years, there has been a steady increase in social spending measured in relation to total central government expenditure. In 2010, social spending accounted for 50.1% of total central government expenditure and by 2015 social spending increased to 53.7% of total central government expenditure.

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

Central Government Finances

	As of December 31,				
	2011	2012	2013	2014	2015
	(in millions of US$)				
Revenue	4,520.6	4,666.7	4,983.6	5,534.2	5,103.8
Taxes	3,148.2	3,136.6	3,436.3	3,918.4	3,475.0
On income, profits and capital gains	622.1	656.5	719.7	825.0	752.7
On goods and services	2,098.3	2,085.5	2,309.3	2,651.3	2,348.5
Value-added taxes	1,617.1	1,600.8	1,831.8	2,091.6	1,882.3
Excises	481.2	484.8	477.6	559.8	466.3
Other taxes on goods and services	0.0	0.0	0.0	0.0	0.0
On international trade and transactions	406.1	371.3	379.2	400.6	321.3
Other taxes	21.8	23.2	28.1	41.4	52.5
Social Contributions	316.0	382.9	373.4	518.3	389.8
Grants	328.6	276.8	245.8	241.7	245.5
Other revenue	727.8	870.4	928.1	855.7	993.6
Property income	564.2	578.3	528.9	477.0	482.3
Royalties(1)	317.9	416.7	340.8	320.7	347.4
Sales of goods and services	78.6	268.6	385.1	361.3	477.9
Compensation transfer of energy(2)	0.0	105.5	210.6	146.0	275.4
Miscellaneous revenue	12.7	23.5	14.1	17.4	33.4
Expense	3,684.6	4,425.3	4,794.6	5,139.3	4,868.2
Compensation of employees	1,886.4	2,322.6	2,658.0	2,718.6	2,534.9
Use of goods and services	391.7	400.7	356.2	457.7	434.9
Interest	67.7	58.6	96.7	118.0	171.6
Subsidies	10.6	9.3	10.5	10.1	0.0
Grants	663.7	859.2	862.6	959.3	850.0
Social Benefits	431.2	515.7	614.1	661.9	744.1
Other Expense	233.3	259.1	196.5	213.6	132.8
Net Operating Balance(3)	836.0	241.4	189.0	394.9	235.6
Net Acquisition of Non-financial Assets	584.8	651.7	679.2	738.1	720.3

	As of December 31,				
	2011	2012	2013	2014	2015
	(in millions of US$)				
Net Lending/Borrowing	251.2	(410.3)	(490.1)	(343.2)	(484.7)

(1) Includes royalty payments from Itaipú and Yacyretá binationals.
(2) Includes compensation payments by Brazil and Argentina for sales of unused capacity generated by Itaipú and Yacyretá, respectively.
(3) Revenues minus expenses.
Source: Ministry of Finance

The following table sets forth a summary of central government sector finances expressed as a percentage of nominal GDP for the periods indicated below.

Central Government Finances as a Percentage of GDP

	As of December 31,				
	2011	2012	2013	2014	2015
	(as a percentage of GDP)				
Revenue	18.0%	19.0%	17.1%	17.9%	18.5%
Taxes	12.6	12.7	11.8	12.7	12.6
On income, profits and capital gains	2.5	2.7	2.5	2.7	2.7
On goods and services	8.4	8.5	7.9	8.6	8.5
Value-added taxes	6.5	6.5	6.3	6.8	6.8
Excises	1.9	2.0	1.6	1.8	1.7
Other taxes on goods and services	0.0	0.0	0.0	0.0	0.0
On international trade and transactions	1.6	1.5	1.3	1.3	1.2
Other taxes	0.1	0.1	0.1	0.1	0.2
Social Contributions	1.3	1.6	1.3	1.7	1.4
Grants	1.3	1.1	0.8	0.8	0.9
Other revenue	2.9	3.5	3.2	2.8	3.6
Property income	2.3	2.3	1.8	1.5	1.7
Royalties(1)	1.3	1.7	1.2	1.0	1.3
Sales of goods and services	0.6	1.1	1.3	1.2	1.7
Compensation transfer of energy(2)	0.0	0.4	0.7	0.5	1.0
Miscellaneous revenue	0.1	0.1	0.0	0.1	0.1
Expense	14.7	18.0	16.5	16.6	17.6
Compensation of employees	7.5	9.4	9.1	8.8	9.2
Use of goods and services	1.6	1.6	1.2	1.5	1.6
Interest	0.3	0.2	0.3	0.4	0.6
Subsidies	0.0	0.0	0.0	0.0	0.0
Grants	2.6	3.5	3.0	3.1	3.1
Social Benefits	1.7	2.1	2.1	2.1	2.7
Other Expense	0.9	1.1	0.7	0.7	0.5
Net Operating Balance(3)	3.3	1.0	0.7	1.3	0.9
Net Acquisition of Non-financial Assets	2.3	2.6	2.3	2.4	2.6
Net Lending/Borrowing	1.0	(1.7)	(1.7)	(1.1)	(1.8)

(1) Includes royalty payments from Itaipú and Yacyretá binationals.
(2) Includes compensation payments by Brazil and Argentina for sales of unused capacity generated by Itaipú and Yacyretá, respectively.
(3) Revenues minus expenses.
Source: Ministry of Finance.

Revenues

The following table sets forth the composition of central government revenues as a percentage of total central government revenues for each of the periods indicated below.

Central Government Revenue

	2011	2012	2013	2014	2015
	(as percentage of total revenue)				
Taxes	69.6	67.2	69.0	70.8	68.1
On income, profits and capital gains	13.8	14.1	14.4	14.9	14.7
On goods and services	46.4	44.7	46.3	47.9	46.0
Value-added taxes	35.8	34.3	36.8	37.8	36.9
Excises	10.6	10.4	9.6	10.1	9.1
Other taxes on goods and services	0.0	0.0	0.0	0.0	0.0
On international trade and transactions	9.0	8.0	7.6	7.2	6.3
Other taxes	0.5	0.5	0.6	0.7	1.0
Social Contributions	7.0	8.2	7.5	9.4	7.6
Grants	7.3	5.9	4.9	4.4	4.8
Other revenue	16.1	18.7	18.6	15.5	19.5
Property income	12.5	12.4	10.6	8.6	9.5
Royalties(1)	7.0	8.9	6.8	5.8	6.8
Sales of goods and services	3.3	5.8	7.7	6.5	9.4
Compensation transfer of energy(2)	0.0	2.3	4.2	2.6	5.4
Miscellaneous revenue	0.3	0.5	0.3	0.3	0.7
Total Revenue	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

(1) Includes royalty payments from Itaipú and Yacyretá binationals.
(2) Includes compensation payments by Brazil and Argentina for sales of unused capacity generated by Itaipú and Yacyretá, respectively.
Source: Ministry of Finance.

Tax Revenue

Tax revenues have increased steadily since 2004 as a result of reforms in tax legislation and improved management of tax administration. Two key tax laws were approved in 2013: the Agricultural Activities Income Tax and the extension of VAT to agricultural products at a rate of 5%, which were previously exempted from VAT.

Tax revenues averaged 68.9% of total central government revenues for the period 2011-2015.

Taxes on income, profits and capital gains. Revenues from personal, corporate and agricultural income taxes represented 21.7% of total central government tax revenues in 2015. Corporate income is taxed at a rate of 10.0% for commercial and industrial activity and services, but gross profits are taxed at 5% for distributors and a 15.0% withholding tax applies on any payments to non-residents. Agricultural activities are also taxed on their income at a rate of 10.0%, after the approval of Law No. 5061/13. Revenue collection from the Agricultural Activities Income Tax came into effect in the second half of 2014.

The Personal Income Tax ("PIT"), assessed at a rate of 10%, became effective in 2012, after being postponed several times since its introduction was proposed in 2004. PIT is assessed on personal income, capital income, capital gains and other income after certain exemptions and deductions. PIT is assessed on net income, which is equal to the difference between revenues and expenditures, or is based on a presumed percentage (equal to 30.0%) of gross income.

Tax revenue derived from the PIT is expected to increase yearly, as the taxable income range goes down. In 2012, those earning more than 120 times minimum wage within that fiscal year were eligible, but in 2013, the taxable income range decreased to an income equivalent to 108 times minimum wage. In 2014, those who earned 98 times the minimum wage were subject to the PIT. The taxable income range will decrease yearly, and in 2018 everyone that earns 36 times minimum wage within the fiscal year will be subject to the PIT.

Taxes on goods and services. In 2015, taxes on goods and services (VAT and excise taxes) represented 67.6% of total tax revenues. Tax rates are moderate with the general VAT rate being 10.0%, and a reduced rate of 5% applying to certain household necessities, pharmaceuticals and books. Commencing in 2013, livestock, soybeans and other agricultural products in their natural state ceased to be exempt from VAT and became subject to VAT at a rate of 5.0%. Excise tax is levied primarily on fuel, beverages and cigarettes. Cigarettes are currently taxed at 16.0%, after a 4% increase in 2016, and are expected to be taxed at 20%, alcohol is taxed at 10% and non-essential goods are taxed at a range between 1% and 5%. Fuel is subject to a special tax levied at a rate of up to 50.0%.

Taxes on international trade and transactions. Revenue from international trade and transactions, which corresponds entirely to import duties, represented approximately 9.2% of total tax revenues in 2015. A significant part of VAT and excise taxes are derived from foreign trade and is collected by customs.

Non-tax Revenue

Non-tax revenues (social contributions, grants and other revenue) represent, on average, 31.1% of the total central government revenues for the 2011-2015 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 2011-2015 accounted for an average of 10.0% of total central government revenues. Social security contributions also represent a significant source of non-tax revenue, accounting for 7.9% on average for the 2011-2015 period.

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$10.6 per MW/hour. In 2015, Paraguay received royalty payments and compensation payments of US$610.7 million, equivalent to 2.2% of GDP, compared to US$571.9 million (1.9% of GDP) in 2014. In 2014, revenues decreased by 5.3% to US$571.9 million. In 2013, revenue totaled US$603.7 million, representing an increase of 9.1%. In 2012, revenues increased by 43.2% to US$553.4 million. Total revenues derived from Itaipú in 2011 were 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 drought that affected Brazil and Paraguay in 2014 caused water flows of the Paraná River to decrease significantly, with the resulting reduction of revenues in Itaipú. 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.

According to the Yacyretá Treaty, Paraguay receives (i) royalty payments and (ii) compensation payments based on revenues from the sale of Paraguay's unused electricity to Argentina. The latter is paid by the government of Argentina directly to Paraguay. The construction of Yacyretá was largely financed by loans from the World Bank and the IDB to Yacyretá Binational, which were guaranteed by Argentina. As of December 31, 2013, Yacyretá Binational's total outstanding debt was US$3.4 billion (excluding accrued interest). Paraguay is now in the process of negotiating the outstanding debt with the new Argentine government that took office in December 2015. In 1992, the governments of Paraguay and Argentina signed notes related to the Yacyretá Treaty to amend its provisions concerning the cost of the project. Paraguay and Argentina agreed in January 1992 to defer the payment of accumulated royalties and compensation (for the electricity Paraguay sold to Argentina) for the 1994 to 2004 period until 2019, and to reinvest such deferred amounts in construction and operational improvements. The deferred amounts shall be paid in equal, monthly installments over eight years, and without interest beginning in 2019. Despite the agreement, since Yacyretá commenced operations in 1994, Paraguay has received advances on deferred royalties and compensation. However, a substantial part of the early payments due to Paraguay for the periods prior to 2004 is at Yacyretá Binational's discretion and is agreed to on an annual basis by Argentina and Paraguay. Revenues received by Paraguay from Yacyretá Binational totaled US$ 229 million in 2010, US$233 million in 2011, US$183 million in 2012, and declined to US$125 million in 2013. Beginning in 2014, the Argentine government halted the transfer of any revenue from Yacyretá to Paraguay. However, after Argentina's new president, Mauricio Macri, took office in December 2015, Argentina promised to honor the royalties and compensation payments for 2014 and 2015 due to Paraguay from the Yacyretá hydroelectric plant. In 2015, Paraguay received US$108 million (which accounted for approximately 0.4% of Paraguay's GDP) as discretionary payments from Yacyretá Binational on account of royalties and compensation corresponding to agreements for the years 2014 and 2015. As of the date of this Offering Memorandum, US$24 million is still pending to be received under the 2015 agreement. Negotiations are currently underway between Paraguay and Argentina to determine the amount of royalties and compensations that Yacyretá Binational will pay to Paraguay with respect to year 2016.

Expenditures

Central government expenditures consist primarily of compensation of employees, use of goods and services, interest payments, subsidies, grants, social benefits and other expenses. The main component of expenditures is compensation of employees, representing an average of 52.8% of total expenditures for the period 2011-2015. Grants also represent an important component of expenditures, accounting for an average of 18.3% of total expenditures for the 2011-2015 period. Grants include the current and capital transfers to foreign governments, international organizations and local governments units. The provision of social benefits, including social security, social assistance and social benefits from employer, is another significant component of central government expenditures, representing, on average, approximately 12.9% of total expenditures for the period 2011-2015.

The following table sets forth central government expenditures by category for the periods indicated below.

Central Government Expenditures

	2011	2012	2013	2014	2015
	(as percentage of total central government expenditure)				
Compensation of employees	51.2	52.5	55.4	52.9	52.1
Use of goods and services	10.6	9.1	7.4	8.9	8.9
Non-personal services	4.4	4.0	3.5	3.8	4.2
Consumer goods	6.2	5.0	3.6	4.7	4.4
Commissions	0.0	0.0	0.1	0.1	0.0
Other use of goods and services	0.0	0.0	0.3	0.3	0.3
Interest	1.8	1.3	2.0	2.3	3.5
Subsidies	0.3	0.2	0.2	0.2	0.0
Grants	18.0	19.4	18.0	18.7	17.5
To foreign governments	0.0	0.0	0.0	0.0	0.0
To international organizations	2.1	0.2	0.2	0.3	0.2
To local governments	15.9	19.2	17.8	18.4	17.3
Social Benefits	11.7	11.7	12.8	12.9	15.3
Other Expense	6.3	5.9	4.1	4.2	2.7
Current	5.1	3.1	3.0	3.6	1.8
Capital	1.3	2.7	1.1	0.5	1.0
Total Expenditures	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: Ministry of Finance.

Capital expenditures (Net Acquisition of Non-financial Assets)

Net acquisition of non-financial assets 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 2011-2015, net acquisition of non-financial assets has increased on average 10.7% per year, representing 2.6% of GDP in 2015.

The following table sets forth government expenditures by purpose for the periods indicated. The table includes the amortization of public debt and all expenses related to public debt, including the issuance, management and cancellation of public debt, and service.

Government Expenditures by Purpose

	2011	2012	2013	2014	2015
	(in millions of U.S. dollars)				
Social Services	$ 2,471.1	$ 2,878.1	$ 3,252.6	$ 3,460.0	$ 3,302.1
Health	544.9	664.5	666.4	787.2	724.6
Promotion and social action	450.0	503.1	644.0	651.7	669.3
Social security	407.4	484.0	622.1	687.4	673.7
Education and culture	1,002.8	1,139.8	1,228.6	1,252.4	1,181.4
Science, technology and dissemination	14.3	21.6	15.4	22.9	22.8
Labor	3.7	4.6	4.8	0.5	30.3
Housing and community	48.1	60.5	71.4	57.9	0.0
General Services	1,399.5	2,574.2	1,573.4	1,743.5	1,522.0
Public services(1)	836.1	1,929.8	830.9	937.0	768.0
Defense and security services	563.5	644.3	742.6	806.5	754.1
Economic Services	401.4	497.8	641.3	980.8	900.5
Energy, fuels and mining	1.1	1.2	1.2	1.3	0.0
Transport	5.8	5.2	5.7	5.8	0.0
Ecology and environment	0.7	0.5	0.5	0.5	0.0
Agriculture, livestock and fishing	71.8	74.6	73.5	90.3	117.2
Manufacturing	8.3	4.7	3.5	3.7	5.9
Commerce, storage and tourism	18.6	23.7	23.1	31.4	28.2
Economic services and public work	295.0	388.0	533.7	847.9	749.2
Public debt service	387.5	340.6	326.6	400.4	426.8
Regulation and control services	6.3	0.0	0.0	0.0	0.8
Total	**$ 4,665.8**	**$ 6,290.7**	**$ 5,793.9**	**$ 6,584.7**	**$ 6,152.3**

(1) The increase in 2012 reflects the perpetual bond issued for the recapitalization of the Central Bank. See "Monetary System—The Central Bank."

Source: Ministry of Finance

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

Percentage Distribution of Central Government Expenditures by Purpose

	As of December 31,				
	2011	2012	2013	2014	2015
	(as percentage of central government total expenditure)				
Social Services	53.0%	45.8%	56.1%	52.5%	53.7%
Health	11.7	10.6	11.5	12.0	11.8
Promotion and social action	9.6	8.0	11.1	9.9	10.9
Social security	8.7	7.7	10.7	10.4	11.0
Education and culture	21.5	18.1	21.2	19.0	19.2
Science, technology and dissemination	0.3	0.3	0.3	0.3	0.4
Labor	0.1	0.1	0.1	0.0	0.5
Housing and community	1.0	1.0	1.2	0.9	0.0
General Services	30.0	40.9	27.2	26.5	24.7
Public services	17.9	30.7	14.3	14.2	12.5
Defense and security services	12.1	10.2	12.8	12.2	12.3

	As of December 31,				
	2011	2012	2013	2014	2015
Economic Services	8.6	7.9	11.1	14.9	14.6
Energy, fuels and mining	0.0	0.0	0.0	0.0	0.0
Transport	0.1	0.1	0.1	0.1	0.0
Ecology and environment	0.0	0.0	0.0	0.0	0.0
Agriculture, livestock and fishing	1.5	1.2	1.3	1.4	1.9
Manufacturing	0.2	0.1	0.1	0.1	0.1
Commerce, storage and tourism	0.4	0.4	0.4	0.5	0.5
Economic services and public work	6.3	6.2	9.2	12.9	12.2
Public debt service	8.3	5.4	5.6	6.1	6.9
Regulation and control services	0.1	0.0	0.0	0.0	0.0
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: Ministry of Finance

Non-discretionary government expenditures continue to represent a high percentage of total expenditures. Non-discretionary expenditures amounted to US$2.9 billion in 2011, which represented 67.1% of total expenditures in 2011, US$3.5 billion in 2012, which represented 68.7% of total expenditures in 2012, and US$4.0 billion in 2013, which represented 72.6% of total expenditures in 2013. In 2014 and 2015, non-discretionary expenditures amounted to US$4.3 billion and US$4.0 billion, which represented 71.2% and 70.8% of total expenditures, respectively.

A significant portion of the increases in non-discretionary current expenditures have resulted from the introduction of new laws that increased compensation for public sector employees without generating additional revenue. As a consequence of those laws, in 2012, compensation of employees increased by approximately 29.8%, representing 2.2% of GDP. However, the approval of the Fiscal Responsibility Law was intended to avoid future discretionary increases in compensation of employees. As a result, the 2015 Annual Budget contemplated no increases in compensation of employees, and this measure explains the increase of only 8.8% in compensation of employees in 2015. In 2012, non-discretionary current expenditures represented 68.7% of central government expenditures, increasing to 72.6% in 2013, mainly due to a 29.8% increase in compensation of employees in 2012, and decreased to 71.2% in 2014 and to 70.8% in 2015 as a consequence of a lower increase in compensation of employees. The 2016 Budget Law contemplates a 2.8% increase in compensation of employees.

Budget Process

The government's fiscal year runs from January to December. Pursuant to applicable regulation, the Ministry of Finance prepares the annual government budget, where it presents the goals and specific characteristics of the budget (including estimates of revenues and expenses for the budget year), implementation of the government's social and economic development policies and the provision of public services.

The budget process begins with the submission by each governmental agency of its proposed budget to the Ministry of Finance, which in turn then drafts the initial annual budget. The Ministry of Finance may revise, modify or amend each agency's proposed budget prior to presenting the annual budget to the president for approval. The president is required to submit a bill setting forth the annual budget for the following year to the Chamber of Deputies by September 1 of each year that complies with the limitations set forth in the Fiscal Responsibility Law.

A special commission composed of members of the Senate and the Chamber of Deputies then convenes for 60 days to review the proposed annual budget. At the completion of this period, the proposed annual budget is submitted to the Senate and the Chamber of Deputies for an additional 15-day review period. The budget process is subject to the rules and limitations set forth in the Fiscal Responsibility Law. If Congress, for example, decides to modify the annual budget by increasing expenditures, it must comply with the Fiscal Responsibility Law's requirement that the source of each additional expenditure be identified. The president may veto the congressionally amended budget, but following such a veto, the annual budget from the preceding year remains in effect 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 annual 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 may make adjustments to the budget if necessary (including the reduction of expenditures to the extent that revenues contemplated in the budget do not materialize) and such budget, as modified, is the one that is implemented. In addition to the financial plan, the treasury's *Plan de Caja* allows for monthly adjustments to expenditures depending on the treasury's ability to finance particular expenditures. Governmental entities use the *Plan de Caja* to conform their execution of the budget to the resources they actually have available. Through the financial plan and the *Plan de Caja*, the Ministry of Finance is able to adjust expenditures subject always to the maximum amounts approved in the budget.

The government can cover a shortfall of forecasted revenues by transferring credits, changing funding sources or through short-term loans from the Central Bank. If the deficit at the end of the first quarter exceeds 3% of the budget, the government must submit to Congress a revised national budget by no later than June 30th of that year. Congress can transfer or reduce expenditures, change funding sources or remove budgetary expenditures that do not affect budgetary commitments under special laws. In addition, Congress can also authorize the issuance of treasury bonds to cover the projected deficit, which would be recorded as public debt of the next fiscal year.

2016 Annual Budget

Paraguay's 2016 Annual Budget, enacted on January 5, 2016, sets forth the priorities of the current President, Horacio Cartes. The 2016 Annual Budget follows a new budget matrix, which means that budgetary credits will be assigned giving priority to the strategic objectives of the Government's policies. These public policies consist of three main areas of action: (i) the reduction of poverty and social development, (ii) inclusive economic growth, and (iii) the insertion of Paraguay in the global economy.

The figures set forth below represent Paraguay's forecast for the Paraguayan economy in 2016. 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 current main macroeconomic assumptions and those used in September 2015 for preparation of the 2016 Annual Budget.

Main Macroeconomic Assumptions for 2016

	Current assumptions	**2016 Annual Budget assumptions**
Real GDP Growth	3.2%	4.0%
Domestic inflation CPI	4.5%	4.5%
Growth in Public Sector Wages	2.8%	1.2%
Nominal Growth in Imports (US$)	(9.1)%	1.3%
Average Nominal G./US$ Exchange Rate	G.6,100	G.5,344

Source: Ministry of Finance.

***Revenue*s**. The 2016 Annual Budget includes an estimated 5.6% increase in tax revenues (estimated tax revenues in U.S. Dollars for 2016 may actually be lower compared to 2015 due to exchange rate fluctuations), which historically has represented approximately 68.9% of total revenue. Consumption taxes (VAT and excise taxes) are expected to be the largest sources of tax revenues as a result of an increase in tax compliance and domestic consumption.

Revenues generated by bi-nationals (including compensation for sales of energy to Brazil at current rates without taking into consideration increases that are being negotiated) are forecasted at G.2.3 billion (approximately

US$379.3 million) in 2016. The increase in projected revenues is primarily because of an increase in the expected total production of electricity, as a result of a greater water flow in the Paraná River due to El Niño.

Expenditures. The 2016 Annual Budget contemplates a decrease in central government expenditures of 0.3%. The 2016 Annual Budget reveals a policy of prioritizing social services in order to have a real impact on poverty reduction and social development covering key areas such as health, education and other social needs (such as housing, urbanization, social security, public security and infrastructure) to improve the quality of life of the population.

The increase in capital expenditures (net acquisition of non-financial assets) is expected to continue in 2016, in order to execute major public infrastructure projects, which were started in 2014. As a result, in the 2016 Annual Budget there is G.5.4 billion (approximately US$880.5 million) allocated to infrastructure.

The following table sets forth a summary of the 2015 and 2016 budgets.

Summary 2015/2016 Budgets(1)

	2015	2016
	(in millions of U.S. dollars and percentages)	
Revenue	$ 6,252.3	$ 5,376.4
Expense	5,770.1	4,908.9
Net Operating Balance	482.2	467.6
% of GDP	(1.7)%	(1.8)%
Net Acquisition of Non-financial Assets	1,144.2	880.5
Net Lending / Borrowing	(662.0)	(412.9)
% of GDP	(2.4)%	(1.5)%

(1) The figures presented in this table apply to the central government only.
Source: Ministry of Finance.

Financial results depend on assumptions that are not within the control of the government. In addition, the government may adjust expenditures and modify its revenue plan (within the limits set forth in the budget). Furthermore, the government anticipates preliminarily an overall deficit in the range of 2.1% of GDP for the central government in 2016. The estimated deficit for 2016 is mainly due to the programming of infrastructure projects financed with loans from multilateral organizations, which was not included in the 2015 Annual Budget as they were approved after the bill was sent to Congress.

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 seven 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 is responsible for payments to central government employees.

Paraguay's social security system provides coverage to approximately 44.0% 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 generally be made available to dependents.

Under the IPS, the ordinary retirement age is 60, together with a minimum of 25 years of contributions. In such a case, an individual receives 100% of the average salary during the last 36 months.

The Caja Fiscal is run by the Ministry of Finance and administers the pension system for public sector employees. 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 2015, the contributive scheme had a deficit of G.253.7 billion (approximately US$48.7 million, representing 0.18% of GDP), in contrast to a surplus of G.277.7 billion in 2014 (approximately US$62.2 million, representing 0.20% of GDP). The significantly larger surplus for the year 2014 is mainly due to a decision of the Treasury, which during the second half of 2013 retained a significant portion of the social security contributions, which were transferred to the Caja Fiscal in 2014.

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 2015, disbursements totaled G.946.7 billion (approximately US$181.9 million), generating an overall deficit of G.1,200.4 billion (approximately US$230.6 million, representing approximately 0.83% of GDP) for the Caja Fiscal.

Any individual covered by the Caja Fiscal who has worked for at least 10 years and reaches 62 years of age must retire. Individuals of 50 years or older 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 *Crédito Agrícola de Habilitación*), and non-financial public institutions (including SOEs). In general, Paraguay has relied on public external and public sector domestic debt to finance capital expenditures, primarily to expand the country's infrastructure, invest in education, grant low-interest rate loans and provide assistance to the manufacturing and agricultural sectors. As of December 31, 2015, 100% of public sector external debt and approximately 0.066% of public sector domestic debt were denominated in foreign currencies.

All public sector domestic and external debt incurred by the central government is backed by the full faith and credit of Paraguay and medium- and long-term debt must be authorized by both the Ministry of Finance and Congress.

Incurrence of public sector domestic debt is limited each year to the amount authorized by Congress in the annual budget.

The principal guidelines in the government's public debt policies are the ratio of total outstanding public sector debt to GDP, and the ratio of total principal, interest payments and other financial costs (including interest, commissions and others) on public sector external debt to registered exports of goods. As of December 31, 2015, these ratios were 19.7% and 2.8%, respectively.

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

Total Gross Public Sector Debt

	As of December 31									
	2011	% of GDP	2012	% of GDP	2013	% of GDP	2014	% of GDP	2015	% of GDP
	(in millions of U.S. dollars, and percentages)									
Public Sector Debt	*2,746.5*	*10.9*	*3,591.0*	*14.5*	*4,174.2*	*14.4*	*5,400.3*	*17.6*	*5,464.3*	*19.7*
External Public Debt	2,288.5	9.1	2,240.2	9.1	2,674.0	9.2	3,682.0	12.0	3,994.7	14.4
Domestic Public Debt(1)	458.0	1.8	1,350.8	5.5	1,500.1	5.2	1,718.4	5.6	1,469.6	5.3

Source: Ministry of Finance and Central Bank.

(1) The increase in domestic debt in 2012 is mainly the result of the capitalization of the Central Bank in the amount of US$915.5 million, through the issuance of a perpetual bond. This amount represented 2.4% of GDP and 12.4% of total public debt as of December 31, 2015 (US$676.3 million). *Source:* Ministry of Finance and Central Bank.

Public Sector External Debt

Paraguay's current strategy focuses on minimizing the cost of its public sector external debt. As of December 31, 2015, public sector external debt represented 73.1% of outstanding public sector debt, most of which was incurred to finance infrastructure projects in the form of bilateral and multilateral loans.

The following table sets forth gross public sector external debt by creditor for the periods indicated below.

Gross Public Sector External Debt by Creditor

	As of December 31,									
	2011		2012		2013		2014		2015	
	US$	%	US$	%	US$	%	US$	%	US$	%
	(in millions of U.S. dollars, and percentages)									
Official creditors	1,989.1	86.9	1,987.9	88.7	1,968.2	73.6	2,022.5	54.9	2,075,8	52.0
Multilateral organizations	**1,498.1**	**65.5**	**1,583.1**	**70.7**	**1,654.9**	**61.9**	**1,769.7**	**48.1**	**1,847.5**	**46.2**
I D B	1,103.1	48.2	1,099.8	49.1	1,156.0	43.2	1,139.6	31.0	1,086.8	27.2
I B R D	244.6	10.7	331.1	14.8	332.3	12.4	371.4	10.1	423.8	10.6
C A F	95.2	4.2	88.3	3.9	81.3	3.0	149.9	4.1	203.2	5.1
F O N P L A T A	21.5	0.9	27.0	1.2	47.1	1.8	61.9	1.7	83.0	2.1
I F A D	11.6	0.5	14.2	0.6	15.1	0.6	16.0	0.4	17.6	0.4
A I D	11.7	0.5	10.4	0.5	9.2	0.3	8.1	0.2	7.0	0.2
O P E C	10.4	0.5	12.4	0.6	13.9	0.5	22.8	0.6	26.0	0.7
Bilateral organizations	**491.0**	**21.5**	**404.9**	**18.1**	**313.3**	**11.7**	**252.8**	**6.9**	**228.3**	**5.7**
J I C A	438.6	19.2	358.5	16.0	268.4	10.0	214.5	5.8	195.1	4.9
K F W	20.8	0.9	23.9	1.1	24.2	0.9	19.8	0.5	16.4	0.4
U S A I D	0.2	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FINAME	7.2	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
I C O	20.2	0.9	19.0	0.8	17.8	0.7	16.6	0.5	15.4	0.4
NATIXIS	3.9	0.2	3.4	0.2	2.8	0.1	2.0	0.1	1.4	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0,0	0.0
Private creditors	***299.3***	***13.1***	***252.2***	***11.3***	***705.8***	***26.4***	***1,659.5***	***45.1***	***1,918.9***	***48.0***
Banks	**67.1**	**2.9**	**58.7**	**2.6**	**51.0**	**1.9**	**43.3**	**1.2**	**35.7**	**0.9**
B B V A Spain	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EXIMBANK CHINA	66.3	2.9	58.7	2.6	51.0	1.9	43.3	1.2	35.7	0.9
Bonds	**232.3**	**10.1**	**193.5**	**8.6**	**654.8**	**24.5**	**1,616.1**	**43.9**	**1,883.2**	**47.1**
Bonds due 2023/44	0.0	0.0	0.0	0.0	500.0	18.7	1,500.0	40.7	1,780.0	44.6
Chinese Bonds (CHINA TRUST COMM. B.)	232.3	10.1	193.5	8.6	154.8	5.8	116.1	3.2	103.2	2.6
Total external debt	**2,288.5**	**100.0**	**2,240.2**	**100.0**	**2,674.0**	**100.0**	**3,682.0**	**100.0**	**3,994.7**	**100.0**

Source: Ministry of Finance.

As of December 31, 2015, Paraguay's gross public sector external debt was US$3.99 billion, an increase of approximately 8.5 % from the end of 2014. Central government borrowings represented 89.8% 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									
	2011	% of Total	2012	% of Total	2013	% of Total	2014	% of Total	2015	% of Total
	(in millions of U.S. dollars, and percentages)									
Central Government	2,219.7	97.0	2,146.3	95.8	2,572.6	96.2	3,501.9	95.1	3,764.3	94.2
Financial public sector(1)	27.6	1.2	57.3	2.6	64.0	2.4	107.5	2.9	106.4	2.7
Non-financial public sector	41.2	1.8	36.5	1.6	37.4	1.4	72.6	2.0	123.9	3.1
Total	**2,288.5**	**100**	**2,240.2**	**100**	**2,674.0**	**100**	**3,682.0**	**100**	**3,994.7**	**100**
Total public external debt/GDP	**9.1**		**9.1**		**9.2**		**12.0**		**14.4**	

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

The following table shows the total public sector external debt net of international reserves.

Total Public Sector External Debt, Net of International Reserves

	As of December 31				
	2011	2012	2013	2014	2015
	(in millions of U.S. dollars)				
Total public external debt	2,288.5	2,240.2	2,674.0	3,682.0	3,994.7
Less: Gross international reserves of Central Bank .	4,983.9	4,994.3	5,871.2	6,891.0	6,200.1
Total public external debt, net of international reserves	**(2,695.4)**	**(2,754.1)**	**(3,197.2)**	**(3,209.0)**	**(2,205.4)**

Source: Ministry of Finance and Central Bank.

Paraguay has historically relied on multilateral organizations, bi-lateral loans and commercial banks as sources of public sector external debt. Multilateral and bilateral organizations accounted for 51.9% of total gross public sector external debt outstanding as of December 31, 2015. The IDB and the World Bank are currently Paraguay's largest creditors, accounting for 58.8% and 22.9% as of December 31, 2015, respectively, of gross total public sector external debt owed to multilateral organizations and 27.2% and 10.6%, respectively, of total public sector external debt. Paraguay's borrowings from multilateral organizations are used primarily for infrastructure and social development programs.

On January 25, 2013, Paraguay issued the 2013 Bonds under the indenture dated January 25, 2013 for an aggregate principal amount of US$500 million, which mature on January 25, 2023. The 2013 Bonds bear interest at a rate of 4.625%, payable semi-annually in arrears on January 25 and July 25 of each year. On August 11, 2014, Paraguay issued bonds under the indenture dated January 25, 2013 for an aggregate principal amount of US$1000 million (the "2014 Bonds"), which mature on January 11, 2044. The 2014 Bonds bear interest at a rate of 6.1%, payable semi-annually in arrears on February 11 and August 11 of each year. Additionally, on April 24, 2015, Paraguay reopened the 2013 Bonds and issued an additional US$280 million aggregate principal amount of its 4.625% bonds due 2023.

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

Public Sector Gross External Debt Service

	As of December 31									
	2011	% of Total	2012	% of Total	2013	% of Total	2014	% of Total	2015	% of Total
	(in millions of U.S. dollars, and percentages)									
Interest payments(1)	61.6	21.3	55.0	18.8	63.6	23.6	78.4	29.1	140.6	45.2
Principal amortization	227.9	78.7	237.0	81.2	206.2	76.4	191.3	70.9	170.3	54.8
Total	**289.5**	**100.0**	**292.0**	**100.0**	**269.8**	**100.0**	**269.7**	**100.0**	**310.9**	**100.0**
Debt service as a percentage of registered exports	2.3		2.5		2.0		2.1		2.8	

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

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

	As of December 31						
	Amount outstanding on 2015	Amortization Schedule for					
		2016	2017	2018	2019	2020	2021 and thereafter
	(in millions of U.S. dollars)						
Multilateral organizations	1,847.5	123.5	113.2	106.4	101.9	95.6	1306.9
Foreign governments	263.9	40.8	40.8	35.1	35.0	31.9	80.3
Bonds	1,883.2	25.8	25.8	25.8	25.8	0.0	1,780.0
Total	**3,994.7**	**190.1**	**179.8**	**167.3**	**162.7**	**127.5**	**3,167.2**

(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									
	2011	% of Total	2012	% of Total	2013	% of Total	2014	% of Total	2015	% of Total
	(in millions of U.S. dollars and percentages)									
Fixed Rate	1,303.8	57.0	1,173.3	52.4	1,522.5	56.9	2,406.0	65.3	2,598.8	65.1
0-3%	736.0	32.2	656.2	29.3	560.8	21.0	484.8	13.2	445.0	11.1
More than 3%-6%	564.6	24.7	515.8	23.0	961.6	36.0	921.2	25.0	1,153.8	28.9
More than 6%-9%	3.3	0.1	1.3	0.1	0.0	0.0	1,000.0	27.2	1,000.0	25.0
Floating Rate(1)	984.7	43.0	1,066.9	47.6	1,151.6	43.1	1,276.0	34.7	1,395.9	34.9
Total	**2,288.5**	**100**	**2,240.2**	**100**	**2,674.0**	**100**	**3,682.0**	**100**	**3,994.7**	**100**

(1) Primarily LIBOR-based.
Source: Ministry of Finance.

The following table sets forth a summary of Paraguay's gross public sector external debt outstanding by maturity.

Summary of Gross Public Sector External Debt Outstanding by Maturity

	As of December 31									
	2011	% of Total	2012	% of Total	2013	% of Total	2014	% of Total	2015	% of Total
	(in millions of U.S. dollars and percentages)									
0-5 years	-	-	-	-	-	-	-	-	-	
More than 5-10 years	36.9	1.6	24.5	1.1	519.9	19.4	515.0	14.0	790.2	19.8
More than 10-15 years	326.0	14.2	287.2	12.8	248.4	9.3	288.1	7.8	313.0	7.8
More than 15 years	1.925.6	84.1	1,928.4	86.1	1,905.8	71.3	2,878.8	78.2	2,891.5	72.4
Total	**2,288.5**	**100**	**2,240.2**	**100**	**2,674.0**	**100**	**3,682.0**	**100**	**3,994.7**	**100**

Source: Ministry of Finance.

The following table sets forth gross public sector external debt denominated in foreign currency, by currency as of the dates indicated.

Summary of Gross Public Sector External Debt Outstanding by Currency

	As of December 31, 2014	% of Total	As of December 31, 2015	% of Total
	(in millions of U.S. dollars and percentages)			
United State Dollar	3,369.7	91.5	3,714.8	93.0
Japanese Yen	224.0	6.1	203.8	5.1
Euro	47.5	1.3	38.9	1.0
Canadian Dollar	19.8	0.5	15.5	0.4
Special Drawing Rights(1)	16.0	0.4	17.6	0.4
Swiss Franc	2.4	0.1	2.1	0.1
British Pound	1.1	0.0	0.9	0.0
Swedish Krona	0.9	0.0	0.7	0.0
Norwegian Krone	0.4	0.0	0.3	0.0
Paraguay Guaraní	0.1	0.0	0.1	0.0
South African Rand	0.0	0.0	0.0	0.0
Total	**3,682.0**	**100**	**3,994.7**	**100**

(1) Units of account used by IMF and reflects disbursements from the International Fund for Agricultural Development, an agency of the United Nations.

Source: Ministry of Finance.

Public Sector External Debt Owed to Multilateral Organizations and Credit Agencies

IDB. The IDB is Paraguay's principal multilateral financial institution creditor. As of December 31, 2015, the balance of this multilateral debt was US$1,086.8 million, representing 27.2% of Paraguay's total public sector external debt.

The country strategy from 2014 to 2018 aims to foster the diversification of the economy toward a more sustainable and inclusive economic growth with emphasis on job creation and the reduction of poverty and inequality. IDB loans are intended to assist with the implementation of Paraguay's country strategy by financing projects with a particular focus on (i) transport and connectivity, (ii) water and sanitation, (iii) energy, (iv) productive development, (v) financial sector and (vi) public management.

World Bank. The World Bank is the second major multilateral financial institution active in Paraguay, and provides lending operations, funding studies and technical and financial assistance. As of December 31, 2015, the projects in Paraguay financed by the World Bank totaled US$423.8 million, representing 10.6% of Paraguay's total public sector external debt.

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

- Strengthening of the Paraguayan economy to increase its capacity to resist risks and volatility by strengthening households and producers' economic capacity, enhancing management of public finances and promoting investment by the private sector;

- Promoting public goods and public services that benefit the poor by supporting initiatives that increase tax collection, enhance accountability and transparency on expenditures of the public sector, and improve access of the poor to public services of good quality.

- Development of inclusive markets by enhancing agricultural productivity and improving access to markets for small producers by increasing private investment in infrastructure projects that reduce logistics costs.

JICA. Paraguay's principal bilateral creditor is the Japan International Cooperation Agency ("JICA"). JICA finances projects focused on health, assistance to small farmers and improving water supply systems in rural areas. As of December 31, 2015, loans outstanding owed to JICA totaled US$195.1 million, representing 4.9% of Paraguay's total public sector external debt.

The following table sets forth the loans of official institutions approved by law in the year 2015.

Creditor	Project/Program	Date	Amount (Millions of US$)	Original Currency	Law No.	Objective
BID	Improvement San Juan Nepomuceno Section – Splice of National Route No. 6	24-Nov-15	105	US$	5518/2015	Improve the competitiveness of the productive sector and economic and social integration by paving the stretch between San Juan Nepomuceno and the junction with National Route 6, which is part of the corridor that links the important productive departments of Caazapá, Itapúa and Alto Paraná, with major river ports. The San Juan Nepomuceno-National Route 6 stretch comprises approximately 84.66 km of main road and approximately 4.83km of access roads.
BID	Improving Local Roads – Eastern Region	25-Nov-15	100	US$	5519/2015	Improve the connectivity and access of rural departments in the eastern region of Paraguay, providing the rural population with better access to centers of consumption and hence to goods, social services and transportation. The project entails the improvement of approximately 390 km of local roads in the departments of Canindeyú, Caaguazú and San Pedro and also routine road maintenance for an average period of three years. In total, approximately 530 km of selected local roads will be repaired and approximately 1,900 meters of small wooden bridges and damaged bridges will be replaced by reinforced concrete.
BIRF	Loan Policy Development – Improve Fiscal Management, Social Protection and Financial Inclusion	25-Dec-15	100	US$	5557/2015	Support for the provision of liquidity in the national government, so that it can promptly react to adverse economic conditions, and cover the financing needs of the 2016 Annual Budget. The public investment focus of the project is intended to support strategic projects aimed at combating poverty. The policies set forth in the program are also geared toward enabling the government of Paraguay to uphold sustainability, equity and transparency in tax administration and to increase access to financial services to underserved segments of the population.
Total			**305**			

Source: Ministry of Finance.

Public Sector Domestic Debt

Medium- and long-term public sector domestic debt of Paraguay can be issued by the central government and financial public sector institutions with the authorization of the Ministry of Finance and congressional approval. Paraguayan public sector domestic debt may be in bills having a maturity of less than one year or bonds. Under the Constitution, the Central Bank may not extend any loans to the government, except for short-term cash advances and loans for national emergencies.

The Central Bank issues IRMs, with terms ranging from 14 to 392 days to refinance liabilities incurred in the 1990s in connection with the liquidation of financial institutions. The government issues medium- and long-term treasury bonds guaranteed by the state, which can be placed through the Central Bank, the BVPASA or directly. In addition, AFD issues medium- and long-term bonds through BVPASA without a guarantee by the state.

The maturity of domestic instruments issued by the government currently range from one to eight years. As of December 31, 2015, gross public sector domestic debt outstanding was approximately US$1,469.6 million, of which US$1,224.5 million was issued by the central government and US$245.1 million was issued by AFD (16.7% of total public sector domestic debt).

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

Gross Public Sector Domestic Debt

	2011	2012	2013	2014	2015
	(in millions of U.S. dollars)				
Central Government					
Guaraní-denominated[(1)]	363.6	1,279.9	1,392.7	1,516.3	1,223.8
Foreign currency-denominated[(2)]	29.0	1.0	0.7	0.9	0.6
Subtotal	392.6	1,280.9	1,393.4	1,517.2	1,224.5
AFD					
Guaraní-denominated[(1)]	65.2	69.9	106.7	201.2	244.8
Foreign currency-denominated[(2)]	0.1	-	-	-	0.3
Subtotal	65.3	69.9	106.7	201.2	245.1
Total	**458.0**	**1,350.8**	**1,500.1**	**1,718.4**	**1,469.6**

(1) Translated at average Paraguay Guaraní-U.S. Dollar exchange rate at the close of business for the last business day of December of each year as reported by the Central Bank of Paraguay.
(2) Denominated in United States Dollars in its entirety.
Source: Ministry of Finance.

The following table sets forth the amortization schedule of Paraguay's outstanding public sector domestic debt as of the end of 2015.

Domestic Debt Amortization Schedule

	Total Outstanding Domestic Debt as of December 31, 2015	2016	2017	2018	2019	2020	2021 to Final Maturity[(3)]
Central Government	(in millions of U.S. dollars)						
Guaraní-denominated[(1)]	1223.8	179.3	146.1	75.2	62.6	59.9	700.8
Foreign currency-denominated[(2)]	0.6	0.0	0.0	0.3	0.0	0.0	0.2
Subtotal	1224.5	179.3	146.1	75.5	62.6	59.9	701.0
AFD							
Guaraní-denominated[(1)]	244.8	34.6	55.2	0.0	57.7	2.6	94.7
Foreign currency-denominated[(2)]	0.3	0.0	0.0	0.0	0.0	0.3	0.0
Subtotal	245.1	34.6	55.2	0.0	57.7	2.9	94.7
Total	**1,469.6**	**213.9**	**201.4**	**75.5**	**120.3**	**62.8**	**795.7**

(1) Converted at average Paraguay Guaraní-United States Dollar exchange rate at the close of business for the last business day of December of each year as reported by the Central Bank of Paraguay.
(2) Denominated in United States Dollars in its entirety.
(3) This amount includes (i) the perpetual bond in favor of the Central Bank for an amount equivalent to US$676.34 million as of December 31, 2015, and (ii) several treasury bonds issued for the capitalization of the deposit guarantee fund of the Central Bank.
Source: Ministry of Finance.

Treasury Bonds

Since 2006, Paraguay has issued treasury bonds in the domestic market through the Central Bank, as financial agent of the government, and starting in July 2012, on the Asunción Stock Exchange ("BVPASA").

Until 2008, bonds were issued in both Guaraníes and U.S. dollars. Starting in 2009, bonds were issued only in local currency. The bonds' maturities range from one to eight years, with the largest placement of bonds having a maturity of three years (representing 26.1% of the total amount placed in the period 2012-2015). Long-term bonds, which are bonds that have maturities of five or more years, have been issued since 2010 and only in Guaraníes.

In 2015, Paraguay issued bonds through the Central Bank, as financial agent of the government, on the BVPASA having an aggregate principal amount of G.635.474 billion (approximately US$109.4 million). As of March 21 2016, Paraguay issued an aggregate principal amount of G.305.000 billion (approximately US$51.5 million) of such bonds.

The following table sets forth Paraguay's treasury bond issuances since 2012.

Paraguay's Treasury Bonds
(issued in Guaraníes, but presented in millions of US$, except percentages)

Maturity (years)	2012	average interest rate	2013	average interest rate	2014	average interest rate	2015	average interest rate
1-2.7	20.9	7.1	120.8	7.0	79.9	7.8	0.0	-
3-3.7	56.9	8.0	68.1	7.7	81.0	8.6	17.4	7.9
4-4.7	70.7	9.0	21.6	8.3	28.9	9.4	31.7	8.1
5	76.6	9.8	37.2	8.8	34.6	9.0	57.3	8.3
6	5.8	10.8	0.0	-	0.0	-	0.0	-
7	1.1	11.3	0.0	-	8.3	9.0	3.1	8.7
8	0.3	11.8	0.0	-	0.0	-	0	-
Total	**232.2**		**247.7**		**232.8**		**109.4**	

Source: Ministry of Finance.

Debt Record

History of Debt Restructuring

1871-1872 Bonds. In 1871 and 1872, the government placed bonds in Great Britain (the "1871-1872 Bonds"). The proceeds were used to rebuild the country, finance expenses and pay external debts incurred as a result of the Triple Alliance war (1864-1870) with Uruguay, Argentina and Brazil. The 1871-1872 Bonds were denominated in British pounds. In March 1876, the terms of the 1871-1872 Bonds were renegotiated. According to historical records, payments of principal and interest on the 1871-1872 Bonds were paid in full in 1932. A claim against Paraguay with respect to the 1871-72 Bonds was threatened in 1999 but has not been commenced. The statute of limitations under the Paraguayan civil code has run.

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 2015, the amortized debt amounted to US$296.8 million (equivalent to 74.2% of the principal amount) and the outstanding principal amount was US$103.2 million.

2013 Bonds. On January 25, 2013, Paraguay issued the 2013 Bonds, under the indenture dated January 25, 2013, for an aggregate principal amount of US$500 million, which mature on January 25, 2023. The 2013 Bonds bear interest at a rate of 4.625%, payable semi-annually in arrears on January 25 and July 25 of each year.

2014 Bonds. On August 11, 2014, Paraguay issued the 2014 Bonds, under the indenture dated January 25, 2013, for an aggregate principal amount of US$1.0 billion, which mature on January 11, 2044. The 2014 Bonds bear interest at a rate of 6.1%, payable semi-annually in arrears on February 11 and August 25 of each year.

2015 Bonds. On April 24, 2015, Paraguay reopened the 2013 Bonds and made a further issuance, under the indenture dated January 25, 2013, of an aggregate principal amount of US$280 million. This issuance was consolidated with the 2013 Bonds to form a single series of 4.625% bonds due 2023. Due to the consolidation, the 2015 Bonds have identical terms and conditions as those applicable to the 2013 Bonds, except for the difference in issue date, issue price and the date of the first payment of interest.

Recapitalization of the Central Bank

Since 2010, the Treasury is authorized to issue bonds to capitalize the Central Bank and cancel certain debts incurred as a result of the measures taken by the Central Bank and the government to tackle the crisis that affected the Paraguayan financial system in the 1990s, during which the Central Bank provided liquidity and guaranteed most withdrawals of deposits and certain financing arrangements provided to state-owned enterprises under the government of President Stroessner.

The Central Bank was recapitalized most recently in 2012. The Central Bank's negative equity position was the legacy of non-performing claims related to loans to the public and to the financial sector largely incurred prior to 1995, when its charter was amended to prohibit such practices. In 2012, the Ministry of Finance issued a perpetual bond of approximately US$0.9 billion to recapitalize the Central Bank and better position its focus on monetary policy issues rather than on the implication of its actions on the balance sheet.

Paraguay has taken measures to realign the Central Bank's capital requirements and established the financial terms of bonds to be issued as a replacement for the cancelled debt. The debt was cancelled and new debt was issued in December 2012. 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$73 million. The economic agreement signed with the IMF included a series of targets that the country agreed to meet during 2004. The US$70 million facility granted by the IMF to strengthen monetary reserves in case of an emergency was not used. In addition, Paraguay received an economic recovery credit-line facility from the World Bank for US$30 million, which allowed Paraguay to resume servicing its debt by the end of the first half of 2004. Moreover, a US$30 million credit-line facility was granted to Paraguay by the IDB, of which US$20 million was drawn and US$10 million was not used.

Settlement of 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 descriptive accuracy thereof for proper classification.

In May 1996, the Minister of Finance entered into two three-year contracts with each BIVAC and SGS to provide services for the pre-shipment inspection of imports. 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, both of which terminated by their terms in July 1999.

The BIVAC Claim. In April 2007, ICSID registered an arbitration request filed by BIVAC alleging US$36 million in damages for unpaid invoices. After several years of proceedings, in July 2013, the Ministry of Finance entered into a settlement agreement with BIVAC pursuant to which Paraguay and BIVAC agreed that Paraguay would pay BIVAC approximately US$21.5 million by October 31, 2013 in full satisfaction of the outstanding claim. However, in order to become effective, the settlement agreement had to be approved by Congress. Because Congress did not approve the settlement agreement by October 31, 2013, the settlement agreement expired temporarily, but it was subsequently extended until August 15, 2014. On July 18, 2014, pursuant to Law No. 5248/14, Congress approved the settlement agreement with BIVAC, and Paraguay, in order to fulfill its obligations under the agreement, transferred to BIVAC on July 24, 2014 the amount contemplated in the agreement to settle the outstanding claim.

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. SGS obtained a final and non-appealable award against Paraguay on May 19, 2014.

Prior to the rendering of the final and non-appealable award, in July 2013, the Ministry of Finance had entered into a settlement agreement with SGS pursuant to which Paraguay and SGS agreed to a payment of approximately US$41 million by December 15, 2013 in full satisfaction of the outstanding award. However, in order to become effective, the settlement agreement had to be approved by Congress. Because Congress did not approve the settlement agreement by December 15, 2013, the settlement agreement expired temporarily, but it was subsequently extended until July 31, 2014. On July 18, 2014, pursuant to Law No. 5248/14, Congress approved the settlement agreement with SGS, and Paraguay, in order to fulfill its obligations under the agreement, transferred to SGS on July 24, 2014 the amount contemplated in the agreement to settle the outstanding award.

As of the date of this Offering Memorandum, both cases are settled and the amounts due to BIVAC and SGS have been fully paid.

Contingencies

Gramont Berres Litigation

In 1979, Gustavo Gramont Berres was appointed Honorary Consul of Geneva. Furthermore, in 1983 Mr. Gramont Berres was appointed "Ambassador on Special Mission" in Geneva. Mr. Gramont Berres negotiated loans for two industrial projects by private companies owned by him: ROSI S.A. ("Rosi") and Lapachos de San Isidro S.A. ("Lapachos"). Mr. Gramont Berres executed a private loan agreement between Rosi and the Overland Trust Bank for the construction of a processing and canning plant for citrus fruits, and another private loan agreement between Lapachos and the Overland Trust Bank for the construction of and equipment for a pharmaceutical plant. The loans were granted to Mr. Gramont Berres, who invoked the representation of the Paraguayan State as an "Ambassador in Special Mission." Rosi and Lapachos never commenced operations.

After failed negotiations with 10 banks holding the loans, Banque Bruxelles Lambert (Suisse) SA, D.G. Bank (Schweiz) AG, Banque Paribas, Union de BanquesArabes et Françaises, Cassa de Risparmio de Torino, Banca di Roma International, Mecfint (Jersey) Ltd., Sanpaolo-Lariano Bank SA, BancaPopolare di Milano and the Republican National Bank of New York (collectively, the "Swiss Bank Creditors") filed suit against Paraguay in Swiss federal court. The Swiss Bank Creditors demanded that Paraguay, as alleged guarantor, repay the loans made to Rosi and Lapachos in the amount of in the amount of approximately US$85 million.

In its answer to the complaint, Paraguay maintained that the government is not a guarantor and is not liable for these loans because: (i) the loan agreements signed by Mr. Gramont Berres and allegedly guaranteed by Paraguay never received congressional approval prior to their execution, as would be required under the Constitution for a valid sovereign guarantee, (ii) Mr. Gramont Berres executed the loan agreements on behalf of Paraguay with a seal of the "Embassy of Paraguay in Switzerland" when no such Embassy existed, (iii) Mr. Gramont Berres did not have the power to execute the loan agreements because he was appointed "Ambassador on a Special Mission" of Paraguay (appointment that did not entail the creation of a Paraguayan embassy) in Switzerland by President Stroessner without proper congressional approval and (iv) the Swiss Bank Creditors failed to exercise good faith in their due diligence investigation as to whether actual governmental authorization was in place for the purported guarantee.

In May 2005, the Swiss Federal Court issued the 2005 Judgment. Paraguay is exploring the possibility of appealing before the International Court of Justice of the United Nations.

Banque Paribas (now BNP Paribas London Branch) was one of the Swiss Bank Creditors, but it had withdrawn its lawsuit prior to the judgment. After the 2005 Judgment, BNP reinstated its complaint. In September 2010, the complaint was sustained and BNP obtained the 2010 Judgment.

Pursuant to settlement agreements entered into between SACE and each of the ten banks, SACE holds all rights to portions of the Swiss Judgments that granted monetary awards to the ten banks. In July 2015, SACE filed an action in D.C. District Court seeking recognition of the Swiss Judgments against Paraguay and in favor of the banks. On January 21, 2016, Paraguay filed a motion to dismiss for lack of jurisdiction on grounds of sovereign immunity. Consistent with its previous arguments, Paraguay maintains that the government is not liable as an alleged guarantor of the Rosi and Lapachos loan agreements because (i) Mr. Gramont Berres had neither the actual nor apparent authority to waive Paraguay's sovereign immunity and (ii) the alleged guarantees were invalid under the Paraguayan Constitution that was in force at such time because only Congress held the power to authorize the contracting of loans on behalf of the government, which authorization Mr. Gramont Berres did not receive.

On March 21, 2016, SACE filed a motion in opposition of Paraguay's motion to dismiss, wherein SACE reaffirms its arguments that Paraguay is bound by the Swiss Judgments. As of the date of this Offering Memorandum, the D.C. District Court has yet to rule on either of the motions; therefore, SACE's judgment enforcement action remains pending. See "Risk Factors—Risk Factors Relating to Paraguay—Part of the offering proceeds could be attached by creditors to satisfy outstanding judgments against Paraguay" and "Risk Factors — Risk Factors Relating to Paraguay—Payments to holders of the Bonds could be attached by creditors to satisfy outstanding judgments against Paraguay. As a result, Paraguay may not be able to make payments to holders of the Bonds."

Petropar's Debt to Venezuela's PDVSA

In 2004, the presidents of Paraguay and Venezuela signed the Energy Cooperation Agreement of Caracas. 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, to be dated on or about March 31, 2016 between Paraguay and The Bank of New York Mellon, as trustee. This section of this Offering Memorandum is intended to be an overview of the material provisions of the Bonds and the indenture. Because this section is only a summary, you should refer to the indenture for a complete description of Paraguay's obligations and your rights as a holder or beneficial owner of the Bonds. Paraguay has filed copies of the indenture at the offices of the trustee and the Luxembourg paying 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$600,000,000;
- not be subject to optional redemption prior to their scheduled maturity;
- have a final maturity date of April 15, 2026;
- 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;
- 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;" and
- contain "collective action clauses" under which Paraguay may amend certain key terms of the Bonds, including the maturity date, interest rate and other terms, with the consent of less than all of the holders of the Bonds.

Interest

Interest on the Bonds will:

- accrue at the rate of 5.000% per annum;
- accrue from the date of issuance or the most recent interest payment date;
- be payable semi-annually (other than the first interest period) in arrears on April 15 and October 15 of each year, commencing on October 15, 2016 to the holders of record on the April 1 and October 1 immediately preceding the related interest payment date (whether or not a business day); and
- be computed on the basis of a 360-day year comprised of twelve 30-day months.

Payment

Principal of, and premium, if any, and interest on, the Bonds will be payable at the offices or agencies maintained by Paraguay for such purpose (which initially will be the offices of the paying agents specified on the inside back cover page of this Offering Memorandum). Payment of principal of, and premium, if any, and interest on Bonds in global form registered in the name of or held by The Depository Trust Company (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 in trust for, and for distribution to, the beneficial owners. If any of the Bonds are no longer represented by global bonds, payment of principal of and interest on Certificated Securities may, at Paraguay's option, be made by check mailed directly to holders at their registered addresses (except for (i) registered holders of at least US$1,000,000 aggregate principal amount of Bonds, to whom payments will be made by wire transfer if such holder elects so; *provided* that not less than 15 days prior to the payment date, such holders have given the trustee notice of their election to receive payment by wire transfer and provided the trustee with bank account information and wire transfer instructions or (ii) if Paraguay is making such payments at maturity and such person surrenders the Certificated Securities at the corporate trust office 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 as of the applicable record date.

Paraguay will maintain a 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 The Bank of New York Mellon (Luxembourg) S.A. to serve as Luxembourg paying agent, Luxembourg transfer agent and Luxembourg listing agent. Paraguay will give prompt notice to all holders of the Bonds and the trustee of any future appointment or any resignation or removal of any paying agent, transfer agent or registrar or of any change by any paying agent, transfer agent or registrar in any of its specified offices.

If any date for an interest or principal payment is not a business day, Paraguay will make the payment on the next business day. Such payments will be deemed to have been made on the due date, and no interest on the Bonds will accrue as a result of the delay in payment. For the purpose of this section, a "business day" means any day that is not a Saturday or Sunday, or any other day on which commercial banks in New York City (or in the city where the relevant paying or transfer agent is located) are required or authorized by law to close.

To the extent permitted by law, claims against Paraguay for the payment of principal of, or interest or other amounts due on, the Bonds (including Additional Amounts (as defined below)) will become void unless made within six years of the date on which that payment first became due.

The registered holder of a Bond will be treated as its owner for all purposes.

Certificated Securities

Paraguay may issue Certificated Securities in certain limited circumstances. See "Book-Entry, Delivery and Form—Certificated Securities."

Transfer, Exchange and Replacement of Bonds

The Bonds may be transferred or exchanged in whole or in part at the offices or agencies maintained by Paraguay for such purpose (which initially will be the offices of the transfer agents specified on the inside back cover page of this Offering Memorandum) together with an executed instrument of transfer or exchange.

No service charge will be made for any registration of transfer or exchange of Bonds, but Paraguay, the trustee or any transfer agent may require payment of an amount sufficient to cover any transfer tax or other similar governmental charge payable in connection therewith.

If a Bond becomes mutilated, defaced, apparently destroyed, lost or stolen, Paraguay may issue, and the trustee will authenticate and deliver, a substitute Bond. In each case, the applicant for a substitute Bond will be required to furnish to Paraguay, the trustee, the paying agent, the transfer agent and the registrar an indemnity under which it will agree to pay Paraguay, the trustee, the paying agent, the transfer agent and the registrar for any losses they may suffer relating to the Bond that was mutilated, defaced, destroyed, lost or stolen. Paraguay and the trustee may also require that the applicant present other documents or proof. The applicant will be required to pay all expenses and reasonable charges associated with the replacement of the mutilated, defaced, destroyed, lost or stolen Bond.

Further Issuances

Paraguay may from time to time, without the consent of holders of the Bonds, create and issue additional debt securities of the same series as the Bonds having the same terms and conditions as the Bonds in all respects, except for issue date, issue price and the first payment on the Bonds; provided, however, that any such additional debt securities subsequently issued shall be issued, for U.S. federal income tax purposes, either (a) as part of the "same issue" as the Bonds or (b) in a "qualified reopening" of the Bonds, unless such additional debt securities have a separate CUSIP, ISIN or other identifying number from the previously outstanding Bonds. Such additional debt securities will be consolidated with and will form a single series with the previously outstanding Bonds.

Ranking

The Bonds will constitute direct, general, unconditional and unsubordinated External Debt of Paraguay for which the full faith and credit of Paraguay is pledged. The Bonds rank and will rank without any preference among themselves and equally with all other unsubordinated External Debt of Paraguay. It is understood that this provision will not be construed so as to require Paraguay to make payments under the Bonds ratably with payments being made under any other External Debt of Paraguay.

Additional Amounts

Payments of principal of and interest on the Bonds are not currently subject to withholding or deduction for any taxes, duties, assessments or governmental charges of whatever nature in Paraguay. All payments by Paraguay in respect of the Bonds shall be made without withholding or deduction for or on account of any present or future taxes, duties, assessments or other governmental charges of whatever nature, unless the withholding or deduction is required by law. If any such withholding or deduction is imposed or levied by or on behalf of Paraguay, or any political subdivision or taxing authority or agency therein or thereof having the power to tax (collectively, "relevant tax"), Paraguay shall pay such additional amounts ("Additional Amounts") as may be necessary to ensure that the amounts received by holders or beneficial owners after such withholding or deduction shall equal the respective amounts of principal and interest that would have been receivable in respect of the Bonds in the absence of such withholding or deduction; *provided*, *however*, that no such Additional Amounts shall be payable in respect of any relevant tax:

- in respect of any Bond held by or on behalf of a holder or a beneficial owner of a Bond that is liable for such taxes, duties, assessments or governmental charges by reason of such holder or beneficial owner having some present or former connection with Paraguay other than any connection arising merely from the holding of such Bond or from receipt, of principal or interest in respect thereof;

- in respect of any Bond held by or on behalf of a holder or a beneficial owner of such Bond that is liable for such taxes, duties, assessments or governmental charges by reason of the failure of such holder or beneficial owner to comply with any certification, identification or other reporting requirement concerning the nationality, residence, identity or connection with Paraguay, or any political subdivision or taxing authority thereof or therein, of such holder or beneficial owner or of the holder or beneficial owner of any interest in such Bond or any rights in respect thereof, provided that, (A) compliance is required by Paraguay, or any political subdivision or taxing authority thereof or therein, as a precondition to exemption from all or any portion of such withholding or deduction, (B) at least 30 days prior to the first scheduled payment date for which compliance will be required, Paraguay has notified the holders in writing that holders of Bonds must comply with such certification, identification or other reporting requirement in order to receive Additional Amounts; or (C) such requirements are not materially more onerous to such holders or beneficial owners (in form, in procedure or in the substance of information disclosed) than comparable information or other reporting requirements imposed under U.S. federal tax law, regulation and administrative practice (such as U.S. Internal Revenue Service Forms W-8 and W-9); or

- in respect of any Bond presented for payment (where such presentation is required) more than 30 days after the relevant date except to the extent that the holder thereof would have been entitled to Additional Amounts on presenting the same for payment on any date during such 30-day period.

As used herein, "relevant date" in respect of any Bond means the date on which payment in respect thereof first becomes due or, if the full amount of the money payable has not been received by the trustee on or prior to such due date, the date on which notice is duly given to the holders that such monies have been so received and are available for payment. All references in this Offering Memorandum to principal of or interest on the Bonds will include any Additional Amounts payable by Paraguay in respect of such principal or interest.

Paraguay will pay any present or future stamp, court or documentary taxes or any excise or property taxes, charges or similar levies which arise in Paraguay or any political subdivision thereof or taxing authority thereof or therein in respect of the creation, issue, execution, delivery or registration of the Bonds or any other document or instrument referred to therein. Paraguay will also indemnify the holders or beneficial owners from and against any stamp, court or documentary taxes or any excise or property taxes, charges or similar levies resulting from, or required to be paid by any of them in any jurisdiction in connection with, the enforcement of the obligations of Paraguay under the Bonds or any other document or instrument referred to therein following the occurrence of any event of default.

Redemption and Repurchase

The Bonds will not be redeemable prior to maturity at the option of Paraguay or repayable prior to maturity at the option of the holders. 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:

(i) *Non-Payment*:

- failure to pay principal of the Bonds when due; or

- failure to pay interest on the Bonds within 30 days following the due date; or

(ii) *Breach of Other Obligations*: failure to observe or perform any of the covenants or agreements provided in the Bonds or the indenture (other than those referred to in paragraph (i) above) for a period of 30 days following written notice to Paraguay by the trustee or holders representing at least 25% in principal amount of the then outstanding Bonds to remedy such failure; or

(iii) *Cross Default*:

- failure by Paraguay, beyond any applicable grace period, to make any payment when due on Public External Debt in an aggregate principal amount greater than or equal to US$25,000,000 (or its equivalent in other currencies); or

- acceleration of any Public External Debt in an aggregate principal amount greater than or equal to US$25,000,000 (or its equivalent in other currencies) due to an event of default, unless such acceleration is rescinded or annulled; or

(iv) *Moratorium*: declaration by Paraguay of a general suspension of, or a moratorium on, payments of Public External Debt; or

(v) *Validity*:

- Paraguay contests any of its obligations under the Bonds or the indenture in a formal administrative, legislative or judicial proceeding; or

- Paraguay denies any of its obligations under the Bonds or the indenture; or

- any constitutional provision, treaty, law, regulation, decree, or other official pronouncement of Paraguay, or any final decision by any court in Paraguay having jurisdiction, renders it unlawful for Paraguay to pay any amount due on the Bonds or to perform any of its obligations under the Bonds or the indenture; or

(vi) *Judgments*: any writ, execution, attachment or similar process is levied against all or any substantial part of the assets of Paraguay in connection with any judgment for the payment of money exceeding US$25,000,000 (or its equivalent in other currencies) and failure by Paraguay either to satisfy or discharge such judgment, or adequately bond, contest in good faith or receive a stay of execution or continuance in respect of such judgment, within a period of 120 days, *provided*, however, that this clause shall not include any action taken to enforce the Gramont Berres Judgment; or

(vii) *Membership in International Monetary Fund*: failure by Paraguay to maintain its membership in, and its eligibility to use the general resources of, the IMF.

If any of the events of default described above occurs and is continuing, the holders of not less than 25% of the aggregate principal amount of the then-outstanding Bonds may, by written notice to Paraguay with a copy to the trustee, declare all the Bonds then outstanding to be immediately due and payable. Accordingly, holders of less than 25% of the aggregate principal amount of the outstanding Bonds may not, on their own, declare the Bonds due and payable immediately. The holders of the Bonds may exercise these acceleration rights only by providing such written notice to Paraguay, with a copy to the trustee, at a time when the event of default is continuing.

Paraguay will notify the trustee promptly upon becoming aware of the occurrence of any event of default or potential event of default.

Upon any declaration of acceleration, the principal of, and interest and all other amounts payable on, the Bonds will become immediately due and payable on the date on which Paraguay receives written notice of the declaration, unless Paraguay has remedied the event or events of default prior to receiving the notice. The holders representing in the aggregate more than 50% of the principal amount of the outstanding Bonds may, on behalf of all holders, waive any existing defaults or events of default and their consequences or rescind a declaration of acceleration, if:

- following the declaration of the Bonds to be due and payable immediately, Paraguay deposits forthwith with the trustee a sum sufficient to pay all overdue installments of principal, interest and other amounts in respect of the Bonds as well as the reasonable expenses and indemnities, fees and compensation of the trustee; and

- all other events of default have been remedied.

Meetings, Amendments and Waivers—*Collective Action*

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

In addition, Paraguay or the trustee will call a meeting of the holders of the Bonds if holders of not less than 10% of the aggregate principal amount of the outstanding Bonds have delivered a written request to Paraguay or the trustee (with a copy to Paraguay) setting forth the purpose of the meeting. Within 10 days of receipt of such written request or copy thereof, Paraguay will notify the trustee and the trustee will notify the holders of the time, place and purpose of the meeting called by the holders, to take place not less than 30 and not more than 60 days after the date on which such notice is given.

Only holders of Bonds and their proxies are entitled to vote at a meeting of holders. Paraguay will set the procedures governing the conduct of the meeting and if additional procedures are required, Paraguay will consult with the trustee to establish such procedures as are customary in the market.

Modifications may also be approved by holders of Bonds pursuant to written action with the consent of the requisite percentage of Bonds. Paraguay will solicit the consent of the relevant holders to the modification not less than 10 and not more than 30 days before the expiration date for the receipt of such consents as specified by Paraguay.

The holders of the Bonds may generally approve any proposal by Paraguay to modify or take action with respect to the indenture or the terms of the Bonds with the affirmative vote (if approved at a meeting of the holders) or consent (if approved by written action) of holders of more than 50% of the outstanding principal amount of the Bonds.

However, holders of any series of debt securities issued under the indenture (including the Bonds) may approve, by vote or consent through one of three modification methods, any modification, amendment, supplement or waiver proposed by Paraguay that would do any of the following (such subjects referred to as "reserve matters"):

- change the date on which any amount is payable on the debt securities;

- reduce the principal amount (other than in accordance with the express terms of the debt securities and the indenture) of the debt securities;

- reduce the interest rate on the debt securities;

- change the method used to calculate any amount payable on the debt securities (other than in accordance with the express terms of the debt securities and the indenture);

- change the currency or place of payment of any amount payable on the debt securities;

- modify Paraguay's obligation to make any payments on the debt securities (including any redemption price therefor);

- change the identity of the obligor under the debt securities;
- change the definition of "outstanding debt securities" or the percentage of affirmative votes or written consents, as the case may be, required to make a "reserve matter modification";
- change the definition of "uniformly applicable" or "reserve matter modification";
- authorize the trustee, on behalf of all holders of the debt securities, to exchange or substitute all the debt securities for, or convert all the debt securities into, other obligations or securities of Paraguay or any other person; or
- change the legal ranking, governing law, submission to jurisdiction or waiver of immunities provisions of the terms of the debt securities.

A change with respect to a reserve matter, including the payment terms of the Bonds, can be made without your consent, as long as the change is approved, pursuant to one of the three following modification methods, by vote or consent by:

- the holders of more than 75% of the aggregate principal amount of the outstanding Bonds insofar as the change affects the Bonds (but does not modify the terms of any other debt securities issued under the indenture);
- where such proposed modification would affect the outstanding debt securities of any two or more series (including the Bonds) issued under the indenture, the holders of more than 75% of the aggregate principal amount of the outstanding debt securities of all the series affected by the proposed modification, taken in the aggregate, if certain "uniformly applicable" requirements are met; or
- where such proposed modification would affect the outstanding debt securities of any two or more series (including the Bonds) issued under the indenture, whether or not the "uniformly applicable" requirements are met, the holders of more than $66^2/_3$% of the aggregate principal amount of the outstanding debt securities of all of the series (including the Bonds) affected by the proposed modification, taken in the aggregate, *and* the holders of more than 50% of the aggregate principal amount of the outstanding debt securities of each series (including the Bonds) affected by the modification, taken individually.

Any modification consented to or approved by the holders of debt securities pursuant to the above provisions will be conclusive and binding on all holders of the relevant series of debt securities or all holders of all series of debt securities affected by a cross-series modification, as the case may be, whether or not they have given such consent, and on all future holders of those debt securities whether or not notation of such modification is made upon the debt securities. Any instrument given by or on behalf of any holder of a debt security in connection with any consent to or approval of any such modification will be conclusive and binding on all subsequent holders of that debt security.

For so long as any series of debt securities issued under the indenture dated as of June 2, 2013 between the Republic of Paraguay, as issuer, and Citibank N.A. as trustee, as amended by the first supplemental indenture dated as of April 29, 2015 (the "2013 indenture") (the "2013 debt securities") are outstanding, if Paraguay certifies to the trustee and to the trustee under the 2013 indenture that a cross-series modification is being sought simultaneously with a "2013 indenture reserve matter modification", the 2013 debt securities affected by such 2013 indenture reserve matter modification shall be treated as "series affected by that proposed modification" as that phrase is used in the indenture with respect to both cross-series modifications with single aggregated voting and cross-series modifications with two-tier voting; *provided*, that if Paraguay seeks a cross-series modification with single aggregated voting, in determining whether such modification will be considered uniformly applicable, the holders of any series of 2013 debt securities affected by the 2013 indenture reserve matter modification shall be deemed "holders of debt securities of all series affected by that modification," for the purpose of the uniformly applicable definition. It is the intention that in the circumstances described in respect of any cross-series modification, the votes of the holders of the affected 2013 debt securities be counted for purposes of the voting thresholds specified in the indenture for the applicable cross-series modification as though those 2013 debt securities had been affected by that cross-series modification although the effectiveness of any modification, as it relates to the 2013 debt securities, shall be governed exclusively by the terms and conditions of those 2013 debt securities and by the 2013 indenture; *provided*, *however*, that no such modification as to the debt securities will be effective unless such modification shall have also been adopted by and become binding upon the holders of the 2013 debt securities pursuant to the amendment and modification provisions of such 2013 debt securities set forth in the 2013 indenture.

Paraguay may select, in its discretion, any modification method for a reserve matter modification in accordance with the indenture and to designate which series of debt securities will be included for approval in the aggregate of modifications affecting two or more series of debt securities. Any selection of a modification method or designation of series to be included will be final for the purpose of that vote or consent solicitation.

"Uniformly applicable," as referred to above, means a modification by which holders of debt securities of any series affected by that modification are invited to exchange, convert or substitute their debt securities on the same terms for (x) the same new instruments or other consideration or (y) new instruments or other consideration from an identical menu of instruments or other consideration. It is understood that a modification will not be considered to be uniformly applicable if each exchanging, converting or substituting holder of debt securities of any series affected by that modification is not offered the same amount of consideration per amount of principal, the same amount of consideration per amount of interest accrued but unpaid and the same amount of consideration per amount of past due interest, respectively, as that offered to each other exchanging, converting or substituting holder of debt securities of any series affected by that modification (or, where a menu of instruments or other consideration is offered, each exchanging, converting or substituting holder of debt securities of any series affected by that modification is not offered the same amount of consideration per amount of principal, the same amount of consideration per amount of interest accrued but unpaid and the same amount of consideration per amount of past due interest, respectively, as that offered to each other exchanging, converting or substituting holder of debt securities of any series affected by that modification electing the same option under such menu of instruments).

"2013 indenture reserve matter modification" means any modification to a reserve matter affecting the terms and conditions of one or more series of the 2013 debt securities, pursuant to the 2013 indenture.

Before soliciting any consent or vote of any holder of a Bond for any change to a reserve matter, Paraguay will provide the following information to the trustee for onward distribution to the holders of the Bonds:

- a description of Paraguay's economic and financial circumstances that are in Paraguay's opinion, relevant to the request for the proposed modification, a description of Paraguay's existing debts and description of its broad policy reform program and provisional macroeconomic outlook;

- if Paraguay shall at the time have entered into an arrangement for financial assistance with multilateral and/or other major creditors or creditor groups and/or an agreement with any such creditors regarding debt relief, (x) a description of any such arrangement or agreement and (y) where permitted under the information disclosure policies of the multilateral or other creditors, as applicable, a copy of the arrangement or agreement;

- a description of Paraguay's proposed treatment of foreign debt instruments that are not affected by the proposed modification and its intentions with respect to any other major creditor groups; and

- if Paraguay is then seeking any reserve matter modification affecting any other series of debt securities, a description of that proposed modification.

For purposes of determining whether the required percentage of holders of the Bonds or any other series of debt securities has approved any amendment, modification or change to, or waiver of, the Bonds, such other series of debt securities or the indenture, or whether the required percentage of holders has delivered a notice of acceleration of the Bonds, debt securities will be disregarded and deemed not to be outstanding and may not be counted in a vote or consent solicitation for or against a proposed modification if on the record date for the proposed modification or other action or instruction hereunder, the debt security is held by Paraguay or by a public sector instrumentality of Paraguay, except that (x) debt securities held by Paraguay or any public sector instrumentality of Paraguay which have been pledged in good faith may be regarded as outstanding if the pledgee establishes to the satisfaction of the trustee the pledgee's right so to act with respect to such debt securities and that the pledgee is not Paraguay or a public sector instrumentality of Paraguay, and in case of a dispute concerning such right, the advice of counsel shall be full protection in respect of any decision made by the trustee in accordance with such advice and any certificate, statement or opinion of counsel may be based, insofar as it relates to factual matters or information which is in the possession of the trustee, upon the certificate, statement or opinion of or representations by the trustee; and (y) in determining whether the trustee will be protected in relying upon any such action or instructions hereunder, or any notice from holders, only debt securities that a responsible officer of the trustee knows to be so owned or controlled will be so disregarded.

As used in the preceding paragraph, "public sector instrumentality" means any (i) department, secretary, ministry or agency of the central government of Paraguay and (ii) corporation, trust or other legal entity owned or controlled by the central government of Paraguay or by any of the entities identified in the preceding clauses (i) and (ii). The term "control" means, in turn, the power, directly or indirectly, through the ownership of voting securities or other ownership interests, by contract or otherwise, to direct the management of or to elect or to appoint a majority of the board of directors or other persons performing similar functions in lieu of, or in addition to, the board of directors of that legal entity.

Other Amendments

Paraguay and the trustee may, without the vote or consent of any holder of the Bonds, amend the indenture or the Bonds for the purpose of:

- adding to Paraguay's covenants for the benefit of the holders;
- surrendering any of Paraguay's rights or powers with respect to the Bonds;
- securing the Bonds;
- curing any ambiguity or curing, correcting or supplementing any defective provision in the Bonds or the indenture;
- amending the Bonds or the indenture in any manner that Paraguay and the trustee may determine and that does not materially adversely affect the interests of any holders of the Bonds;
- amending the authorized denominations of the debt securities of that series; or
- correcting a manifest error of a formal, minor or technical nature.

Notices

Paraguay will mail notices to holders of Certificated Securities at their registered addresses, as reflected in the register maintained by the registrar. Paraguay will consider any mailed notice to have been given five business days after it has been sent. Paraguay will give notices to the holders of Global Bonds in accordance with the procedures and practices of DTC and such notices shall be deemed given upon actual receipt thereof by DTC.

Paraguay will also publish notices to the holders in leading newspapers having general circulation in New York City and London. Paraguay anticipates that it will make such publications in *The Wall Street Journal* and the *Financial Times*. In addition, so long as the Bonds are listed on the Euro MTF market of the Luxembourg Stock Exchange and the rules of that Exchange so require, Paraguay will publish notices to the holders in a leading newspaper having general circulation in Luxembourg and on the website of the Luxembourg Stock Exchange (www.bourse.lu). Paraguay anticipates that it will initially make its newspaper publication in the *Luxemburger Wort*.

If publication in a leading newspaper in Luxembourg is not practical, Paraguay will publish such notices in one other leading English language daily newspaper with general circulation in Europe. Paraguay will consider any published notice to be given on the date of its first publication.

Governing Law

The 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 to waive, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such action or proceeding; and
- to appoint as its process agent the Consul General of Paraguay in New York City, having an office on the date hereof at 801 2nd. Avenue Suite 600, New York – NY 10017, United States of America.

The process agent will receive on behalf of Paraguay and its property service of copies of any summons and complaint and any other process which may be served in any such legal action or proceeding brought in such New York State or U.S. federal court sitting in New York City in the Borough of Manhattan. Service may be made by mailing or delivering a copy of such process to Paraguay at the address specified above for the process agent.

A final non-appealable judgment in any of the above legal actions or proceedings will be conclusive and may be enforced by a suit upon such judgment in any other courts that may have jurisdiction over Paraguay.

In addition to the foregoing, the holders may serve legal process in any other manner permitted by applicable law. Nothing in the indenture or the Bonds shall limit the right of any holder to bring any action or proceeding against Paraguay or its property in other courts where jurisdiction is independently established.

To the extent that Paraguay has or hereafter may acquire or have attributed to it any sovereign or other immunity under any law, Paraguay has agreed to waive, to the fullest extent permitted by law, such immunity in respect of any claims or actions regarding its obligations under the Bonds.

Paraguay waives, to the fullest extent permitted by law, any requirement or other provision of law, rule, regulation or practice which requires or otherwise establishes as a condition to the institution, prosecution or completion of any action or proceeding (including appeals) arising out of or relating to the Bonds the posting of any bond or the furnishing, directly or indirectly, of any other security.

Paraguay reserves the right to plead sovereign immunity under the U.S. Foreign Sovereign Immunities Act of 1976 with respect to actions brought against it under U.S. federal securities laws or any state securities laws, and Paraguay's appointment of the process agent will not extend to such actions. Without a waiver of immunity by Paraguay with respect to such actions, it would be impossible to obtain a U.S. judgment in such an action against Paraguay unless a court were to determine that Paraguay is not entitled under the U.S. Foreign Sovereign

Immunities Act of 1976 to sovereign immunity with respect to such action. However, even if a U.S. judgment could be obtained in any such action under the U.S. Foreign Sovereign Immunities Act of 1976, it may not be possible to enforce in Paraguay a judgment based on such a U.S. judgment.

A judgment obtained against Paraguay in a foreign court can be enforced in the courts of Paraguay, if such judgment is ratified by the Paraguayan courts. Based on existing law, Paraguayan courts will ratify such a judgment:

- if a formal request for the payment of the award under the judgment is lodged with the Paraguayan government and not honored (it is not clear how such request must be made, and how and when such request must not have been honored, in order for a party to have the right to seek such ratification); and

- if there exists a treaty with the country where such judgment was issued providing for reciprocal enforcement of foreign judgments (no such treaty exists at the present time between Paraguay and the United States); or if no such treaty exists:

    - such judgment has *res judicata* effects in the jurisdiction where it was rendered;

    - such judgment was issued by a competent court with *in personam* jurisdiction or (if the relevant assets were transferred to Paraguay during or after the complaint was filed) in rem jurisdiction;

    - there is no legal action filed and pending judgment at a Paraguayan court with the same cause of action and among the same parties;

    - any person or entity domiciled in Paraguay against whom such judgment is sought to be enforced must have been duly served with process and represented during the trial or adjudged to have failed to appear in accordance with the laws of the country where the trial was held;

    - the obligation that gave rise to the complaint must be valid under Paraguayan law;

    - such judgment is not contrary to the public policy of Paraguay;

    - such judgment must comply with all necessary requirements to be considered as a valid judgment in the foreign jurisdiction; and

    - such judgment must not conflict with a judgment rendered previously or simultaneously by a Paraguayan court.

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

Paraguay agrees to cause an appearance to be filed on its behalf and to defend itself in connection with any legal action or proceeding instituted against it. However, a default judgment obtained in the United States against Paraguay, resulting from Paraguay's failure to appear and defend itself in any suit filed against Paraguay, or from Paraguay's deemed absence at the proceedings, may not be enforceable in the Paraguayan courts unless the requirements mentioned above are fulfilled.

Currency Indemnity

The obligation of Paraguay to any holder under the Bonds will be discharged only to the extent that the holder may purchase U.S. dollars with any other currency paid to that holder in accordance with any judgment or otherwise. If the holder cannot purchase U.S. dollars in the amount originally to be paid, Paraguay agrees, as a separate obligation and notwithstanding any such judgment, to pay the difference. The holder, however, agrees that, if the amount of the U.S. dollars purchased exceeds the amount originally to be paid to such holder, the holder will reimburse the excess to Paraguay. The holder, however, will not be obligated to make this reimbursement if Paraguay is in default of its obligations under the Bonds.

Concerning the Trustee

The indenture contains provisions relating to the obligations and duties of the trustee, to the indemnification of the trustee and to the trustee's rights, protections, exculpations, defenses and relief from responsibility for actions that it takes or fails to take. The trustee is entitled to enter into business transactions with Paraguay or any of its affiliates without accounting for any profit resulting from such transactions.

Defined Terms

The following are certain definitions used in the Bonds:

"External Debt" means obligations of, or guaranteed (whether by contract, statute or otherwise) by, Paraguay for borrowed money or evidenced by bonds, debentures, notes or similar instruments denominated or payable, or which, at the option of the holder thereof, may be payable, in a currency other than the currency of Paraguay or by reference to a currency other than the currency of Paraguay, regardless of whether that obligation is incurred or entered into within or outside Paraguay.

"Lien" means any lien, pledge, mortgage, security interest, deed of trust, charge or other encumbrance or preferential arrangement which has the practical effect of constituting a security interest with respect to the payment of any obligations with or from the proceeds of any assets or revenues of any kind.

"Permitted Liens" means:

- any Lien on property to secure Public External Debt arising in the ordinary course to finance export, import or other trade transactions, which Public External Debt matures (after giving effect to all renewals and refinancing thereof) not more than one year after the date on which such Public External Debt was originally incurred;

- any Lien on property to secure Public External Debt existing on such property at the time of its acquisition or incurred solely for the purpose of financing any acquisition by Paraguay of such property, and any renewal or extension of any such Lien which is limited to the original property covered thereby and which secures any renewal or extension of the original financing without any increase in the amount thereof; and

- any Lien securing Public External Debt incurred for the purpose of financing all or part of the costs of the acquisition, construction or development of a project, provided that:

    - the holders of such Public External Debt agree to limit their recourse to the assets and revenues of such project as the principal source of repayment of such Public External Debt; and

    - the property over which such Lien is granted consists solely of such assets and revenues.

"Public External Debt" means any External Debt that is in the form of, or represented by, bonds, notes or other securities that are or may be quoted, listed or ordinarily purchased or sold on any securities exchange, automated trading system or over-the-counter or other securities market, including securities eligible for resale pursuant to Rule 144A under the Securities Act.

Book-entry, Delivery and Form Bonds sold to qualified institutional buyers in reliance on Rule 144A (the "Rule 144A Bonds") under the Securities Act will be represented by one or more global bonds in registered form without interest coupons attached (collectively, the "144A Global Bonds"). The 144A Global Bonds representing the Bonds will be deposited with a custodian for DTC, and registered in the name of Cede & Co., as nominee of DTC.

Bonds sold in reliance on Regulation S (the "Reg S Bonds") under the Securities Act will be represented by one or more global bonds in registered form without interest coupons attached (collectively, the "Reg S Global Bonds" and, together with the Rule 144A Global Bonds, the "Global Bonds"). The Reg S Global Bonds representing the Bonds will be registered in the name of Cede & Co., as nominee of DTC and deposited with a custodian for DTC, for credit to Euroclear and Clearstream.

Ownership of interests in the 144A Global Bonds ("Restricted Book-Entry Interests") and in the Reg S Global Bonds (the "Reg S Book-Entry Interests" and, together with the Restricted Book-Entry Interests, the "Book-Entry Interests") will be limited to persons that have accounts with DTC, Euroclear and/or Clearstream, or persons that hold interests through their participants. Prior to the 40th day after the later of the commencement of this offering and the date the Bonds were originally issued (the "Distribution Compliance Period"), interests in the Reg S Global Bonds may only be held by non-U.S. persons. DTC, Euroclear and Clearstream will hold interests in the Global Bonds on behalf of their participants through customers' securities accounts in their respective names on the books of their respective depositaries. Except under the limited circumstances described below, owners of beneficial interests in the Global Bonds will not be entitled to receive 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$200,000 principal amount or less may be redeemed in part.

Payments on Global Bonds

Under the terms of the indenture, Paraguay, the trustee, the paying agent, the transfer agent and the registrar will treat the registered holders of the Global Bonds (e.g., DTC (or its 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 agents, the transfer agent, the registrar, the Initial Purchasers or any of Paraguay's and their respective agents will be liable to any holder of a Global Bond or any other person for any commissions, costs, losses or expenses in relation to or resulting from any currency conversion or rounding effected in connection with any such payment.

Action by Owners of Book-Entry Interests

DTC advised us that it will take any action permitted to be taken by a holder of Bonds only at the direction of one or more participants to whose account the Book-Entry Interests in the Global Bonds are credited and only in respect of such portion of the aggregate principal amount of bonds as to which such participant or participants has or have given such direction.

DTC will not exercise any discretion in the granting of consents, waivers or the taking of any other action in respect of the Global Bonds. However, if there is an event of default under the bonds, DTC reserves the right to exchange the Global Bonds for definitive registered bonds in certificated form (the "Certificated Securities"), and to distribute Certificated Securities to its participants.

Transfers

Transfers of beneficial interests in the Global Bonds will be subject to the applicable rules and procedures of DTC and its direct or indirect participants, which rules and procedures may change from time to time.

The Global Bonds will bear a legend to the effect set forth in "Transfer Restrictions." Book-Entry Interests in the Global Bonds will be subject to the restrictions on transfers as discussed in "Transfer Restrictions."

During the Distribution Compliance Period, any sale or transfer of ownership of a Reg S Book-Entry Interest to a U.S. person shall not be permitted unless such resale or transfer is made pursuant to Rule 144A. Subject to the foregoing, a Reg S Book-Entry Interest may be transferred to a person who takes delivery in the form of a Restricted Book-Entry Interest in a Global Bond only upon delivery by the transferor of a written certification (in the form provided in the Indenture) to the effect that such transfer is being made to a person who the transferor reasonably believes is a "qualified institutional buyer" within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A or otherwise in accordance with the transfer restrictions described under "Transfer Restrictions," and in accordance with any applicable securities laws of any state of the United States or any other jurisdiction.

Transfers of Restricted Book-Entry Interests to persons wishing to take delivery of Restricted Book-Entry Interests will at all times be subject to the transfer restrictions contained in the legend appearing on the face of the 144A Global Bond, as set forth in "Transfer Restrictions."

Restricted Book-Entry Interests may be transferred to a person who takes delivery in the form of a Reg S Book-Entry Interest in a Global Bond upon delivery by the transferor of a written certification (in the form provided in the Indenture) to the effect that such transfer is being made in accordance with Regulation S and that, if such transfer occurs prior to the expiration of the Distribution Compliance Period, the interest transferred will be held immediately thereafter through Euroclear or Clearstream. See “Transfer Restrictions.”

Any Book-Entry Interest in one of the Global Bonds that is transferred to a person who takes delivery in the form of a Book-Entry Interest in any other Global Bond of the same series will, upon transfer, cease to be a Book-Entry Interest in the first-mentioned Global Bond and become a Book-Entry Interest in such other Global Bond, and accordingly will thereafter be subject to all transfer restrictions, if any, and other procedures applicable to Book-Entry Interests in such other Global Bond for as long as it remains such a Book-Entry Interest. In connection with such transfer, appropriate adjustments will be made to reflect a decrease in the principal amount of the first-mentioned Global Bond and a corresponding increase in the principal amount of the other Global Bond, as applicable.

Certificated Securities

Under the terms of the Indenture, owners of the Book-Entry Interests will receive Certificated Securities:

- if DTC notifies us that it is unwilling or unable to continue as depositary for the Global Note, or DTC ceases to be a clearing agency registered under the Exchange Act and, in either case, a qualified successor depositary is not appointed by us within 120 days;
- if Paraguay determines not to have any Bonds of such series represented by a Global Note;
- if DTC so requests following an event of default under the Indenture; or
- if the owners of a Book-Entry Interest request such exchange in writing delivered through DTC following an event of default under the Indenture.

In the case of the issuance of Certificated Securities, the holder of a Certificated Security may transfer such note by surrendering it at the offices of the trustee. In the event of a partial transfer or a partial redemption of a holding of Certificated Securities represented by one Certificated Security, a Certificated Security shall be issued to the transferee in respect of the part transferred, and a new Certificated Security in respect of the balance of the holding not transferred or redeemed shall be issued to the transferor or the holder, as applicable; *provided* that no Certificated Security in a denomination less than US$200,000 shall be issued. Paraguay will bear the cost of preparing, printing, packaging and delivering the Certificated Securities.

Paraguay, the trustee, the registrar or the transfer agent shall not be required to register the transfer or exchange of Certificated Securities for a period of 15 calendar days preceding (a) the record date for any payment of interest on the bonds, (b) any date fixed for redemption of the bonds or (c) the date fixed for selection of the bonds to be redeemed in part. In the event of the transfer of any Certificated Security, the transfer agent may require a holder, among other things, to furnish appropriate endorsements and transfer documents as described in the indenture. Paraguay may require a holder to pay any taxes and fees required by law or permitted by the indenture and the Bonds.

Paraguay will pay interest on the Bonds to persons who are registered holders at the close of business on the record date immediately preceding the interest payment date for such interest. Such holders must surrender the Bonds to a Paying Agent to collect principal payments.

If Certificated Securities are issued and a holder thereof claims that such Certificated Securities have been lost, destroyed or wrongfully taken or if such Certificated Securities are mutilated and are surrendered to the trustee or at the office of the trustee, Paraguay shall issue and the trustee shall authenticate a replacement Certificated Security if the trustee’s and Paraguay’s requirements are met. The trustee or Paraguay may require a holder requesting replacement of a Certificated Security to furnish indemnity and security sufficient in the judgment of both the trustee and Paraguay to protect Paraguay, the trustee, and any paying agent or transfer agent appointed pursuant to the Indenture from any loss which any of them may suffer if a Certificated Security is replaced.

Paraguay may charge for Paraguay's expenses in replacing a Certificated Security. In case any such mutilated, destroyed, lost or stolen Certificated Security has become or is about to become due and payable, or is about to be redeemed or purchased by Paraguay pursuant to the provisions of the Indenture, Paraguay in its discretion may, instead of issuing a new Certificated Security, pay, redeem or purchase such Certificated Security, as the case may be. Certificated Securities may be transferred and exchanged for Book-Entry Interests in a Global Bond only in accordance with the Indenture and, if required, only after the transferor first delivers to the trustee a written certification (in the form provided in the Indenture) to the effect that such transfer will comply with the transfer restrictions applicable to such Bonds and Paraguay may require a holder to pay any taxes and fees required by law or permitted by the Indenture and the Bonds. See "Transfer Restrictions."

Information Concerning DTC, Euroclear and Clearstream

The following description of the operations and procedures of DTC, Euroclear and Clearstream are provided solely as a matter of convenience. These operations and procedures are solely within the control of the relevant settlement systems and are subject to changes by them. Paraguay takes no responsibility for these operations and procedures and investors should contact the systems or their participants directly to discuss these matters. Paraguay understands as follows with respect to DTC, Euroclear and Clearstream:

The Depository Trust Company

DTC is:

- a limited purpose trust company organized under the New York Banking Law;
- a "banking organization" under New York Banking Law;
- a member of the Federal Reserve System;
- a "clearing corporation" within the meaning of the New York Uniform Commercial Code; and
- a "clearing agency" registered under Section 17A of the U.S. Securities Exchange Act of 1934, as amended.

DTC was created to hold securities for its participants and to facilitate the clearance and settlement of transactions among its participants. It does this through electronic book-entry changes in the accounts of securities participants, eliminating the need for physical movement of securities certificates. DTC participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a direct participant also have access to the DTC system and are known as indirect participants.

Because DTC can only act on behalf of participants, who in turn act on behalf of indirect participants and certain banks, the ability of an owner of a beneficial interest to pledge such interest to persons or entities that do not participate in the DTC system, or otherwise take actions in respect of such interest, may be limited by the lack of a definitive certificate for that interest. To the extent that certain persons require delivery in definitive form, the ability to transfer beneficial interests to such persons may be limited. In addition, owners of beneficial interests through the DTC system will receive distributions attributable to the Global Bonds only through DTC participants.

Euroclear and Clearstream

Like DTC, Euroclear and Clearstream hold securities for participating organizations. They also facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in the accounts of such participants. Euroclear and Clearstream provide various services to their participants, including the safekeeping, administration, clearance, settlement, lending and borrowing of internationally traded securities. Euroclear and Clearstream interface with domestic securities markets. Euroclear and Clearstream participants are financial institutions such as underwriters, securities brokers and dealers, banks, trust companies and certain other organizations. Indirect access to Euroclear or Clearstream is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Global Clearance and Settlement Under the Book-Entry System

The Bonds are expected to trade in DTC's Same-Day Funds Settlement System, and any permitted secondary market trading activity in such Bonds will, therefore, be required by DTC to be settled in immediately available funds. Paraguay expects that secondary trading in any Certificated Securities will also be settled in immediately available funds. Subject to compliance with the transfer restrictions applicable to the Global Bonds, cross-market transfers of Book-Entry Interests in the Bonds between the participants in DTC, on the one hand, and Euroclear or Clearstream participants, on the other hand, will be done through DTC in accordance with DTC's rules on behalf of each of Euroclear or Clearstream by its common depositary; however, such cross-market transactions will require delivery of instructions to Euroclear or Clearstream by the counterparty in such system in accordance with the rules and procedures and within the established deadlines (Brussels time) of such system. Euroclear or Clearstream will, if the transaction meets its settlement requirements, deliver instructions to the common depositary to take action to effect final settlement on its behalf by delivering or receiving interests in the Global Bonds in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Euroclear and Clearstream participants may not deliver instructions directly to the common depositary.

Because of time zone differences, the securities account of a Euroclear or Clearstream participant purchasing an interest in a Global Bond from a participant in DTC will be credited, and any such crediting will be reported to the relevant Euroclear or Clearstream participant, during the securities settlement processing day (which must be a business day for Euroclear and Clearstream) immediately following the settlement date of DTC. Cash received in Euroclear and Clearstream as a result of a sale of an interest in a Global Bond by or through a Euroclear or Clearstream participant to a participant in DTC will be received with value on the settlement date of DTC but will be available in the relevant Euroclear or Clearstream cash account only as at the business day for Euroclear or Clearstream following DTC's settlement date.

Although DTC, Euroclear and Clearstream are expected to follow the foregoing procedures in order to facilitate transfers of interests in the Global Bonds among participants in DTC, Euroclear or Clearstream, as the case may be, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of Paraguay, the trustee, the paying agent, the transfer agent, the registrar or the Initial Purchasers will have any responsibility for the performance by DTC, Euroclear or Clearstream, or their respective participants or indirect participants, of their respective obligations under the rules and procedures governing their operations.

TAX CONSIDERATIONS

Paraguayan Tax Considerations

The discussion in this Offering Memorandum was written to support the promotion or marketing of this Offering Memorandum. Each investor should seek advice based on their particular circumstances from an independent tax advisor, to determine the tax consequences relevant to his particular situation.

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 office 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 No. 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

This section describes certain 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 dollar.

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 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 Internal Revenue Code, as well as the application of U.S. federal estate, gift, and alternative minimum tax laws, U.S. state and local tax laws, and the laws of any other taxing jurisdiction.

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 and 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. It is expected, and this discussion assumes, that the Bonds will be issued without original issue discount ("OID") for U.S. federal income tax purposes. In general, however, in the event the Bonds are issued with more than *de minimis* OID, United States holders will be required to include OID in ordinary gross income on a constant-yield basis for U.S. federal income tax purposes as it accrues, although the United States holder may not yet have received cash attributable to that income. 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. The rules governing the foreign tax credit are complex. United States holders should consult their own tax advisors regarding the availability of the foreign tax credit under their particular circumstances.

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 taxable as ordinary income), 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. The deductibility of capital losses is subject to limitations.

Medicare Tax. 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" (or "undistributed net investment income" in the case of an estate or trust) for the relevant taxable year and (2) the excess of the United States holder's modified adjusted gross income (or adjusted gross income in the case of an estate or trust) for the taxable year over a certain threshold (which in the case of individuals will be between US$125,000 and US$250,000, depending on the individual's circumstances). A holder's net investment income will generally include its interest income and 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.

Payments of 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, whether or not you are engaged in a trade or business in the United States, 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 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 held for investment and not held in accounts maintained by financial institutions: (i) stocks and securities issued by non-United States persons, (ii) financial instruments and contracts that have non-United States issuers or counterparties, and (iii) interests in foreign entities.

Holders are urged to consult their tax advisors regarding the application of this reporting requirement to their ownership of the Bonds.

Backup Withholding and Information Reporting

If you are a noncorporate United States holder, information reporting requirements, on Internal Revenue Service Form 1099, generally would apply to payments of principal and interest on a Bond within the United States, and the payment of proceeds to you from the sale of a note effected at a United States office of a broker.

Additionally, backup withholding may apply to such payments if you fail to comply with applicable certification requirements or are notified by the IRS that you have failed to report all interest and dividends required to be shown on your federal income tax returns.

If you are a United States alien holder, you are generally exempt from backup withholding and information reporting requirements with respect to payments of principal and interest made to you outside the United States by us or another non-United States payor. You are also generally exempt from backup withholding and information reporting requirements in respect of payments of principal and interest made within the United States and the payment of the proceeds from the sale of a Bond effected at a United States office of a broker, as long as either (i) the payor or broker does not have actual knowledge or reason to know that you are a United States person and you have furnished a valid IRS Form W-8 or other documentation upon which the payor or broker may rely to treat the payments as made to a United States alien holder, or (ii) you otherwise establish an exemption.

Payment of the proceeds from the sale of a Bond effected at a foreign office of a broker generally will not be subject to information reporting or backup withholding. However, a sale effected at a foreign office of a broker could be subject to information reporting in the same manner as a sale within the United States (and in certain cases may be subject to backup withholding as well) if (i) the broker has certain connections to the United States, (ii) the proceeds or confirmation are sent to the United States or (iii) the sale has certain other specified connections with the United States.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against your United States federal income tax liability provided the required information is timely furnished to the IRS.

PLAN OF DISTRIBUTION

Merrill Lynch, Pierce, Fenner & Smith Incorporated and Itau BBA USA Securities, Inc. are acting as joint book-running managers of the offering and as representatives of the initial purchasers named below. Subject to the terms and conditions stated in the purchase agreement dated as of the date of this Offering Memorandum, each initial purchaser named below has severally and not jointly agreed to purchase, and Paraguay has agreed to sell to that initial purchaser, the principal amount of the Bonds set forth opposite the initial purchaser's name.

Initial Purchasers	**Principal Amount of Bonds**
Merrill Lynch, Pierce, Fenner & Smith Incorporated	US$360,000,000
Itau BBA USA Securities, Inc.	US$240,000,000
Total	**US$600,000,000**

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 Memorandum 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$.

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 March 31, 2016, which will be the fifth business day following the date of this Offering Memorandum (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 may be required, by virtue of the fact that the Bonds initially settle in T+, 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. If any of the initial purchasers or their affiliates has a lending relationship with Paraguay, certain of those initial purchasers or their affiliates routinely hedge, and certain other of those initial purchasers or their affiliates may hedge, routinely hedge their credit exposure to Paraguay consistent with their customary risk management policies. Typically, such initial purchasers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in Paraguay's securities, including potentially the Bonds offered hereby. Any such credit default swaps or short positions could adversely affect future trading prices of the Bonds offered hereby. The initial purchasers and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities or instruments.

Investors who purchase the Bonds from the initial purchasers may be required to pay stamp taxes and other charges in accordance with the laws and practice of the country of purchase in addition to the offering price set forth on the cover page of this Offering Memorandum.

Paraguay has agreed to indemnify the initial purchasers and their controlling persons against certain liabilities, including liabilities under the Securities Act, or to contribute to payments that the initial purchasers may be required to make because of any of those liabilities.

Paraguay has agreed that it will not, for 90 days from the date of this Offering Memorandum, without first obtaining the prior written consent of Merrill Lynch, Pierce, Fenner & Smith Incorporated and Itau BBA USA Securities, Inc., offer, sell, contract to sell or otherwise dispose of any debt securities of Paraguay or warrants to purchase debt securities of Paraguay substantially similar to the Bonds.

Notice to Prospective Investors in the European Economic Area

In relation to each Member State of the European Economic Area ("EEA") which has implemented the Prospectus Directive (each, a "Relevant Member State"), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "Relevant Implementation Date"), an offer to the public of any Bonds which are the subject of the offering contemplated by this Offering Memorandum may not be made in that Relevant Member State except that an offer to the public in that Relevant Member State may be made at any time with effect from and including the Relevant Implementation Date under the following exemptions under the Prospectus Directive:

(a) to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(b) to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or

(c) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Bonds shall require the Issuer or any Initial Purchaser to publish a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer to the public" in relation to any Bonds in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Bonds to be offered so as to enable an investor to decide to purchase or subscribe the Bonds, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression "Prospectus Directive" means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in the Relevant Member State.

This EEA selling restriction is in addition to any other selling restrictions set out in this Offering Memorandum.

Notice to Prospective Investors in the United Kingdom

Each Initial Purchaser has represented and agreed that, in connection with the distribution of the Securities, 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 ("FSMA") received by it in connection with the issue or sale of the Bonds in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

- complied and will comply with all applicable provisions of the FSMA 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 Memorandum nor any other offering material relating to the Bonds described in this Offering Memorandum has been submitted to the clearance procedures of the *Autorité des Marchés Financiers* or of the competent authority of another member state of the European Economic Area and notified to the *Autorité des*

Marchés Financiers. The Bonds have not been offered or sold and will not be offered or sold, directly or indirectly, to the public in France. Neither this Offering Memorandum nor any other offering material relating to the Bonds has been or will be:

(a) released, issued, distributed or caused to be released, issued or distributed to the public in France; or

(b) used in connection with any offer for subscription or sale of the Bonds to the public in France. Such offers, sales and distributions will be made in France only:

(i) to qualified investors (*investisseurs qualifiés*) and/or to a restricted circle of investors (*cercle restraint d'investisseurs*), in each case investing for their own account, all as defined in, and in accordance with, articles L.411-2, D.411-1, D.411-2, D.734-1, D.744-1, D.754-1 and D.764-1 of the French Code monétaire et financier;

(ii) to investment services providers authorized to engage in portfolio management on behalf of third parties; or

(iii) in a transaction that, in accordance with article L.411-2-II-1°-or-2°-or 3° of the French Code *monétaire et financier* and article 211-2 of the General Regulations (*Règlement Général*) of the Autorité des Marchés Financiers, does not constitute a public offer (*appel public à l'épargne*).

The Bonds may be resold directly or indirectly only in compliance with articles L.411-1, L.411-2, L.412-1 and L.621-8 through L.621-8-3 of the French Code *monétaire et financier*.

Notice to Prospective Investors in the Kingdom of Spain

The Bonds may not be offered, sold or distributed, nor may any subsequent resale of Bonds be carried out in Spain, except in circumstances which do not constitute a public offer of securities in Spain within the meaning of the Spanish Securities Market Law (*Ley 24/1988, de 28 julio del Mercado de Valores*) and related legislation or without complying with all legal and regulatory requirements under Spanish securities laws. No publicity or marketing of any kind shall be made in Spain in relation to the Bonds.

Neither the Bonds nor the Offering Memorandum have been registered with the Spanish Securities Market Commission (*Comisión Nacional del Mercado de Valores*) and therefore the Offering Memorandum is not intended for any public offer of the Bonds in Spain.

Notice to Prospective Investors in Hong Kong

The Bonds have not been offered or sold and will 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) 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) 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 has been or may be issued or has been or may be in the possession of any person for the purposes of issue, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the Bonds which are or 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 and any rules made under that Ordinance.

Notice to Prospective Investors in Japan

The Bonds have not been and will not be registered under the Financial Instruments and Exchange Act. Accordingly, the Bonds will not be offered or sold, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to or for the benefit of a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and any other applicable laws, regulations and ministerial guidelines of Japan.

Notice to Prospective Investors in Singapore

This Offering Memorandum has not been and will not be registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"). Accordingly, this Offering Memorandum 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 SFA, (ii) to a "relevant person" pursuant to Section 275(1), 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 or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor, securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Bonds pursuant to an offer made under Section 275 of the SFA, except:

(i) to an institutional investor under Section 274 of the SFA or to a relevant person (as defined in Section 275(2) of the SFA), or to any person arising from an offer referred to in Section 275(1A), or Section 276(4)(i)(B) of the SFA;

(ii) where no consideration is or will be given for the transfer;

(iii) where the transfer is by operation of law;

(iv) as specified in Section 276(7) of the SFA; or

(v) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

Notice to Prospective Investors in Switzerland

This Offering Memorandum is not intended to constitute an offer or solicitation to purchase or invest in the Bonds described herein. The Bonds may not be publicly offered, sold or advertised, directly or indirectly, in, into or from Switzerland and will not be listed on the SIX Swiss Exchange or on any other exchange or regulated trading facility in Switzerland. Neither this Offering Memorandum nor any other offering or marketing material relating to the Bonds constitutes a prospectus as such term is understood pursuant to article 652a or article 1156 of the Swiss Code of Obligations or a listing prospectus within the meaning of the listing rules of the SIX Swiss Exchange or any other regulated trading facility in Switzerland or a simplified prospectus or a prospectus as such term is defined in the Swiss Collective Investment Scheme Act, and neither this Offering Memorandum nor any other offering or marketing material relating to the Bonds may be publicly distributed or otherwise made publicly available in Switzerland.

Neither this Offering Memorandum nor any other offering or marketing material relating to the offering, nor Paraguay nor the Bonds have been or will be filed with or approved by any Swiss regulatory authority. The Bonds are not subject to the supervision by any Swiss regulatory authority, e.g., the Swiss Financial Markets Supervisory Authority FINMA, and investors in the Bonds will not benefit from protection or supervision by such authority.

Notice to Prospective Investors in the Dubai International Financial Centre ("DFIC")

This Offering Memorandum relates to an Exempt Offer in accordance with the Markets Rules 2012 of the Dubai Financial Services Authority ("DFSA"). This Offering Memorandum is intended for distribution only to persons of a type specified in the Markets Rules 2012 of the DFSA. It must not be delivered to, or relied on by, any other person. The DFSA has no responsibility for reviewing or verifying any documents in connection with Exempt Offers. The DFSA has not approved this Offering Memorandum nor taken steps to verify the information set forth herein and has no responsibility for the Offering Memorandum. The securities to which this Offering Memorandum relates may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the securities offered should conduct their own due diligence on the securities. If you do not understand the contents of this Offering Memorandum you should consult an authorized financial advisor.

In relation to its use in the DIFC, this Offering Memorandum is strictly private and confidential and is being distributed to a limited number of investors and must not be provided to any person other than the original recipient, and may not be reproduced or used for any other purpose. The interests in the Bonds may not be offered or sold directly or indirectly to the public in the DIFC.

Notice to Prospective Investors in Canada

The Bonds may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 *Prospectus Exemptions* or subsection 73.3(1) of the *Securities Act* (Ontario), and are permitted clients, as defined in National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*. Any resale of the Bonds must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this Offering Memorandum (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 (or, in the case of securities issued or guaranteed by the government of a non-Canadian jurisdiction, section 3A.4) of National Instrument 33-105 *Underwriting Conflicts* (NI 33-105), the Initial Purchasers are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this offering.

Notice to Prospective Investors in Chile

The offer of the Bonds will begin on March 23, 2016 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 23 de marzo de 2016 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 (*Comisión Nacional de Valores*) or on the Paraguayan Stock Exchange. Therefore, the Bonds may not be publicly offered in Paraguay.

TRANSFER RESTRICTIONS

Because of the following restrictions, purchasers are advised to consult legal counsel prior to making any offer, resale, pledge or other transfer of the Bonds offered hereby.

The Bonds have not been registered under the Securities Act or the laws of any jurisdiction and they are being offered and sold only:

- 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:

(i) You are either (a)(i) a qualified institutional buyer, (ii) aware that the sale of the Bonds to you is being made in reliance on Rule 144A and (iii) acquiring the Bonds for your own account or the account of one or more other qualified institutional buyers or (b)(i) a foreign purchaser and outside the United States and (ii) aware that the sale of the Bonds to you is being made in reliance on Regulation S.

(ii) You understand and acknowledge that the Bonds have not been registered under the Securities Act and may not be offered, sold or otherwise transferred except in compliance with the registration requirements of the Securities Act and any other applicable securities law, pursuant to an exemption therefrom, or in a transaction not subject thereto, and in each case in compliance with the conditions for transfer set forth in these Transfer Restrictions.

(iii) You understand and agree that the Bonds are being offered only in a transaction not involving any public offering within the meaning of the Securities Act, and that any future resale, pledge or transfer by you of the Bonds on which the legend set forth in (viii) below appears may be made only (i) to Paraguay, (ii) for so long as the Bonds are eligible for resale pursuant to Rule 144A, to a person that you reasonably believe is a qualified institutional buyer acquiring the Bonds for its own account or for the account of one or more other qualified institutional buyers in a transaction meeting the requirements of Rule 144A, (iii) in an offshore transaction meeting the requirements of Rule 903 or Rule 904 of Regulation S under the Securities Act or (iv) pursuant to an exemption from registration under the Securities Act, in each case of clauses (i) – (iv) in accordance with any applicable securities laws of any state of the United States and any other jurisdiction.

(iv) You are purchasing the Bonds for your own account, or for one or more accounts for which you are acting as a fiduciary, in each case for investment, and not with a view to, or for offer or sale in connection with, any resale or distribution in violation of the Securities Act, subject to any requirement of law that the disposition of your property (or the property of such investor account or accounts) be at all times within your control.

(v) You will, and each subsequent holder is required to, notify any purchaser of Bonds from you or the applicable subsequent holder of the resale restrictions referred to in (2) and (3) above, if then applicable.

(vi) You understand and agree that the Bonds initially offered to qualified institutional buyers in reliance on Rule 144A will be represented by 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.

(vii) You understand and agree that the Bonds initially offered to foreign purchasers outside the United States in reliance on Regulation S will be represented by 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.

(viii) 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 U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND, PRIOR TO THE EXPIRATION OF FORTY DAYS

FROM THE LATER OF (1) THE DATE ON WHICH THIS BOND WAS FIRST OFFERED AND (2) THE DATE OF ISSUANCE OF THIS BOND, MAY NOT BE OFFERED, SOLD OR DELIVERED IN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, ANY U.S. PERSON EXCEPT (A) TO A PERSON WHO THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) PURCHASING FOR ITS OWN ACCOUNT OR THE ACCOUNT OF ONE OR MORE OTHER QUALIFIED INSTITUTIONAL BUYERS IN ACCORDANCE WITH RULE 144A, OR (B) IN AN OFFSHORE TRANSACTION COMPLYING WITH RULE 903 OR 904 OF REGULATION S. THE HOLDER HEREOF, BY PURCHASING THIS SECURITY, REPRESENTS AND AGREES FOR THE BENEFIT OF THE ISSUER THAT IT WILL NOTIFY ANY PURCHASER OF THIS SECURITY FROM IT OF THE RESALE RESTRICTIONS REFERRED TO ABOVE.

THIS BOND AND ANY RELATED DOCUMENTATION MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME TO MODIFY THE RESTRICTIONS ON RESALES AND OTHER TRANSFERS OF THIS BOND TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO THE RESALE OR TRANSFER OF RESTRICTED SECURITIES GENERALLY. THE HOLDER OF THIS BOND SHALL BE DEEMED BY THE ACCEPTANCE OF THIS BOND TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT.

SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

The Republic of Paraguay is a foreign sovereign state. Consequently, it may be difficult for investors to obtain or realize upon judgments of courts in the United States or elsewhere against Paraguay, and enforcement of such judgments may be subject to limitations with respect to attachment of certain classes of assets. Paraguay will irrevocably submit to the jurisdiction of any New York state or federal court sitting in New York City in relation to judicial proceedings arising out of the issuance or sale of the Bonds. In addition, Paraguay will irrevocably waive, to the fullest extent permitted by law, any immunity, including foreign sovereign immunity, from the jurisdiction of such courts in connection with any action based upon the Bonds brought by any holder of Bonds. Paraguay will agree that any process or other legal summons in connection with actions arising or relating to the Bonds may be served upon it by delivery to the Consul General of Paraguay in New York City, having an office on the date hereof on 801 2nd Avenue, Suite 600, New York,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 Santiago Peña Palacios, 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, United States counsel to Paraguay, and for the Initial Purchasers, by Cleary Gottlieb Steen & Hamilton LLP, United States counsel to the Initial Purchasers, and by Gross Brown, Paraguayan counsel to the Initial Purchasers.

AUTHORIZED AGENT

The authorized agent of Paraguay in the United States of America is the Consul General of Paraguay in New York City, whose address is 801 2nd Avenue, Suite 600, New York,NY 10017.

GENERAL INFORMATION

1. The issuance of the Bonds was authorized by the Annual Budget Law (*Ley No. 5554/2016 de Presupuesto General de la Nación*), Presidential Decree No. 4774/2016 (*Decreto del Poder Ejecutivo No. 4774/2016*), Resolutions of the Ministry of Finance No. 20/16 and 130/16 *(Resoluciones del Ministerio de Hacienda No. 20/16* and *130/16)* dated January 20, 2016, and March 3, 2016 respectively, and Resolutions of the Paraguayan Central Bank No. 1/16, 11/16, and 40/16 (*Resoluciones del Banco Central del Paraguay No. 1/16, 11/16*, and *40/16*), dated January 7, 2016, March 18, 2016, and April 17, 2015, respectively.

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 Memorandum.

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

Bonds Offered	CUSIP Number	ISIN Number	Common Code
Rule 144A	699149 AC4	US699149AC49	138927814
Regulation S	P75744 AD7	USP75744AD76	138908011

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 Memorandum.

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 December 31, 2015.

APPENDIX

Paraguay: Gross Public Sector External Debt as of December 31, 2015

Creditor	Currency	Maturity (years)	Last Paid	Type of Interest Rate	Spread	Interest rate (%)	Outstanding Amount as of December 31, 2015 (in millions of US$)
IDB	CAD	50	Nov-16	Fixed	0.00%	0.50%	0.01
IDA	USD	50	Apr-19	Fixed	0.00%	0.75%	0.53
IDA	USD	50	Jul-22	Fixed	0.00%	0.75%	1.07
IDA	USD	50	Sep-24	Fixed	0.00%	0.75%	2.95
IDA	USD	50	May-25	Fixed	0.00%	0.75%	1.14
IDB	USD	40	Jan-17	Fixed	0.00%	2.00%	0.54
IDA	USD	50	Aug-26	Fixed	0.00%	0.75%	1.32
IDB	USD	40	Nov-17	Fixed	0.00%	2.00%	0.40
IDB	USD	41	Jan-18	Fixed	0.00%	2.00%	0.44
IDB	USD	40	Jul-18	Fixed	0.00%	0.00%	0.02
IDB	USD	40	Nov-18	Fixed	0.00%	2.00%	0.50
IDB	USD	40	Jan-19	Fixed	0.00%	2.00%	1.02
IDB	USD	40	May-19	Fixed	0.00%	2.00%	0.92
IDB	USD	40	Sep-19	Fixed	0.00%	2.00%	0.81
IDB	USD	40	Jul-20	Fixed	0.00%	2.00%	2.10
IDB	USD	40	Apr-20	Fixed	0.00%	2.00%	2.86
IDB	USD	40	Mar-22	Fixed	0.00%	2.00%	1.38
IDB	USD	40	Oct-21	Fixed	0.00%	2.00%	5.69
IDB	USD	40	Nov-22	Fixed	0.00%	2.00%	4.76
IDB	CAD	40	Feb-23	Fixed	0.00%	2.00%	2.87
IDB	USD	41	Jan-23	Fixed	0.00%	2.00%	1.84
IDB	USD	40	Jan-23	Fixed	0.00%	2.00%	2.51
IDB	USD	40	Nov-23	Fixed	0.00%	2.00%	4.26
NATIXIS	EUR	30	Mar-18	Fixed	0.00%	2.00%	0.16
NATIXIS	EUR	32	Mar-23	Fixed	0.00%	2.00%	1.23
B I D	USD	40	Sep-24	Fixed	0.00%	2.00%	1.55
IDB	USD	40	May-28	Fixed	0.00%	2.00%	4.65
IDB	USD	40	Sep-28	Fixed	0.00%	2.00%	20.64
IDB	PYG	40	Mar-29	Fixed	0.00%	0.00%	0.05
IDB	USD	40,5	Apr-30	Fixed	0.00%	2.00%	8.93
J I C A	JPY	30	Jul-20	Fixed	0.00%	2.90%	19.61
IDB	USD	40	May-30	Fixed	0.00%	2.00%	14.20
IDB	USD	40	Sep-32	Fixed	0.00%	2.00%	16.28
IDB	IDB	25	Mar-17	Fixed	1.15%	5.18%	1.23
IDB	USD	40	Mar-32	Fixed	0.00%	2.00%	22.45
IDB	IDB	25	Dec-17	Fixed	1.15%	5.18%	1.01
IDB	IDB	30	Mar-18	Fixed	1.15%	5.18%	1.57
IDB	IDB	30	Mar-18	Fixed	1.15%	5.18%	5.01
IDB	IDB	19	Sep-18	Fixed	1.15%	5.18%	0.64
IDB	USD	40	Sep-33	Fixed	0.00%	2.00%	27.08
J I C A	JPY	30	Feb-24	Fixed	0.00%	3.00%	11.12
K F W	EUR	30	Dec-23	Fixed	0.00%	2.00%	8.93
K F W	EUR	30	Dec-22	Fixed	0.00%	4.50%	0.89
IDB	IDB	25	Dec-18	Fixed	1.15%	5.18%	0.80
IDB	USD	40	Dec-33	Fixed	0.00%	2.00%	1.03
IDB	IDB	25	Dec-18	Fixed	1.15%	5.18%	1.79
K F W	EUR	30	Jun-25	Fixed	0.00%	2.00%	1.04
J I C A	JPY	30	Nov-24	Fixed	0.00%	3.00%	19.30
IDB	IDB	20	Apr-20	Fixed	1.15%	5.18%	12.36
IDB	IDB	20	Apr-20	Fixed	1.15%	5.18%	8.82
IDB	IDB	20	Feb-20	Fixed	1.15%	5.18%	3.90
J I C A	JPY	25	Sep-20	Fixed	0.00%	3.00%	12.35
IDB	USD	15	Jun-16	Fixed	1.15%	5.74%	3.25
IDB	IDB	20	Jun-21	Fixed	1.15%	5.18%	6.56
IDB	IDB	20	Jun-21	Fixed	1.15%	5.18%	6.98
IDB	EUR	15	Nov-17	Fixed	1.15%	5.18%	5.56
IDB	USD	19	Jul-17	Libor 3m + Margin of Funding + IDB Margen	2.20%	Floating	2.38
K F W	EUR	20	Jun-17	Fixed	0.00%	4.50%	0.03

Creditor	Currency	Maturity (years)	Last Paid	Type of Interest Rate	Spread	Interest rate (%)	Outstanding Amount as of December 31, 2015 (in millions of US$)
ICO	USD	30	May-28	Fixed	0.00%	1.03%	0.16
ICO	USD	30	May-28	Fixed	0.00%	1.03%	0.12
ICO	USD	30	May-28	Fixed	0.00%	1.03%	0.54
ICO	USD	30	Jul-28	Fixed	0.00%	1.03%	5.29
ICO	USD	30	Jul-28	Fixed	0.00%	1.03%	2.57
ICO	USD	30	Jul-28	Fixed	0.00%	1.03%	1.74
ICO	USD	30	Oct-31	Fixed	0.00%	1.03%	4.93
J I C A	JPY	18	Aug-23	Fixed	0.00%	2.70%	65.02
J I C A	JPY	18	Aug-23	Fixed	0.00%	2.70%	46.10
IDB	USD	20	Jun-18	Fixed	1.15%	5.74%	4.62
IDB	USD	20	Sep-28	Fixed	1.15%	5.74%	17.97
CHINA TRUST COMM. B.	USD	19	Jul-20	Libor 6m + 1%	1.00%	Floating	103.23
EXIMBANK CHINA	USD	15	Jan-20	Libor 6m + 1%	1.00%	Floating	5.33
EXIMBANK CHINA	USD	15	Jan-20	Libor 6m + 1%	1.00%	Floating	18.67
IDB	USD	15	Feb-19	Fixed	1.15%	5.74%	1.81
D. B. PTY LTD	ZAR	18	Dec-16	Fixed	0.00%	5.00%	0.02
IDB	IDB	15	Mar-20	Fixed	1.15%	5.18%	24.33
IDB	IDB	20	Aug-25	Fixed	1.15%	5.18%	22.93
IDB	IDB	20	Aug-25	Fixed	1.15%	5.18%	2.99
IDB	IDB	19	Aug-20	Fixed	1.15%	5.18%	2.03
IDB	IDB	15	Sep-21	Fixed	1.15%	5.18%	2.38
IDB	IDB	18	Sep-21	Fixed	1.15%	5.18%	2.68
IDB	IDB	15	Mar-21	Fixed	1.15%	5.18%	43.94
IDB	IDB	25	Sep-26	Fixed	1.15%	5.18%	7.29
FONPLATA	USD	10	Dec-34	Libor 6m + 1.2%	1.20%	Floating	0.28
IDB	IDB	20	Mar-22	Fixed	1.15%	5.18%	3.67
IBRD	USD	17	Nov-18	Libor 6m + MF	1.25%	Floating	2.31
IDB	IDB	25	Jan-28	Fixed	1.15%	5.18%	16.87
EXIMBANK CHINA	USD	20	Dec-22	Libor 6m + 1%	1.00%	Floating	11.67
IDB	IDB	20	Oct-22	Fixed	1.15%	5.18%	4.00
IDB	IDB	20	Dec-28	Fixed	1.15%	5.18%	15.92
IBRD	USD	23	May-26	Libor 6m + MF	1.55%	Floating	13.33
FONPLATA	USD	10	May-19	Libor 6m + 3.25%	3.25%	Floating	7.15
IBRD	USD	23	Oct-26	Libor 6m + MF	1.55%	Floating	18.32
OPEC	USD	15	Sep-24	Fixed	0.00%	3.50%	7.19
IBRD	USD	23	Oct-27	Libor 6m + MF	1.55%	Floating	10.00
IDB	USD	25	Nov-25	Libor 3m + SLF + IDB Margen	1.20%	Floating	20.00
J I C A	JPY	40	Feb-46	Fixed	0.00%	0.75%	11.49
CAF	USD	10	May-16	Libor 6m + 3.18%	3.32%	Floating	2.77
IDB	USD	20	Oct-25	Libor 3m + SLF + IDB Margen	1.20%	Floating	4.36
IDB	USD	25	Oct-30	Libor 3m + SLF + IDB Margen	1.20%	Floating	1.63
IFAD	SDR	38	Nov-44	Fixed	0.75%	Floating	10.52
IBRD	USD	23	Apr-29	Libor 6m + MF	1.55%	Floating	58.70
IDB	USD	25	Oct-31	Libor 3m + SLF + IDB Margen	1.20%	Floating	112.70
IDB	USD	25	Oct-31	Libor 3m + Margen de Fodeo + IDB Margen	2.20%	Floating	55.43
IDB	USD	25	Oct-31	Libor 3m + SLF + IDB Margen	1.20%	Floating	28.83
IDB	USD	25	Oct-31	Libor 3m + SLF + IDB Margen	1.20%	Floating	3.43
IDB	USD	25	Oct-31	Libor 3m + SLF + IDB Margen	1.20%	Floating	1.23
IDB	USD	30	Mar-38	Fixed	1.15%	4.84%	23.18
IDB	USD	40	Mar-48	Fixed	0.00%	0.25%	5.91
IDB	USD	25	Mar-38	Fixed	1.15%	4.84%	7.10
IDB	USD	40	Mar-48	Fixed	0.00%	0.25%	1.80
IDB	USD	30	Mar-38	Fixed	1.15%	4.84%	4.87
IDB	USD	40	Mar-48	Fixed	0.00%	0.25%	1.24
IDB	USD	30	Feb-38	Fixed	1.15%	4.84%	38.30
IDB	USD	40	Feb-48	Fixed	0.00%	0.25%	10.00
K F W	EUR	30	Jun-38	Fixed	0.00%	2.00%	5.48
IBRD	USD	23	Sep-30	Libor 6m + MF	1.55%	Floating	33.21
IDB	USD	30	Mar-39	Libor 3m + SLF + IDB Margen	1.20%	Floating	3.03

Creditor	Currency	Maturity (years)	Last Paid	Type of Interest Rate	Spread	Interest rate (%)	Outstanding Amount as of December 31, 2015 (in millions of US$)
IDB	USD	40	Mar-49	Fixed	0.00%	0.25%	0.76
FONPLATA	USD	-	Nov-17	Fixed	0.00%	0.00%	0.45
IBRD	USD	27	Oct-35	Libor 6m + MF	1.55%	Floating	26.13
IBRD	USD	27	Mar-36	Libor 6m + MF	1.55%	Floating	100.00
IDB	USD	20	May-29	Libor 3m + SLF + IDB Margen	1.20%	Floating	87.10
IDB	USD	30	Apr-39	Fixed	0.00%	3.95%	40.00
IDB	USD	40	Apr-49	Fixed	0.00%	0.25%	10.00
CAF	USD	10,5	Jun-22	Libor 6m + 2.8%	2.80%	Floating	51.41
IDB	USD	25	Apr-34	Libor 3m + SLF + IDB Margen	1.20%	Floating	28.90
IDB	USD	30	Apr-39	Libor 3m + SLF + IDB Margen	1.20%	Floating	11.05
IDB	USD	40	Sep-49	Fixed	0.00%	0.25%	2.76
OPEC	USD	20	Apr-29	Fixed	0.00%	4.00%	8.84
IDB	USD	25	Apr-35	Libor 3m + SLF + IDB Margen	1.20%	Floating	7.00
IFAD	SDR	20	Nov-29	Floating	0.00%	Floating	2.55
J I C A	JPY	20	Apr-30	Fixed	0.00%	0.80%	10.08
IDB	USD	30	May-40	Libor 3m + SLF + IDB Margen	1.20%	Floating	0.89
IDB	USD	40	May-50	Fixed	0.00%	0.0025	0.22
IDB	USD	25	May-35	Libor 3m + SLF + IDB Margen	1.20%	Floating	5.53
IDB	USD	25	Nov-35	Libor 3m + SLF + IDB Margen	1.20%	Floating	2.56
IBRD	USD	25	Nov-37	Libor 6m + MF	1.55%	Floating	45.75
IDB	USD	30	May-41	Libor 3m + SLF + IDB Margen	1.20%	Floating	9.21
IDB	USD	40	Sep-51	Fixed	0.00%	Fixed	2.30
OPEC	USD	18	Feb-28	Fixed	0.00%	0.0500	9.98
CAF	USD	15	Apr-27	Libor 6m + 2.35%	2.35%	Floating	42.52
IDB	USD	30	May-41	Libor 3m + SLF + IDB Margen	1.20%	Floating	1.10
IDB	USD	40	Oct-51	Fixed	0.00%	0.25%	0.28
IDB	USD	30	Nov-41	Libor 3m + SLF + IDB Margen	1.20%	Floating	25.57
IDB	USD	40	Feb-52	Fixed	0.00%	0.25%	6.39
IDB	USD	20	Nov-31	Libor 3m + SLF + IDB Margen	1.20%	Floating	17.98
IDB	USD	20	Oct-31	Libor 3m + SLF + IDB Margen	1.20%	Floating	0.38
IBRD	USD	25	Nov-36	Libor 6m + MF	1.55%	Floating	100.00
FONPLATA	USD	20	May-32	Libor 6m + 1.75%	1.75%	Floating	75.09
IDB	USD	0	Nov-36	Libor 3m + SLF + IDB Margen	1.20%	Floating	0.52
IDB	USD	0	Nov-36	Libor 3m + SLF + IDB Margen	1.20%	Floating	0.79
IDB	USD	16	May-28	Libor 3m + SLF + IDB Margen	1.20%	Floating	35.50
IDB	USD	30	May-42	Libor 3m + SLF + IDB Margen	1.20%	Floating	51.60
IDB	USD	40	May-52	Fixed	0.00%	0.25%	12.90
IFAD	SDR	18	Nov-30	Floating	0.00%	Floating	4.50
IDB	USD	23	Apr-36	Libor 3m + SLF + IDB Margen	1.20%	Floating	7.83
IDB	USD	30	Apr-43	Libor 3m + SLF + IDB Margen	1.20%	Floating	6.95
IDB	USD	40	Jul-53	Fixed	0.00%	0.25%	1.74
IBRD	USD	30	Oct-43	Libor 6m + MF	1.55%	Floating	16.08
CAF	USD	12	Nov-25	Libor 6m + 2,55%	2.55%	Floating	75.00
IDB	USD	25	Nov-37	Libor 3m + SLF + IDB Margen	1.20%	Floating	0.85
CAF	USD	15	Nov-29	Libor 6m + 2,60%	2.60%	Floating	27.00
CAF	USD	15	Nov-29	Libor 6m + 2,35%	2.35%	Floating	4.58
J I C A	JPY	20	Apr-34	Fixed		0.0095	0.09
BONDHOLDERS	USD	10	Jan-23	Fixed		4.63%	780.00
BONDHOLDERS	USD	30	Aug-44	Fixed		6.10%	1.000.00

Source: Ministry of Finance.

ISSUER

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

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REPUBLIC OF PARAGUAY

OFFERING MEMORANDUM

Joint Book-Runners:

BofA Merrill Lynch **Itaú BBA**

March 23, 2016