

I. COUNTRY REFORM PROGRESS

Paraguayan authorities reformed two of their main special tax regimes in September. The main changes include the reduction in the generosity of exemption on dividends, setting sunset clauses and clarifying legal aspects in the Maquila regime. Additionally, the National Tax Revenue Directorate (DNIT) has updated its tax expenditure inventory. Capacity development (CD) assistance delivered in September contributed to improving the monitoring framework and the continued reform initiatives of the special tax regimes.

Authorities have continued building on previous technical assistance on public investment management and climate fiscal risks. They notably adopted a monitoring and evaluation manual for the appraisal of public investment projects in 2025.

The authorities enacted legislation for civil service reform, the Law on Public Function and Civil Service Careers, which came into effect on July 16, 2025. The reform aims to modernize public administration, promote efficiency, and establish a merit-based system. Forthcoming CD will support Civil Service Reform by benchmarking wages across agencies and developing a baseline of civil service wage bill spending.

The main reforms in revenue administration include making e-invoicing mandatory for large and medium taxpayers, developing KPIs and a compliance risk management (CRM) framework, implementing pilot compliance improvement plans (CIP) to address tax and customs risks, and applying risk-based border clearance to boost trade facilitation.

II. PROJECT DELIVERY HIGHLIGHTS

RM I: Revenue Module I – Tax Policy

Key Progress in FY26: Paraguay reformed two of their main special tax regimes in 2025 (Maquila and investment attraction regime). Authorities also received CD from the IMF's Fiscal Affairs Department (FAD) to analyze four of the unreformed remaining special tax regimes, evaluating their effectiveness at achieving intended objectives. The mission's recommendations support the country's ongoing reform agenda and provided critical inputs for the drafting of the regulation to improve the continuous monitoring of the two reformed regimes.

Previous Progress: Authorities have been working on updating their tax expenditure report. However, there has been limited traction in reform efforts.

Next Steps: Authorities are committed to maintaining low tax rates. Therefore, we will continue supporting their efforts to evaluate the current special tax regimes to ensure forgone revenues deliver on their stated objectives. FAD will also continue supporting the free trade zone reform efforts by providing timely advice.

RM II: Revenue Module II – Revenue Administration

Key Progress in FY26: The e-invoicing project is on track. It is mandatory for most large and medium-sized taxpayers, and over 80 percent of Paraguay's value added taxes (VAT) is currently declared through e-invoices.

Previous Progress: The new organizational structure for the DNIT has helped identify processes and business owners, and some KPIs have been developed. However, delays in the merger process are hindering progress on key decisions needed to establish a solid governance model. The DNIT has made solid progress in developing its CRM framework, which remains in the early stages. The Risk Committee is in place, and two pilot CIPs have been developed and approved to address tax and customs risks. Nevertheless, the lack of clear functional delineation within operational units may hinder the identification of those responsible for specific compliance gaps. By applying FAD's risk analysis methodology to facilitate the clearance of legitimate trade at borders, the share of total trade exempt from physical examination increased from 36 percent in 2022 to 60 percent in 2025.

Next Steps: *Customs.* Upcoming missions will focus on providing guidance for designing a new customs clearance model that incorporates new technologies and aligns with the ongoing CIP. *Tax.* The next CD activities will focus on: (i) consolidating the implementation of e-invoicing; (ii) developing KPIs for processes and business owners; and (iii) enhancing the CRM framework by developing CIPs for key taxes.

SM I: Spending Module I – Spending Policy

Key Progress in FY26: The main activity is the December 2025 CD on benchmarking public sector wages and salaries. This activity is an important technical input into the civil service reform as it brings a fiscal lens to reform planning and will highlight current spending pressures and potential inefficiencies. There were initially planned to be two smaller activities (with a pension modelling workshop) but given the high priority of the wage bill mission, the funding for the two activities was combined into one.

Previous Progress: CD was provided to the authorities in late 2024 on the efficiency and sustainability of pension and health spending in the *Instituto de Previsión Social* (IPS). The recommendations of the report are currently under consideration by the authorities.

Next Steps: Actions for the December 2025 benchmarking public sector wages and salaries mission are being completed, and comments will be sought from the authorities before the report is finalized. This will inform civil service reform and improve efficiency in the public sector wage bill over time.

SM II: Spending Module II – Managing Public Finance

Key Progress in FY26: Authorities have continued building on previous technical assistance on public investment management and climate fiscal risks. They notably adopted a monitoring and evaluation manual for the appraisal of public investment projects in 2025.

Previous Progress: In May 2024, the mission on fiscal risks equipped authorities with essential tools to evaluate the short-term impacts of climate events. To maximize the utility of this tool, it is vital for the authorities to source updated data. Additionally, with the support of the Global Public Finance Partnership (GPFP), the country successfully revised the law governing public-private partnerships (PPP). Furthermore, legal norms have been revised to incorporate a climate change perspective in the appraisal of public investment projects.

Next Steps: While no specific CD was discussed, the project will concentrate on enhancing public investment. The revised PPP Law necessitates complementary modifications to its implementation decree, but authorities have not yet set a timeline for this.

III. LOGICAL FRAMEWORK

Country – Paraguay		
RM I: Objective – Improve Tax Policy Design – TPD		Rating - 3
Outcome	Rating	Narrative
Increased economic efficiency by minimizing economic distortions or addressing externalities or market failures	3 Largely Achieved	Authorities approved two bills reforming two special tax regimes by setting time limits on incentives, reducing dividend exemptions for non-residents, and tightening eligibility criteria. The sunset clauses, tighter eligibility, and scaling back dividend exemptions improve the tax system's neutrality, better targeting of incentives, and reduce scope for arbitrage.
Improved distributional fairness across taxpayers due to amended tax rates or base	3 Largely Achieved	The newly passed law (7.547/2025) enacted higher investment criteria to benefit from incentives and extended eligibility to domestic investors. Authorities are evaluating the potential to reform the free zone special regime by aligning its tax rate with that applied under the Maquila special regime in line with FAD's recent recommendations. The broader, nationality-neutral access to the investment incentive, in addition to the rate convergence being studied across similar regimes generally advances horizontal equity.
RM I: Objective – Strengthen Policy Monitoring, Evaluation, and Institutions - TPM		Rating - 3
Outcome	Rating	Narrative
Improved transparency and outreach	3 Largely Achieved	The authorities have updated their tax expenditure estimates for the VAT with support from the Inter-American Development Bank. An IMF mission developed and recommended the adoption of a set of indicators to periodically monitor the effectiveness of these special tax regimes. The stand-alone tax expenditure report has not been published. A summary of the main estimates is, however, published in the annual budget statement.
RM II: Objective –Strengthened revenue administration management and governance arrangements (SDG 17.1) – RAM		Rating - 3

Outcome	Rating	Narrative
Capacity for reform increased due to clear reform strategy and a strategic management framework adopted and institutionalized	2 Partially Achieved	The new organizational structure for the DNIT has helped identify the processes and business owners and some KPIs have been developed; however, delays in the merger process are hindering progress on key decisions necessary for establishing a solid governance model.
Corporate priorities are better managed through effective risk management	3 Largely Achieved	The DNIT has made solid progress in developing its CRM framework, which remains in the early stages. The Risk Committee is in place, and two pilot CIPs have been implemented to address tax and customs risks. However, the lack of clear functional delineation within operational units may hinder the identification of those responsible for specific compliance gaps.
RM II: Objective – Strengthened core tax administration functions (SDG 17.1) - TAD		Rating - 3
Outcome	Rating	Narrative
Audit and other verification programs more effectively ensure accuracy of reporting	3 Largely Achieved	There has been great progress: the e-invoicing system is mandatory for the majority of large and medium taxpayers, 80 percent of Paraguay's VAT is currently declared by taxpayers using e-invoice, and starting in January 2026, it will also be mandatory for all government suppliers.
RM II: Objective – Improved customs administration functions (SDG 17.1) - CAD		Rating - 3
Outcome	Rating	Narrative
Customs control during the clearance process more effectively ensures accuracy of declarations	2 Partially Achieved	Significant progress has been made on the analytical side to improve the customs clearance process; however, much remains to be done. Future challenges include implementing the developed analytical tools, strengthening feedback within the risk system, ensuring officials have the necessary technical skills, maintaining rigorous oversight, and creating a dashboard of indicators for performance measurement and decision-making.
Audit and anti-smuggling programs more effectively ensure enforcement of customs laws	3 Largely Achieved	Progress has been made in laying the foundations to establish a post-clearance audit (PCA) department aligned with best practices that helps improve compliance. An analytical tool has been developed in collaboration with officials to identify the highest-risk sectors and related importers. In addition, a roadmap has been refined to strengthen PCA procedures. While PCA officials are eager to move forward, they require greater support and involvement from senior management.

SM I: Objective –Strengthen Expenditure Policy Formulation and Design – EPD		Rating - 2
Outcome	Rating	Narrative
Public pension system sustainability is enhanced while ensuring the adequacy of retirement income	2 Partially Achieved	Final report on IPS pension spending was provided at end-2024. Engagement on next steps in support pension spending and modelling will be undertaken in 2025-26.
Public expenditure is fiscally sustainable and efficient	2 Partially Achieved	Final report on IPS pension and health spending was at the end of calendar year 2024. Forthcoming mission on wage bill management will support civil service reform that will enable improved spending on public sector wages and salaries.
SM II: Objective – Build Sustainable Fiscal Institutions - SFI		Rating - 2
Outcome	Rating	Narrative
Strengthened institutional and legal frameworks	3 Largely Achieved	The revised 2025 PPP Law strengthens the legal framework of public investment. Legal norms have been revised to incorporate a climate change perspective in the appraisal of public investment projects.
SM II: Objective – Strengthen Budget Management – SBM		Rating - 2
Outcome	Rating	Narrative
Strengthened annual budget process for more efficient and effective use of resources	2 Partially Achieved	Authorities adopted a monitoring and evaluation manual for the appraisal of public investment projects in 2025. A stronger project appraisal process will be expected to contribute to better and more efficient resource allocation through the budget, improving its effectiveness.
SM II: Objective – Strengthen Macrofiscal Frameworks – SMF		Rating - 2
Outcome	Rating	Narrative
Strengthened identification, monitoring, and management of fiscal risks	2 Partially Achieved	In May 2024, the mission on fiscal risks equipped authorities with essential tools to evaluate the short-term impacts of climate events. To maximize the utility of this tool, it is vital for the authorities to source updated data.

IV. RISK ASSESSMENT

Description	Rating	Mitigation Measures
External Climate/Conditions		
RM I: Droughts caused by El Niño can put pressure on retaining or creating new incentives for the agriculture sector	High	Devise an analytical framework to quantify the costs of new incentives and their potential effectiveness
RM II, SM II: Deterioration of fiscal situation may impact availability of resources to finance reforms.	Low	Careful alignment of reforms with the main priorities of the government. Reforms at DNIT and ministry of finance are underpinned by comprehensive strategic plans, and the project results from the respective governments' strategic decision to reduce non-compliance and modernize its risk management capabilities.
SM I: N/A	N/A	N/A
Political Support		
RM II: Discuss issue or risk that may limit reform progress / achievement of objective	High, Medium, Low	Describe mitigation measures to put in place if issue or risk materializes
SM I: Pensions and wage bill can be contentious	Very High	Discussed communication plans with authorities.
RM I, SM II: N/A	N/A	N/A
Management and Technical Staff Support and Commitment		
RM I: Staff is not engaged or knowledgeable in tax expenditure quantification and assessments	Low	Previous CD engagements have built foundational blocks
RM II: Continuous rotation of managers and staff undermine the absorptive capacity and provoke permanent discontinuity.	Medium	Encourage authorities to implement administrative reforms that contribute to a more stable staff. Continual/regular high-level engagement and monitoring.
SM I: Pension modelling requires high level capacity and support	Medium	Review technical capacity and support, as needed.
SM II: N/A	N/A	N/A
Resource Adequacy		
RM I: Not enough staff or high turnover among staff	Low	Develop a methodological tool that is accessible to new staff
SM II: Insufficient technical capacity on topics related to climate change	Very High	CD activities should include training sessions
RM II, SM I: N/A	N/A	N/A
Other Risks		
RM II: Multiple donors are providing technical assistance on merger and CRM topics; and gaps, or overlaps may arise as a result.	Low	Take an active role in engaging with other donors to ensure that support is well coordinated, particularly with the Inter-American Development Bank and, more recently, with the World Bank as part of the Joint Domestic Resource Mobilization initiative.

Description	Rating	Mitigation Measures
RM II: The new government that took office in August 2023 implemented a merger between the tax and customs administrations into a single agency that can slow down and even stop implementation of reforms.	Medium	FY25 and FY26 workplans were designed to help the authorities better implement the merger and maintain focus on core process management.
RM I, SM I, SM II: N/A	N/A	N/A

V. PROJECT MANAGERS: CONTACT INFORMATION

Project Manager	Module Project Manager	E-mail
Azael Perez	Juan Carlos Benitez (Tax Policy)	JBenitez@imf.org
Enrique Rojas	Azael Perez (Revenue Administration)	APerez2@imf.org
	Enrique Rojas (Revenue Administration)	ERojas@imf.org
	Nick Carroll (Spending Policy)	NCarroll@imf.org
	Laura Gores (Managing Public Finances)	LGores@imf.org