OFFERING MEMORANDUM

REPUBLIC OF PARAGUAY

US$1,000,000,000

6.100% Bonds due 2044

We are offering US$1,000,000,000 aggregate principal amount of 6.100% bonds due 2044 (the "Bonds") of the Republic of Paraguay ("Paraguay") that will bear interest on their outstanding principal amount from the date of issuance, expected to be August 11, 2014 (the "Settlement Date"), at a rate of 6.100%, payable semi-annually in arrears on February 11 and August 11 of each year (each, an "Interest Payment Date"), commencing on February 11, 2015 and ending on August 11, 2044 (the "Maturity Date"). The Bonds will be general, direct, unconditional, unsubordinated and unsecured External Debt (as defined herein) of Paraguay and will be backed by the full faith and credit of Paraguay. The Bonds will rank equally in right of payment with all existing and future unsubordinated and unsecured External Debt of Paraguay. Principal and interest payments on the Bonds will be made without withholding or deduction for or on account of taxes imposed by Paraguay. All Bonds will be issued in book-entry form only.

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

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

See "Risk Factors" beginning on page 8 to read about important factors you should consider before investing in the Bonds.

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

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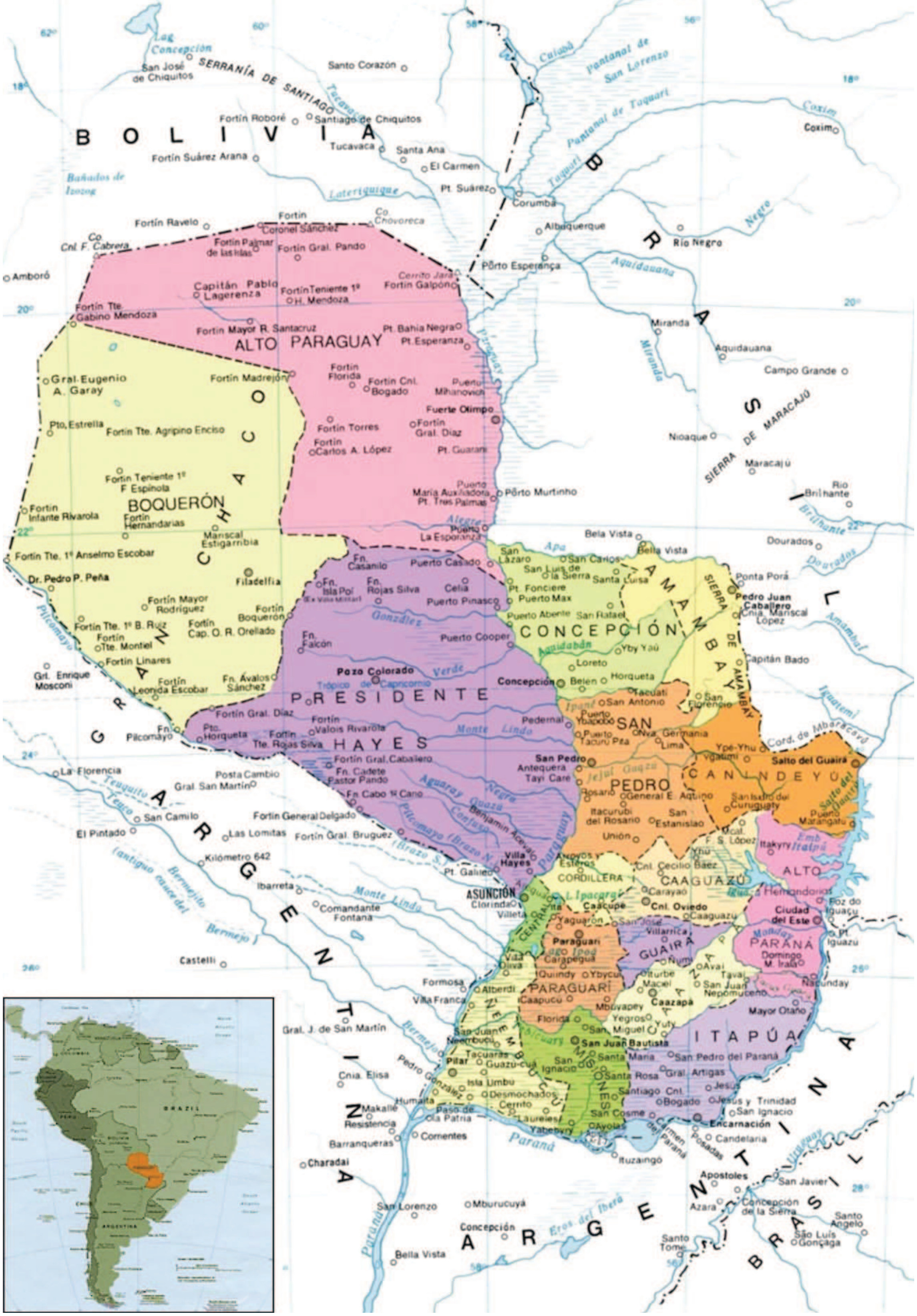
Public Price: 100.000% plus interest, if any, from August 11, 2014.

Delivery of the Bonds in book-entry form will be made through the facilities of The Depository Trust Company ("DTC") and its direct participants, including Euroclear Bank S.A./N.V. ("Euroclear") and Clearstream Banking, Luxembourg, *société anonyme* ("Clearstream") on or about August 11, 2014.

Joint Book-Runners:

BofA Merrill Lynch **J.P. Morgan**

The date of this Offering Memorandum is August 4, 2014.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Pilcomayo
Pedernal
San Pedro
Antequera
Salto del Guairá
Ypé-Jhú
La Florencia
Posta Cambio
Gral. San Martín
San Camilo
El Pintado
Las Lomitas
Fortín General Delgado
Fortín Gral. Bruguez
Villa Hayes
Kilómetro 642
Pt. Galileo
Ibarreta
Comandante Fontana
Clorinda
Villeta
Caacupé
Cnl. Oviedo
Hernandarias
Ciudad del Este
Foz do Iguaçu
Yaguarón
Paraguarí
Villarrica
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Charadai
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Posadas
Candelaria
Apóstoles
San Javier
San Lorenzo
Mburucuyá
Concepción
Santo Tomé
Santo Ângelo
São Luís Gonzaga
Bella Vista

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. Paraguay accepts responsibility for the information it has provided in this Offering Memorandum.

In connection with the issue of the Bonds, Bank of America Merrill Lynch and J.P. Morgan Securities LLC (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 NEW HAMPSHIRE RESIDENTS ONLY

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

NOTICE TO UNITED KINGDOM RESIDENTS ONLY

THIS COMMUNICATION IS ONY 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, AS AMENDED (THE "ORDER") OR (iii) HIGH NET WORTH ENTITIES, 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 REFFERED 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.4,959 for 2009 figures, G.4,740 for 2010 figures, G.4,183 for 2011 figures, G. 4,408 for 2012 figures, G. 4,328 for 2013 figures and G.4,517 for 2014 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 the last business day of June 2014, June 30, was Guaraníes 4,389.56 = US$1.00. References to "billion" are to thousands of millions.

The fiscal year of the government ends on December 31. Unless otherwise indicated, all annual information is based upon a January 1 to December 31 calendar year. Certain monetary amounts included in this Offering 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 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 2012, 2013 and 2014 are preliminary and are subject to further adjustment or revision. The government believes that this practice is substantially similar to the practices of many industrialized nations. The government does not expect revisions to be material, but cannot assure you that material changes will not be made.

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

CAUTIONARY STATEMENT REGARDING PROJECTIONS AND OTHER INFORMATION ABOUT FUTURE EVENTS

This Offering 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 8. These factors include, but are not limited to:

- adverse external factors, such as:
  - a global or regional financial crisis or downturn;
  - higher international interest rates;
  - decisions and policies of international institutions such as the International Monetary Fund, the World Bank, the World Trade Organization, the United Nations, the Organization of American States or the Inter-American Development Bank;
  - adverse court decisions;
  - a downgrade of Paraguay's credit ratings by international rating agencies;
  - changes in MERCOSUR (as defined herein) import tariffs;
  - changes in international commodity prices;
  - recession, low economic growth or economic contraction affecting Paraguay's trading partners;
  - suspension or termination of trade agreements or treaties;
  - deterioration in the economic condition of or Paraguay's relationship with neighboring countries; and
  - international hostilities; and
- adverse domestic factors, such as:
  - deterioration or non-improvement in general economic and business conditions;
  - reduction in foreign currency reserves;
  - volatility of exchange rates of Guaraníes against key currencies;
  - 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 p. 9), before purchasing the Bonds.

Selected Economic Information

THE ECONOMY	2009	2010	2011	2012(1)	2013(1)
GDP(2) (in millions of US$)	$15,955	$20,028	$25,149	$24,691	$29,780
% Change of Real GDP from the Previous Year	(4.0)%	13.1%	4.3%	(1.2)%	13.6%
Population (in thousands)	6,341	6,451	6,562	6,673	6,783
Per Capita GDP	$2,516	$3,105	$3,833	$3,700	$4,390
Inflation Rate(3)	1.9%	7.2%	4.9%	4.0%	3.7%
Unemployment Rate	6.4%	5.7%	5.6%	4.9%	5.0%
Exchange Rate (Guaraníes/per US$)(4)	G.4,967	G.4,739	G.4,196	G.4,422	G.4,304

BALANCE OF PAYMENTS(5)	2009	2010	2011	2012(1)	2013(1)
	(in millions of US$)				
Export of Goods (FOB)	$7,756	$10,474	$12,639	$11,654	$13,605
Imports of Goods	$6,632	$9,593	$11,785	$11,083	$11,942
Current Account Surplus (Deficit)	$482	$(57)	$109	$232	$621
Net Foreign Direct Investment	$95	$216	$557	$480	$382
Overall Balance of Payments Surplus (Deficit)	$915	$319	$784	$(24.5)	$1,036
Total International Reserves (end of period)	$3,861	$4,168	$4,984	$4,994	$5,871

PUBLIC SECTOR FINANCES(6)	2009	2010	2011	2012(1)	2013(1)
	(in millions of US$ and percentage of total GDP)				
Central Government Revenues	$2,794	$3,428	$4,521	$4,667	$4,984
% of real GDP	17.5%	17.1%	18.0%	19.0%	16.6%
Central Government Expenditures	$2,785	$3,180	$4,333	$5,112	$5,556
% of real GDP	17.5%	15.9%	17.3%	20.8%	18.6%
Central Government Balance	$9	$247	$187	$(444)	$(571)
% of real GDP	0.1%	1.2%	0.7%	(1.8)%	(1.9)%
Consolidated Public Sector Revenues	$4,761	$6,634	$7,494	$7,768	$8,531
Consolidated Public Sector Expenditures	$4,114	$4,540	$5,968	$6,727	$7,498
Consolidated Public Sector Balance	$647	$2,094	$1,526	$951	$1,032

PUBLIC SECTOR DEBT	2009	2010	2011	2012(1)	2013(1)
	(in millions of US$ and percentage of total GDP)				
Public Sector Domestic Debt	$496	$465	$411	$1,297	$1,500
Public Sector External Debt	$2,212	$2,340	$2,289	$2,240	$2,674
Total Public Sector Debt	$2,707	$2,804	$2,700	$3,537	$4,174
% of GDP	17.0%	14.0%	10.4%	13.8%	14.1%

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

Republic of Paraguay

Paraguay is located in central South America and as of 2013 had an estimated population of approximately 6.78 million. The population is distributed unevenly across the country, with approximately 59% of the population living in urban areas(approximately 7.7% in Asunción as of 2012) and with less than 3.0% of the population living in regions that account for 61.0% 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 the first quarter of 2014, real GDP increased at an annualized rate of 4.1% compared to 16.4% in the first quarter of 2013. The leading contributors to GDP growth were the commerce and services, agriculture and industry and mining sectors.

In 2013, GDP grew by 13.6% in real terms to approximately US$29.8 billion primarily as a result of growth in the agricultural sector, and GDP per capita increased by 11.7% in real terms. In 2012, real GDP declined by 1.2%, caused mainly by the effects of a drought on the agriculture sector and an outbreak of foot-and-mouth disease (FMD) that affected beef exports. The decline in agricultural production and exports was partially offset by improved results in non-agricultural sectors, such as manufacturing and government spending.

Agriculture continues to dominate the Paraguayan economy, representing 18.0% of real GDP in 2013, up from 13.6% in 2012. The growth of the agricultural sector in 2013 was fueled by favorable weather conditions prevailing in 2013 that led to an increase in soybean production and other products such as corn and manioc, a type of edible root. In 2013, the agricultural sector grew in real terms by 50.5%, recovering from a decrease of 28.3% in 2012.

Other important sectors of the Paraguayan economy include commerce and manufacturing, which represented 14.8% and 10.2%, respectively, of real GDP in 2013, compared to 15.2% and 10.7%, respectively, in 2012. Commerce grew in real terms by 10.5% in 2013 and decreased by 2.6% in 2012. Manufacturing increased in real terms by 7.9% in 2013 and by 4.6% in 2012.

Paraguay is the largest exporter of electricity in South America, the bulk of which is produced at the Itaipú hydroelectric plant and, to a lesser extent, at the Yacyretá hydroelectric plant. Each hydroelectric plant is managed and operated by a binational company created pursuant to a treaty between Paraguay and Brazil, in the case of Itaipú Binational, and Paraguay and Argentina, in the case of Yacyretá Binational. 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 10.4% of total GDP in 2013, down from 11.9% in 2012.

Balance of Payments and Foreign Trade

Between 2009 and 2011, Paraguay maintained a balance of payments surplus, 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. In 2012, the balance of payments recorded a deficit of US$24.5 million as a result of a drop in net exports and an increase in accrued income from foreign direct investment (FDI); nevertheless, the capital account surplus remained stable. The balance of payments surplus for

2013 was US$1,035.7 million (3.5% of GDP) compared to a deficit of US$24.5 million in 2012 and a surplus of US$784.1 million (3.1% of GDP) in 2011. Paraguay's international reserves increased by US$2.0 billion from 2009 to 2013, resulting in total international reserves of US$5.9 billion at December 31, 2013. Paraguay's net international reserves as of June 20, 2014 totaled US$6.4 billion.

Paraguay recorded a current account surplus of US$620.6 million (2.1% of GDP) for 2013, in contrast to a current account deficit of US$231.5 million (0.9% of GDP) for 2012. The capital and financial account recorded a surplus of US$244.9 million (0.8% of GDP) for 2013 and a surplus of US$518.1 million (2.1% of GDP) for 2012. The current account recorded a surplus of US$409.0 million for the first quarter of 2014. According to preliminary data, the capital and financial account recorded a deficit of US$494.5 million for the first quarter of 2014, attributable to the remittances of 2013 dividends by Paraguayan subsidiaries of foreign companies. In 2013, Paraguay received the net proceeds of its US$500 million international bonds, issued in January 2013, which more than offset the remittances by Paraguayan subsidiaries of foreign companies.

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$1.0 billion in 2011 to US$1.4 billion in 2013. Exports to MERCOSUR in 2013 accounted for almost 21% of Paraguay's total exports, with the European Union and Russia accounting for 19.7% and 13.6%, respectively. Brazil is Paraguay's largest trading partner, accounting for 14.0% and 26.4% of registered exports and imports, respectively, during 2013, followed by Argentina, with 3.9% and 14.2% of registered exports and imports, respectively.

Foreign direct investment flows totaled US$1.7 billion between 2009 and 2013. The activities that have attracted most of the foreign direct investment in 2013 were soybean oil production, financial activities and commerce, broadly consistent with the past five years.

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.

The Central Bank has anchored its monetary policy with an inflation targeting scheme. As of December 2013, the Central Bank's annual inflation rate (CPI) target was 5.0%, with a floor of 2.5% and a ceiling of 7.5%. In January 2014, the Central Bank decided to narrow the width of the band, raising the floor to 3.0% and lowering the ceiling to 7.0%. In the 2007-2013 period, the average annual inflation rate was 5.0%, and in each year the actual inflation rate fell within the Central Bank's target range, except in 2009, when CPI was only 1.9%. Inflation was 7.2% in 2010, 4.9% in 2011, 4.0% in 2012 and 3.7% in 2013. As of June 2014, the inflation rate for the prior 12 months stood at 6.4%, near the upper bound of the range.

In 2011 and through most of 2013, the inflation rate showed a downward trajectory as a result of monetary policy decisions and falling food prices, attributable mainly to a reduction in the price of beef. At the end of 2013 and beginning of 2014, the inflation rate (CPI) 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 continuously increasing the monetary policy rate which reached 6.75% in February 2014 and has remained constant since.

The Central Bank was recapitalized most recently in 2012. The Central Bank's negative equity 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 it to focus on monetary policy issues.

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.

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, and unused by Paraguay, and social security contributions). Central government expenditures consist mainly of wages and salaries, payments for goods and services, transfer payments, interest on public debt and investments in infrastructure.

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 2009, the central government's overall balance recorded a surplus of US$9 million (0.1% of GDP) while the central government primary balance showed a surplus equivalent to 0.6% of GDP.

In 2010, the central government's overall balance recorded a surplus of US$248 million (1.2% of GDP) while the central government primary balance showed a surplus equivalent to 1.6% of GDP.

In 2011, the central government's overall balance recorded a surplus of US$188 million (0.7% of GDP) while the central government primary balance showed a surplus equivalent to 1.0% of GDP.

In 2012, the central government's overall balance recorded a deficit of US$445 million (1.8% of GDP), while the central government primary balance showed a deficit equivalent to 1.6% of GDP.

In 2013, the central government's overall balance recorded a deficit of US$572 million (1.9% of GDP), while the central government primary balance showed a deficit equivalent to 1.6% of GDP.

In 2013, Congress passed the Fiscal Responsibility Law, which is intended to prevent discretionary increases in expenditures and sets targets for the central government's overall balance. Ultimately, the Fiscal Responsibility Law seeks to facilitate the adoption of balanced budgets that conform to the financial capacity of the government.

For the six months ended June 30, 2014, the central government's overall balance recorded a surplus of G.300 billion (approximately US$66.8 million), compared to a deficit of G.465 billion (approximately US$108.1 million) for the same period in 2013. The fiscal surplus at June 2014 was primarily the result of 12.4% growth in total revenue, compared to an increase in total expenditure of only 3.5%, in each case compared to the same period in 2013. In spite of these improvements, the government expects the central government's overall balance to record a deficit of approximately 1.7% of GDP for 2014.

From 2009 to 2013, tax revenues averaged 68.5% of total central government revenues, and the majority of tax revenues were provided by consumption taxes (including VAT and excise tax), which accounted for 67.3% 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 increase the central government's revenues over time. The central government's non-tax revenues represented, on average, 25.3% of total central government revenue for the 2009-2013 period. Itaipú Binational and Yacyretá Binational are the largest contributors to the central government's non-tax revenue, accounting for an average 13.9% of total central government revenues in the 2009-2013 period.

The main component of Paraguay's central government expenditures in the 2009-2013 period were payments in wages and salaries, representing on average approximately 45.8% of total expenditures.

Public Sector Debt

The ratio of total public sector debt to GDP, at December 31, 2013, stood at 14.1%, up from 13.8% at December 31, 2012. Paraguay's public sector external debt totaled US$2.67 billion at December 31, 2013, an increase of approximately 19.3% from the end of 2012.

The Inter-American Development Bank and the World Bank are Paraguay's largest creditors, accounting, as of December 31, 2013, for 69.9% and 20.1%, respectively, of Paraguay's total public sector external debt. Paraguay's borrowings from multilateral organizations are used primarily for infrastructure and social development programs.

As of December 31, 2013, total outstanding public sector domestic debt was approximately US$1.5 billion, of which US$1.4 billion was incurred by the central government. On January 25, 2013, Paraguay issued bonds for an aggregate principal amount of US$500 million, which will mature on January 25, 2023. Paraguay has issued treasury bonds in the domestic market through the Central Bank since 2006 and on the Asunción Stock Exchange since July 2012. In 2013, Paraguay issued bonds through the Central Bank, amounting to a total of approximately US$240 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$1,000,000,000 principal amount of 6.100% Bonds due 2044.

Issue Price of the Bonds .... 100.000% of the principal amount of the Bonds, plus accrued interest, if any, from August 11, 2014.

Maturity Date.............................. August 11, 2044.

Interest... The Bonds will bear interest on their outstanding principal amount from their date of issuance, expected to be August 11, 2014, at a fixed rate of 6.100%, payable semi-annually in arrears on February 11 and August 11 of each year, commencing on February 11, 2015.

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

Use of Proceeds .... Paraguay intends to use the net proceeds to finance infrastructure and energy projects, refinance certain of Paraguay's outstanding debt, and provide support to certain sectors of the economy.

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 8 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, dated as of January 25, 2013 between Paraguay and Citibank, N.A., as trustee, which indenture provides for the issuance from time to time of one or more series of debt securities. See "Public Sector Debt—Debt Record—4.625% Bonds Due 2023."
Trustee, Principal Paying Agent, Transfer Agent and Registrar	Citibank, N.A.
Luxembourg Listing Agent, Paying Agent and Transfer Agent	Banque Internationale à Luxembourg SA
Governing Law	The Bonds and the indenture will be governed by and construed in accordance with the laws of the State of New York, except that the laws of Paraguay will govern all matters relating to authorization and execution by Paraguay.

RISK FACTORS

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

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

Risk Factors Relating to Paraguay

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 succeded President Lugo. The impeachment resulted in Paraguay's temporary suspension from MERCOSUR, which provided approximately 42% of Paraguay's imports in 2013 and constitute Paraguay's largest export market, accounting for approximately 21% of Paraguay's exports in 2013. Following the April 2013 election of President Horacio Cartes, the Paraguayan political landscape regained stability, and in August 2013 Paraguay was re-admitted to MERCOSUR. However, an unstable political environment in the future, whether due to disputes relating to land reform 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.

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 in the offering could be said to have an obligation to pay money to Paraguay, and Paraguay's judgment creditors may attempt to restrain Paraguay's interest in any such obligation. Further, Paraguay's creditors could attempt to attach the proceeds of the offering.

Paraguay currently has a court judgment against it outstanding, which the Swiss Federal Tribunal issued in 2005 in favor of nine banks. The judgment is for approximately US$85 million plus interest. In addition, after the judgment issued in favor of the nine banks, one of the banks that had withdrawn its complaint, reinstated its complaint in the Swiss Federal Tribunal and obtained a judgment against Paraguay on September 30, 2012 in the amount of approximately CHF10 million (approximately US$11 million as of July 24, 2014) plus interest.

Should any of these creditors or any other creditors of Paraguay be successful in having their judgments or awards recognized by a court and, in turn, having a court attach part of the proceeds of the offering, Paraguay could not receive all of the proceeds of the offering.

Payments to holders of the Bonds could be attached by creditors to satisfy outstanding 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 plus interest and a judgment in favor of one additional bank in the amount of approximately CHF10 million (approximately US$11 million as of July 24, 2014) plus interest outstanding against Paraguay. For more information on these outstanding judgments, see "—Part of the offering proceeds could be attached by creditors to satisfy outstanding and pending judgments and awards against Paraguay." If creditors are successful in attaching payments to holders of the Bonds, Paraguay may not be able to make payments to holders of the Bonds.

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

After the impeachment and removal from office of former President Lugo in June 2012, Standard & Poor's Rating Services ("Standard & Poor's") placed Paraguay's credit rating on watch for a potential downgrade. Standard & Poor's removed Paraguay from watch for a downgrade on August 29, 2012, having determined that the impact of President Lugo's impeachment would be limited. On June 11, 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 February 2014, Moody's Credit Ratings ("Moody's") also raised Paraguay's long-term foreign and local currency rating to 'Ba2' from 'Ba3'. On January 30, 2014, Fitch Ratings affirmed its long-term foreign and local currency sovereign credit rating at 'BB-' and changed its Outlook from Stable to Positive. Paraguay's ratings or outlooks may be downgraded or placed on watch by Standard & Poor's and Moody's or any other rating agency in the future, making any financing more costly for Paraguay than in the past and, potentially, altogether unavailable. Successive ratings downgrades could occur as Paraguay's borrowing needs increase. If Paraguay increases its sovereign debt levels materially, its ratings could be adversely affected and cut.

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

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

A decrease in Brazilian demand for electricity or Itaipú Binational's inability to service its debt to Electrobras could significantly adversely affect Paraguay's economy and Paraguay's ability to perform its obligations under the Bonds.

The Itaipú hydroelectric plant is a significant source of revenue for the government. In 2013, payments to Paraguay with respect to energy generated at the Itaipú hydroelectric plant, accounted for approximately 2.1% of Paraguay's GDP. Payments to Paraguay by Itaipú Binational consist of royalty payments based on revenues from electricity sales and compensation payments by the Brazilian government based on sales of the unused portion of Paraguay's share of the electricity produced at Itaipu to Brazil. Paraguay owns a 50% equity stake in Itaipú Binational and Brazilian Electric Central S.A. ("Electrobras"), a partially state-owned Brazilian company, owns the remaining 50%. Electrobras provided 85% of the financing for the construction of Itaipú; however, after becoming operational, Itaipú Binational could not service its debt to Electrobras, and in September 1997, Electrobras entered into a restructuring agreement with Itaipú Binational with respect to such outstanding amounts. As of December 31, 2013, Itaipú Binational owed Electrobras approximately US$5.1 billion, which accounts for approximately 37% of Itaipú Binational's total outstanding indebtedness of approximately US$13.8 billion. As of December 31, 2013, Itaipú Binational also owed approximately US$8.7 billion to the National Treasury of Brazil. If Itaipú Binational fails to make payments under its debt to Electrobras, Electrobras may set off such obligations against payments owed by Electrobras to Itaipú Binational. If Itaipú Binational does not receive payments from Electrobras, it would be unable to make payments to Paraguay, which in turn would have a significant impact on the Paraguayan economy and could adversely affect Paraguay's ability to perform its obligations under the Bonds. There is no guarantee that Electrobras will agree to restructure Itaipú Binational's debt obligations in the future.

In addition, the compensation payments Paraguay receives from the sale to Brazil of its unused electricity are contingent on the amount of electricity sold to Brazil. Itaipú Binational provided approximately 17.3% of Brazil's electricity needs and approximately 72.5% of Paraguay's electricity needs in 2013. A decrease in electricity consumption in Brazil would adversely affect Paraguay's compensation revenues, which, in turn, could adversely affect Paraguay's ability to perform its obligations under the Bonds.

Payments that Paraguay receives from the Yacyretá hydroelectric plant are subject to Yacyretá Binational's discretion until 2019. Any decision by Yacyretá Binational not to make payments to Paraguay would adversely affect Paraguay's economy and, in turn, adversely affect Paraguay's ability to perform its obligations under the Bonds.

Yacyretá Binational administers, supervises and operates the Yacyretá hydroelectric plant. The company is owned by Paraguay's state-owned power company 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, but 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. In 2013, discretionary payments received from Yacyretá Binational on account of royalties and compensation totaled approximately US$96 million and accounted for approximately 0.3% of Paraguay's GDP, a decrease from payments received in 2012 that amounted to approximately US$124 million and accounted for approximately 0.5% of Paraguay's GDP. 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 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.

Following a real GDP decrease of 4.0% in 2009, the Paraguayan economy experienced renewed real GDP growth of 13.1% and 4.3%, in 2010 and 2011, respectively, followed by a decline of 1.2% in 2012 and then real GDP growth of 13.6% in 2013. As a result, from 2009 to 2013, real GDP grew at an annual average rate of 5.2%. 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, climatic factors affecting Paraguay's agricultural sector, fiscal and monetary policies, confidence among Paraguayan consumers and foreign and domestic investors and their rates of investment in Paraguay, the willingness and ability of businesses to engage in new capital spending and the rate of inflation. Some of these factors are outside Paraguay's control. A sustained recession could result in a material decrease in Paraguay's fiscal revenues, which in turn would materially and adversely affect the ability of Paraguay to service its public debt, including the Bonds.

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

From time to time, the Paraguayan Central Bank intervenes in the foreign exchange market in order to stabilize the Paraguayan Guaraní. Despite these interventions, the Guaraní has depreciated in the past and may in the future depreciate significantly. If the Guaraní should depreciate significantly over an extended period of time, economic growth in Paraguay could be adversely affected or even reversed, and it would be harder for Paraguay to repay debt obligations denominated in foreign currency. In that event, Paraguay may not be able to perform its obligations under the Bonds, which are denominated in U.S. dollars. Alternatively, if the Guaraní should appreciate significantly, Paraguay's exports may be affected, which would adversely affect Paraguay's economy and Paraguay's ability to perform its obligations under the Bonds.

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

Paraguay's economy is heavily reliant on agriculture, which accounted for approximately 18% of Paraguay's GDP in 2013. 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 50% of Paraguay's agricultural production in 2013. Although the 2012-2013 soybean crop was successfully harvested without a drought, the 2011-2012 soybean crop contracted by approximately 40% compared to 2010-2011 as a result of an extended drought. Recent floods have made roads used for transporting agricultural and livestock products impassable, thereby adversely affected these sectors. 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.

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

Paraguay's economy is exposed to commodity price volatility, especially with regard to soybeans, which make up approximately 50% of Paraguay's agricultural production in 2013 and 34.7% 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 second largest export product in 2011, making up approximately 13.5% of all exports. Although Paraguay is no longer banned from exporting beef to Chile, Paraguay remains banned from exporting beef products to the European Union. Further outbreaks of species-based diseases affecting livestock could result in further restrictions on exports. Also, outbreaks of these diseases or concerns that these diseases may occur and spread in the future, whether or not resulting in regulatory action, can lead to cancellation of orders by customers of Paraguayan beef products and create adverse publicity that may have a material adverse effect on customer demand for Paraguayan beef products. A significant drop in beef products exports would negatively affect Paraguay's economy and could affect Paraguay's ability to perform its obligations under the Bonds.

Paraguay's economy remains vulnerable to external shocks, including international financial downturns or events 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 economy is also vulnerable to adverse developments affecting its principal trading partners. A significant decline in the economic growth of any of Paraguay's major trading partners (which in the case of Russia could result from the recently imposed economic sanctions) 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. Although inflation remained relatively stable in 2012 (4.0%) and 2013 (3.7%), inflation for the 12-month period ending June 2014 stood at 6.4%. In the future, significant inflation may cause Paraguay to impose controls on credit and/or prices, or to take other action, which could inhibit Paraguay's economic growth. In addition, inflation can result in greater market volatility by causing economic uncertainties and reduced consumption, GDP growth and consumer confidence. Inflation, measures to combat inflation and public speculation about possible additional actions have also contributed to economic uncertainty in Paraguay. Any of these factors can have a material adverse effect on Paraguay's results of operations and financial condition.

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

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

The situation in rural areas of Paraguay remains tense after the shootings of June 2012, and attention has focused on the occupation by 6,000 landless farmers of 472,000 hectares of public land at Ñacunday, Santa Rosa del Monday, in the department of Alto Paraná. 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.

The depreciation of the currencies of one or more of Paraguay's other trade partners or trade competitors relative to Guaraníes may result in Paraguayan exports becoming more expensive and less competitive. It may also cause an increase in cheaper imports. A decrease in exports and an increase in imports may have a material adverse effect on Paraguay's economic growth, its financial condition and the ability of Paraguay to service its debt.

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

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. Non-tariff trade barriers to MERCOSUR trade may remain in place or increase in the future. Non-tariff trade barriers negatively affect Paraguay's economy and Paraguay's ability to perform its obligations under the Bonds.

In addition, the Argentine government has threatened to implement trade barriers and import controls to protect the Argentine domestic industry. Argentina is one of Paraguay's most important trade partners, accounting for approximately 3.9% and 14.2% of Paraguay's total imports and exports, respectively, for 2013. In the event

Argentina implements protectionist policies, specifically those affecting the agribusiness sector, Paraguay's economy may be adversely affected and Paraguay's ability to perform its obligations under the Bonds.

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

In recent years, Paraguay's agricultural and livestock sectors have benefitted from an increase in export demand for Paraguayan products, principally beef products and soybeans. In addition, Paraguay's economic growth has been enhanced by imports of capital and consumer goods. During the last quarter of 2010, as a result of a boycott by the Argentine maritime workers' union (Sindicato Marítimo Unido Argentino), Argentine ports denied access to Paraguayan vessels and products. 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 an exchange, there can be no assurance that such application will be accepted or that an active trading market will develop. Illiquidity may have a material adverse effect on the market value of the Bonds.

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

The Bonds will contain provisions for calling meetings of holders of the Bonds to vote on amendments, modifications, and waivers, which are commonly referred to as "collective action clauses." Under these provisions, certain key terms of the Bonds may be amended, including the maturity date, interest rate, and other payment terms, with the consent of the holders of not less than 75% of the aggregate principal amount of the outstanding Bonds or

85% of the aggregate principal amount of the outstanding debt securities (including the Bonds) of all the multiple series affected, with a minimum of 66 2/3% per series. See "Description of the Bonds—Meetings, Amendments and Waivers" in this Offering Memorandum. 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. Litigation continues at the District Court level in the case, as the parties react to the Second Circuit decision in the context of Argentina's obligations under the defaulted debt and the performing bonds.

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. Sovereign issuers may or may not, for example, be able to obtain the requisite creditor consents under their debt pursuant to any applicable collective action clause, such as the collective action clause contained in the Bonds. See "Description of the Bonds—Meetings, Amendments and Waivers." Paraguay cannot predict what the consequences of the Second Circuit decision will be in the Argentina litigation or how it will be applied or implemented in any future restructurings by other sovereigns.

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

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

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

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

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

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

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

USE OF PROCEEDS

The net proceeds of the issuance and sale of the Bonds, after deduction of expenses, including underwriting fees and commissions, are anticipated to be approximately US$998,548,667. Paraguay intends to use the net proceeds to finance infrastructure and energy projects, refinance certain of Paraguay's outstanding debt, and provide support to certain sectors of the economy, in accordance with the Annual Budget Law 5142/2014 (*Ley 5142/2014 de Presupuesto General de la Nación*), as supplemented by Law 5251/2014 (*Ley 5251/2014 de Ampliación del Presupuesto General de la Nación*).

REPUBLIC OF PARAGUAY

Introduction

Paraguay is located in central South America and as of December 2013 had an estimated population of approximately 6.78 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 foreign direct investment ("FDI") in recent years.

Paraguay fosters FDI and other investments in the country, in agricultural and other sectors. Paraguay's market economy has been characterized in recent years as 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.

Paraguay's population was approximately 6.78 million at the end of 2013, with approximately 59% of the population living in urban areas (about 7.7% in Asunción as of 2012). From 2009 to 2012, the population grew at an average rate of 1.7%.

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 GDP(2) (*U.S.$*)	4,752	4,351	3,566	4,499	8,861	10,278	9,049	11,258	15,501	42,486
United Nations Index of Human Development (World Ranking)(3)	111	133	120	108	91	85	77	71	45	3
Life Expectancy at Birth (*years*)(3)	72.7	71.4	73.4	66.9	73.9	73.8	74.2	74.6	76.1	78.7
Infant Mortality (*per 1,000 live births*)(4)	21	25	20	42	17	17	17	16	12	7
Adult Literacy Rate(5)(*%*)	93.9	75.2	84.8	91.2	93.2	93.4	89.6	95.5	97.8	n.a.
Population below the poverty line(6)(*%*)	7.2	13.5	17.9	15.6	8.2	6.1	4.9	n.a	0.9	n.a.

(1) This data may differ from official Government data.
(2) 2011 data.
(3) 2012 data.

(4) 2010 data
(5) Data is the most recent year available between 2005 and 2010.
(6) Data is the most recent year available between 2002 and 2011. 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 2013*

As of 2012, approximately 75% of the population was under 40.

2012 Population by Gender and Age Group(1)

			Gender	
Age /years	**Total population**	**Cumulative Percentage**	**Men**	**Women**
0-4	740,605	11.1	377,479	363,126
5-9	728,988	22.0	371,136	357,852
10-4	711,631	32.7	362,086	349,545
15-19	686,011	43.0	348,620	337,391
20-24	647,937	52.7	328,266	319,671
25-29	590,227	61.5	298,179	292,048
30-34	487,847	68.8	246,170	241,676
35-39	389,299	74.7	195,634	193,665
40-44	343,862	79.8	172,447	171,415
45-49	312,199	84.5	157,194	155,005
50-54	272,110	88.6	137,726	134,384
55-59	230,733	92.0	117,564	113,169
60-64	178,618	94.7	90,694	87,924
65-69	129,615	96.7	64,627	64,988
70-74	95,616	98.1	46,360	49,257
75-79	64,173	99.1	29,928	34,245
80 and above	63,158	100.0	27,006	36,152
Total	6,672,629	100.0	3,371,116	3,301,513

(1) Based on estimates derived from the 2002 national census.
Source: General Direction of Statistics, Surveys and Census, Statistical Compendium 2012.

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 expected upon completion), a smaller hydroelectric facility, in cooperation with Argentina. Inflation averaged 33.7% during the 1950s, 3.5% during the 1960s and 13.4% during the 1970s. The Stroessner administration was able to control inflation during the early 1980s, but decreasing demand for Paraguayan exports during the same period led to increasing levels of unemployment. In addition, starting in 1983, inflation increased and remained high through the early 1990s at an average rate of 13.6% from 1990 to 2000. See "The Paraguayan Economy—Principal Sectors of the Economy—Binational Entities (Binationals)—Electricity Production at Itaipú and Yacyretá Hydroelectric Plants" for information on the hydroelectric projects built during the Stroessner presidency.

In 1989, President Stroessner was overthrown in a *coup* 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.

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. See "—Impeachment and Removal from Office of Former President Lugo and Impact on Foreign Relations." Pursuant to the Constitution, Vice-President Franco was sworn in as president and served for the remainder of Mr. Lugos's term. During this period, President Franco implemented several initiatives to consolidate sustainable medium- and long-term economic growth. In July 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 (*Ley de Alianza Público Privadas*) and related planned infrastructure investment to support growing production through long-term financing provided by Financial Development Agency (*Agencia Financiera de Desarrollo*), Paraguay's government-owned bank.

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

In June 2012, President Lugo was impeached in accordance with the Constitution and was removed from office. Pursuant to the Constitution, then Vice President Franco, leader of the Liberal Party ("PLRA"), was sworn in as president to serve for the remainder of President Lugo's term.

As a direct consequence of Mr. Lugo's impeachment and removal, the presidents of Argentina, Brazil and Uruguay gathered at the MERCOSUR Presidential Summit in June 2012, and suspended Paraguay's membership in MERCOSUR until the next presidential elections or until the next democratically elected president took office. On the same date, the presidents of Argentina, Brazil and Uruguay also admitted Venezuela as a full member to MERCOSUR – a measure that had been opposed by Paraguay prior to its suspension. MERCOSUR did not impose economic sanctions on Paraguay.

The ambassadors to Paraguay of the other MERCOSUR countries and the other 11 members of the Union of South American Nations ("UNASUR") were called back to their home countries for consultations shortly after the impeachment and removal from office of Mr. Lugo.

The Organization of American States (the "OAS") sent a mission to Paraguay in order to gather information on the impeachment of Mr. Lugo and concluded that a *coup* had not occurred and that Paraguay's OAS membership status was not affected by Mr. Lugo's impeachment and removal from office.

UNASUR suspended Paraguay from the bloc as a consequence of the impeachment and removal of President Lugo until Paraguay's next presidential elections.

Paraguay's United Nations member status was not affected by Mr. Lugo's impeachment and removal, and the U.N. did not issue a statement about the removal.

Presidential elections were held in April 2013, resulting in the election of Horacio Cartes, a candidate of the Colorado Party. MERCOSUR formally re-admitted Paraguay as a full member in August 2013 and UNASUR's Council of Heads of State lifted the suspension on the day President Cartes took office in August 2013. In turn, 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.

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 July 2014.

Congressional Representation by Parties

	Senate		**Chamber of Deputies**	
Party	**Seats**	**%**	**Seats**	**%**
Colorado Party (*Asociación Nacional Republicana–Partido Colorado*)	19	42.0%	45	56.0%
Liberal Radical Authentic Party (*Partido Liberal Radical Auténtico*)	13	29.0%	27	34.0%
(*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%
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%
(*Alianza Pasión Chaqueña*)	0	0.0%	1	1.0%
Independent Party	0	0.0%	2	3.0%
Total	45	100.0%	80	100.0%

Source: Superior Court of Electoral Justice.

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

Political and Administrative Structure

Paraguay's political and administrative structure is divided into 17 departments and 244 municipalities, each of which is accorded political, administrative and normative autonomy in their respective jurisdiction and autonomy in the collection and investment of their respective resources, within constitutional limitations.

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

The departments of Presidente Hayes, Boquerón and Alto Paraguay are situated in the large western region of the country, covering 52% of the national territory. The remaining departments, which are the most heavily populated, are in the eastern region.

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

Municipalities are local government entities with juridical personality. They have political, administrative and normative autonomy, as well as autonomy in the collection and investment of their respective resources. The municipal government is headed by a mayor and a municipal assembly, and is elected by direct vote.

Foreign Policy and Membership in International and Regional Organizations

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

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

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

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

Developments in the Agricultural Sector

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

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

Government policies favoring economic growth, education and greater labor mobility will be important determinants of the future social and economic prospects of farmers currently participating in the smaller-scale aspects of the agricultural economy. This continues to be a focus of the central government's economic policies. In an attempt to ease tensions that resulted in the conflict that led to Mr. Lugo's impeachment, on June 11, 2014, President Cartes signed into law a bill that mandated returning a vast tract of ancestral land to the Sawhoymaxa community in furthance of the decision rendered by the Inter-American Court of Human Rights on March 29, 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 maté* bush, whose leaves produced the potent tea that is the national beverage. Tobacco farming also flourished.

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

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

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

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

The Paraguayan government's emphasis on industrial activity increased noticeably in the 1970s. Law 550, also referred to as Law 550/75 or the Investment Promotion Law for Social and Economic Development, opened Paraguay's doors further to foreign investors by providing income-tax breaks, duty-free capital imports, and additional incentives for companies that invested in priority areas, especially in the Chaco region. Law 550 was successful. FDI by U.S., European, and Japanese companies increased significantly during the 1970s. Industrial policies also encouraged the establishment of state-owned enterprises, including ones involved in producing liquor from sugar cane *(aguardiente),* cement and steel.

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

The 1995-2003 Period

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

By 1989, with the change in government, Paraguay embarked on a process of financial liberalization, which continued through the mid-1990s. The authorities introduced a unified, managed floating exchange rate regime, liberalized interest rates, reduced reserve requirements and freed public sector deposits from the Central Bank to the banking system. Banking regulations did not establish sufficiently robust prudential norms for asset classification and did not require 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 financial system as a whole.

The 1995 crisis resulted in the adoption of new banking regulation, intended to overhaul the country's financial system. Law 489 and Law 861, which were adopted in 1995 and 1996, respectively, continue to be in force with a few minor amendments. These statutes, which were fully implemented by 1999, aimed at increasing supervision powers of the Central Bank and strengthening the stability of the banking sector by improving internal banking procedures and enforcing minimum capitalization ratios, limitations on related party transactions, risk-weighted asset rules and risk control management.

In 2002, further to the effects of the economic downturn, the volatility in the region following Argentina's default, the freeze of deposits and adoption of exchange controls in Argentina led to a run on a Paraguayan subsidiary of an Argentine bank, which held approximately 11% of total deposits in the Paraguayan financial system. This led to a loss of confidence in the banking system as a whole and resulted in a run on several banks, which in combination with the depreciation of the Guaraní against major currencies, resulted in a system-wide financial crisis. Finally, in 2003, the Paraguayan monetary authorities were confronted with an isolated case of fraud in a medium-sized, locally owned bank that did not have systemic repercussions. The 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 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 that adversely affected the Paraguayan economy, including the negative impact of adverse weather conditions on crop production, an FMD outbreak that negatively affected exports from the livestock sector and a decline in the construction sector. In addition, Paraguay's largest commercial bank, which was a subsidiary of an Argentine bank, was forced into liquidation after the controlling shareholder became subject to the deposit freeze and exchange control measures adopted by the Argentine government upon abandoning 10 years of foreign exchange parity with the US$. Paraguay was unsuccessful in negotiating a stand-by credit facility and, in 2003, the government defaulted in the payment of US$210 million worth of debt, of which 65.7% was debt owed to local banks and government suppliers. Thereafter, the government through a law enacted by Congress restructured all of the defaulted debt by exchanging the old bonds for new bonds.

In 2003, Paraguay entered into a stand-by facility with the IMF for special drawing rights equivalent to US$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 various 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.

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 4.8% during the 2009 – 2013 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 – 2012 real GDP grew by an average of 3.9% per year, helping to reduce poverty. Total international reserves rose to almost US$6 billion by the end of 2013 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 12 months of the Cartes administration, the government has deployed the following initiatives:

Fiscal discipline and responsibility. On September 18, 2013, the government submitted its Fiscal Responsibility Law ("FRL" or *Ley de Responsabilidad Fiscal*) to Congress, which was passed on October 29, 2013. The FRL aims to promote fiscal discipline by containing current spending and setting limits on fiscal deficits. Towards that end, the FRL establishes a ceiling of 1.5% of GDP (or 1.0% average over a 3-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.

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, as of June 30, 2014 increased tax revenues have contributed to a primary surplus of G.526 billion (approximately US$119 million) (0.4% of GDP), compared to a deficit of G.324 billion (approximately US$75 million) (0.3% of GDP) during the same period in 2013.

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 with the offering of the Bonds builds on the first access to the international capital markets by the Franco administration in January 2013, 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, though the AFD, the government has made US$76 million of financing available to private sector participants in the infrastructure projects during the first half of 2014. As part of this plan, the Law of Public-Private Partnerships (*Ley de Alianza Privadas*, 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.

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. It intends to submit to Congress bills designed to increase transparency and the accountability of pension fund managers. 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 the working capital on terms that will allow them to participate in and contribute to an increasingly dynamic economy. 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 2009-2013 period, real GDP grew at an annual average rate of 5.2%. GDP decreased by 4.0% in 2009, increased by 13.1% and 4.3% in 2010 and 2011, respectively, declined by 1.2% in 2012, and increased by 13.6% in 2013. GDP per capita increased in real terms at an average annual rate of 3.4% from 2009 to 2013. GDP per capita declined in real terms by 5.6% in 2009 and grew by 11.2% in 2010 and 2.6% in 2011. In 2012, GDP per capita declined by 2.9% and increased by 11.7% in 2013.

In 2009, after six years of consecutive growth, Paraguay's real GDP contracted by 4.0%. The recession was caused by the combined effect of a drought that adversely affected the agricultural sector, especially the soybean harvest, and the effects of the 2008 global financial crisis that resulted in a 8.2% decrease in exports in real terms, which in turn depressed domestic demand, reduced consumption and investment, particularly in the construction sector. In 2009, remittances totaled approximately US$201 million, representing 1.3% of GDP.

In 2010, real GDP grew by 13.1%, fueled largely by an increase in the production of commodities, mainly soybeans and meat and the recovery of the commercial, industrial and public and private sectors. In 2010, remittances totaled approximately US$274 million, representing 1.4% of GDP.

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. On the other hand, the livestock sector decreased as a result of an FMD outbreak in September 2011. In addition, there were difficulties in the production and supply of cement that negatively affected the construction sector. The shortage in supply was the result of a malfunction in the state-owned cement company's machinery attributable to years of underinvestment. In response, the government authorized cement imports and allowed two privately held companies to start producing cement in competition with the state-owned company. Finally, imports were negatively affected by a decrease in the water level of the Paraguay River that adversely affected the transport of fuel oil and other imported products. The unavailability of these products resulted in a decrease in sales. In 2011, remittances totaled approximately US$451 million, representing 1.8% of GDP.

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 2012, remittances totaled approximately US$528 million, which represent 2.1% of GDP.

In 2013, real GDP grew by 13.6%, driven mainly by the agricultural and livestock sectors, which grew by 60.1% combined. Agricultural exports increased about 18.1% 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 9.4%, including growth in transportation (20.0%), commerce (10.5%) and business and professional services (15.0%). Government services increased by 7.0% in 2013, while its participation in total real GDP decreased slightly to 8.5% in 2013, compared to 9.0% in 2012, 7.1% in 2011 and 7.0% in each of 2010 and 2009. In 2013, remittances totaled approximately US$519 million, representing 1.7% of total GDP. 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.

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

Nominal GDP and Domestic Expenditures

	2009	2010	2011	2012(1)	2013(1)
	(in millions of US$, at current prices)				
GDP	$15,955	$20,028	$25,149	$24,691	$29,780
Imports of goods and services	7,139	10,320	12,599	12,001	12,889
Total supply of goods and services	23,094	30,348	37,748	36,692	42,669
Less: Exports of goods and services	8,223	11,035	13,238	12,667	14,243
Total goods and services available for domestic expenditures	$14,871	$19,313	$24,510	$24,027	$28,426
Allocation of goods and services					
Private Consumption	10,928	13,971	17,628	17,072	20,281
Public Consumption	1,743	2,092	2,667	3,124	3,564
Total Consumption	$12,671	$16,063	$20,295	$20,196	$23,845
Gross fixed investment	2,155	3,175	4,119	3,740	4,554
Changes in inventory	46	75	96	89	27
Total domestic expenditure	$14,871	$19,313	$24,510	$24,024	$28,426

(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

	2009	2010	2011	2012(1)	2013(1)
	(as percentage of total nominal GDP)				
Government consumption	10.9	10.4	10.6	12.7	12.0
Private consumption	68.5	69.8	70.1	69.1	68.1
Gross fixed investment	13.5	15.9	16.4	15.1	15.3
Changes in inventories	0.3	0.4	0.4	0.4	0.1

Nominal GDP by Expenditures

	2009	2010	2011	2012[(1)]	2013[(1)]
	(as percentage of total nominal GDP)				
Exports of goods and services	51.5	55.1	52.6	51.3	47.8
Imports of goods and services	44.7	51.5	50.1	48.6	43.3
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

	2009	2010	2011	2012[(1)]	2013[(1)]
	(percentage change from previous year)				
Government consumption	13.7	12.0	5.3	21.0	7.7
Private consumption	(3.0)	13.5	5.6	1.0	8.8
Gross fixed investment	(6.9)	21.7	11.0	(7.7)	14.2
Changes in inventories	(59.1)	42.0	7.5	(5.0)	56.9
Exports of goods and services	(8.2)	19.9	6.2	(6.7)	17.6
Imports of goods and services	(8.5)	24.8	10.4	(3.5)	11.8
GDP	(4.0)	13.1	4.3	(1.2)	13.6

(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 2009 to 2013, with the exception of 2012 which was marked by decreased activity in the agriculture sector. Agriculture, commerce and electricity production from binationals constitute the largest components of real GDP, representing 18.0%, 14.8% and 10.4%, respectively, of real GDP in 2013, compared to 13.6%, 15.2% and 11.9%, respectively, in 2012, 18.7%, 15.5% and 11.2%, respectively, in 2011, 18.3%, 15.7% and 10.9%, respectively, in 2010, and 13.8%, 16.0% and 12.4%, respectively, in 2009.

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

Nominal GDP by Sector

	2009	2010	2011[1]	2012[1]	2013[1]
	(in millions of current US$, at current prices)				
Goods					
Agriculture	$ 1,681	$ 2,665	$ 3,303	$ 2,438	$ 4,017
Livestock	829	1,155	1,402	1,214	1,442
Forestry	236	250	338	369	396
Fishery	9	9	12	11	12
Mining	21	24	33	34	38
Manufacturing	1,853	2,239	2,758	2,709	3,105
Construction	933	1,233	1,696	1,742	2,068
Total production of Goods	*5,561*	*7,577*	*9,541*	*8,516*	*11,076*
Services					
Electricity and Water	219	242	295	294	327
Transportation	590	632	735	756	953
Communications	452	522	636	685	806
Commerce	2,568	3,157	3,813	3,486	4,346
Finance	505	716	1,039	1,182	1,355
Housing	157	175	214	227	248
Business Services	369	435	565	566	680
Restaurants and Hotels	159	195	251	254	289
Household Services	831	949	1,250	1,277	1,382
Government	1,509	1,798	2,477	3,036	3,529
Total production of Services	*7,358*	*8,820*	*11,277*	*11,763*	*13,915*
Gross Value Added	*12,919*	*16,397*	*20,818*	*20,279*	24,991
Taxes on products	1,395	1,917	2,459	2,427	2,802
Total	*14,314*	*18,314*	*23,276*	*22,706*	*27,794*
Binationals[2]	1,641	1,714	1,873	1,985	1,986
Total GDP	*$ 15,955*	*$ 20,028*	*$ 25,149*	*$ 24,691*	*$ 29,780*

(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.

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

Percent of Total Real GDP by Sector

	2009	2010	2011	2012[1]	2013[1]
			(in percentages)		
Goods					
Agriculture	13.8%	18.3%	18.7%	13.6%	18.0%
Livestock	5.6	5.4	4.8	5.2	5.0
Forestry	1.6	1.3	1.2	1.3	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	11.4	10.7	10.1	10.7	10.2
Construction	3.6	3.6	3.5	3.5	3.5
Total production of Goods	*36.1*	*39.3*	*38.5*	*34.5*	*38.1*
Services					
Electricity and Water	1.7	1.6	1.6	1.8	1.6
Transportation	3.4	3.3	3.2	3.3	3.5
Communications	3.9	3.6	4.0	4.6	4.4
Commerce	16.0	15.7	15.5	15.2	14.8
Finance	2.3	2.2	2.5	2.9	2.8
Housing	1.6	1.4	1.4	1.4	1.3
Business Services	2.5	2.3	2.3	2.4	2.5
Restaurants and Hotels	1.0	1.0	1.0	1.0	1.0
Household Services	5.3	4.9	5.0	5.2	4.7
Government	7.0	7.0	7.1	9.0	8.5
Total production of Services	*44.6*	*42.9*	*43.6*	*46.8*	*45.1*
Gross Value Added	*80.7*	*82.2*	*82.0*	*81.3*	*83.1*
Taxes on products	6.9	6.8	6.7	6.8	6.4
Total	*87.6*	*89.1*	*88.8*	*88.1*	*89.6*
Binationals[2]	12.4	10.9	11.2	11.9	10.4
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

	2009	2010	2011	2012[1]	2013[1]
	(percentage change from previous year, at constant prices)				
Goods					
Agriculture..................................	(25.0)%	49.8%	7.0%	(28.3)%	50.5%
Livestock	4.8	8.5	(7.1)	7.2	9.6
Forestry.......................................	(4.3)	(9.0)	3.0	2.3	0.5
Fishery	1.5	(4.0)	2.0	1.5	1.5
Mining	3.0	3.2	5.3	1.5	4.0
Manufacturing	(0.8)	6.3	(1.6)	4.6	7.9
Construction	2.0	13.0	1.5	1.0	14.0
Total production of Goods..........	(10.9)	23.2	2.1	(11.5)	25.3
Services					
Electricity and Water	4.8	5.1	8.7	7.0	5.5
Transportation.............................	(10.5)	7.0	2.5	1.1	20.0
Communications..........................	4.4	6.2	15.0	13.1	10.0
Commerce...................................	(3.4)	10.9	3.0	(2.6)	10.5
Finance	6.6	12.0	17.3	13.0	9.6
Housing	1.7	1.5	2.2	2.5	2.5
Business Services	12.4	6.3	4.0	2.8	15.0
Restaurants and Hotels	0.5	8.5	6.0	4.5	8.0
Household Services	7.0	4.0	6.5	2.3	3.5
Government	15.2	13.0	6.0	25.5	7.0
Total production of Services........	2.3	8.9	5.9	6.1	9.4
Gross Value Added	*(4.1)*	*15.3*	*4.1*	*(2.1)*	*16.1*
Taxes on products.......................	(1.0)	12.0	3.0	(0.3)	7.5
Total...	*(3.8)*	*15.0*	*4.0*	*(2.0)*	*15.5*
Binationals[2]	(4.8)	(0.6)	7.1	4.8	(0.5)
Total GDP	*(4.0)%*	*13.1%*	*4.3%*	*(1.2)%*	*13.6%*

(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 24.2% of real GDP in 2013.

Agriculture. The agricultural sector grew at an average annual rate of 10.8% from 2009 to 2013. The agricultural sector declined by 25.0% in 2009 compared to 2008 as a result of a drought that adversely affected the sector, especially the soybean harvest. In 2010 and 2011, the agricultural sector grew by 49.8% and 7.0%, respectively. In 2012, another drought affected the agricultural sector, causing it to decrease by 28.3%. In 2013, the agricultural sector recovered strongly, growing by 50.5%. As of December 31, 2013, the agricultural sector accounted for 18.0% of real GDP

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 2009 to 2013 and responsible for 7.4% of GDP growth in 2013. 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 and has been buoyed by adequate international prices. In addition to producing goods for export, the agricultural sector supplies raw materials for Paraguay's manufacturing sector.

The growth of the agricultural sector has been driven mainly by an increase in soybean production, as well as an increase in other products such as corn and rice. During the five-year period ending 2013, 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). 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$160 million that started in March 2012. As of June 2013, ADM operated at 100% of its total capacity and processed 3,500 metric tons of soybeans per day, which amounts to 1.2 million tons of soybeans per year. As a result of these investments, Paraguay now processes 55% of its crushed soybeans into oil domestically.

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

Selected Agricultural Production

	2009	2010	2011	2012	2013[(1)]
			(in tonnes)		
Soybeans	3,855,000	7,460,435	8,309,793	4,344,960	9,086,000
Corn	1,857,840	3,108,821	3,345,877	3,079,525	4,120,000
Manioc	2,610,000	2,624,084	2,453,837	1,685,600	2,800,000
Wheat	1,066,800	1,401,987	1,463,881	1,560,600	1,430,000
Sugar Cane	4,800,000	5,130,941	5,339,010	4,186,000	5,544,797
Rice	215,000	315,213	408,246	396,000	617,400
Beans	42,980	48,775	53,237	26,438	56,000
Sunflower	194,000	262,293	108,609	78,950	115,500
Cotton	18,000	15,054	30,612	28,800	49,500
Peanuts	22,590	26,564	24,032	11,875	30,000
Tobacco	5,688	6,340	6,441	4,848	5,375

(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)]

	2009	2010	2011	2012	2013
			(in US$)		
Soybeans (US$/ton.)[2]	$381	$385	$484	$536	$520
Beef (US$/ton.)[3]	1,849	2,093	2,525	2,704	2,784
Corn (US$/ton.)[4]..	145	167	268	273	229
Sunflower Seeds (US$/ton.)[5]......................................	349	524	584	630	552
Cotton (US$/ton.)[6]..	1,261	2,066	3,037	1,766	1,838
Wheat (US$/ton.)[7]..	193	213	261	277	252

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

	2009	2010	2011	2012	2013[1]
		(Percentage change from previous year)			
Soybeans...	(42.7)%	93.5%	11.4%	(47.7)%	109.1%
Corn	(24.8)	67.3	7.6	(8.0)	33.8
Manioc..	17.6	0.5	(6.5)	(31.3)	66.1
Wheat..	33.4	31.4	4.4	6.6	(8.4)
Sugar Cane..	(5.6)	6.9	4.1	(21.6)	32.5
Rice...	48.6	46.6	29.5	(3.0)	55.9
Beans	(3.7)	13.5	9.1	(50.3)	111.8
Sunflower	1.5	35.2	(58.6)	(27.3)	46.3
Cotton	(71.8)	(16.4)	103.3	(5.9)	71.9
Peanuts..	(24.7)	17.6	(9.5)	(50.6)	152.6
Tobacco	51.2	11.5	1.6	(24.7)	10.9

(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 2013, the livestock sector represented 5.0% of real GDP. In 2009, the livestock sector grew by 4.8% and in 2010 by 8.5%. 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 9.6% in real terms.

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

Selected Livestock Production

	2009	2010	2011(1)	2012(1)	2013(1)
	(in millions of US$, at current prices)				
Livestock production	$829	$ 1,155	$ 1,402	$ 1,214	$ 1,442

(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

	2009	2010	2011	2012(1)	2013(1)
	(percentage change from previous year, in constant prices)				
Livestock production	4.8%	8.5%	(7.1)%	7.2%	9.6%

(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 and Israel in recent years.

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. However, Paraguayan beef exports continue to be denied access to the European Union market. The regained status as an FMD-free country with vaccination contributed to an increase of approximately 33% in Paraguay's beef exports (in nominal U.S. dollar terms) compared to 2012.

The following table sets forth the main destinations of Paraguayan beef exports as of December 31, 2013.

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

	As of December 31, 2013
	(% of Total)
Russia	56.5%
Brazil	8.5

Chile	8.3
Hong Kong	6.8
Israel	6.4
Georgia	2.9
Angola	2.3
Kuwait	1.7
Gabon	1.1
Others	5.4
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 2013, the manufacturing sector represented 10.2% of real GDP. In 2009, the manufacturing sector declined by 0.8% but recovered by 6.3% in 2010. In 2011, the manufacturing sector again declined by 1.6% but increased by 4.6% in 2012 and again increased by 7.9% in 2013.

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

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. As a result of increased domestic production, dairy product imports have declined. In 2013, 1.6 million liters of milk per day were processed, amounting to approximately 584 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 FDI to the manufacturing sector. In this respect, the Maquila Regime is a priority for the government. See "—Current Economic Policy" for more information on the Maquila Regime. There are approximately 60 enterprises operating in the departments of Central, Alto Paraná, Amambay and Caaguazú that exported manufacturing goods amounting to US$160 million in 2013. Further investments are expected, including in the automotive spare parts industry.

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

	2009	% of Total	2010	% of Total	2011[(1)]	% of Total	2012[(1)]	% of Total	2013[(1)]	% of Total
	(in millions of US$, at current prices)									
Processed Meats	$ 515	27.8%	$ 683	30.5%	$ 770	27.9%	$ 692	25.5%	$ 818	26.4%
Beverages and Tobacco	294	15.9	369	16.5	492	17.9	510	18.8	566	18.2
Textiles and Clothing	186	10.0	217	9.7	300	10.9	312	11.5	369	11.9

Timber	94	5.1	98	4.4	129	4.7	134	5.0	144	4.7
Chemicals	74	4.0	85	3.8	108	3.9	111	4.1	130	4.2
Milling and Bakery	70	3.8	74	3.3	102	3.7	97	3.6	124	4.0
Paper and Paper Products	76	4.1	84	3.7	101	3.7	111	4.1	123	4.0
Oil Products[(2)]	58	3.1	65	2.9	85	3.1	81	3.0	89	2.9
Leather and Shoes	40	2.2	49	2.2	59	2.2	59	2.2	71	2.3
Sugar	32	1.7	44	1.9	55	2.0	51	1.9	52	1.7
Other Foodstuffs	37	2.0	40	1.8	55	2.0	57	2.1	65	2.1
Dairy Products	20	1.1	23	1.0	38	1.4	42	1.6	47	1.5
Non-Metallic Products	134	7.2	164	7.3	187	6.8	193	7.1	226	7.3
Machinery and Equipment	84	4.5	94	4.2	102	3.7	95	3.5	109	3.5
Base Metal Products	51	2.8	52	2.3	49	1.8	40	1.5	42	1.3
Other Manufactured Products	88	4.7	100	4.5	125	4.5	124	4.6	129	4.1
Total	$ 1,853	100.0%	$ 2,239	100.0%	$ 2,758	100.0%	$ 2,709	100.0%	$ 3,105	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				
	2009	2010	2011[(1)]	2012[(1)]	2013[(1)]
	(percentage change from previous year, at constant prices)				
Processed Meats	6.3%	10.0%	(16.7)%	7.0%	13.0%
Beverages and Tobacco	4.6	9.0	7.0	5.0	2.0
Textiles and Clothing	(6.8)	6.0	2.0	7.4	15.7
Timber	(28.2)	(6.0)	7.0	1.5	2.0
Chemicals	6.6	7.0	8.5	5.0	7.5
Milling and Bakery	7.5	2.0	6.0	5.0	2.5
Paper and Paper Products	(13.7)	5.0	6.8	5.0	6.0
Oil Products[(2)]	(4.5)	6.5	3.5	(1.3)	6.0
Leather and Shoes	(2.0)	(1.0)	(1.5)	2.0	8.5
Sugar	(11.9)	(20.0)	(5.5)	3.5	3.0
Other Foodstuff	8.5	2.0	4.5	10.1	4.0
Dairy Products	11.6	3.5	30.3	20.5	4.0
Non-Metallic Products	6.5	10.5	(8.2)	4.5	13.5
Machinery and Equipment	(10.6)	11.0	4.3	(1.5)	1.5
Base Metal Products	(4.5)	0.0	(6.5)	(10.5)	(1.0)
Other Manufactured Products	(2.5)	1.0	1.5	2.5	2.5

Total..	(0.8)	6.3	(1.6)	4.6	7.9

(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 3.5% of real GDP in 2013. In 2009, the construction sector grew by 2.0% (fueled in part by the government's decision to increase gross fixed investment to offset in part the effects of the economic contraction) and grew by 13.0% in 2010. In 2011, the construction sector slowed its growth rate to 1.5% and activity remained stable in 2012, growing by 1.0%. In 2013, the construction sector grew 14.0%, 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 2009-2013 period. For example, in Asuncion, many international hotel chains have opened hotels and construction of commercial real estate has increased significantly.

Mining. Mining consists primarily of the extraction of kaolin, gypsum and limestone. In recent years, metalic mining has shown positive growth. In 2013, the mining sector accounted for 0.1% of real GDP. At present, some foreign companies are beginning gold extraction in Paso Yobai. Gold exports in 2013 totaled approximately 1,500 ounces of gold. In addition, Crescent Global Oil, based in Fort Worth, Texas, entered into a farm-out agreement with London-based President Energy Plc to carry out a 700 km 3D seismic acquisition program on the Pirity basin located in the Paraguayan Chaco region with prospects of drilling six exploratory wells in 2014-2016.

Services. In 2013, the services sector accounted for 45.1% of real GDP. The services sector grew by 6.5% on average in real terms for the five-year period ending in 2013. In 2009, the services sector grew by 2.3% to US$7.4 billion. The services sector grew by 8.9% in 2010 to US$8.8 billion, by 5.9% in 2011 to US$11.3 billion and 6.1% in 2012 to US$11.8 billion. In 2013, the services sector grew by 9.4% to US$13.9 billion.

Commerce. Most of the commercial activity centers on agricultural, manufacturing and imported goods. In 2013, commerce represented 14.8% of real GDP. In 2009, commerce declined by 3.4%. Commerce grew by 10.9% in 2010 and by 3.0% in 2011. Commerce declined by 2.6% in 2012 and grew by 10.5% in 2013. Growth in the sector during the 2009-2013 period was mainly driven by a growing domestic demand, a higher volume of trade in agricultural goods and the increase of imports.

Government. The government sector is mostly composed of expenditures in wages of the central government, the local governments and decentralized entities (excluding state-owned companies). In 2013, the government sector represented 8.5% of real GDP. The sector grew at an average annual rate of 13.3% in the 2009-2013 period. In 2009, the government sector grew by 15.2%, by 13.0% in 2010, 6.0% in 2011, 25.5% in 2012 and by 7.0% in 2013. In 2009, 2010 and 2012, the acceleration in the sector was mainly the result of the implementation of extraordinary increases in wages and salaries of public sector employees.

Communications. The communications sector is comprised of telecommunication companies in the country and, mail services, such as private courier companies. The sector grew at an average annual rate of 9.7% in the 2009-2013 period. In 2009, the sector grew by 4.4% and grew by 6.2% in 2010, 15.0% in 2011, 13.1% in 2012 and 10.0% in 2013. Growth in the communications sector was driven by significant investments by mobile telecommunications companies and the confirmed increase in the number of consumers of telecommunications services.

Finance. The finance sector includes all the banks, financial and insurance companies in the financial system. The sector experienced solid growth in the 2009-2013 period, with an average annual growth rate of 11.7%. In 2013, the finance sector represented 2.8% of real GDP. In 2009, the sector grew by 6.6% and grew by 12.0% in 2010, 17.3% in 2011, 13.0% in 2012 and 9.6% in 2013. Growth in the finance sector in this period was fueled by macroeconomic stability and confidence in the banking sector, which is reflected in the increase in deposits and loans.

Other Services. Other important services sectors include transportation, household services and hotels and restaurants. Transportation declined by 10.5% in 2009 but grew by 7.0% in 2010, 2.5% in 2011 1.1% in 2012 and 20.0% in 2013. Household services grew by 7.0% in 2009, 4.0% in 2010, 6.5% in 2011, 2.3% in 2012 and 3.5% in 2013. Finally, the hotel and restaurant services grew by 0.5% in 2009, 8.5% in 2010, 6.0% in 2011, 4.5% in 2012 and 8.0% in 2013.

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. 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 10.4% of real GDP in 2013, is included in the calculation of Paraguay's GDP. Acaray, a hydroelectric facility owned by National Electricity Administration ("ANDE"), a Paraguayan state-owned company, is also a part of the energy system, and its production is used entirely locally.

Itaipú, 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, and its construction extended over 17 years at a cost of US$18.0 billion. Not only is Itaipú a significant source of low-cost electric power for Paraguay, but it is also a significant source of revenues in U.S. dollars for the government.

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

The construction of Itaipú began in 1974, and its first turbine began operations in 1985. Itaipú currently has 20 turbines in operation. Itaipú Binational's electricity production during 2013 reached 98.63 million MWh and supplied 75% and 17% of the electric power consumed in Paraguay and Brazil, respectively. The Itaipú Treaty remains in force until 2023.

Pursuant to the Itaipú Treaty, Paraguay is entitled to receive (i) an annual royalty from Itaipú Binational in an amount determined on the basis of a formula set forth in the Treaty and (ii) compensation from the Brazilian government for the unused portion of Paraguay's share of electricity produced by Itaipú that must be sold to Electrobras at cost in accordance with the Treaty. The amount of the compensation is negotiated between both governments and currently stands at US$9.5 per MgW/hour. In 2013, Paraguay received royalty payments and compensation payments of US$635 million, equivalent to 2.1% of GDP. Revenues grew by 2.2% in 2009 to US$346 million, declined by 8.7% in 2010 to US$316 million, grew by 22.4% in 2011 to US$386 million and increased in 46.5% in 2012 to US$566 million. In 2013, revenues increased by 12.1% to US$635 million. Revenues fluctuate as a result of the total production of electricity, which itself depends on the water flow of the Paraná River.

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

Revenues from Itaipú

	2009	2010	2011[(1)]	2012[(1)]	2013[(1)]
	(in millions of US$)				
Royalties	$ 231.6	$ 211.9	$ 222.9	$ 252.4	$ 272.2
Compensation	114.0	103.7	163.6	313.8	362.5
Total	$ 345.6	$ 315.6	$ 386.5	$ 566.2	$ 634.7

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

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. As of December 31, 2013, Itaipú Binational's aggregate indebtedness to Electrobras was approximately US$5.1 billion, approximately 36.8% of Itaipú's total outstanding debt in Loans and Financing of US$13.8 billion. In addition, Itaipú Binational owes US$8.7 billion to the National Treasury of Brazil (approximately 62.9% of Itaipú's total outstanding debt in Loans and Financing).

Under the Itaipú Treaty, Itaipú Binational receives the revenues required to cover its operating expenses, service its debt obligations and 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, 2013 was approximately US$9.5 per MgW/hour. An increase in the amount of electricity consumed in Paraguay reduces the compensation payments to the Paraguayan government, a revenue contraction that would normally be offset by additional tax revenues generated by the increased levels of economic activity that use the electricity that would otherwise be diverted to Brazil.

Yacyretá. The Yacyretá hydroelectric plant is located on the Paraná River in southern Paraguay on the border with Argentina. Although it started operating partially in 1994, the construction of Yacyretá is still ongoing; Yacyretá has a planned total capacity of 3,200 MW.

The Yacyretá project began after Paraguay and Argentina entered into a treaty in 1973 (the "Yacyretá Treaty"). Pursuant to the Yacyretá Treaty, Yacyretá Binational was created for the administration, supervision and operation of the Yacyretá hydroelectric plant. Yacyretá Binational is owned by Paraguay's state-owned ANDE and Argentina's state-owned Emprendimientos Binacionales S.A. in a 50/50 joint venture. The Yacyretá Treaty establishes that the electricity produced by Yacyretá Binational will be equally divided between Paraguay and Argentina, and requires Paraguay and Argentina to purchase jointly or severally, depending on their agreement, all of Yacyretá's installed capacity. The Yacyretá Treaty also provides that all payments to and from Yacyretá Binational are to be made in 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 2013 reached 20.11 million MWh. The Yacyretá Treaty remains in force until Argentina and Paraguay mutually agree to terminate the treaty.

According to the Yacyretá Treaty, Paraguay receives (i) royalty payments and (ii) compensation payments based on revenues from the sale of Paraguay's unused electricity to Argentina. The latter is paid by the government of Argentina directly to Paraguay. The construction of Yacyretá was largely financed by loans from the World Bank and the IDB to Yacyretá Binational guaranteed by Argentina. Yacyretá Binational's total outstanding debt is US$3.4 billion (excluding accrued interest) as of December 31, 2013, which represents 50% of the total principal outstanding, which is US$6.9 billion. 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. In 2013, Paraguay received revenues for a total of US$125 million, which is equivalent to 0.4% of Paraguay's nominal GDP. In 2009, revenues grew by 13.1% to US$326 million. Revenues declined by 29.7% in 2010 to US$229 million, grew by 1.6% in 2011 to US$233 million and declined by 21.4% in 2012 to US$183 million. In 2013, revenues declined by 31.9% to US$125 million.

The Yacyretá Treaty provides that the financial terms contained in Annex C are to be renegotiated 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.

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

Revenues from Yacyretá

	2009	2010	2011	2012	2013
	(in millions of US$)				
Royalties and Compensation	$ 114	$ 109	$ 161	$ 124	$ 96
Other[1]	212	120	72	59	28
Total	$ 326	$ 229	$ 233	$ 183	$ 125

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

Pursuant to the Law 3984/2010, royalty and compensation payments made by Itaipú and Yacyretá must be distributed as follows: 50% to the Paraguayan government, 40% to municipalities and 10% to departmental governments. The law also states that these resources must be used to finance physical infrastructure projects.

State-Owned Enterprises

There are nine state-owned enterprises ("SOEs"). 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 PETROPAR, responsible for 47.9% of total SOE revenues, and ANDE, responsible for 33.0% of total SOE revenues. Of the nine SOEs, three operate in goods-producing sectors such as oil and cement, and the other six are principally engaged in providing services. ANDE, INC (cement), Petropar (importer and marketer of fuels), ANNP (port) and DINAC (airport) are wholly owned by Paraguay. In addition, Paraguay has a majority participation in Essap S.A. (water), Copaco S.A. (telecommunications), CAPASA (alcohol) and the inactive FEPASA (railway). Lastly, Paraguay owns a minority share (5.02%) in LAPSA (TAM) (airline). ACEPAR (steel) and FLOMERPASA (merchant marine) were formerly owned by Paraguay but have now been fully privatized. However, 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. A rental contract, lasting for a period of 10 years, with the firm VETORIAL Paraguay S.A. has since been entered into.

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

Source: Ministry of Finance.

SOEs have played a significant role in the Paraguayan economy, accounting for roughly 7.1% of GDP and 37.0% of the central government expenditure. 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.

To a large extent, their 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 interministerial coordination under the leadership of the Ministry of Finance by establishing the Council of Public Enterprises (the "Council"). The Council 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 Council'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 Council relies on a workforce composed of highly trained technical professionals, each dedicated to closely monitoring each SOE. To fulfill its functions, the Council has begun monitoring some SOEs' financial and administrative affairs by concluding performance contracts with each of the SOEs. The Council 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 Council 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 Council 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 Council 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 Council 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 (Nº 5058/13) are being implemented in a sustainable manner. Moreover, the Council follows all of the certified ISO 9001: 2008 procedures for assessing the management of public companies.

Public-Private Partnerships

At present, the Cartes administration is working to implement the PPP Law, which will allow 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. See "The Paraguayan Economy —Current Economy Policy"

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 September 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 3.1 million in 2009 to 3.4 million in 2013. The labor force includes any person above the minimum age requirement who is currently employed or looking for employment.

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

Labor Force

	2009	2010	2011	2012	2013
			(% by sector)		
Primary Sector					
Agriculture, Livestock, Hunting and Fishing	29.5%	26.9%	26.4%	27.2%	23.4%
Secondary Sector					
Manufacturing	11.0	11.1	10.5	10.5	10.0
Construction	5.8	7.2	6.6	5.5	6.5
Total	16.8	18.3	17.1	16.0	16.5
Services Sector					
Trade, Restaurants and Hotels	24.6	24.4	25.3	25.5	25.7
Community, Social and Personal	20.3	21.6	21.8	21.7	24.3

Others[1]	8.6	8.9	9.2	9.6	9.9
Total	53.5%	54.9%	56.3%	56.8%	59.9%

(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 may 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 2013 was 5.0%. Workers are defined as unemployed if they are not employed and are actively seeking employment.

As of the end of 2013, approximately 43.7% of the people employed or their dependents were covered by a retirement or pension system. More women (53.5%) were covered by a retirement or pension system than men (38.6%). 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 2013 was 19.0%, a slight decrease from the previous year (20.6%). 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

	2009	2010	2011	2012	2013
			(in percentages)		
Unemployment rate	6.4%	5.7%	5.6%	4.9%	5.0%
Underemployment rate	26.8	22.9	21.9	20.6	19.0

Source: Bureau of Statistics and Census.

Wages

Workers 18 years of age or older, and formally employed are entitled to a minimum monthly wage of about US$424. Based on the annual employment survey of 2013, 56.0% 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.

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

Changes in Nominal Wages[(1)]

Year		**% change**
2009	……………………….	6.7
2010	……………………….	7.5
2011	……………………….	8.7
2012	……………………….	4.4
2013	……………………….	5.0

(1) Wage index based on survey conducted by the Central Bank of Paraguay.
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 2013 were made and there are no planned salary increases in 2014.

Education

The total literacy rate in Paraguay was 95.9% in 2013.

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

Illiteracy Rate

	2009	**2010**	**2011**	**2012**	**2013**
	(in percentages of total population)				
Illiterate...	5.2%	5.3%	4.7%	4.6%	4.1%

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

In 2013, the Ministry of Education granted 3,689 higher education scholarships throughout the country. In 2012, 36 youth representatives from 10 Paraguayan universities received a grant from a regional exchange program among MERCOSUR universities.

Until the early 1990s, there were only two universities in Paraguay, the public National University and the Catholic University of Asunción. In recent years, the government has authorized through law the establishment of new private universities. As of December 31, 2013, there are more than 47 private universities established in Paraguay, some of them servicing rural areas.

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

Educational Levels

	2009	2010	2011	2012	2013
	(in percentages)				
Population uneducated	3.8%	3.8%	3.1%	3.0%	2.6%
From 1 to 6 years of study	40.2	42	39.4	38.4	36.8
From 7 to 12 years of study	41.8	40.4	41.1	42.8	41.4
From 13 to 18 years of study	13.7	13.6	16.3	15.8	19.1

Source: Bureau of Statistics and Census.

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

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

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

Poverty and Income Distribution

According to preliminary data of a survey conducted by the Bureau of Statistics and Census ("DGEEC") in 2013, 10.1% of the Paraguayan population is considered to be extremely poor and 23.8% 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$141 or less and the extremely poor received a monthly income of US$75 or less, while poor people in other urban areas receive a monthly income of about US$102 or less, and the extremely poor receive a monthly income of about US$ 65 or less and poor people in rural areas receive a monthly income of about US$87 or less, and the extremely poor receive a monthly income of about US$60 or less. According to the same survey, an estimated 10% of the Paraguayan population received an overall monthly income of approximately US$43 or less. Poverty in Paraguay is primarily attributable to the low level of education and economic activity. At the end of 2013, according to DGEEC, 4.1% 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 2013, 23.8% of the population was living in poverty or extreme poverty, as noted above. This percentage has been declining significantly over the past two years, especially the extreme poverty, compared to 2011 (32.4%), 2010 (34.7%) and 2009 (35.1%). Extreme poverty decreased in 2013 by 3.7 percentage points. In 2013, extreme poverty was 10.1% of the population, 13.8% in 2012, 18.0% in 2011, 19.4% in 2010 and 18.8% in 2009.

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 2009.

Changes in Poverty and Extreme Poverty Rates

	2009	2010	2011	2012	2013
			(in percentages)		
Total Poverty	35.1%	34.7%	32.4%	26.9%	23.8%
Extreme poverty	18.8	19.4	18.0	13.8	10.1
No extreme poverty	16.3	15.3	14.4	13.1	13.7
No Poverty	64.9	65.3	67.6	73.1	76.2

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 0.478 in 2013, 0.476 in 2012, 0.520 in 2011, 0.512 in 2010 and 0.487 in 2009.

The average monthly household salary in 2013 was approximately G. 4,295,000 (approximately US$997). The disposable income for the wealthiest 20% of Paraguayans is nine 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

	2009	2010	2011	2013
		(in US$)		
Top 20%	$ 1,211	$ 1,447	$ 2,087	$ 2,120
20% below	572	633	845	943
20% below	393	453	551	664
20% below	258	290	366	470
Lowest 20%	127	149	182	247
Total	$ 580	$ 684	$ 915	$ 998

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

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

Tekopora is a monthly cash transfer with co-responsibilities granted by the Social Action Secretariat to previously selected families. It is intended for households living in extreme poverty in urban and rural areas and seeks to ensure access to health, education and food security for children, pregnant women, the elderly, indigenous communities and people living with disabilities. As of the end of May 2014, 80,262 families were receiving benefits under the Tekopora program.

The Food Pension for Seniors in Poverty Law (which became effective in August 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 the end of May 2014, approximately 100,130 seniors were currently 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 Justice and Labor that 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, 2009 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

From 2009 to 2011 and again in 2013, Paraguay experienced balance of payments surpluses, resulting from an improvement in the exports of goods and services, coupled with an increase in foreign currency income from the binational hydroelectric companies, worker remittances from abroad and increased stability of net capital inflows. In addition, Paraguay's export of electricity is a key factor in maintaining a current account surplus during this period. The balance of payments surplus for 2013 was US$1,035.7 million (3.5% of GDP). The three years prior to 2012 also yielded surpluses: US$784.1 million (3.1% of GDP) in 2011, US$319.2 million (1.6% of GDP) in 2010, and US$915.2 million (5.7% of GDP) in 2009. These results generated an increase of US$3.0 billion from 2009 to 2013 in the Central Bank's international reserves which resulted in total international reserves of US$5.9 billion by December 31, 2013. Paraguay's balance of payments remained relatively stable in 2012, resulting in a small decrease in international reserves of US$24.5 million.

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 agribusiness companies, telecommunications, transportation and food and beverage production, among other activities, and as a result of proceeds from loans and bond offerings and returns on deposits held abroad. Foreign direct investment originates primarily in the United States, Brazil and Argentina. The public sector and binational hydroelectric entities made net repayments of their debts, receiving aggregate disbursements of US$1.5 billion between 2009 and 2013 (based on preliminary data), while making repayments of US$3.7 billion of principal in that period (based on preliminary data). The net result is a decrease in the external debt of the central government and the binational hydroelectric entities.

The Central Bank's international reserves at December 2013 represented 19.6% of GDP, and provided 8.9 months of coverage for importation of goods in 2013 (excluding goods for re-export).

Balance of Payments

	2009	2010	2011	2012[1]	2013[1]
			(in millions of US$)		
Current account					
Trade balance[2]	$ 1,123.7	$ 881.7	$ 854.2	$ 570.8	$ 1,662.3
Exports	7,756.0	10,474.4	12,638.6	11,653.6	13,604.7
Imports	(6,632.3)	(9,592.7)	(11,784.5)	(11,082.8)	(11,942.4)
Services balance	39.7	(84.4)	(180.6)	(170.2)	(227,4)
Transportation (net)	(152.0)	(250.1)	(309.4)	(295.9)	(283.9)
Travel (net)	74.1	72.4	67.0	57.7	29.7
Other services (net)[3]	117.6	93.3	61.8	68.0	26.8
Subtotal	39.7	(84.4)	(180.6)	(170.2)	(227,4)
Income (net)	(1,200.8)	(1,412.1)	(1,278.2)	(1,390.8)	(1,502.1)
Current transfers (net)[4]	518.9	557.5	713.6	758.7	687.6
Total current account	**481.5**	**(57.3)**	**109.0**	**(231.5)**	**620.6**
Capital and financial account					
Capital account	47.0	40.0	40.0	51.0	61.2
Financial account	15.3	154.9	428.9	467.1	183.7
Direct investment (net)	94.7	215.9	557.0	479.5	382.4

	2009	2010	2011	2012[1]	2013[1]
			(in millions of US$)		
Portfolio investment[5]	-	-	100.0	500.0	500.0
Other investment					
Trade credits (net)	(6.8)	(84.2)	(70.7)	156.6	(65.9)
Loans	(408.3)	(144.0)	(193.2)	(598.2)	(465.3)
Assets	56.6	(44.3)	162.1	(86.1)	187.1
Liabilities	(464.9)	(99.7)	(355.3)	(512.1)	(652.4)
of which:					
Disbursements to public sector	263.0	293.0	163.9	202.6	208.3
Payments by public sector	(270.4)	(247.9)	(229.9)	(244.9)	(205.3)
Disbursements to binational entities	5.1	235.4[6]	87.3	48.2	13.0
Payments by binational entities	(486.4)	(528.3)	(482.5)	(514.0)	(536.6)
Currency and deposits (net)	164.1	127.9	17.2	(191.6)	(261.3)
Other assets and liabilities (net)	171.6	39.4	18.7	120.8	93.9
Subtotal	(79.4)	(61.0)	(228.0)	(512.4)	(698.7)
Total capital and financial account	**62.3**	**194.9**	**468.9**	**518.1**	**244.9**
Errors and omissions	371.4	181.6	206.2	(311.1)	170.2
Total balance of payments	915.2	319.2	784.1	(24.5)	1,035.7
Change in international reserves (net)					
Gold	-	-	-	433.7	-
Total International Reserves (end of period)	3,861	4,168	4,984	4,994	5,871
SDRs	115.5	-	-		-
Foreign exchange	799.7	319.2	784.1	(458.2)	1,035.7

(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.
(6) Higher levels of funding in 2011 are the result of investments by Yacyretá Binational to augment the height of its dam in order to increase electrical capacity.
Source: Central Bank of Paraguay

Current Account. Paraguay recorded a current account surplus of US$620.6 million in 2013 (2.1% of GDP) compared to a current account deficit of US$231.5 million (0.9% of GDP) in 2012, a current account surplus of US$109.0 million (0.4% of GDP) in 2011, a current account deficit of US$57.3 million (0.3% of GDP) in 2010 and a current account surplus of US$481.5 million (3.0% of GDP) in 2009.

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 2009-2013 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 46% from 2009 to 2012. However, in 2013, there was a 9.4% 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 2013, remittances totaled an amount equal to 10.1% of the country's total international reserves as of December 31, 2013.

Capital and Financial Accounts. In 2013, the capital and financial account recorded a surplus of US$244.9 million (0.8% of GDP). The capital and financial account generated a surplus of US$518.1 million (2.1% of GDP) in 2012, US$468.9 million in 2011 (1.9% of GDP), US$194.9 million (1.0% of GDP) in 2010 and US$62.3 million (0.4% of GDP) in 2009. The private sector has been the largest 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, which has increased significantly since 2009. Equity accounts in foreign direct investment have been increasing in relative importance from 16.7% of nominal GDP in 2009 to 17.6% in 2013. Since 2009, borrowing (net) has been negative as the public sector has been a net payer of external financing resources, except in 2013 due to the issuance of sovereign bonds.

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$938 million in 2009 to US$1.4 billion in 2013, becoming Paraguay's main export market in 2012. Exports to MERCOSUR in 2013 accounted for almost 21% of Paraguay's total exports.

Exports to the European Union, the second most important market for Paraguayan exports, reached US$1.5 billion in 2011, decreased to US$1.1 billion in 2012 and reached US$1.4 billion in 2013. In 2013, the value of exports to the European Union accounted for approximately 19.7% 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 peferential access, however, was temporarily suspended due to the outbreak of FMD in September 2011 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 would recover its status. The recovery of health status is a requirement that must be certified by the European Union for access to the Hilton quota.

In 2013, exports to Russia increased by 33.6%, from US$709 million in 2012 to US$947 million. Exports to Russia represent 13.6% of total exports in 2013, making Russia the third-largest export market for Paraguay.

Paraguay's main import trade partners are the MERCOSUR members, accounting for US$5,084 billion (41.9% of total imported goods in 2013), and Asian countries (especially China), which accounted for US$3,434 billion in 2013 (28.3% 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. 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. In 2012 and

2013, unregistered imports from Argentina have increased as a result of the price advantages resulting from Argentina's informal dual exchange rate system.

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	**2009**	**2010**	**2011**	**2012**	**2013**	**% change 2012–2013**	**% of total exports 2013**
			Exports by geographical distribution (in million of US$, FOB value of exports)				
Exports							
LAIA	$ 1,656.0	$ 1,839.9	$ 2,036.0	$ 1,870.2	$ 2,399.4	28.3%	33.3%
Chile	388.3	604.2	541.4	191.5	528.7	176.2	7.3
Peru	136.0	203.9	215.4	163.2	192.6	18.1	2.7
Bolivia	33.3	34.7	55.7	89.1	75.0	(15.8)	1.0
Venezuela	126.6	113.1	107.8	60.5	58.9	(2.7)	0.8
Colombia	12.1	30.7	74.9	48.7	35.8	(26.5)	0.5
Ecuador	21.6	20.7	31.6	11.8	16.7	42.2	0.2
Cuba	0.0	0.2	0.3	0.6	0.5	(18.6)	0.0
MERCOSUR	938.0	832.2	1,008.8	1,304.9	1,491.2	14.3	20.7
North America Free Trade Agreement (NAFTA)	61.3	128.4	203.4	236.5	523.6	121.4	7.3
Central American Integration System (SICA)	9.4	29.0	12.2	53.4	102.3	91.6	1.4
Caribbean Community (CARICOM)	0.6	3.9	5.8	5.8	4.5	(23.5)	0.1
Rest of the Caribbean	11.4	16.7	30.8	68.7	39.1	(43.0)	0.5
European Union	519.7	1,180.4	1,538.7	1,062.0	1,418.1	33.5	19.7
Russia	250.7	428.0	405.3	708.7	946.8	33.6	13.2
Rest of Europe	9.3	12.4	19.4	23.5	66.1	182.0	0.9
East Asia	92.5	85.8	238.4	164.1	314.5	91.7	4.4
China	35.1	34.2	30.4	42.0	57.1	36.0	0.8
South Korea	3.7	2.4	106.7	31.6	51.7	63.4	0.7
Japan	44.0	38.4	52.0	29.2	84.4	188.9	1.2
Rest of East Asia	9.6	10.7	49.3	61.3	121.3	97.9	1.7
Association of Southeast Asian Nations (ASEAN)	80.4	75.9	177.8	155.9	248.5	59.4	3.5
Western Asia	231.6	446.5	493.7	351.4	590.8	68.1	8.2
Gulf Cooperation Counsel (GCC)	64.4	53.5	78.7	81.6	106.9	31.0	1.5
Other countries of Western Asia	167.3	393.0	415.0	269.9	483.9	79.3	6.7
Rest of Asia	74.2	120.7	101.0	72.8	168.3	131.1	2.3
Africa	154.0	152.2	227.6	261.6	361.0	77.6	5.0
Southern African Custom Union (SACU)	34.3	14.9	7.9	7.8	10.9	39.7	0.2
Other countries of Africa	119.7	137.3	219.7	253.9	350.1	37.9	4.9
Australia & New Zealand (Closer Economic Relations (CER))	0.6	0.8	0.4	0.7	1.5	111.4	0.0
Rest of the World	9.0	10.1	18.7	16.3	11.2	(31.2)	0.2
Total	3,160.5	4,530.9	5,509.1	5,051.7	7,195.7	42.4	100.0
% Change		43.4%	21.6%	(8.3)%	42.4%		

Trade Blocs	**2009**	**2010**	**2011**	**2012**	**2013**	**% change 2012–2013**	**% total imports 2013**
			Imports by geographical distribution (in million of US$, CIF value of imports)				
Imports							
LAIA	$ 3,334.9	$ 4,537.5	$ 5,803.5	$ 5,125.2	$ 5,311.7	3.6%	43.7%
Chile	100.2	123.3	153.9	148.4	148.6	0.2	1.2
Bolivia	21.1	17.5	26.0	29.6	43.9	48.3	0.4
Colombia	8.4	10.1	22.5	21.2	19.2	(9.3)	0.2
Peru	3.1	5.0	7.9	10.9	11.4	5.3	0.1
Ecuador	2.2	1.8	2.4	3.8	4.2	9.2	0.0
Cuba	0.6	0.7	1.4	0.8	0.7	(17.4)	0.0

Trade Blocs	2009	2010	2011	2012	2013	% change 2012–2013	% total imports 2013
			Imports by geographical distribution (in million of US$, CIF value of imports)				
Venezuela	361.1	226.4	390.1	132.0	0.1	(99.9)	0.0
MERCOSUR	2,838.2	4,152.6	5,199.2	4,778.5	5,083.6	6.4	41.9
North America Free Trade Agreement (NAFTA)	377.5	550.0	862.7	1,117.3	979.9	(12.3)	8.1
Central American Integration System (SICA)	4.0	9.2	11.1	39.6	37.9	(4.4)	0.3
Caribbean Community (CARICOM)	0.1	1.3	15.4	1.0	0.4	(53.9)	0.0
Rest of the Caribbean	1.0	1.7	0.8	2.3	4.6	105.1	0.0
European Union	385.7	535.8	770.8	758.0	1,032.8	36.2	8.5
Russia	12.8	8.0	15.7	165.4	212.6	28.6	1.8
Rest of Europe	76.3	103.4	129.5	81.9	100.3	22.5	0.8
East Asia	2,566.8	4,020.9	4,396.4	3,882.4	4,049.4	4.3	33.4
China	2,053.5	3,433.3	3,662.4	3,183.8	3,434.1	7.9	28.3
South Korea	95.9	152.1	218.0	276.5	243.6	(11.9)	2.0
Japan	342.2	356.2	394.9	311.2	278.4	(10.6)	2.3
Rest of East Asia	75.2	79.2	121.1	110.9	93.3	(15.8)	0.8
Association of Southeast Asian Nations (ASEAN)	116.3	151.5	184.1	210.7	218.8	3.8	1.8
Western Asia	30.3	45.5	66.4	60.0	61.5	2.4	0.5
Gulf Cooperation Counsel (GCC)	5.9	11.1	10.4	4.2	11.6	173.8	0.1
Other countries of Western Asia	24.4	34.5	55.9	55.8	49.9	(10.5)	0.4
Rest of Asia	46.5	56.3	78.8	81.6	96.8	18.6	0.8
Africa	4.5	9.0	25.6	24.6	31.3	50.2	0.3
Southern African Custom Union (SACU)	2.1	3.0	4.3	4.9	5.9	21.3	0.0
Other countries of Africa	2.4	5.9	21.4	19.7	25.4	28.9	0.2
Australia & New Zealand (Closer Economic Relations (CER))	1.4	2.2	3.3	4.8	3.6	(25.6)	0.0
Rest of the World	3.5	1.2	3.3	0.3	0.3	1.3	0.0
Total	6,961.6	10,033.5	12,367.4	11,555.1	12,142.1	5.1	100.0
% Change		44.1%	23.3%	(6.6)%	5.1%		

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 2013, exports of soybeans, fats and oils, meat and cereal grains totaled US$5.6 billion and accounted for approximately 77.6% of Paraguay's total registered exports, an increase of approximately 64% from US$3.4 billion in 2012.

Exports of oil seeds (including soybeans), fats and oils, cereal grains and wheat increased by approximately 42% in 2010 from US$1.9 billion in 2009 to US$2.7 billion, and by 32% in 2011 to US$3.6 billion. Exports of those products decreased by 18% in 2012 from US$3.6 billion in 2011 to US$3.0 billion in 2012, but increased again in 2013 by 56% to US$4.7 billion. During the 2009–2013 period, beef exports increased by 59%, from US$577.9 million in 2009 to US$920.7 million in 2010, but decreased by 18% in 2011 to US$759.4 million as a result of the FMD outbreak. In 2012, beef exports recovered, increasing by 6% to US$802.7 million and by 33% in 2013, to US$1.1 billion.

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

Percentage of Total Exports by Products

Sector[(1)]	2009	2010	2011	2012	2013
			(in percentages)		
Oil seeds (including soy beans)	28.4%	36.7%	43.4%	33.0%	36.3%
Vegetable oils and fats	20.1	13.2	13.2	7.6	19.9
Bovine meat products	18.3	20.3	13.8	15.9	14.9

Sector(1)	2009	2010	2011	2012	2013
			(in percentages)		
Cereal grains	7.4	5.3	6.3	10.9	6.5
Chemical, rubber and plastic products	4.4	3.7	3.9	4.3	3.2
Leather products	1.9	2.6	2.3	3.0	2.8
Wheat	5.5	5.4	3.1	7.4	2.0
Food products	1.1	1.2	1.2	1.4	1.5
Processed rice	1.1	0.9	0.9	1.5	1.4
Textiles	1.2	1.2	1.3	1.5	1.2
Metals	0.2	0.4	0.9	1.3	1.1
Sugar	1.1	0.8	1.7	1.6	1.1
Machinery and equipment	0.4	0.6	0.7	1.2	1.0
Paddy rice	0.5	0.5	0.6	0.8	0.9
Animal products	0.6	0.5	0.5	0.7	0.9
Beverages and tobacco products	0.8	0.9	0.9	1.5	0.7
Wood products	1.9	1.5	1.1	1.1	0.6
Wearing apparel	0.8	0.7	0.7	0.7	0.5
Coal	1.2	0.8	0.7	0.7	0.5
Ferrous metals	0.5	0.5	0.5	0.5	0.4
Plant-based fibers	0.6	0.5	0.3	0.9	0.3
Meat products	0.3	0.3	0.1	0.2	0.3
Petroleum and coal products	0.0	0.0	0.2	0.8	0.3
Paper products and publishing	0.1	0.2	0.4	0.3	0.2
Other	1.7	1.3	1.4	1.4	1.5
	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, electronic equipment, petroleum and coal products and motor vehicles and parts, which together generated 53.1% of the import bill in 2013, and accounted for approximately US$ 8.8 billion of total imports. As compared to the same period in 2012, imports of these goods have increased approximately by 5.1%. The most significant growth in imports in 2013 was in minerals (34.3%), machinery and equipment (23.8%), cereal grains (20.6%) and ferrous metals (14.8%).

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

Imports by Economic Sector

Sector(1)	2009	2010	2011	2012	2013	Percentage Change 2013
			(in millions of US$ in CIF prices)			
Chemical, rubber and plastic products	$ 1,304.4	$ 1,755.3	$ 2,311.0	$ 2,210.2	$ 2,419.3	9.5%
Machinery and equipment	807.6	1,635.1	1,848.2	1,533.4	1,898.5	23.8
Electronic equipment	1,372.5	2,110.2	2,083.9	1,772.3	1,830.3	3.3
Petroleum, coal products	1,005.8	1,121.3	1,638.9	1,844.2	1,726.3	(6.4)
Motor vehicles and parts	498.4	486.7	1,004.6	929.7	973.1	4.7
Manufactures	416.2	648.1	626.9	522.8	465.1	(11.0)
Food products	210.8	271.0	328.8	329.9	355.4	7.7
Ferrous metals	132.1	209.4	279.0	274.9	315.7	14.8
Textiles	160.2	187.8	299.8	266.6	261.0	(2.1)
Beverages and tobacco products	145.8	206.9	261.5	262.9	254.8	(3.1)
Paper products, publishing	175.6	221.1	272.0	230.5	225.4	(2.2)
Metal products	119.7	164.6	213.9	258.4	222.5	(13.9)
Mineral products	95.1	152.7	222.6	206.7	221.1	7.0

Sector[(1)]	2009	2010	2011	2012	2013	Percentage Change 2013
			(in millions of US$ in CIF prices)			
Transport equipment	87.5	217.1	242.6	197.2	199.3	1.1
Leather products	74.0	109.5	154.2	145.0	151.9	4.7
Crops	111.7	151.5	149.4	146.0	144.1	(1.3)
Wearing apparel	52.0	81.4	103.9	95.9	103.5	7.9
Cereal grains	24.8	38.1	59.6	65.5	79.0	20.6
Metals	27.8	43.0	56.6	55.3	59.2	6.9
Wood products	24.0	16.6	48.5	45.1	49.0	8.5
Animal products	12.3	18.5	25.2	23.5	26.0	11.0
Oil seeds	26.7	12.2	21.5	24.5	25.9	5.9
Wheat	0.2	0.2	0.1	0.5	25.3	4,522.7
Minerals	19.1	32.2	16.8	18.5	24.9	34.3
Dairy products	11.8	19.8	24.8	25.1	22.8	(9.4)
Other	45.6	123.1	73.0	70.4	62.7	(11.0)
Total	$ 6,961.6	$ 10,033.5	$ 12,367.4	$ 11,555.1	$ 12,142.1	5.1%
% Change	(23.2)%	44.1%	23.3%	(6.6)%	5.1%	

(1) Sectors are classified according to the 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.

Percentage of Total Imports by Product Sector[(1)]	2009	2010	2011	2012	2013
			(in percentages)		
Chemical, rubber, plastic products	19.0%	17.0%	19.0%	19.0%	20.0%
Machinery and equipment	11.6	16.3	14.9	13.3	15.6
Electronic equipment	19.7	21.0	16.8	15.3	15.1
Petroleum and coal products	14.4	11.2	13.3	16.0	14.2
Motor vehicles and parts	7.2	4.9	8.1	8.0	8.0
Manufactures	6.0	6.5	5.1	4.5	3.8
Food products	3.0	2.7	2.7	2.9	2.9
Ferrous metals	1.9	2.1	2.3	2.4	2.6
Textiles	2.3	1.9	2.4	2.3	2.1
Beverages and tobacco products	2.1	2.1	2.1	2.3	2.1
Paper products and publishing	2.5	2.2	2.2	2.0	1.9
Metal products	1.7	1.6	1.7	2.2	1.8
Mineral products	1.4	1.5	1.8	1.8	1.8
Transport equipment	1.3	2.2	2.0	1.7	1.6
Leather products	1.1	1.1	1.2	1.3	1.3
Crops	1.6	1.5	1.2	1.3	1.2
Wearing apparel	0.7	0.8	0.8	0.8	0.9
Cereal grains	0.4	0.4	0.5	0.6	0.7
Metals	0.4	0.4	0.5	0.5	0.5
Wood products	0.3	0.2	0.4	0.4	0.4
Animal products	0.2	0.2	0.2	0.2	0.2
Oil seeds	0.4	0.1	0.2	0.2	0.2
Wheat	0.0	0.0	0.0	0.0	0.2
Minerals	0.3	0.3	0.1	0.2	0.2
Dairy products	0.2	0.2	0.2	0.2	0.2
Other	0.7	1.2	0.6	0.6	0.5
Total	100.0%	100.0%	100.0%	100.0%	100.0%

(1) Sectors are classified according to the 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. 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 presidents of Argentina, Brazil and Uruguay suspended Paraguay's membership in MERCOSUR until the 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. MERCOSUR established a common external tariff ("CET") in 1995. In 2004, MERCOSUR established an origin status for products imported from outside MERCOSUR that complies with MERCOSUR's common tariff policy. The aim was to achieve the free movement of goods and eliminate the double charging of 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 December 2013, 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, however, has not yet ratified the Protocol, as a result of which, the Protocol does not apply to Paraguay. The Protocol is for an indefinite term and is intended to implement the provisions of the Treaty of Asunción relating to services by establishing a program for the liberalization of intra-MERCOSUR trade in services.

MERCOSUR, as a group, acceded to the Global System of Trade Preferences among developing countries in 2006. Free-trade agreements have been signed by MERCOSUR with Israel (2007), Egypt (2010), Palestine (2011) and SACU (2008), which includes Botswana, Lesotho, Namibia, South Africa, and Swaziland. These, however, have not yet entered into force, and the required ratification by all parties is pending.

MERCOSUR has also signed framework agreements to formally initiate preferential trade negotiations with Jordan (2008), Turkey (2008), Pakistan (2006), the GCC (which includes the United Arab Emirates, Bahrain, Saudi Arabia, Oman, Qatar and Kuwait) (2005) and Morocco (2004). Negotiations between MERCOSUR and

Jordan on a free-trade agreement are at an advanced stage. These framework agreements generally involve the establishment of a negotiating committee, composed of the respective parties, to exchange information and propose measures, inter alia.

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

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

Other Preferential Trade Relationships

Paraguay offers preferential access to imports from a total of 13 countries: 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 2011 was 8.5%, lower than the 8.9% recorded in 2004, mainly owing to the lowering of tariffs on capital goods. The average applied MFN tariff is 10% for agricultural products (WTO definition) and 8.4% for non-agricultural products. Paraguay grants at least MFN treatment to all 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 2013.

In the Uruguay Round, the eighth round of multilateral trade negotiations conducted under the General Agreement on Tariffs and Trade (the "GATT"), Paraguay bound its tariff rate at a ceiling of 35%. When it joined the GATT, Paraguay had bound its tariffs at rates ranging from 10% to 35%, giving Paraguay an average bound tariff of 32.4%. The gap between applied and bound 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 2013, VAT applied at a general flat rate of 10%, with the exception of certain household necessities, pharmaceuticals and books, to which a reduced rate of 5% applies. Agricultural products in their natural condition are 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 PEES has emphasized the importance of developing private-public partnerships to attract foreign investment. The PPP Law has been approved and regulations have been issued pursuant thereto, and the first investment projects under this scheme are already being considered. Contracts may include management of infrastructure projects and services, including road projects, rail, port, airport, waterway dredging and maintenance of the rivers that surround Paraguay, social infrastructure, electrical equipment and urban development, electricity transmission lines and water distribution systems. Concrete steps have been taken to improve the investment climate in Paraguay. These include the installation of new electricity infrastructure to meet demand for energy, the preparation of projects granting concessions for highways, airports and waterways and the implementation of a master plan to enhance the business climate. Improving the business climate for investment is one of the objectives highlighted in the PEES.

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

In order to improve the business and investment environment, Paraguay has developed and implemented reforms of its judicial system, including the introduction of amendments to the Criminal Code (effective in mid-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 flows (excluding real estate investments by binational entities) totaled US$1.7 billion between 2009 and 2013. In 2009, in the wake of the global economic crisis, FDI flows totaled US$94.6 million. FDI flows recovered in 2010 to a total of US$228.8 million, increased in 2011 to US$556.8 million, and stability in the flows are expected, but given the partial coverage the following amounts have been recorded: US$469.2 million in 2012 and US$325.7 million in 2013. The largest source of FDI for the period from 2009 to 2013 was the United States, which accounted for US$654.8 million of capital flows, representing 39.1% of total FDI flows. The second largest contributor to FDI was Brazil, with US$299 million.

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

Annual FDI Flows by Country of Origin

Country	2009	2010	2011	2012[1]	2013[1]
	(in thousands of US$)				
United States	$111,313	$255,162	$326,045	$4,490	$(52,333)
Brazil	(25,999)	28,806	73,776	113,403	108,131
Spain	15,557	23,602	(10,522)	24,983	12,312
Japan	(9,694)	(47,430)	832	22,745	5,320
Argentina	23,243	7,558	17,782	49,809	65,038
United Kingdom	3,448	1,674	18,914	4,861	14,971
The Netherlands	(27,949)	4,425	10,990	18,324	21,017
Germany	1,696	1,527	(173)	6,610	5,939
Chile	(13,823)	(12,689)	(256)	(10,579)	19,214
Italy	306	5,157	14,141	10,232	2,325
Switzerland	7,718	(7,033)	22,741	6,089	14,012
Mexico	(8,364)	(17,895)	(12,560)	62,917	19,479
Panama	(534)	24,769	21,614	17,868	40,545
Luxembourg	12,831	(45,711)	43,388	8,810	(1,550)
Others[2]	4,845	(4,080)	(4,604)	(1,933)	51,314
Total	94,593	215,866	556,806	469,172	325,734

(1) Preliminary data
(2) Includes Canada, Colombia, Korea, Ecuador, France, Hong Kong, Portugal, Sweden, Taiwan and Uruguay
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 Superintendency 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 Superintendency of Insurance, which is in charge of supervising insurance and reinsurance entities. The main legal instrument governing the financial sector is the General Law on Banks, Finance Companies and other Credit Institutions (the "Law 861/96"). This law provides rules for the creation and supervision of financial entities, as well as for the protection of the financial system as a whole. Law 861/96 incorporates the Basel Committee on Banking and Supervision ("Basel") provisions relating to the supervision of banks and minimum capital requirements. The Board of the Central Bank must authorize the opening of banks, finance companies and other credit institutions. There are no limits on the participation of foreign capital in financial entities or requirements with respect to the nationality of the members of the board of directors or the shareholders. Law 861/96 establishes that foreign investment in financial entities will receive the same treatment as domestic capital. According to Law 861/96 (Article 23), owners of shares in a bank that allow them to exercise shareholder control or decisively influence the corporate will of the bank, may not hold more than 20% of the shares of another bank, finance company or credit institution. On the other hand, a bank may be the principal shareholder of an insurance company.

The *Ley de Garantía de Depósitos* 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, 2013, the Central Bank had negative equity of G.6,070.7 billion (approximately US$1.4 billion). 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 were exacerbated by the need to conduct large sterilization operations.

As part of its strategy of providing a framework for medium- and long-term macroeconomic stability, the government addressed the Central Bank's negative equity and adopted measures to strengthen the financial position of the Central Bank. In April 2010, Congress enacted Law 3974/10, which authorized the Ministry of Finance to issue and transfer to the Central Bank securities in an aggregate principal amount of up to 6.25% of 2009 GDP (approximately US$1 billion) in exchange for the irrevocable cancellation and discharge of all debt, nonperforming legacy claims held by the Central Bank against public entities and the assignment to the Ministry of Finance of any remaining legal claims on guarantees by third parties. Interest rates and maturities on the bonds to be transferred were to be agreed between the Central Bank and the Ministry of Finance. On December 20, 2012, both institutions signed an agreement defining the financial conditions and this agreement was ratified by the President of the

Republic on the same date. The Ministry of Finance issued a perpetual bond, having a principal amount of G.3,927.5 billion (about US$0.9 billion) initially carrying a 0.25% 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 Superintendency 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 Superintendency of Banks also requires these institutions to submit to the Central Bank daily and monthly reports regarding their operations. In addition, the Superintendency of Banks requires banks to publish annual and quarterly financial statements together with the names of directors and managers in a national newspaper. The Superintendency of Banks may also require the disclosure of any other financial information that it deems necessary to present to the public.

Under Law 861/96, the Superintendency of Banks requires financial institutions to maintain a minimum total capital to risk-weighted assets (loans) ratio of 8%. This minimum total capital to risk-weighted assets ratio requirement could increase to 12%. As of December 31, 2013, all Paraguayan banks and financial companies were in compliance with the Central Bank's capital adequacy requirements.

In addition to accounting standards and capital adequacy requirements, the Central Bank imposes cash and liquidity reserve requirements. In determining their compliance with various Central Bank standards and requirements, financial institutions must classify loans according to specific categories. The category used for classification depends on the length of time a loan obligation has been past due. The most recent regulation provides a new scale of provisions and terms of past-due loans. A loan is deemed non-performing after obligations under the loan have been past due for more than 30 days.

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

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

Source: Central Bank of Paraguay.

The following table sets forth the classification of aggregate loan assets of the Paraguayan banking system by categories as at December 31, 2013.

Classification of Aggregate Loan Assets of the Paraguayan Banking System

	As of May 31, 2014							
	1	1.a	1.b	2	3	4	5	6
	(in percentages of total loan assets)							
Stated-owned bank (BNF)	94.4%	1.2%	1.6%	0.3%	0.6%	0.2%	0.3%	1.3%
Branches of foreign banks	91.2%	6.6%	0.9%	0.1%	0.1%	0.0%	0.7%	0.3%

	As of May 31, 2014							
	1	1.a	1.b	2	3	4	5	6
	(in percentages of total loan assets)							
Majority Foreign Participation	80.2%	14.0%	2.5%	0.9%	0.7%	0.2%	0.3%	1.2%
Private domestic local majority property	80.8%	11.9%	1.8%	2.1%	1.3%	0.8%	0.4%	1.0%
Total Banks	81.5%	12.1%	2.0%	1.5%	1.0%	0.6%	0.3%	1.1%
Total Financial companies	78/1%	12.0%	3.2%	1.7%	1.9%	0.6%	0.7%	1.8%

Source: Central Bank of Paraguay.

The Superintendency of Banks may conduct inspections of the institutions it supervises whenever it deems necessary. In practice, these inspections are conducted at least annually. Based on the findings of these inspections or daily reports submitted by the institutions, if the Superintendency of Banks believes that the operations of an institution it supervises require further investigation, the Superintendency of Banks may send inspectors to the institutions to monitor their day-to-day operations. Alternatively, the Superintendency of Banks may conduct a full audit. All financial institutions are required to give access to the Superintendency of Banks to conduct such investigations. If the Superintendency 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

The *Ley de Garantía de Depósitos* requires financial institutions to submit a reorganization plan for approval by the Superintendency of Banks if one or more of the following situations arise:

(i) a 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 Superintendency 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 Superintendency of Banks and/or the board of Central Bank, according to current laws and regulations;

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

Deposit Guarantee Fund

Confidence in the Paraguayan banking sector was also bolstered in 2003 by the establishment through the *Ley de Garantía de Depósitos* 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 minimum wage, per natural or legal person, in the event of a financial institution being liquidated.

The deposit insurance system is broadly consistent with international standards. The agency works as a pay-box and can contribute to the bank resolution process under the "least-cost solution." Coverage is at US$28,896 or 6.6 times GDP per capita as of December 2013, and 18% of deposits are fully covered. Accordingly, the risk premium is also among the highest in the region. The large coverage was believed necessary to promote confidence in the banking system after the banking crisis of 1995–2003.

Financial Sector

In 1989, Paraguay embarked on a process of financial liberalization, which continued through the mid-1990s. The authorities introduced a unified, managed floating exchange rate regime, liberalized interest rates, reduced reserve requirements, gradually eliminated the discount facility at the Central Bank and released public sector deposits from the Central Bank to the banking system. Financial liberalization, however, which led to a rapid expansion of the financial sector, was not accompanied by the strengthening of prudential regulations and supervision. Banking regulations did not determine prudential norms for asset classification and did not require arms-length lending. Relaxed reserve requirements failed to reflect the true risks of banks' assets. In addition, lax licensing requirements and low required capitalization levels permitted a proliferation of new financial institutions. The 1995 crisis was the byproduct of a rapid financial liberalization without adequate safeguards in terms of sound prudential regulations and enforcement.

Paraguay experienced five financial crises during the 1995–2003 period. The response to the first three crises (1995, 1997 and 1998) was generally inadequate, and the remedial action taken by the public sector resulted in a cost of approximately 15% of GDP.

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

The 1995 crisis resulted in the adoption of new banking regulations intended to overhaul the country's financial system. Law 489 and Law 861, which were adopted in 1995 and 1996, respectively, continue to be in force with a few minor amendments. These statutes, which were fully implemented by 1999, are 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 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, 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 the *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.

Paraguay continues to strengthen its regulatory framework and supervision of the financial sector, evidenced by its Financial Sector Assessment Program. Reforms include more stringent information requirements for the granting of loans, stricter conditions for classifying assets and a higher level of reserves requirement. In 2008, a new regulation was introduced that provides for improved risk assessment and the establishment of an assets/reserves ratio that provides better coverage for credit risks. The scale provided in the 2008 regulation for past due terms and provisions was changed in 2011. In addition, further regulation introduced in 2008 establishes stricter prudential rules for the classification of assets, credit risk and reserves.

Other institutional reforms introduced include the adoption of new regulations on the opening of financial institutions and the strengthening of on-site and off-site supervision and the supervisory capacity of the Superintendency of Banks through the creation of the Financial Stability Intendancy in the Superintendency 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, increased to 63% by the end of 2010.

As of December 2013, Paraguay's financial sector consisted of 16 banks (including one state-owned bank, eight private domestic banks and seven subsidiaries and branches of foreign banks), 11 financial companies, 31 savings and loan associations, four warehousing companies, 31 foreign exchange trading institutions and 35 insurance companies.

Paraguay's banking sector is regulated by Law 861/96 and supervised by the Superintendency of Banks. Under Law 861/96, banks are authorized to provide a full range of banking services. Banks account for the largest portion of loans and deposits in the financial system.

At December 2013, the assets of banks operating in Paraguay amounted to G.76,082.2 billion (US$ 18 billion), equivalent to approximately 59.66% of 2013 GDP, while bank deposits amounted to G. 54,929.1 billion (US$13 billion). As of December, 2013, the finance companies were holding G.3,812.2 billion (US$886 million) in assets and G. 2,787.4 billion (US$ 648 million) in deposits. Bank loans to clients represent about 63.1% of bank assets. The rest are predominantly liquid resources held in Central Bank accounts. About 72.2% of bank liabilities are deposits, while the rest is represented by liabilities to the public sector, foreign creditors and a small amount of subordinated bonds.

The following table sets forth the aggregate balance sheet of banks as of December 31, 2013.

Aggregate Balance Sheet of Banks
As of December 31, 2013

(in percentage of total assets and liabilities)

Assets		**Liabilities**	
Cash	8.2%	Deposits	72.2%
In Guaraníes	*3.7*	*In Guaraníes*	*43.0*

Aggregate Balance Sheet of Banks
As of December 31, 2013
(in percentage of total assets and liabilities)

Assets		Liabilities	
In U.S. dollars	*4.5*	*In U.S. dollars*	*29.2*
Legal Reserves	12.5	Liabilities of the Central Bank	0.0
Free Reserves	3.0	International Financial Liabilities(1)	6.2
Total Investment	8.7	Other Liabilities	11.1
Publics Instruments	8.4	Net Worth	10.5
Others	0.3		
Credits (Net of Provisions)	63.2		
Financial Sector	*4.8*		
Banking Sector	*0.1*		
Non-Financial Sector	*58.8*		
NPL	*1.2*		
Provisions	*(1.7)*		
Other Assets	4.4		
Total Assets	100.0%	Total Liabilities	100.0%

(1) Comprises amounts owed to foreign financial institutions.
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 domestic banks under the Law 861/96. Branches of foreign banks are not required to have a board of directors; however, each branch must have at least two officers with full authority to operate such branches. In addition, branches of foreign banks are required to provide to the Central Bank letters of guarantee from their parent bank for all aspects of their foreign branch operations in Paraguay. In December 2013, direct foreign subsidiaries and banks with majority foreign participation held 43.8% of all bank assets and 43.5% of all deposits, while the majority of locally-owned banks held 50.6% of all bank assets and 50.8% of all deposits.

In December 2013, the four largest banks (two of them with majority foreign participation) controlled 62.3% of total bank assets: Banco Itau Paraguay S.A. (18.1% of the total assets of the financial system), Banco Continental S.A.E.C.A. (17.4%), Banco Regional S.A.E.C.A. (15.8%) and Banco Bilbao Vizcaya Argentaria Paraguay S.A. (11.0%).

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 2013, the BNF held 5.6% of total banking system assets and 5.7% of total deposits.

Financial companies (*empresas financieras*) are also regulated by Law 861/96 and supervised by the Superintendency 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, 2013, financial companies were the second most important providers of loans and holders of deposits in the Paraguayan financial system, accounting for G.2,912.2 billion (approximately US$677 million) in loans, and G. 2,787.4 billion (approximately US$648 million) in deposits. The Central Bank also supervises financial leasing companies, mutual funds, securitization companies and financial trusts.

Savings and loan associations ("cooperatives") are regulated by the savings and loan associations, under Law Nº 438/94 (*De Cooperativas)* enacted in October 1994, and are supervised by the National Institute of Cooperatives. Savings and loan associations 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, thus demonstrating a commitment to long-term stability in the sector.

Warehousing companies and foreign exchange trading institutions are also supervised by the Superintendency 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 activity sets forth the procedures for establishing, operating and winding down insurance companies and the responsibilities and obligations of the supervisory authority. The Superintendency 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, savings and loan associations 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, 2013.

Financial Sector of Paraguay

	As of December 31, 2013			
	Loans	**% of Total**	**Deposits**	**% of Total**
	(in millions of US$ and percentages)			
Private domestic local majority property	$ 5,941	46.8%	$ 6,479	47.5%
Branches of foreign banks	4,307	34.0	5,114	37.5
BNF (state-owned)	441	3.5	728	5.3
Direct foreign subsidiaries	360	2.8	442	3.2

Financial companies	694	5.5	648	4.7
Savings and loans associations	944	7.4	240	1.8
Total	$ 12,686	100.0%	$ 13,650	100.0%

Source: Central Bank of Paraguay

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

Deposits in the Financial Sector

	As of December 31, 2013				
	2009	**2010**	**2011**	**2012**	**2013**
	(in millions of U.S. dollars)				
Private domestic local majority property	$ 2,559	$ 3,210	$ 4,601	$ 5,125	$ 6,479
Branches of foreign banks	2,403	3,094	3,840	3,868	5,114
BNF (state-owned)	444	476	541	601	728
Direct foreign subsidiaries	531	570	528	485	442
Financial companies	293	311	433	471	648
Savings and loans associations	157	146	155	153	240
Total	$ 6,387	$ 7,807	$ 10,098	$ 10,703	$ 13,650

Source: Central Bank of Paraguay.

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

Deposits in the Financial Sector as a Percentage of Total

	As of December 31, 2013				
	2009	**2010**	**2011**	**2012**	**2013**
Private domestic local majority property	40.1%	41.1%	45.6%	47.9%	47.5%
Branches of foreign banks	37.6	39.6	38.0	36.1	37.5
BNF (state-owned)	7.0	6.1	5.4	5.6	5.3
Direct foreign subsidiaries	8.3	7.3	5.2	4.5	3.2
Financial Companies	4.6	4.0	4.3	4.4	4.7
Savings and loans associations	2.5	1.9	1.5	1.4	1.8
Total	100.0%	100.0%	100.0%	100.0%	100.0%

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, 2013				
	2009	**2010**	**2011**	**2012**	**2013**
	(in millions of U.S. dollars)				
Private domestic local majority property	$ 1,846	$ 2,749	$ 4,060	$ 4,641	$ 5,941
Branches of foreign banks	1,693	2,586	3,399	3,388	4,307
Direct foreign subsidiaries	360	416	395	364	360
Financial Companies	296	357	492	526	694
BNF (state-owned)	139	155	251	310	441

	As of December 31, 2013				
	2009	2010	2011	2012	2013
	(in millions of U.S. dollars)				
Total	$ 4,335	$ 6,263	$ 8,597	$ 8,468	$ 11,742

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.

Loans in the Financial Sector as a Percentage of Total

	As of December 31, 2013				
	2009	2010	2011	2012	2013
Private domestic local majority property	42.6%	43.9%	47.2%	54.8%	50.6%
Branches of foreign banks	39.1	41.3	39.5	40.0	36.7
Direct foreign subsidiaries	8.3	6.6	4.6	4.3	3.1
Financial Companies	6.8	5.7	5.7	6.2	5.9
BNF (state-owned)	3.2	2.5	2.9	3.7	3.8
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Central Bank of Paraguay.

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

Number of Financial Institutions

	As of December 31, 2013				
	2009	2010	2011	2012	2013
Insurance companies	33	34	34	34	34
Foreign exchange trading	32	33	31	31	31
Private Banks	14	15	14	15	15
Financial companies	11	10	11	11	11
Warehousing companies	4	4	4	4	4
Public Banks	1	1	1	1	1

Source: Central Bank of Paraguay.

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

Indicators of Financial System Efficiency

	As December 31, 2013				
	2009	2010	2011	2012	2013
	(in percentages)				
Return on assets	2.4	2.4	2.3	2.5	1.2
Return on equity	23.2	22.3	22.4	25.5	0.3
Non Performing Loans as a percentage of total loans	2.3	2.0	2.7	2.1	2.0
Gross Operational Margin/Assets	4.9	5.0	5.4	5.4	5.1

	As December 31, 2013				
	2009	2010	2011	2012	2013
	(in percentages)				
Operating Expenses/Operating Revenues	82.5	85.5	88.6	90.4	85.9
Operating Expenses/Total Assets	23.0	29.3	41.9	50.5	30.9
Regulatory capital to risk weighted assets	16.3	15.4	14.9	16.2	14.6

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 June 2013.

Securities Markets

The Asunción Stock Exchange (the "BVPASA"), established in 1993, is the only securities exchange in Paraguay. In 2013, the total trading volume was represented by non-governmental securities, principally for working capital financing.

The Paraguayan equity and bond market is governed by the capital markets law adopted in 1991 and amended in 1998 (the "Capital Markets Law"). The Capital Markets Law governs, among other things, public offerings of equity and fixed income securities, and financial intermediaries in the stock exchange. The Paraguayan securities regulatory agency, the National Stock Commission, has the authority to regulate and supervise the securities markets, including the formulation of professional ethical standards, the promotion of corporate disclosure such as annual and interim reporting by listed companies, the establishment of compliance regulations, controls and penalties and the regulation of the relationships between securities issuers and investors in the securities market.

The implementation, in the third quarter of 2010, of an electronic trading system for securities, and the first issue of Treasury Bonds (medium- and long-term) through BVPASA in 2012 of approximately US$10 million, demonstrates Paraguay's commitment to providing transparent and secure securities markets.

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

Asunción Stock Exchange: Listed Companies and Trading Volume

	2009	2010	2011	2012	2013
	(in thousands of US$ where applicable)				

	2009	2010	2011	2012	2013
	(in thousands of US$ where applicable)				
Number of listed companies (end of period)	70	67	69	67	73
Private sector securities					
Equities	$33,075	$41,710	$36,967	$56,810	$100,235
Certificates of deposit and others	$90,090	$157,643	$114,848	$101,926	$132,109
Public Sector Securities	-	-	-	-	-
Bonds	-	-	-	$10, 011	-
Total	$123,165	$199,353	$151,814	$168,747	$232,344

Source: Asunción Stock Exchange.

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

Monetary Policy

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

In May 2011, the Central Bank anchored its monetary policy with an inflation targeting scheme. 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 two Monetary Policy Reports, which are published semi-annually, the first in September and the second in April of the following year. The objectives of the Monetary Policy Report are to:

(i) inform and explain the 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 selling 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 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 in order to provide support to the fiancial system.

As a result of the various measures taken in the 2009–2013 period and in response to the internal and external macroeconomic environment, the profile of monetary policy during this period adjusted from a more expansive profile to a more contractive or neutral profile. Thus, the weighted average interest rate of IRM in 2009 was 2.2% (its lowest level), reversing this trend in 2011 (8.0%) when it reached its highest level for the 2009–2013 period, allowing inflation to remain within the target range (5.0% plus/minus 2.5%).

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

Weighted Average Interest Rate of IRM

	(in percentages)
2009	2.2%
2010	2.6
2011	8.1
2012	6.1
2013	6.0

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, as of the dates indicated.

Monetary Base and the Central Bank's International Reserves

	As of December 31, 2013				
	2009	2010	2011	2012	2013
	(in millions of US$)				
Currency in circulation, including cash in vaults at banks in US$	$ 1,115	$ 1,385	$ 1,745	$ 1,946	$ 2,264
Banks' reserves at the Central Bank	931	783	1,019	1,127	795
Monetary Base	2,046	2,168	2,764	3,073	3,059
International reserves	3,861	4,168	4,984	4,994	5,871

Source: Central Bank of Paraguay

The ratio of the Central Bank international reserves to the monetary base was approximately 1.55 to 1 as of December 31, 2012. This ratio increased to approximately 2.04 to 1 as of December 31, 2013. See "—Foreign Exchange and International Reserves."

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

Liquidity and Credit Aggregates

	As of December 31,					As of May 31,
	2009	2010	2011	2012	2013	2014
	(in Millions of US$)					
Liquidity aggregates						
Currency in circulation, excluding cash in vaults at banks…………………………	$ 897	$ 1,120	$ 1,412	$ 1,499	$ 1,699	$ 1,449
Add: Deposits in current accounts……………..	1,677	1,938	2,442	2,510	3,032	2,707
M1…………………………………………..	2,575	3,058	3,854	4,010	4,730	4,156
Add: Savings and term deposits……………….	1,083	1,376	2,033	2,276	2,861	2,810
M2…………………………………………….	3,657	4,435	5,886	6,286	7,592	6,966
Add: Deposits in foreign currency…………….	2,002	2,810	3,403	3,600	4,775	5,264
M3…………………………………………….	5,660	7,244	9,289	9,886	12,366	12,230
Credit aggregates						
Private sector credit……………………………	3,651	5,453	7,687	8,213	10,454	10,163
Public sector credit…………………………….	820	866	837	1,209	534	777
Total domestic credit………………………….	$ 4,471	$ 6,319	$ 8,524	$ 9,422	$ 10,988	$ 10,940

Source: Central Bank of Paraguay.

The following table sets forth the percentage changes in nominal value in money supply and credits as of the dates indicated

Selected Monetary Indicators

	As of December 31,					As of May 31,
	2009	2010	2011	2012	2013	2014(1)
	(percentage change from previous year in Guaranies)					
Currency in circulation, including cash in vaults at banks	11.3%	18.5%	11.6%	17.5%	13.2%	7.7%
M1 (2)	29.6	13.4	11.6	9.7	14.8	4.4
M2 (3)	28.8	15.7	17.5	12.6	17.5	7.7
M3 (4)	22.0	22.2	13.5	12.2	21.7	17.1
Credit from the financial system (5)	22.8	36.2	21.4	13.6	25.2	24.7
Deposit in the financial system (5)	27.0	17.8	15.3	11.1	22.5	20.2

(1) Percentage change is calculated in relation to May 31, 2013.
(2) Currency in circulation, excluding cash in vaults at banks, plus Guaraníes-denominated current accounts.
(3) M1 plus Guaraníes-denominated savings and term deposits.
(4) M2 plus foreign currency deposits.

(5) Includes banks and financial companies. Excludes cooperatives.
Source: Central Bank of Paraguay

In the 2009-2013 period, the average annual change in Paraguay's monetary aggregate M2 was 18.4%. However, this did not cause inflationary issues since average GDP growth during the same period was 5.2%. In addition, during the same period, the increased use of financial intermediaries, which is reflected in the increase in the monetary aggregates M2 and M3, is attributable to GDP growth, which reached 13.1% in 2010 and 13.6% in 2013.

M2 grew by 79.9% in the 2009-2013 period because the Central Bank increased the amount of currency in circulation to provide adequate liquidity consistent with non-inflationary growth during the same period. In the 2009-2013 period, M3 increased by 89.3%. However, in the 2010-2013 period, M2 grew at a slower pace of 55.4%, reflecting the shift from foreign currency-denominated deposits to Guaraníes-denominated deposits, which reduced the dollarization of the economy.

Private sector credit consists primarily of trade, consume and service/financial sector credit. In the 2009-2013 period, credit extended to private sector borrowers increased by 148.1% as a result of general economic growth and the increase in imports and domestic consumption. On the other hand, public sector credit was reduced by 43.6% in the same period.

As of December 31, 2013, total outstanding loans in the financial system, which includes loans by banks other financial companies to the non-financial system, amounted to G. 50,211.5 billion or US$ 12 billion, which represents an increase of 2.6 billion from the level of outstanding loans as of December 31, 2012. These figures exclude inter-bank loans. Total deposits in the financial system increased by 22.5% in Guaraníes terms from 2012 to 2013 and amounted to US$ 13 billion, as of December 31, 2013, which represents an increase of US$ 2.7 billion from the level of deposits as of December 31, 2013. This increase in total deposits was mainly the result of the appreciation of the Guaraní vis-a-vis the U.S. dollar.

Inflation

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

Percentage Change of Consumer Price Index from Previous Year

	CPI % change
2009	1.9%
2010	7.2
2011	4.9
2012	4.0
2013	3.7

Source: Central Bank of Paraguay.

The Central Bank has adopted an inflation targeting scheme in order to maintain relatively low rates of inflation. As of December 2013, the Central Bank's target was a rate of 5.0% annual inflation with a floor of 2.5% and a ceiling of 7.5%. In January 2014, the floor was raised to 3.0% and the ceiling lowered to 7.0%. Maintaining low inflation, as compared to Paraguay's historical average, is closely related to the Central Bank's commitment to developing a monetary policy that focuses primarily on achieving price stability.

In the 2007-2013 period, the average annual inflation rate, CPI, was 5.0%, and in each year was within the government target range of a floor of 2.5% and a ceiling of 7.5%, except in 2009, when CPI increased by only 1.9%. Inflation was 7.2% in 2010, 4.9% in 2011, 4.0% in 2012 and 3.7% in 2013.As of June 2014, the inflation rate stood at 6.4%, near the upper bound of the range.

During the period 2007-2013, the inflation dynamics are explained by the wide fluctuations in food prices and oil derivatives. In 2008 and 2010, the rising prices of sugar, cereals and beef resulted from increases in agricultural commodity prices and increased exports of beef destined for the Chilean and Russian markets. Increases in the price of petroleum products were the result of an increase in the international price of crude oil. Given that Paraguay is a net importer of crude oil, increases in international crude oil prices usually result in increases in domestic price.

Since the beginning of 2011, the inflation rate has had a downward trajectory as a result of monetary policy decisions and falling food prices, attributable mainly to a reduction in the price of beef.

Foreign Exchange and International Reserves

Foreign Exchange

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

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

Exchange Rates

The following table sets forth the high, low, average and period end Guaraníes to U.S. dollar exchange rates for the dates and periods indicated.

Exchange Rates(1)

	High(2)	Low(2)	Average(3)	Period End(4)
	(Guaraníes per US$)			
2009	5,190.0	4,480.0	4,966.6	4,610.0
2010	4,948.4	4,436.4	4,739.5	4,565.3
2011	4,652.9	3,723.3	4,196.2	4,492.0
2012	4,730.2	4,157.7	4,423.2	4,238.0
2013	4,610.9	3,902.6	4,303.9	4,598.2

Source: Central Bank of Paraguay.
(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.

International Reserves

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

International Reserves of the Central Bank

	As of December 31, 2013				
	2009	2010	2011	2012	2013
	(in millions of U.S. dollars)				

	As of December 31, 2013				
	2009	2010	2011	2012	2013
	(in millions of U.S. dollars)				
Gold[(1)]	$ 23	$ 26	$ 33	$ 436	$ 351
Foreign Exchange	3,630	3,947	4,748	4,354	5,317
Subtotal	3,654	3,973	4,780	4,790	5,667
Special Drawing Rights	173	163	170	169	169
Reserve Position at IMF	34	32	34	34	34
Subtotal	207	195	204	204	204
Total	$ 3,861	$ 4,168	$ 4,984	$ 4,994	$ 5,871

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

Under the charter of the Central Bank, international reserves are earmarked to maintain the stability of the free exchange rate system, to solve transitory difficulties of the balance of payments and preserve the value of the Guarani.

The international reserves of the Central Bank increased consistently between 2009 and 2013. This was mainly the result of current account surpluses and inflows of foreign capital through the financial account during the 2009-2013 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 2013, international reserves increased by US$877 million.

PUBLIC SECTOR FINANCES

General

Paraguay's public sector consists of the central government, financial public institutions (including the Central Bank and the BNF), non-financial public institutions (including SOEs) and other general government 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 wages and salaries, 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. 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.

Consolidated Public Sector

	2009	2010	2011	2012	2013
	(in millions of U.S. dollars)				
Current Revenues	$ 4,761	$ 6,634	$ 7,494	$ 7,768	$ 8,531
Non-Financial Public Sector	4,629	6,454	7,290	7,516	8,317
Central Government	2,744	3,866	4,367	4,559	4,935
Other Central Government(1)	619	951	1,075	1,156	1,596
State Owned Enterprises	1,266	1,636	1,848	1,801	1,787
Central Bank	64	50	57	51	74
Other Financial Institutions(2)	67	130	147	112	139
Current Expenditures	4,114	4,540	5,968	6,727	7,498
Non-Financial Public Sector	4,023	4,431	5,845	6,592	7,328
Central Government	2,135	2,504	3,041	3,934	4,380
Other Central Government(1)	553	657	1,145	927	1,315
State Owned Enterprises	1,335	1,270	1,659	1,731	1,632
Central Bank	48	40	53	56	72
Other Financial Institutions(2)	43	69	69	80	99
Current Balance	647	2,094	1,526	951	1,032
Capital Revenues	116	88	253	181	277
Non-Financial Public Sector	84	79	169	161	174
Central Government	51	68	154	109	49
Other Central Government(1)	6	9	13	19	68

	2009	2010	2011	2012	2013
	(in millions of U.S. dollars)				
State Owned Enterprises	27	1	2	34	57
Central Bank	6	6	12	5	2
Other Financial Institutions(2)	26	3	72	15	101
Capital Expenditures	802	937	1,268	1,476	1,625
Non-Financial Public Sector	798	899	1,260	1,464	1,490
Central Government	655	680	921	1,183	1,159
Other Central Government(1)	15	9	164	97	125
State Owned Enterprises	128	210	175	185	206
Central Bank	3	10	4	9	4
Other Financial Institutions(2)	1	28	4	3	130
Borrowing Minus Repayments	76	56	121	151	180
Loans	305	355	492	588	668
Reimbursements(3)	228	300	371	437	489
Primary Surplus/deficit	27	1,289	482	(415)	(372)
Overall Surplus/deficit	(115)	1,189	390	(495)	(495)

(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 2009, central government primary expenditures (which exclude interest payments) totaled US$2.7 billion, an increase of 12.5% compared to 2008. Central government revenues in 2009 totaled US$2.8 billion, a decrease of 4.3%, compared to 2008. The central government's overall balance recorded a surplus of US$9 million (0.1% of GDP). The central government primary balance showed a surplus equivalent to 0.6% of GDP.

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

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

In 2012, central government primary expenditures totaled US$5.1 billion, an increase of 18.4% compared to 2011. Central government revenues in 2012 totaled US$4.7 billion, an increase of 2.7%, compared to 2011. The central government's overall balance recorded a deficit of US$445 million (1.8% of GDP). The central government primary balance showed a deficit equivalent to 1.6% of GDP.

In 2013, central government primary expenditures totaled US$5.6 billion, an increase of 8.7% compared to 2012. Central government revenues in 2013 totaled US$4.9 billion, an increase of 6.8%, compared to 2012. The central government's overall balance recorded a deficit of US$572 million (1.9% of GDP). The central government primary balance showed a deficit equivalent to 1.6% of GDP.

The central government has run primary surpluses from 2009 to 2011 and again in 2013. Although Paraguay was affected by the negative impact of the global financial crisis that began in 2008, the central government maintained a disciplined fiscal policy. The central government ran a G.787 billion (approximately US$187 million, or 0.7% of GDP), fiscal surplus in 2011 in spite of the automatic adjustment clauses contemplated in existing legislation that increased wages and salaries for public sector employees without generating additional revenue. Salaries and wages of public sector employees increased by 30% in 2012, representing 2.1% of GDP and by 12% in 2013, representing 1% of GDP.

The Fiscal Responsibility Law ("FRL" or *Ley de Responsabilidad Fiscal*) approved in October 2013 is intended to prevent discretionary increases of expenditures and sets targets for the central government's overall balance. The approval and enactment of the FRL is designed to facilitate more balanced and executable budgets. The FRL establishes a ceiling of 1.5% of GDP (or 1% average over a 3-year period) on the government's fiscal deficit, limits any increase in annual expenditures to 4% in real terms and provides that wage increases in the public sector must be in line with increases in the minimum wage.

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

Central Government Fiscal Balance

	As of December 31,				
	2009	**2010**	**2011**	**2012**	**2013**
Overall Balance (in millions of US$)	9.0	247.7	187.5	(444.6)	(571.7)
Overall Balance/GDP (%)	0.1	1.2	0.7	(1.8)	(1.9)

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 17.8% per year since 2004. 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, 2013 was 581, 639, a 9.6% increase compared to 530, 516 registered taxpayers as of December 31, 2012. The number of registered taxpayers as of May 31, 2014 was 606,718.

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,				
	2009	2010	2011	2012	2013
Taxpayers (percentage increase from the previous year)	9.0	8.5	8.4	(12.3)	9.6

Source: Ministry of Finance.

The increase in the number of registered taxpayers in 2013 and the introduction of personal income tax have contributed to an increase in income tax revenues. Tax revenues in 2013 totaled G.14.790 billion (approximately US$3.4 billion), equivalent to a tax burden of 11.5% of GDP. Since 2004, tax revenue has increased by an average of 15.3% 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 2009, social spending accounted for 50.9% of total central government expenditure and by 2013 social spending increased to 56.1% of total central government expenditure.

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

Central Government Finances

	As of December 31,				
	2009	2010	2011	2012	2013
	(in millions of U.S.$)				
Tax Revenue	$ 1,853.8	$ 2,406.5	$ 3,148.4	$ 3,136.7	$ 3,436.5
Value-added taxes	896.0	1,246.6	1,617.2	1,600.8	1,831.8
Income taxes	441.5	442.2	622.2	656.5	719.7
Excise taxes	300.3	375.1	475.5	478.6	470.4
Foreign trade taxes	196.8	321.9	406.1	371.3	379.2
Other taxes	19.1	20.8	27.5	29.4	35.4
Non-Tax Revenue	661.6	652.6	869.7	1,060.2	1,103.6
Royalties(1)	456.4	411.9	553.7	677.3	730.2
Social Security	205.2	240.7	316.0	382.9	373.4
Other Revenue(2)	279.4	368.9	503.2	470.7	444.8
Total Revenue	2,794.7	3,428.0	4,521.3	4,667.5	4,984.9
Current Expenditures	2,135.5	2,504.3	3,330.2	3,933.7	4,380.2
Wages and salaries	1,223.9	1,466.5	1,917.8	2,359.9	2,713.1
Goods and Services	213.9	272.5	396.9	405.7	344.0
Transfer payments	597.1	679.3	925.1	1,094.8	1,214.0
Interest on debt	87.5	73.1	67.7	58.6	96.7
Other Expenditures	13.0	12.9	22.6	14.7	12.5
Capital Expenditures	655.4	679.9	1,008.8	1,182.9	1,158.7
Capital Formation(3)	415.6	477.9	580.0	647.4	678.5
Other Capital Investment	239.8	202.1	428.8	535.5	480.2
Lending Minus Repayments	(5.1)	(3.9)	(5.2)	(4.5)	(17.6)
Total Expenditures	2,785.7	3,180.4	4,333.8	5,112.1	5,556.6
Overall Balance	9.0	247.7	187.5	(444.6)	(571.7)

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

(2) Includes income from donations, transfers, other non-tax revenue, other current and capital income.
(3) Comprises investments in public works, including infrastructure investments.
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.

Central Government Finances as a Percentage of GDP

	2009	2010	2011	2012	2013
			(as percentage of GDP)		
Tax Revenue	11.6%	12.0%	12.6%	12.7%	11.5%
Value-added taxes	5.6	6.2	6.5	6.5	6.1
Income taxes	2.8	2.2	2.5	2.7	2.4
Excise taxes	1.9	1.9	1.9	1.9	1.6
Foreign trade taxes	1.2	1.6	1.6	1.5	1.3
Other taxes	0.1	0.1	0.1	0.1	0.1
Non-Tax Revenue	4.1	3.3	3.5	4.3	3.7
Royalties(1)	2.9	2.1	2.2	2.8	2.4
Social Security	1.3	1.2	1.3	1.6	1.2
Other Revenue(2)	1.8	1.8	2.0	1.9	1.5
Total Revenue	17.5	17.1	18.0	19.0	16.6
Current Expenditures	13.4	12.5	13.3	16.0	14.6
Wages and salaries	7.7	7.3	7.6	9.6	9.1
Goods and Services	1.3	1.4	1.6	1.6	1.1
Transfer payments	3.7	3.4	3.7	4.4	4.1
Interest on debt	0.5	0.4	0.3	0.2	0.3
Other Expenditures	0.1	0.1	0.1	0.1	0.0
Capital Expenditures	4.1	3.4	4.0	4.8	3.9
Capital Formation	2.6	2.4	2.3	2.6	2.3
Other Capital Investment	1.5	1.0	1.7	2.2	1.6
Lending Minus Repayments	-	-	-	-	-
Total Expenditures	17.5	15.9	17.3	20.8	18.6
Overall Balance	0.1	1.2	0.7	(1.8)	(1.9)

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

Revenues

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

Central Government Revenue

	2009	2010	2011	2012	2013
			(as percentage of total revenue)		
Tax Revenue	*66.3%*	*70.2%*	*69.6%*	*67.2%*	*68.9%*
Value-added taxes	32.1	36.4	35.8	34.3	36.7
Excise taxes	10.8	11.0	10.7	10.3	9.4
Income taxes	15.8	12.9	13.8	14.1	14.4
Foreign trade taxes	7.0	9.4	9.0	8.0	7.6
Other taxes	0.6	0.5	0.4	0.6	0.7
Non-Tax Revenue	*33.7*	*29.8*	*30.4*	*32.8*	*31.1*
Royalties(1)	16.3	12.0	12.2	14.5	14.6
Social Security	7.3	7.0	7.0	8.2	7.5
Capital Revenue	1.8	2.0	3.4	2.3	1.0

	2009	2010	2011	2012	2013
Other	8.2	8.8	7.7	7.8	7.9
Total Revenue	100.0%	100.0%	100.0%	100.0%	100.0%

(1) Includes payments from Itaipú Binational and Yacyretá Binational and 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 68.5% of total central government revenues for the period 2009-2013.

Consumption Taxes. In 2013, consumption taxes (VAT and excise taxes) represented 67.3% of total tax revenues. Tax rates are moderate with the general VAT rate being 10%, and a reduced rate of 5% applying to certain household necessities, pharmaceuticals and books. 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%. Excise tax is levied primarily on fuel, beverages and cigarettes. Cigarettes are taxed at 12%, alcohol at 10% and non-essential goods at 1-5%. Fuel is subject to a special tax levied at a rate of up to 50%.

Income Taxes and Other Taxes. Revenues from personal and corporate income taxes represented 20.9% of total central government tax revenues in 2013. Corporate income is taxed at a rate of 10% for commercial and industrial activity and services, but gross profits are taxed at 5% for distributors and a 15% withholding tax applies on any payments to non-residents. Agricultural activities are also taxed on their income at a rate of 10%, after the approval of Law 5061/13. Revenue collection from the Agricultural Activities Income Tax will come into effect as of 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 earn 98 times minimum wage are 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.

Foreign Trade Taxes. Revenue from foreign trade, which corresponds entirely to import duties, represented approximately 11% of total tax revenues in 2013. A significant part of VAT and excise taxes are derived from foreign trade and is collected by customs.

Non-tax Revenue

Non-tax revenues represent on average 25.3% of total central government revenues for the 2009-2013 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 2009-2013 accounted for an average of 13.9% of total central government revenues. Social security contributions also represent a significant source of non-tax revenue.

Pursuant to the Itaipú Treaty, Paraguay is entitled to receive (i) an annual royalty from Itaipú Binational in an amount determined on the basis of a formula set forth in the Treaty and (ii) compensation from the Brazilian government for the unused portion of Paraguay's share of electricity produced by Itaipú that must be sold to Electrobras at cost in accordance with the Treaty. The amount of the compensation is negotiated between both governments and currently is US$9 per MgW/hour. In 2013, Paraguay received royalty payments and compensation payments of US$634.7 million, equivalent to 2.1% of GDP. Total revenues relating to Itaipú grew by 2.2% in 2009 to US$345.6 million and declined by 8.7% in 2010 to US$315.6 million. In 2011, revenues increased by 22.4% to US$386.5 million. In 2012 revenue totaled US$566.2 million and in 2013 US$634.7 million, representing increases of 46.5% and 12.1%, respectively. Revenues fluctuate as a result of the total production of electricity, which itself depends on the water flow of the Paraná River. While compensation payments have increased as a result of the increases negotiated with the Brazilian government, they would decrease to the extent that energy generated by Itaipú is consumed domestically.

Expenditures

Central government expenditures consist primarily of current expenditures and capital expenditures. Current expenditures comprise wages and salaries, payments for goods and services, interest paid on central government debt, funds transferred to other public sector institutions (including SOEs) and other expenses. For the 2009-2013 period, current expenditures have averaged 77.6% of total central government revenue. Of these, the main component is payments in wages and salaries, representing an average of approximately 45.9% of total expenditures. Transfer funds also represent an important component accounting for an average of 21.5% of total expenditures. Transfer funds are mainly transfers to the financial public institutions, non-financial public institutions and retirement and pension payments.

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

Central Government Expenditures

	2009	2010	2011	2012	2013
	(as percentage of total central government expenditure)				
Current Expenditures	*76.5%*	*78.6%*	*76.7%*	*76.9%*	*79.1%*
Wages and Salaries	43.9	46.1	44.2	46.1	49.0
Transfers Funds	21.4	21.3	21.3	21.4	21.8
Goods and Services	7.7	8.6	9.1	7.9	6.2
Interest on debt	3.1	2.3	1.6	1.1	1.7
Other expenditures	0.5	0.4	0.5	0.3	0.2
Capital Expenditures	*23.5*	*21.4*	*23.3*	*23.1*	*20.9*
Capital Formation	14.9	15.0	13.4	12.7	12.2
Financial Investment.	0.5	0.6	1.6	10.8	1.2
Capital Transfers	8.1	5.7	8.3	9.7	7.5
Total Expenditures	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Ministry of Finance.

Capital expenditures comprise payments for the construction of infrastructure such as roads, buildings, hospitals and schools, as well as research laboratories, computers and modern equipment. From the period 2009-2013, capital expenditures have averaged 22.4% of total expenditures. Capital formation is the main component of capital expenditures, which represents approximately 60.9% of capital expenditures.

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

	2009	2010	2011	2012	2013
	(in millions of U.S. dollars)				

	2009	2010	2011	2012	2013
	(in millions of U.S. dollars)				
Social Services	$1,568.0	$ 1,746.0	$ 2,471.1	$2,878.1	$3,252.6
Health	325.1	389.8	544.9	664.5	666.4
Promotion and social action	249.8	246.4	450.0	503.1	644.0
Social security	298.1	320.8	407.4	484.0	622.1
Education and culture	660.3	751.1	1,002.8	1,139.8	1,228.6
Science, technology and dissemination	3.0	6.1	14.3	21.6	15.4
Labor	1.3	2.0	3.7	4.6	4.8
Housing and community	28.2	29.8	48.1	60.5	71.4
Others	2.3	0.0	0.0	0.0	0.0
General Services	821.5	1,005.0	1,399.5	2,574.2	1,573.4
Public services(1)	482.7	581.6	836.1	1,929.8	830.9
Defense and security services	338.8	423.4	563.5	644.3	742.6
Economic Services	316.9	373.1	407.7	497.8	641.3
Energy, fuels and mining	0.8	1.0	1.1	1.2	1.2
Communications	6.7	7.3	0.0	0.0	0.0
Transport	1.2	2.9	5.8	5.2	5.7
Ecology and environment	3.5	0.7	0.7	0.5	0.5
Agriculture, livestock and fishing	73.0	98.2	71.8	74.6	73.5
Manufacturing	2.5	3.6	8.3	4.7	3.5
Commerce, storage and tourism	11.6	13.1	18.6	23.7	23.1
Insurance and finance	0.0	0.0	0.0	0.0	0.0
Economic services and public work	217.5	246.3	301.3	388.0	533.7
Public debt service	372.8	359.6	387.5	340.6	326.6
Total	$3,079.3	$ 3,483.7	$ 4,665.8	$6,290.7	$5,793.9

(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.

Percentage Distribution of Central Government Expenditures by Purpose

	As of December 31,				
	2009	2010	2011	2012	2013
	(as percentage of central government total expenditure)				
Social services	50.9%	50.1%	53.0%	45.8%	56.1%
Health	10.6	11.2	11.7	10.6	11.5
Promotion and social action	8.1	7.1	9.6	8.0	11.1
Social security	9.7	9.2	8.7	7.7	10.7
Education and culture	21.4	21.6	21.5	18.1	21.2
Science, technology and dissemination	0.1	0.2	0.3	0.3	0.3
Labor	0.0	0.1	0.1	0.1	0.1
Housing and community	0.9	0.9	1.0	1.0	1.2
Others	0.1	0.0	0.0	0.0	0.0
General services	26.7	28.8	30.0	40.9	27.2
Public services	15.7	16.7	17.9	30.7	14.3
Defense and security services	11.0	12.2	12.1	10.2	12.8

	As of December 31,				
	2009	**2010**	**2011**	**2012**	**2013**
Economic services	10.3	10.7	8.7	7.9	11.1
Energy, fuels and mining	0.0	0.0	0.0	0.0	0.0
Communications	0.2	0.2	0.0	0.0	0.0
Transport	0.0	0.1	0.1	0.1	0.1
Ecology and environment	0.1	0.0	0.0	0.0	0.0
Agriculture, livestock and fishing	2.4	2.8	1.5	1.2	1.3
Manufacturing	0.1	0.1	0.2	0.1	0.1
Commerce, storage and tourism	0.4	0.4	0.4	0.4	0.4
Insurance and finance	0.0	0.0	0.0	0.0	0.0
Economic services and public work	7.1	7.1	6.5	6.2	9.2
Public debt service	12.1	10.3	8.3	5.4	5.6
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Ministry of Finance

Non-discretionary government expenditures still represent a high percentage of total expenditures. In 2009, non-discretionary expenditures amounted to US$1.9 billion, which represented 68.4% of total expenditures in 2009, US$2.2 billion in 2010, which represented 69.7% of total expenditures in 2010, and US$2.9 billion in 2011, which represented 67.1% of total expenditures in 2011. In 2012 and 2013 non-discretionary expenditures amounted to US$3.5 and US$4.0 billion, respectively, which represents 68.7% and 72.6% 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 wages and salaries for public sector employees without generating additional revenue. Pursuant to these laws, salaries and wages increased by approximately 30% in 2012, representing 2.1% of GDP. However, the 2014 Budget Law described below contemplates no salary increases for 2014 and the approval of the Fiscal Responsibility Law is intended to avoid future discretionary increases in salaries and wages.

Budget Process

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

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

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.

2014 Annual Budget

Paraguay's 2014 Annual Budget, enacted on January 6, 2014, sets forth the priorities of the current President, Horacio Cartes. President Cartes' administration is mainly focused on fighting poverty, continuing economic growth with macroeconomic stability and highlighting the development opportunities available in Paraguay in order to attract foreign investments.

The figures set forth below represent Paraguay's forecast for the Paraguayan economy in 2014. While Paraguay believes that these assumptions were reasonable when made, some are beyond the control or significant influence of the government, and actual outcomes will depend on future events. Accordingly, no assurance can be given that economic or fiscal results will not differ materially from the figures set forth below.

The following table sets forth the government's main macroeconomic assumptions for 2014. These are the latest macroeconomic assumptions and may differ from those that were established in 2013 at the time of submission of the 2014 budget in September 2013.

Main Macroeconomic Assumptions for 2014

Real GDP Growth	4.8%
Domestic inflation CPI	5.0%
Real Growth in Public Sector Wages	(2.3)%
Nominal Growth in Imports	14.4%
Average Nominal G./US$ Exchange Rate	G.4,497

Source: Ministry of Finance.

Revenues. The 2014 budget includes an estimated 2.1% increase in tax revenues (estimated tax revenues in U.S. Dollars for 2014 may actually be lower compared to 2013 due to exchange rate fluctuations), which historically has represented approximately 68.5% 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 domestic consumption.

Revenues generated by binationals (including compensation for sales of energy to Brazil at current rates without taking into consideration increases that are being negotiated) are forecasted at G.2.5 billion (approximately US$560.7 million) in 2014. The decrease in projected revenues is primarily the result of payments being deferred by Yacyretá Binational.

Expenditures. The 2014 budget contemplates a decrease in central government expenditures of 3.1% mainly as a result of the strong containment of current expenditure (by reducing wasteful expenditures in order to have greater resources to alleviate and maintain programs aimed at poverty reduction) and the freezing of salary increases.

The following table sets forth a summary of the 2013 and 2014 budgets.

Summary 2013/2014 Budgets[(1)]

	2013	2014
	(in millions of U.S. dollars and percentages)	
Total revenue	$ 6,785	$ 6,203
Total expenditures	7,396	6,860
Primary results	(716)	(717)
% of GDP	(2.4)%	(2.3)%
Overall result	(821)	(861)
% of GDP	(2.7)%	(2.7)%

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

Because financial results depend on assumptions that are not within the control of the government, and because the government may adjust expenditures and modify its revenue plan (within the limits set forth in the budget), the government anticipates an overall deficit in the range of 1.7% of GDP for the central government in 2014, mostly as a result of the decision to continue to execute major public works, which were started in 2013. Public works will be financed in part by current revenue and the balance with the proceeds of debt that the government expects to incur with the multilateral and bilateral organizations. No assurance can be given that the government's expectations for 2014 will materialize or that its objective in terms of overall public results can be achieved.

Social Security

Paraguay's social security system is a government-administered system, financed by a combination of contributions from employees, employers and the government. The current contributions to the social security system are used to finance the retirement funds and services provided to current users. Paraguay's social security system is composed of 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% 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 2013, the contributive scheme had a deficit of G.244 billion (approximately US$56.8 million, representing 0.19% of GDP), which contrasts with a surplus of G.33 billion in 2012 (approximately US$7.8 million, representing 0.03% of GDP).

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 2013, disbursements totaled G.600 billion (approximately US$139.4 million), generating an overall deficit of G.844 billion (approximately US$196.2 million, representing approximately 0.65% 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 that who have worked for at least 20 years are eligible for retirement benefits.

PUBLIC SECTOR DEBT

General

Paraguayan public sector debt is composed of debt incurred by the central government, financial public institutions (BNF, AFD, Fondo Ganadero, and Credito Agricola de Habilitación), and non-financial public institutions (including SOEs). In general, Paraguay has relied on public external and public sector domestic debt to finance capital expenditures, primarily to expand the country's infrastructure, invest in education, grant low-interest rate loans and provide assistance to the manufacturing and agricultural sectors. As of December 31, 2013, 100% of public sector external debt was denominated in foreign currencies and 0.1% of public sector domestic debt was denominated in foreign currencies.

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

The government limits public sector domestic debt to the amount authorized by Congress in the government budget.

The principal guidelines in the government's public debt policies are the ratio of total outstanding public sector debt to GDP, and the ratio of total principal, interest payments and other financial costs (including interest, commissions and others) on public sector external debt to registered exports of goods. As of December 31, 2013, these ratios were 14.1% and 1.98%, respectively. The external public sector debt to exports ratio has fallen consistently for Paraguay and significantly as a result of primary fiscal surpluses and strong GDP growth over the last seven years (with the exception of 2009, 2012 and 2013).

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

Total Gross Public Sector Debt

	As of December 31,									
	2009	% of GDP	2010	% of GDP	2011	% of GDP	2012	% of GDP	2013	% of GDP
Public Sector Debt	$2,707	17.0%	$2,804	14.0%	$2,700	10.4%	$3,537	13.8%	$4,174	14.1%
External Public Debt	2,212	13.9	2,342	11.7	2,289	8.8	2,240	8.8	2,674	9.0
Domestic Public Debt(1)	496	3.1	465	2.3	411	1.6	1,297	5.1	1,500	5.1

(1) The increase in domestic debt in 2012 is mainly the result of the recapitalization of the Central Bank in 2012, through the issuance of a perpetual bond denominated in Guaraníes in an aggregate amount equal to approximately G.3.9 trillion (approximately US$888.2 million). This amount represented 3.6% of GDP and 26% of total public debt at December 31, 2012.

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, 2013, the public sector external debt represented 64.1% 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.

Gross Public Sector External Debt by Creditor

As of December 31,

	2009		2010		2011		2012		2013	
	US$	%	US$	%	US$	%	US$	%	US$	%
Official creditors	**1,854.0**	**83.8**	**2,006.4**	**85.7**	**1,989.4**	**86.9**	**1,988.1**	**88.7**	**1,968.4**	**73.6**
Multilateral organizations.......	**1,337.8**	**60.5**	**1,483.1**	**63.4**	**1,498.1**	**65.5**	**1,583.1**	**70.7**	**1,654.9**	**61.9**
I D B	979.1	**44.3**	1,106.8	**47.3**	1,103.1	**48.2**	1,099.8	**49.1**	1,156.0	**43.2**
I B R D	274.4	**12.4**	253.6	**10.8**	244.6	**10.7**	331.1	**14.8**	332.3	**12.4**
C A F	23.6	**1.1**	64.2	**2.7**	95.2	**4.2**	88.3	**3.9**	81.4	**3.0**
F O N P L A T A	30.2	**1.4**	26.6	**1.1**	21.5	**0.9**	27.0	**1.2**	47.1	**1.8**
I F A D..	3.7	**0.2**	7.6	**0.3**	11.6	**0.5**	14.2	**0.6**	15.1	**0.6**
A I D	14.7	**0.7**	13.2	**0.6**	11.7	**0.5**	10.5	**0.5**	9.2	**0.3**
O P E C......................................	12.0	**0.5**	11.2	**0.5**	10.4	**0.5**	12.4	**0.6**	13.9	**0.5**
Bilateral organizations............	**516.2**	**23.3**	**523.3**	**22.4**	**491.2**	**21.5**	**405.0**	**18.1**	**313.4**	**11.7**
J I C A...	430.1	**19.4**	456.8	**19.5**	438.6	**19.2**	358.5	**16.0**	268.4	**10.0**
K F W	33.1	**1.5**	25.3	**1.1**	20.8	**0.9**	23.9	**1.1**	24.2	**0.9**
U S A I D...................................	0.4	**0.0**	0.3	**0.0**	0.2	**0.0**	0.1	**0.0**	0.0	**0.0**
FINAME.....................................	21.7	**1.0**	14.4	**0.6**	7.2	**0.3**	0.0	**0.0**	0.0	**0.0**
I C O	24.8	**1.1**	21.4	**0.9**	20.2	**0.9**	19.0	**0.8**	17.8	**0.7**
NATEXIS..................................	5.7	**0.3**	4.7	**0.2**	3.9	**0.2**	3.4	**0.2**	3.0	**0.1**
Other...	0.4	**0.0**	0.3	**0.0**	0.2	**0.0**	0.1	**0.0**	0.0	**0.0**
Private creditors........................	**358.2**	**16.2**	**333.6**	**14.3**	**299.3**	**13.1**	**252.2**	**11.3**	**705.8**	**26.4**
Banks	**87.2**	**3.9**	**75.6**	**3.2**	**67.1**	**2.9**	**58.7**	**2.6**	**51.0**	**1.9**
B B V A Spain...........................	3.9	**0.2**	1.6	**0.1**	0.7	**0.0**	0.0	**0.0**	0.0	**0.0**
EXIMBANK CHINA................	83.3	**3.8**	74.0	**3.2**	66.3	**2.9**	58.7	**2.6**	51.0	**1.9**
Bonds	**271.0**	**12.2**	**258.1**	**11.0**	**232.3**	**10.1**	**193.5**	**8.6**	**654.8**	**24.5**
Bonds due 2023..........................	-	-	-	-	-	-	-	-	500.0	18.7
Chinese Bonds (CHINA TRUST COMM. B.)	271.0	12.2	258.1	11.0	232.3	10.1	193.5	8.6	154.8	5.8
Total external debt	**2,212.2**	**100.0**	**2,340.0**	**100.0**	**2,288.7**	**100.0**	**2,240.3**	**100.0**	**2,674.2**	**100.0**

Source: Ministry of Finance

As of December 31, 2013, Paraguay's gross public sector external debt totaled US$2.67 billion, an increase of approximately 19.4% from December 31, 2012. Central government borrowings represented 88.2% of Paraguay's gross 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,									
	2009	% of Total	2010	% of Total	2011	% of Total	2012	% of Total	2013	% of Total
Central Government................	$1,740.1	78.7%	$ 1,851.5	79.1%	$ 1,817.	79.4%	$ 1,784.	79.7%	$ 2,252.9	84.2%
Financial public sector[1]	93.3	4.2	102.5	4.4	112.7	4.9	138.3	6.2	141.3	5.3
Non-financial public sector.....	378.3	17.1	385.7	16.5	358.7	15.7	317.1	14.2	280.0	10.5
Total.......................................	$2,211.8	100.0%	$2,339.7	100.0%	$2,288.5	100.0%	$2,240.2	100.0%	$2,674.2	100.0%
Total public external debt/GDP(%).......................	13.9		11.7		8.8		8.8		9.0	

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

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

Total Public Sector External Debt, Net of International Reserves

	As of December 31,				
	2009	2010	2011	2012	2013
	(in millions of US$)				
Total public external debt	$2,211.8	$2,339.7	$2,288.5	$2,240.2	$2,674
Less: Gross international reserves of Central Bank	3,860.7	4,168.2	4,983.9	4,994.4	5,875.5
Total public external debt, net of international reserves	$(1,648.9)	$(1,828.5)	$(2,695.4)	$(2,754.2)	$(3,201.3)

Source: Ministry of Finance

Paraguay has historically relied on multilateral organizations, bilateral loans and commercial banks as sources of public sector external debt. Multilateral organizations and foreign governments accounted for 63.8% of total gross public sector external debt outstanding at the end of 2013. The IDB and the World Bank are currently Paraguay's largest creditors, accounting for 69.9% and 20.1% as at December 31, 2013, respectively, of gross total public sector external debt owed to multilateral organizations and 43.2% and 12.4% of total public sector external debt. Paraguay's borrowings from multilateral organizations have been used primarily for infrastructure and social development programs.

On January 25, 2013, Paraguay issued bonds under the indenture dated January 25, 2013, for an aggregate principal amount of US$500 million (the "2013 Bonds"), 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. As of December 31, 2013, the total outstanding principal amount was US$500 million.

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

Public Sector Gross External Debt Service

	As of December 31,									
	2009	% of Total	2010	% of Total	2011	% of Total	2012	% of Total	2013	% of Total
	(in millions of U.S. dollars, and percentages)									
Interest payments[1]	$ 77.7	25.0%	$ 61.3	22.1%	$ 61.6	21.3%	$ 55.0	18.8%	$ 63.6	23.6%
Principal amortization	232.7	75.0	216.2	77.9	227.9	78.7	237.0	81.2	206.2	76.4
Total	310.4	100	277.4	100	289.5	100	292.0	100	269.8	100
Debt service as a percentage of registered exports	4.0%		2.6%		2.3%		2.4%		2.5%	

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

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

	Total Outstanding Public External Debt As of December 31, 2013	2014	2015	2016	2017	2018	2019 and there-after
	(in millions of US$)						
Multilateral organizations	$1,654.95	$118.29	$117.79	$113.64	$99.83	$91.73	$1,113.65
Foreign governments	364.44	40.19	38.81	39.28	39.26	39.14	167.76
Bonds	654.84	25.81	25.81	25.81	25.81	25.81	525.81
Total	$2,674.22	$184.28	$182.41	$178.73	$164.90	$156.68	$1,807.22

(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

	2009	% of Total	2010	% of Total	2011	% of Total	2012	% of Total	2013	% of Total
	(in millions of US$ and percentages)									
Fixed Rate	$1,425.8	67.3	$1,394.8	61.1	$1,303.8	57.6	$1,173.2	52.1	$1,522.6	56.9
0-3%	815.0	38.5	811.9	35.6	766.5	33.9	670.2	29.5	561.0	21.0
More than 3%-6%	603.3	28.5	577.7	25.3	534.1	23.6	501.8	22.5	961.6	36.0
More than 6%-9%	7.4	0.4	5.2	0.2	3.3	0.1	1.3	0.1	0.0	0.0
Floating Rate(1)	692.2	32.7	888.5	38.9	959.9	42.4	1,066.9	47.9	1,151.6	43.1
Total	$2,118.0	100.0%	$2,283.3	100.0%	$2,263.8	100.0%	$2,240.1	100.0%	$2,674.2	100.0%

(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,									
	2009	% of Total	2010	% of Total	2011	% of Total	2012	% of Total	2013	% of Total
	(in millions of US$ and percentages)									
0-5 years	$0.1	0.0%	-	-	-	-	-	-	-	-
More than 5-10 years	70.6	3.2	53.4	2.3	36.9	1.6	24.5	1.1	519.9	19.4
More than 10-15 years	304.2	13.8	324.2	13.9	326.0	14.2	287.2	12.8	248.4	9.3
More than 15 years	1,837.0	83.1	1,962.1	83.9	1,925.6	84.1	1,928.4	86.1	1,905.9	71.3
Total	$2,211.8	100.0%	$2,339.7	100.0%	$2,288.5	100.0%	$2,240.2	100.0%	$2,674.2	100.0%

Source: Ministry of Finance

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

Summary of Gross Public Sector External Debt Outstanding by Currency

	As of December 31, 2012	% of Total	As of December 31, 2013	% of Total
	(in millions of U.S. dollars)		(in millions of U.S. dollars)	
United State Dollar	$ 1,758.9	78.5%	$ 2,291.0	85.7%
Japanese Yen	374.0	16.7	280.2	10.5
Euro	60.1	2.7	58.9	2.2
Canadian Dollar	26.1	1.2	22.9	0.9
Special Drawing Rights(1)	14.2	0.6	15.1	0.6
Swiss Franc	3.2	0.1	3.0	0.1
British Pound	1.5	0.1	1.4	0.1
Swedish Krona	1.4	0.1	1.2	0.0
Norwegian Krone	0.6	0.0	0.5	0.0
Paraguay Guarani	0.1	0.0	0.1	0.0
South African Rand	-	0.0	-	0.0
Total	$2,240.2	100.0	$2,674.2	100.0

(1) Units of account used by the International Monetary Fund. 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. IDB is Paraguay's principal multilateral financial institution creditor. At December 31, 2013, the balance of this multilateral debt was US$1.15 billion, representing 43.2% of Paraguay's total public sector external debt.

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

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

World Bank. The World Bank is the second major multilateral financial institution active in Paraguay.As of December 31, 2013, the loans outstanding to the World Bank totaled US$332.3 million, representing 12.4% of Paraguay's total public sector external debt.

The World Bank loans are applied to finance projects in, among others, the following priority areas:

- Reducing poverty and promoting social equity, financing operations in the areas of human development and social infrastructure and providing technical assistance in improving access to land; and
- Promoting good governance, accountability, transparency and integrity.

JICA. Paraguay's principal bilateral creditor is the Japan International Cooperation Agency ("JICA"). JICA projects focused on health, assistance to small farmers and improving water supply systems in rural areas. At

December 31, 2013, loans outstanding owed to JICA totaled US$268.4 million, representing 10.0% of Paraguay's total public sector external debt.

The following table sets forth the loans disbursed by official sector institutions in 2013.

Creditor	Project/Program	Date	Amount (Mill. Of US$)	Original Currency	Objective
IDB	Corridors Program Integration, Rehabilitation and Road Maintenance - Phase II	25-Jul-13	122	US$	The objective is to improve the competitiveness of the productive sector and economic and social integration of the country, through paving and rehabilitation and maintenance of several major corridors of road network in the Eastern Region.
IDB	Construction Project 500 kV Line Yacyretá-Villa Hayes	11-Dec-13	50	US$	Meet the incremental needs of 500/220/66 kv power transmission system.
BEI		11-Dec-13	103.2	EUR	
CAF		11-Dec-13	50	US$	
IBRD	Additional Financing Sustainable Rural Development Project (PRODERS)	06-Dec-13	100	US$	Improve the socio-economic condition of Small-Scale Farmers and Indigenous Communities in the Project Area.
Total			425.2		

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

The tenor of domestic instruments issued by the government currently ranges from one to eight years. As of December 31, 2013, gross public sector domestic debt outstanding was approximately US$ 1.500,3 million, of which US$ 1.397,9 million was issued by the central government and US$ 102,4 million was issued by AFD. 0.1% of public sector domestic debt was denominated in foreign currency.

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

Gross Public Sector Domestic Debt

	As of December 31,

	2009	2010	2011	2012	2013
	(in millions of U.S. dollars)				
Central Government					
Guaraní-denominated[1]	$417.9	$403.1	$316.8	$1,226.2	$1,397.1
Foreign currency-denominated[2]	51.0	43.5	29.0	1.0	0.8
Subtotal	468.9	446.6	345.8	1,227.2	1,397.9
AFD					
Guaraní-denominated[1]	26.5	18.0	65.2	69.9	102.4
Foreign currency-denominated[2]	0.1	0.1	0.1	-	-
Subtotal	26.6	18.1	65.3	69.9	102.4
Total	495.5	464.7	411.2	1,297.1	1,500.3

(1) Translated at average Paraguay Guarani-U.S. dollar exchange as of the close of business for the last business day of December of each year as reported by the Central Bank of Paraguay.
(2) U.S. dollar 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 2013.

Domestic Debt Amortization Schedule

	Total Outstanding Domestic Debt as of December 31, 2013	2014[3]	2015	2016	2017	2018	2019 to Final Maturity
	(in millions of U.S. dollars)						
Central Government							
Guaraní-denominated[1]	$1,397.1	$100.8	$120.9	$165.2	$127.6	$46.0	$836.4
Foreign currency-denominated[2]	0.8	0.1	0.1	0.1	0.1	0.1	0.3
Subtotal	1,397.9	100.9	121.0	165.3	127.7	46.1	836.8
AFD							
Guaraní-denominated[1]	102.4	32.3	5.5	43.4	4.3	-	16.9
Foreign currency-denominated[2]		-		-	-	-	-
Subtotal	102.4	32.3	5.5	43.4	4.3	-	16.9
Total	1,500.3	133.3	126.4	208.8	132.0	46.1	853.7

(1) Translated at average Paraguay Guarani- U.S. dollar exchange as of the close of business for the last business day of December of each year as reported by the Central Bank of Paraguay.
(2) U.S. dollar in its entirety.
(3) To April 30 of 2014 (the projection apply from May to December).
Source: Ministry of Finance

Treasury Bonds

The government began issuing treasury bonds in the domestic market through the Central Bank, as financial agent of the government, in 2006 and starting in July 2012, the treasury bonds traded on the 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 24.8% of the total amount placed in the period 2009-2013). Long-term bonds, which are bonds that have maturities of five or more years, have been issued since 2010 and only in Guaraníes.

In 2012, Paraguay issued eight series of bonds through the Central Bank that trade on the BVPASA, having an aggregate principal amount of G.1,027.1 billion (approximately US$231.6 million).

The following table sets forth Paraguay's treasury bond issuances since 2009.

Paraguay's Treasury Bonds(1)

Maturity (years)	2009	average interest rate	2010	average interest rate	2012	average interest rate	2013	average interest rate
	(issued in Guaraníes, but presented in millions of US$, except percentages)							
1-2.7	66.8	4.8	42.7	4.9	20.9	7.0	117.1	7.0
3-3.7	50.3	6.7	14.8	7.1	56.7	8.1	66.0	7.7
4-4.7	20.1	8.0	17.9	8.0	70.5	9.0	20.9	8.7
5					76.4	9.8	36.0	9.0
6					5.7	10.8		
7					1.1	11.3		
8					0.3	11.8		
	137.3		75.4		231.5		240.0	

(1) In 2011, there were no issuances.
Source: Ministry of Finance

Debt Record

History of Debt Restructuring

1871-1872 Bonds. In 1871 and 1872, the government placed bonds in Great Britain (the "1871-1872 Bonds"). The proceeds were used to rebuild the country, finance expenses and pay external debts incurred as a result of the Triple Alliance war (1864-1870) with Uruguay, Argentina and Brazil. The 1871-1872 Bonds were denominated in British pounds. In March 1876, the terms of the 1871-1872 Bonds were re-negotiated. According to historical records, payments of principal and interest on the 1871-1872 Bonds were completed 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 31 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%, and paying interest semiannually. As of December 2013, the amortized debt amounted to US$245.2 million (equivalent to 61.3% of the initial principal amount) and the outstanding principal amount was US$154.8 million.

4.625% Bonds Due 2023

On January 25, 2013, Paraguay issued bonds under the indenture dated January 25, 2013, for an aggregate principal amount of US$500 million (the "2013 Bonds"), 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. As of December 31, 2013, the total outstanding principal amount was US$500 million.

Recapitalization of the Central Bank

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

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 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.

In 2003, Paraguay entered into a stand-by facility with the IMF for special drawing rights equivalent to US$70 million. The economic agreement signed with the IMF included a series of targets that the country agreed to meet during 2004. The US$70 million facility granted by the IMF to strengthen monetary reserves in case of an emergency was not used. In addition, Paraguay received an economic recovery credit-line facility from the World Bank for US$30 million, which allowed Paraguay to resume servicing its debt by the end of the first half of 2004. Moreover, a US$30 million credit-line facility was granted to Paraguay by the IDB, 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") of France, and Société Générale de Surveillance S.A. ("SGS") of Switzerland. The services consisted of an assessment of goods in the country of origin and/or source that were destined to be delivered to Paraguay in order to verify the quantity, quality and accurate description thereof for proper classification.

In May 1996, the Minister of Finance entered into separate three-year contracts, one each with BIVAC and SGS, to provide pre-shipment inspection of imports services. In February 1999, however, the Minister of Finance was authorized to communicate in writing the decision to not renew the contracts with BIVAC and SGS, both of which terminated by their terms in July 1999.

The BIVAC Claim.

Upon termination of the contracts, BIVAC notified Paraguay that of 35 issued invoices, only 16 had been paid, and BIVAC alleged that 19 were pending payment, which amounted to a total of US$22 million (US$36 million with interest, which BIVAC requested be calculated to the payment date).

In April 2007, ICSID registered an arbitration request filed by BIVAC alleging US$36 million in damages. 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, 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, on July 20, 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, 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.

Contingencies

Gramont Berres Litigation

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

After failed negotiations between Paraguay and the 10 banks holding the loans, namely Banque Bruxelles Lambert (Suisse) SA (which has merged into Bank Julius Baer), D.G. Bank (Schweiz) AG, Banque Paribas (now BNP Paribas London Branch), Union de Banques Arabes et Françaises, Cassa de Risparmio de Torino, Banca di Roma International, Mecfint (Jersey) Ltd., Sanpaolo-Lariano Bank SA, Banca Popolare di Milano and the Republic National Bank of New York (the "Swiss Bank Creditors"), 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 its answer to the complaint, Paraguay maintained that the government is not a guarantor and is not liable for these loans because (i) the loan agreements signed by Mr. Gramont Berres and allegedly guaranteed by Paraguay never received congressional approval prior to their execution, as would be required under the Constitution for a valid sovereign guarantee, (ii) Mr. Gramont Berres executed the loan agreements on behalf of Paraguay with a seal of the "Embassy of Paraguay in Switzerland" when no such Embassy existed, (iii) Mr. Gramont Berres did not have the power to execute the loan agreements because he was appointed Ambassador on a Special Mission of Paraguay in Switzerland by President Stroessner without proper congressional approval, and (iv) the Swiss Bank Creditors failed to exercise good faith in their due diligence investigation as to whether actual governmental authorization was in place for the purported guarantee.

In 2005, the Swiss Federal Court issued a judgment finding Paraguay liable for approximately US$85 million (plus interest). Paraguay is exploring the possibility of appealing before the International Court of Justice of the United Nations.

BNP Paribas London Branch was one of the Swiss Bank Creditors, but it had withdrawn its lawsuit prior to the judgment. After the judgment issued in favor of the nine banks, BNP reinstated its complaint in the Swiss Federal Court. On September 30, 2012, the complaint was sustained and BNP obtained a judgment against Paraguay in the amount of approximately CHF10 million (approximately US$11 million as of July 24, 2014) plus interest.

As of June 30, 2014, there had been no attempts to enforce the judgments described in this section against Paraguay.

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, Petropar and PDVSA agreed to renegotiate amounts owed by Petropar to PDVSA. Petropar owed PDVSA US$269 million. Petropar requested a freeze for one year or more at 2% interest for

US$162 million, a 15-year refinancing grace period at 2% interest for US$60 million and the elimination of overruns of US$37.7 million. Negotiations are currently underway between Petropar and PDVSA.

DESCRIPTION OF THE BONDS

The Bonds will be issued under an indenture, dated as of January 25, 2013 between Paraguay and Citibank, N.A., as trustee. For information on other series of bonds issued under the same indenture, see "Public Sector Debt—Debt Record—4.625% Bonds Due 2023."

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 listing agent, where they will be made available to you free of charge.

The definitions of certain capitalized terms used in this section are set forth under "—Defined Terms."

General

Basic Terms

The Bonds will:

- be general, direct, unconditional, unsubordinated and unsecured obligations of Paraguay and will be backed by the full faith and credit of Paraguay;
- be initially issued in an aggregate principal amount of US$1,000,000,000;
- not be subject to optional redemption prior to their scheduled maturity;
- have a final maturity date of August 11, 2044;
- be issued in denominations of US$200,000 and in integral multiples of US$1,000 in excess thereof;
- not be entitled to the benefit of a sinking fund; and
- be represented by one or more registered bonds in global form, but in certain limited circumstances may be represented by bonds in certificated form. See "Book-Entry Settlement and Clearance."

Interest

Interest on the Bonds will:

- accrue at the rate of 6.100% per annum;
- accrue from the date of issuance or the most recent interest payment date;
- be payable semi-annually in arrears on February 11 and August 11 of each year, commencing on February 11, 2015 to the holders of record on the July 27 and January 27 immediately preceding the related interest payment date; and
- be computed on the basis of a 360-day year comprised of twelve 30-day months.

Payment

Principal of, and interest on, the Bonds will be payable at the offices or agencies maintained by Paraguay for such purpose (which initially will be the offices of the payment agents specified on the inside back cover page of this Offering Memorandum). Payment of principal of and interest on Bonds in global form registered in the name of or held by The Depository Trust Company (or "DTC") or its nominee, will be made in U.S. dollars in immediately available funds to DTC or its nominee, as the case may be, as the registered holder of the global bonds, which will receive the funds for distribution to the holders. Payments may be made by wire transfer to a U.S. dollar account maintained by the registered holder, provided that such registered holder so elects by giving written notice to the trustee or paying agent designating such account at least three business days prior to the related payment date. If any of the Bonds are no longer represented by global bonds, payment of principal of and interest on the Bonds in physical, certificated form may, at Paraguay's option, be made by check mailed directly to holders at their registered addresses (except for (i) registered holders of at least US$1,000,000 aggregate principal amount of Bonds, to whom payments will be made by wire transfer if such holder elects so; *provided* that not less than 15 days prior to the payment date, such holders have given the trustee notice of their election to receive payment by wire transfer and provided the trustee with bank account information and wire transfer instructions or (ii) if Paraguay is making such payments at maturity and such person surrenders the certificated bonds at the corporate trust office or at the offices of one of the other paying agents).

If Paraguay is not required to pay principal or interest by wire transfer, it will, subject to applicable laws and regulations, mail a check on or before the due date for the payment. The check will be mailed to such holder at their address as it appears on the register on the applicable record date.

Paraguay will maintain a principal paying agent, a transfer agent and a registrar in New York City and a paying agent and a transfer agent in at least one member state of the European Union ("European Union Member") (which, so long as the Bonds are listed on the Euro MTF market of the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require, will be in Luxembourg). Paraguay has initially appointed Banque Internationale à Luxembourg SA to serve as Luxembourg paying agent, transfer agent and listing agent. Paraguay undertakes that it will ensure that it maintains a paying agent in a European Union Member that will not be obliged to withhold or deduct tax pursuant to the directive regarding taxation of savings income. Paraguay will give prompt notice to all Holders of the Bonds and the trustee of any future appointment or any resignation or removal of any paying agent, transfer agent or registrar or of any change by any paying agent, transfer agent or registrar in any of its specified offices.

If any date for an interest or principal payment is not a business day, Paraguay will make the payment on the next business day. Such payments will be deemed to have been made on the due date, and no interest on the Bonds will accrue as a result of the delay in payment. For the purpose of this section, a "business day" means any day that is not a Saturday or Sunday, and that is not a day on which banking or trust institutions are authorized generally or obligated by law, regulation, or executive order to close in New York City.

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

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

Definitive Bonds

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

Transfer, Exchange and Replacement of Bonds

The Bonds may be transferred or exchanged in whole or in part at the offices or agencies maintained by Paraguay for such purpose (which initially will be the offices of the transfer agents specified on the inside back cover page of this Offering 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, destroyed, lost or stolen, Paraguay may issue, and the trustee will authenticate and deliver, a substitute bond. In each case, the applicant for a substitute bond will be required to furnish to Paraguay, the trustee, the paying agent, the transfer agent and the registrar an indemnity under which it will agree to pay Paraguay, the trustee, the paying agent, the transfer agent and the registrar for any losses they may suffer relating to the Bond that was mutilated, defaced, destroyed, lost or stolen. Paraguay and the trustee may also require that the applicant present other documents or proof. The applicant will be required to pay all expenses and reasonable charges associated with the replacement of the mutilated, defaced, destroyed, lost or stolen Bond.

Further Issuances

Paraguay may from time to time, without the consent of holders of the Bonds, create and issue additional bonds having the same terms and conditions as the Bonds in all respects, except for issue date, issue price and the first payment of interest thereon; *provided* that such additional bonds are fungible for U.S. federal income tax purposes with the Bonds offered hereby. Additional bonds issued in this manner will be consolidated with and will form a single series with the previously outstanding Bonds.

Ranking

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

Additional Amounts

Payments of principal of and interest on the Bonds are not currently subject to withholding or deduction for any taxes, duties, assessments or governmental charges of whatever nature in Paraguay. Paraguay will make payments in respect of the Bonds without withholding or deduction for any present or future taxes imposed by Paraguay or any of its political subdivisions or taxing authorities, unless otherwise required by Paraguayan law. If Paraguayan law requires Paraguay or any of its political subdivisions or taxing authorities to deduct or withhold taxes, Paraguay will pay the holders the additional amounts necessary to ensure that they receive the same amount as they would have received without such withholding or deduction.

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

- the holder or beneficial owner has some connection with Paraguay other than merely owning the Bond or the receipt of principal of or interest on the Bond;
- the holder or beneficial owner has failed to comply with any certification, identification or other reporting requirement concerning its nationality, residence, identity or connection with Paraguay, provided that:
    - compliance is required by Paraguay, or any of its political subdivisions or taxing authorities, as a precondition to exemption from such withholding or deduction;
    - at least 30 days prior to the first payment date with respect to which such requirements will apply, Paraguay notifies all holders or beneficial owners of Bonds that the holders or beneficial owners will be required to comply with these requirements; and
    - these requirements are not materially more onerous to such holders or beneficial owners (in form, in procedure or in the substance of information disclosed) than comparable information

or other reporting requirements imposed under U.S. federal tax law, regulation and administrative practice (such as U.S. Internal Revenue Service Forms W-8 and W-9); or

- the holder or beneficial owner has failed to present its Bond (where such presentation is required by the terms of the Bonds) within 30 days from when Paraguay makes available to the holder or beneficial owner a payment of principal or interest except to the extent the holder or beneficial owner would have been entitled to additional amounts in presenting the Bond for payment on any date during such 30-day period.

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

Redemption and Repurchase

The Bonds will not be redeemable prior to maturity at the option of Paraguay or repayable prior to maturity at the option of the holders. Paraguay may at any time purchase Bonds in the open market or otherwise at any price. Any Bond so purchased (including upon any redemption) shall not be re-issued or resold except in compliance with the Securities Act and other applicable law.

Negative Pledge Covenant

So long as any Bond remains outstanding, Paraguay may not allow any Lien on its assets or revenues as security for any of its Public External Debt (as defined herein), unless Paraguay's obligations under the Bonds are secured equally and ratably with such Public External Debt. Paraguay may, however, grant or agree to any Permitted Lien (as defined under "—Defined Terms") on its assets or revenues.

Events of Default

Each of the following is an event of default with respect to the Bonds:

1. Non-Payment:

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

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

2. *Breach of Other Obligations*: failure to observe or perform any of the covenants or agreements provided in the Bonds or the indenture (other than those referred to in paragraph 1 above) for a period of 30 days following written notice to Paraguay by the trustee or holders representing at least 25% in principal amount of the then outstanding Bonds to remedy such failure; or

3. Cross Default:

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

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

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

5. *Validity*:

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

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

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

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

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

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

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

Upon any declaration of acceleration, the principal of, and interest and all other amounts payable on, the Bonds will become immediately due and payable on the date on which Paraguay receives written notice of the declaration, unless Paraguay has remedied the event or events of default prior to receiving the notice. The holders of not less than a majority of the aggregate principal amount of the outstanding Bonds may, on behalf of all holders, waive any existing defaults or events of default and their consequences or rescind a declaration of acceleration, if:

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

- all other events of default have been remedied.

Meetings, Amendments and Waivers

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

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

In addition, the trustee will call a meeting of the holders of the Bonds if holders of not less than 10% of the aggregate principal amount of the outstanding Bonds have delivered a written request to the trustee requesting such meeting and setting forth the action they propose to take. The trustee will notify the holders of the time, place and purpose of any meeting called by the holders not less than 30 and not more than 60 days before the meeting.

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

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

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

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

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

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

- reduce the principal amount of the Bonds;

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

- reduce the interest rate applicable to the Bonds;

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

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

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

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

- change the governing law provision of the Bonds;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Notices

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

Paraguay will also publish notices to the holders in leading newspapers having general circulation in New York City and London. Paraguay anticipates that it will make such publications in *The Wall Street Journal* and the *Financial Times*. In addition, so long as the Bonds are listed on the Euro MTF market of the Luxembourg Stock Exchange and the rules of that Exchange so require, Paraguay will publish notices to the holders in a leading newspaper having general circulation in Luxembourg and on the website of the Luxembourg Stock Exchange (www.bourse.lu). Paraguay anticipates that it will initially make its newspaper publication in the *d'Wort - Luxemburger Wort für Wahrheit und Recht*. If publication in a leading newspaper in Luxembourg is not practical, Paraguay will publish such notices in one other leading English language daily newspaper with general circulation in Europe. Paraguay will consider any published notice to be given on the date of its first publication.

Governing Law

The indenture and the Bonds will be governed by, and construed in accordance with, the laws of the State of New York, except that all matters governing authorization and execution by Paraguay are governed by the laws of Paraguay.

Submission to Jurisdiction

Paraguay is a foreign sovereign state. Consequently, it may be difficult for holders to obtain judgments from courts in the United States or elsewhere against Paraguay. Furthermore, it may be difficult for investors to enforce, in the United States or elsewhere, the judgments of U.S. or foreign courts against Paraguay.

In connection with any legal action or proceeding arising out of or relating to the Bonds (subject to the exceptions described below) or the indenture, Paraguay has agreed:

- to submit to the jurisdiction of any New York State or U.S. federal court sitting in New York City in the Borough of Manhattan and any appellate court of either thereof;

- that all claims in respect of such legal action or proceeding may be heard and determined in such New York state or U.S. federal court and will waive, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such action or proceeding; and

- to appoint as its process agent the Consul General of Paraguay in New York City, having an office on the date hereof at 211 East 43rd Street Suite 400, New York, NY 10017, United States of America.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Currency Indemnity

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

Concerning the Trustee

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

Defined Terms

The following are certain definitions used in the Bonds:

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

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

"Permitted Liens" means:

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

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

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

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

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

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

BOOK-ENTRY, DELIVERY AND FORM

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

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

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

Book-Entry Interests will be shown on, and transfers thereof will be done only through, records maintained in book-entry form by DTC, Euroclear and Clearstream and their participants. The foregoing limitations may impair your ability to own, transfer or pledge Book-Entry Interests. In addition, while the bonds are in global form, holders of Book-Entry Interests will not be considered the owners or "holders" of Bonds for any purpose.

So long as the bonds are held in global form, DTC (or its nominee) will be considered the sole holders of Global Bonds for all purposes under the indenture. In addition, participants in DTC, Euroclear and/or Clearstream must rely on the procedures of DTC, Euroclear and/or Clearstream, as the case may be, and indirect participants must rely on the procedures of DTC, Euroclear, Clearstream and the participants through which they own Book-Entry Interests, to transfer their interests or to exercise any rights of holders under the indenture.

None of Paraguay, the Trustee, the paying agent, the transfer agent or the registrar will have any responsibility or be liable for any aspect of the records relating to the Book-Entry Interests.

Redemption of the Global Bonds

In the event any Global Bond (or any portion thereof) is redeemed, DTC (or its nominee) will redeem an equal amount of the Book-Entry Interests in such Global Bond from the amount received by it in respect of the redemption of such Global Bonds. The redemption price payable in connection with the redemption of such Book-Entry Interests will be equal to the amount received by DTC, in connection with the redemption of such Global Bond (or any portion thereof). Paraguay understands that, under existing practices of DTC if fewer than all of the bonds are to be redeemed at any time, DTC will credit its participants' accounts on a proportionate basis (with adjustments to prevent fractions) or by lot or on such other basis as they deem fair and appropriate; *provided, however,* that no Book-Entry Interest of US$2,000 principal amount or less may be redeemed in part.

Payments on Global Bonds

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

Under the terms of the indenture, Paraguay, the Trustee, the paying agent, the transfer agent and the registrar will treat the registered holders of the Global Bonds (e.g., DTC (or its respective nominee)) as the owners thereof for the purpose of receiving payments and for all other purposes. Consequently, none of Paraguay, the Trustee, the paying agent, the transfer agent, the registrar, the Initial Purchasers or any of Paraguay's and their respective agents has or will have any responsibility or liability for:

- any aspect of the records of DTC or any participant or indirect participant relating to payments made on account of a Book-Entry Interest or for maintaining, supervising or reviewing the records of DTC or any participant or indirect participant relating to or payments made on account of a Book-Entry Interest; or

- DTC or any participant or indirect participant.

Payments by participants to owners of Book-Entry Interests held through participants are the responsibility of such participants.

Currency of Payment for the Global Bonds

Except as may otherwise be agreed between DTC and any holder, the principal of, premium, if any, and interest on, and all other amounts payable in respect of, the Global Bonds will be paid to holders of interests in such Bonds (the "DTC Holders") through DTC in U.S. dollars. Payments will be subject in all cases to any fiscal or other laws and regulations (including any regulations of the applicable clearing system) applicable thereto. None of Paraguay, the Trustee, the paying agent, the transfer agent, the registrar, the Initial Purchasers or any of Paraguay's and their respective agents will be liable to any holder of a Global Bond or any other person for any commissions, costs, losses or expenses in relation to or resulting from any currency conversion or rounding effected in connection with any such payment.

Action by Owners of Book-Entry Interests

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

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

Transfers

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

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

During the Distribution Compliance Period, any sale or transfer of ownership of a Reg S Book-Entry Interest to a U.S. person shall not be permitted unless such resale or transfer is made pursuant to Rule 144A. Subject to the foregoing, a Reg S Book-Entry Interest may be transferred to a person who takes delivery in the form of a

Restricted Book-Entry Interest in a Global Bond only upon delivery by the transferor of a written certification (in the form provided in the indenture) to the effect that such transfer is being made to a person who the transferor reasonably believes is a "qualified institutional buyer" within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A or otherwise in accordance with the transfer restrictions described under "Transfer Restrictions," and in accordance with any applicable securities laws of any state of the United States or any other jurisdiction.

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

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

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

Definitive Registered Bonds

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

- if DTC notifies us that it is unwilling or unable to continue as depositary for the Global Note, or DTC ceases to be a clearing agency registered under the Exchange Act and, in either case, a qualified successor depositary is not appointed by us within 120 days;

- if Paraguay determines not to have any Bonds of such series represented by a Global Note;

- if DTC so requests following an event of default under the indenture; or

- if the owners of a Book-Entry Interest request such exchange in writing delivered through DTC following an event of default under the indenture.

In the case of the issuance of Definitive Registered Bonds, the holder of a Definitive Registered Bond may transfer such note by surrendering it at the offices of the Trustee. In the event of a partial transfer or a partial redemption of a holding of Definitive Registered Bonds represented by one Definitive Registered Bond, a Definitive Registered Bond shall be issued to the transferee in respect of the part transferred, and a new Definitive Registered Bond in respect of the balance of the holding not transferred or redeemed shall be issued to the transferor or the holder, as applicable; *provided* that no Definitive Registered Bond in a denomination less than US$2,000 shall be issued. Paraguay will bear the cost of preparing, printing, packaging and delivering the Definitive Registered Bonds.

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

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

If Definitive Registered Bonds are issued and a holder thereof claims that such Definitive Registered Bonds have been lost, destroyed or wrongfully taken or if such Definitive Registered Bonds are mutilated and are surrendered to the Trustee or at the office of the Trustee, Paraguay shall issue and the Trustee shall authenticate a replacement Definitive Registered Bond if the Trustee's and Paraguay's requirements are met. The Trustee or Paraguay may require a holder requesting replacement of a Definitive Registered Bond to furnish indemnity and security sufficient in the judgment of both the Trustee and Paraguay to protect us, the Trustee, and any paying agent or transfer agent appointed pursuant to the indenture from any loss which any of them may suffer if a Definitive Registered Bond is replaced. Paraguay may charge for Paraguay's expenses in replacing a Definitive Registered Bond. In case any such mutilated, destroyed, lost or stolen Definitive Registered Bond has become or is about to become due and payable, or is about to be redeemed or purchased by Paraguay pursuant to the provisions of the indenture, Paraguay in its discretion may, instead of issuing a new Definitive Registered Bond, pay, redeem or purchase such Definitive Registered Bond, as the case may be. Definitive Registered Bonds may be transferred and exchanged for Book-Entry Interests in a Global Bond only in accordance with the indenture and, if required, only after the transferor first delivers to the Trustee a written certification (in the form provided in the indenture) to the effect that such transfer will comply with the transfer restrictions applicable to such Bonds and Paraguay may require a holder to pay any taxes and fees required by law or permitted by the indenture and the Bonds. See "Transfer Restrictions."

Information Concerning DTC, Euroclear and Clearstream

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

The Depository Trust Company

DTC is:

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

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

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

Euroclear and Clearstream

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

Global Clearance and Settlement Under the Book-Entry System

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

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

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

TAX CONSIDERATIONS

Paraguayan Tax Considerations

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

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

United States Federal Income Tax Considerations 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 (the "Internal Revenue Code"), 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. If you are a United States alien holder (as defined below), you should refer to "United States Alien Holders" below.

Payments of Interest. You will be taxed on interest on your Bonds as ordinary income at the time you receive the interest or when it accrues, depending on your method of accounting for tax purposes. Interest paid by Paraguay on the Bonds is income from sources outside the United States for purposes of the rules regarding the foreign tax credit allowable to a United States holder and will, depending on your circumstances, be either "passive" *or* "general" income for purposes of computing the foreign tax credit. 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 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.

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

- you are an insurance company carrying on a United States insurance business to which the interest is attributable, within the meaning of the Internal Revenue Code, or
- you both
  - have an office or other fixed place of business in the United States to which the interest is attributable and
  - derive the interest in the active conduct of a banking, financing or similar business within the United States, or are a corporation with a principal business of trading in stocks and securities for its own account.

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

- the gain is effectively connected with your conduct of a trade or business in the United States, under the circumstances described in "Interest", above, or
- you are an individual, you are present in the United States for 183 or more days during the taxable year in which the gain is realized and certain other conditions are met.

For purposes of the United States federal estate tax, the Bonds will be treated as situated outside the United States and will not be includible in the gross estate of a holder who is neither a citizen nor a resident of the United States at the time of death.

Backup Withholding and Information Reporting

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

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

PLAN OF DISTRIBUTION

J.P. Morgan Securities LLC and Merrill Lynch, Pierce, Fenner & Smith Incorporated are acting as joint book-running managers of the offering and as representatives of the initial purchasers named below. Subject to the terms and conditions stated in the purchase agreement dated the date of this Offering 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 Purchaser	Principal Amount of Bonds
J.P. Morgan Securities LLC	500,000,000
Merrill Lynch, Pierce, Fenner & Smith Incorporated	500,000,000
Total	1,000,000,000

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.

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 August 11, 2014 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 will be required, by virtue of the fact that the Bonds initially settle in T+ 5, to specify an alternate settlement arrangement at the time of any such trade to prevent a failed settlement. Purchasers of the Bonds who wish to trade the Bonds prior to their date of delivery hereunder should consult their advisors.

The initial purchasers and their affiliates have performed commercial banking, investment banking and advisory services for Paraguay from time to time for which they have received customary fees and reimbursement of expenses. The initial purchasers and their affiliates may, from time to time, engage in transactions with and perform services for Paraguay in the ordinary course of their business for which they may receive customary fees and reimbursement of expenses.

In the ordinary course of their various business activities, the initial purchasers and their respective affiliates, officers, directors and employees may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments (including bank loans) for their own account and for the accounts of their customers, and such investment and trading activities may involve or relate to assets, securities and/or instruments of Paraguay (directly, as collateral securing other obligations or otherwise) and/or persons and entities with relationships with Paraguay. If any of the initial purchasers or their affiliates has a lending relationship with us, certain of those initial purchasers or their affiliates routinely hedge, and certain other of those initial purchasers or their affiliates may hedge, their credit exposure to us consistent with their customary risk management policies. Typically, these 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 J.P. Morgan Securities LLC and Merrill Lynch, Pierce, Fenner & Smith Incorporated, offer, sell, contract to sell or otherwise dispose of any debt securities of Paraguay or warrants to purchase debt securities of Paraguay substantially similar to the Bonds.

Notice to Prospective Investors in the United Kingdom

Each initial purchaser has:

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

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

Notice to Prospective Investors in the European Economic Area

In relation to each Member State of the European Economic Area 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 100 or, if the Relevant Member State has implemented the relevant provisions of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under 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 or supplement a prospectus pursuant to Article 16 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 (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State) and includes any relevant implementing measure in the Relevant Member State and the expression "2010 PD Amending Directive" means Directive 2010/73/EU.

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

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 may not be offered or sold in Hong Kong, by means of any document, other than (a) to "professional investors" as defined in the Securities and Futures ordinance (Cap. 571, Laws of Hong Kong) and any rules made under that Ordinance or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance (Cap. 32, Laws of Hong Kong) or which do not constitute an offer to the public within the meaning of that Ordinance. No advertisement, invitation or document relating to the Bonds may be issued or may be in the possession of any person for the purpose of the issue, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to the Securities which are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) or any rules made under that Ordinance.

Notice to Prospective Investors in Japan

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

Notice to Prospective Investors in Singapore

This Offering Memorandum has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this Offering Memorandum and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Bonds may not be circulated or distributed, nor may the Bonds be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Future Act, Chapter 289 of Singapore (the "SFA"), (ii) to a "relevant person" as defined in Section 275(2) of the SFA, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of any other applicable provision of the SFA.

Where the Bonds are subscribed and purchased under Section 275 of the SFA by a relevant person that is:

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

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

shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferable within six months after that corporation or that trust has acquired the Bonds under Section 275 of the SFA except: (i) to an institutional investor under Section 274 of the SFA or to a relevant person (as defined in Section 275(2) of the SFA) and in accordance with the conditions, specified in Section 275 of the SFA; (ii) (in the case of a corporation) where the transfer arises from an offer referred to in Section 275(1A) of the SFA, or (in the case of a trust) where the transfer arises from an offer that is made on terms that such rights or interests are acquired at a consideration of not less than $200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets; (iii) where no consideration is or will be given for the transfer; or (iv) where the transfer is by operation of law.

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

Notice to Prospective Investors in Switzerland

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

Notice to Prospective Investors in the Dubai International Financial Centre

This Offering Memorandum relates to an Exempt Offer in accordance with the Offered Securities Rules of the Dubai Financial Services Authority ("DFSA"). This Offering Memorandum is intended for distribution only to persons of a type specified in the Offered Securities Rules of the DFSA. It must not be delivered to, or relied on by, any other person. The DFSA has no responsibility for reviewing or verifying any documents in connection with Exempt Offers. The DFSA has not approved this Offering 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.

Notice to Prospective Investors in Chile

The offer of the Bonds will begin on July 25, 2014 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 25 de julio del 2014 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 in the Paraguayan Stock Exchange. Therefore, the Bonds may not be publicly offered in Paraguay.

TRANSFER RESTRICTIONS

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

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

- within the United States to "Qualified Institutional Buyers," in accordance with Rule l44A ("Rule 144A") under the Securities Act; and

- outside the United States to persons other than U.S. persons ("foreign purchasers") in accordance with Regulation S under the Securities Act ("Regulation S").

As used in this section, the terms "United States" and "U.S. person" have the meaning given to them in Regulation S, and terms that are defined in Rule 144A have the respective meanings given to them in Rule 144A.

By purchasing the Bonds, each purchaser will be deemed to have represented and agreed with us and the Initial Purchasers as follows:

(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 (8) or (9) below appears may be made only (i) to Paraguay, (ii) for so long as the Bonds are eligible for resale pursuant to Rule 144A, to a person that you reasonably believe is a qualified institutional buyer acquiring the Bonds for its own account or for the account of one or more other qualified institutional buyers in a transaction meeting the requirements of Rule 144A, (iii) in an offshore transaction meeting the requirements of Rule 903 or Rule 904 of Regulation S under the Securities Act or (iv) pursuant to an exemption from registration under the Securities Act, in each case of clauses (i) – (iv) in accordance with any applicable securities laws of any state of the United States and any other jurisdiction.

(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 UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND, PRIOR TO THE EXPIRATION OF FORTY

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

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

SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

The Republic of Paraguay is a foreign sovereign state. Consequently, it may be difficult for investors to obtain or realize upon judgments of courts in the United States or elsewhere against Paraguay, and enforcement of such judgments may be subject to limitations with respect to attachment of certain classes of assets. Paraguay will irrevocably submit to the jurisdiction of any New York state or federal court sitting in New York City in relation to judicial proceedings arising out of the issuance or sale of the Bonds. In addition, Paraguay will irrevocably waive, to the fullest extent permitted by law, any immunity, including foreign sovereign immunity, from the jurisdiction of such courts in connection with any action based upon the Bonds brought by any holder of Bonds. Paraguay will agree that any process or other legal summons in connection with actions arising or relating to the Bonds may be served upon it by delivery to the Consul General of Paraguay in New York City, having an office on the date hereof on 211 East 43rd Street Suite 400, New York, NY 10017, United States of America, as its agent, or by any other means permissible under the laws of the State of New York and Paraguay.

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

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

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

OFFICIAL STATEMENTS AND DOCUMENTS

Information included herein that is identified as being derived from information published by the Ministry of Finance, the Central Bank of Paraguay or other publications of Paraguay's agencies or instrumentalities is included herein on the authority of such publication as an official public document of Paraguay. All other information herein is included as an official public statement made on the authority of Germán Hugo Rojas Irigoyen, Minister of Finance of Paraguay.

VALIDITY OF THE BONDS

The validity of the Bonds will be passed upon for Paraguay by the Attorney General of Paraguay and Parquet & Asociados, each serving as Paraguayan counsel to the Republic of Paraguay, and by Sullivan & Cromwell LLP, special United States counsel to Paraguay, and for the Initial Purchasers, by Cleary Gottlieb Steen & Hamilton LLP, United States counsel to the Initial Purchasers, and by Gross Brown, Paraguayan counsel to the Initial Purchasers.

AUTHORIZED AGENT

The authorized agent of Paraguay in the United States of America is the Consul General of Paraguay in New York City, whose address is 211 East 43rd Street, Suite 400, New York, NY 10017.

GENERAL INFORMATION

1. The issuance of the Bonds was authorized by the Annual Budget Law (*Ley 5142/2014 de Presupuesto General de la Nación*), dated January 6, 2014, of the Paraguayan Congress, the Complementary Law to the Annual Budget (*Ley 5251/2014 de Ampliacion del Presupuesto General de la Nación*), dated July 22, 2014, of the Paraguayan Congress and the final authorizing Presidential Decree 1991/2014 (*Decreto del Poder Ejecutivo No. 1991*), dated July 23, 2014. 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. The Bonds will be accepted for clearance through Euroclear and Clearstream clearance systems. The CUSIP number and ISIN number for the Bonds offered pursuant to 144A and Regulation S are as follows:

Bonds Offered	CUSIP Number	ISIN Number	Common Code
Rule 144A................................	699149AB6	US699149AB65	108511257
Regulation S	P75744AB1	USP75744AB11	108511214

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, 2013.

APPENDIX

PARAGUAY: GROSS PUBLIC SECTOR EXTERNAL DEBT AS OF DECEMBER 31, 2013

Creditor	Issue date	Currency	Maturity (years)	Type of Interest Rate	Spread (%)	Interest rate (%)	Outstanding Amount as of December 31, 2013 (in millions of US$)
Multilateral							
IDB	09/11/1966	CAD	50	Fixed	0	0.5	0.06
IDB	19/09/1974	USD	40	Fixed	0	2	0.25
IDB	14/03/1975	USD	40	Fixed	0	2	1.68
IDB	19/12/1974	USD	40	Fixed	0	2	0.17
IDB	21/01/1977	USD	40	Fixed	0	2	1.28
IDB	29/11/1977	USD	40	Fixed	0	2	0.82
IDB	23/01/1978	USD	41	Fixed	0	2	0.94
IDB	26/01/1979	USD	40	Fixed	0	0	0.03
IDB	14/12/1978	USD	40	Fixed	0	2	0.86
IDB	26/01/1979	USD	40	Fixed	0	2	0.88
IDB	26/01/1979	USD	40	3-month Libor	0.83	Variable	0.84
IDB	22/05/1979	USD	40	Fixed	0	2	1.43
IDB	22/05/1979	USD	40	3-month Libor	0.83	Variable	0.05
IDB	04/09/1979	USD	40	Fixed	0	2	1.22
IDB	16/07/1980	USD	40	Fixed	0	2	1.32
IDB	16/07/1980	USD	40	COB	0	Variable	2.22
IDB	30/10/1980	USD	40	Fixed	0	2	4.21
IDB	30/10/1980	USD	40	COB	0	Variable	0.2
IDB	16/03/1982	USD	40	Fixed	0	2	2.06
IDB	22/10/1981	USD	40	Fixed	0	2	8.45
IDB	10/11/1982	USD	40	Fixed	0	2	1.07
IDB	10/11/1982	USD	40	COB	0	Variable	5.34
IDB	10/02/1983	CAD	40	Fixed	0	2	4.11
IDB	17/12/1982	USD	41	Fixed	0	2	2.76
IDB	28/01/1983	USD	40	Fixed	0	2	3.49
IDB	17/11/1983	USD	40	Fixed	0	2	5.55
IDB	27/03/1984	USD	40	Fixed	0	2	1.96
IDB	19/05/1988	USD	40	Fixed	0	2	5.72
IDB	16/09/1988	USD	40	Fixed	0	2	24.02
IDB	17/11/1989	PYG	40	Fixed	0	0	0.07
IDB	02/04/1990	USD	40.5	Fixed	0	2	10.19
IDB	04/06/1990	USD	40	Fixed	0	2	16.16
IDB	23/09/1992	USD	40	Fixed	0	2	20.06
IDB	25/03/1992	USD	25	Fixed	0	4.87	2.87
IDB	25/03/1992	USD	40	Fixed	0	2	29.41

Creditor	Issue date	Currency	Maturity (years)	Type of Interest Rate	Spread (%)	Interest rate (%)	Outstanding Amount as of December 31, 2013 (in millions of US$)
IDB	16/12/1992	USD	25	Fixed	0	4.87	2.02
IDB	26/03/1993	USD	30	Fixed	0	4.87	2.83
IDB	26/03/1993	USD	30	Fixed	0	4.87	9.02
IDB	30/09/1993	USD	25	Fixed	0	4.87	1.06
IDB	30/09/1993	USD	40	Fixed	0	2	33.85
IDB	29/12/1993	USD	25	Fixed	0	4.87	1.33
IDB	23/12/1993	USD	40	Fixed	0	2	1.14
IDB	29/12/1993	USD	25	Fixed	0	4.87	2.99
IDB	26/04/1995	USD	20	Fixed	0	4.87	17.86
IDB	26/04/1995	USD	20	Fixed	0	4.87	12.74
IDB	13/02/1995	USD	20	Fixed	0	4.87	5.64
IDB	21/04/1997	USD	20	Fixed	0	5.43	10.02
IDB	27/06/1996	USD	20	Fixed	0	5.43	16.25
IDB	26/06/1996	USD	20	Fixed	0	4.87	8.95
IDB	27/06/1996	USD	20	Fixed	0	4.87	9.52
IDB	22/05/1997	USD	20	Fixed	0	5.43	12.98
IDB	18/07/1997	USD	19	3-month Libor	1.82	Variable	4.76
IDB	22/05/1998	USD	20	Fixed	0	5.43	8.32
IDB	07/09/1998	USD	20	Fixed	0	5.43	20.74
IDB	12/02/1999	USD	20	Fixed	0	5.43	2.85
IDB	06/03/2000	USD	15	Fixed	0	4.87	35.14
IDB	03/08/2000	USD	20	Fixed	0	4.87	27.52
IDB	03/08/2000	USD	20	Fixed	0	4.87	3.59
IDB	03/08/2000	USD	19	Fixed	0	4.87	2.85
IDB	17/03/2001	USD	15	Fixed	0	4.87	3.24
IDB	17/03/2001	USD	18	Fixed	0	4.87	3.66
IDB	17/03/2001	USD	15	Fixed	0	4.87	59.92
IDB	17/03/2001	USD	25	Fixed	0	4.87	8.68
IDB	08/03/2002	USD	20	Fixed	0	4.87	4.94
IDB	08/01/2003	USD	25	Fixed	0	4.87	20.1
IDB	26/03/2003	USD	20	Fixed	0	4.87	5.33
IDB	15/08/2003	USD	20	Fixed	0	4.87	18.47
IDB	10/11/2005	USD	25	3-month Libor	0.83	Variable	24
IDB	10/04/2006	USD	20	3-month Libor	0.83	Variable	5.44
IDB	10/04/2006	USD	25	3-month Libor	0.83	Variable	1.36
IDB	22/12/2006	USD	25	3-month Libor	0.83	Variable	126.73
IDB	22/12/2006	USD	25	3-month Libor	1.82	Variable	49.86
IDB	13/03/2007	USD	25	3-month Libor	0.83	Variable	21.08
IDB	13/03/2007	USD	25	3-month Libor	0.83	Variable	3.78

Creditor	Issue date	Currency	Maturity (years)	Type of Interest Rate	Spread (%)	Interest rate (%)	Outstanding Amount as of December 31, 2013 (in millions of US$)
IDB	06/06/2007	USD	25	3-month Libor	0.83	Variable	0.76
IDB	04/04/2008	USD	30	Fixed	0	4.53	13.76
IDB	04/04/2008	USD	40	Fixed	0	0.25	3.44
IDB	04/04/2008	USD	25	Fixed	0	4.53	3.49
IDB	04/04/2008	USD	40	Fixed	0	0.25	0.87
IDB	04/04/2008	USD	30	Fixed	0	4.53	4.98
IDB	04/04/2008	USD	40	Fixed	0	0.25	1.25
IDB	04/04/2008	USD	30	Fixed	0	4.53	40
IDB	04/04/2008	USD	40	Fixed	0	0.25	10
IDB	27/03/2009	USD	30	3-month Libor	0.83	Variable	2.37
IDB	27/03/2009	USD	40	Fixed	0	Variable	0.59
IDB	07/07/2009	USD	20	3-month Libor	0.83	Variable	100
IDB	30/06/2009	USD	30	Fixed	0	3.95	40
IDB	30/06/2009	USD	40	Fixed	0	0.25	10
IDB	25/09/2009	USD	25	3-month Libor	0.83	Variable	26
IDB	20/03/2010	USD	25	3-month Libor	0.83	2	3.78
IDB(1)	20/04/2010	USD	-	-	-	-	4.2
IDB	02/12/2010	USD	25	3-month Libor	0.83	Variable	1.24
IDB	09/09/2011	USD	30	3-month Libor	0.83	Variable	8.9
IDB	09/09/2011	USD	40	Fixed	0	Variable	2.23
IDB	29/10/2011	USD	30	3-month Libor	0.83	Variable	0.08
IDB	29/10/2011	USD	40	Fixed	0	Variable	0.02
IDB	15/02/2012	USD	30	3-month Libor	0.83	Variable	4.49
IDB	15/02/2012	USD	40	Fixed	0	Variable	1.12
IDB	27/07/2012	USD	16	3-month Libor	0.83	Variable	35.5
IDB	27/07/2012	USD	30	3-month Libor	0.83	Variable	51.6
IDB	27/07/2012	USD	40	Fixed	0	0.25	12.9
IDA	04/04/1966	USD	50	Fixed	0	0.75	0.54
IDA	25/06/1969	USD	50	Fixed	0	0.75	0.84
IDA	22/12/1972	USD	50	Fixed	0	0.75	1.3
IDA	06/09/1974	USD	50	Fixed	0	0.75	3.61
IDA	17/10/1975	USD	50	Fixed	0	0.75	1.38
IDA	22/12/1976	USD	50	Fixed	0	0.75	1.56
IBRD	27/10/1997	USD	18	6-month Libor	0.23	Variable	2.15
IBRD	27/10/1997	USD	18	Fixed	0	4.35	2.49
IBRD	14/05/2002	USD	17	6-month Libor	0.3	Variable	3.85
IBRD	10/09/2003	USD	23	6-month Libor	0.25	Variable	15.88
IBRD	16/12/2003	USD	23	6-month Libor	0.25	Variable	21.66
IBRD	13/06/2005	USD	23	6-month Libor	0.25	Variable	11.66

Creditor	Issue date	Currency	Maturity (years)	Type of Interest Rate	Spread (%)	Interest rate (%)	Outstanding Amount as of December 31, 2013 (in millions of US$)
IBRD	13/10/2006	USD	23	6-month Libor	0.25	Variable	40.61
IBRD	24/06/2008	USD	23	6-month Libor	0.05	Variable	22.85
IBRD	27/04/2009	USD	27	6-month Libor	1.45	Variable	10.73
IBRD	26/05/2009	USD	27	6-month Libor	1.45	Variable	100
IBRD	23/02/2011	USD	25	6-month Libor	1.05	4.2	0.38
IBRD	02/03/2012	USD	25	6-month Libor	1.05	Variable	100
FONPLATA	04/02/1994	USD	21	Fixed	0	7.85	0.04
FONPLATA	04/02/1994	USD	21	Var. FONPLATA	0	Variable	0.24
FONPLATA	29/05/2003	USD	15	6-month Libor	3.25	Variable	11.24
FONPLATA(1)	08/04/2009	USD	-	-	-	-	0.04
FONPLATA	23/03/2012	USD	20	6-month Libor	1.75	Variable	35.24
FONPLATA	16/08/2005	USD	10	6-month Libor	1.2	Variable	0.27
IFAD	22/06/2006	SDR	38	Fixed	0	0.75	12.12
IFAD	15/03/2010	SDR	20	6-month Libor	0.5	0.25	2.99
CAF	18/02/2005	USD	10	6-month Libor	2.65	Variable	2.83
CAF	17/03/2006	USD	10	6-month Libor	3.19	Variable	5.54
CAF	23/07/2009	USD	10.5	6-month Libor	2.8	Variable	68.74
CAF	27/10/2011	USD	15	6-month Libor	2.35	Variable	4
OPEC	01/06/2005	USD	15	Fixed	0	3.5	8.79
OPEC	06/10/2009	USD	20	Fixed	0	Variable	5.17
Bilateral							
K F W	16/12/1993	EUR	30	Fixed	0	2	14.08
K F W	16/12/1993	EUR	30	Fixed	0	4.5	1.41
K F W	10/10/1994	EUR	30	Fixed	0	2	1.59
K F W	22/04/1997	EUR	20	Fixed	0	4.5	0.08
K F W	10/06/2008	EUR	30	Fixed	0	1.25	6.91
ICO	24/11/1997	USD	30	Fixed	0	1.03	0.35
ICO	24/11/1997	USD	30	Fixed	0	1.03	0.14
ICO	24/11/1997	USD	30	Fixed	0	1.03	0.62
ICO	24/11/1997	USD	30	Fixed	0	1.03	6.13
ICO	24/11/1997	USD	30	Fixed	0	1.03	2.98
ICO	24/11/1997	USD	30	Fixed	0	1.03	2.02
ICO	10/12/1997	USD	30	Fixed	0	1.03	5.55
J I C A	12/07/1990	JPY	30	Fixed	0	2.9	29.28
J I C A	25/02/1994	JPY	30	Fixed	0	3	15.77
J I C A	28/11/1994	JPY	30	Fixed	0	3	27.08
J I C A	08/09/1995	JPY	25	Fixed	0	3	19.85
J I C A	10/08/1998	JPY	18	Fixed	0	2.7	93.31
J I C A	10/08/1998	JPY	18	Fixed	0	2.7	67.92

Creditor	Issue date	Currency	Maturity (years)	Type of Interest Rate	Spread (%)	Interest rate (%)	Outstanding Amount as of December 31, 2013 (in millions of US$)
J I C A	16/02/2006	JPY	40	Fixed	0	0.75	12.52
J I C A	09/09/2010	JPY	20	Fixed	0	2.636	2.64
NATEXIS	07/11/1983	EUR	35	Fixed	0	2	0.47
NATEXIS	14/11/1984	EUR	32	Fixed	0	2	2.37
EXIMBANK CHINA	01/12/1998	USD	20	6-month Libor	1	Variable	8
EXIMBANK CHINA	01/12/1998	USD	20	6-month Libor	1	Variable	28
EXIMBANK CHINA	22/08/2002	USD	20	6-month Libor	1	Variable	15
D. B. PTY LTD	09/08/1977	ZAR	40	Fixed	0	5	0.01
CHINA TRUST COMM. B.	26/07/1999	USD	19	6-month Libor	1	Variable	154.84
CITIBANK N.A.	22/01/2013	USD	10	Fixed	0	4.625	500

(1) Refers to an advance on a loan to be used to prepare projects. The financial conditions of the loan are established at the time the actual loan becomes effective.
Source: Ministry of Finance.

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Joint Book-Runners:

BofA Merrill Lynch **J.P. Morgan**

August 4, 2014