

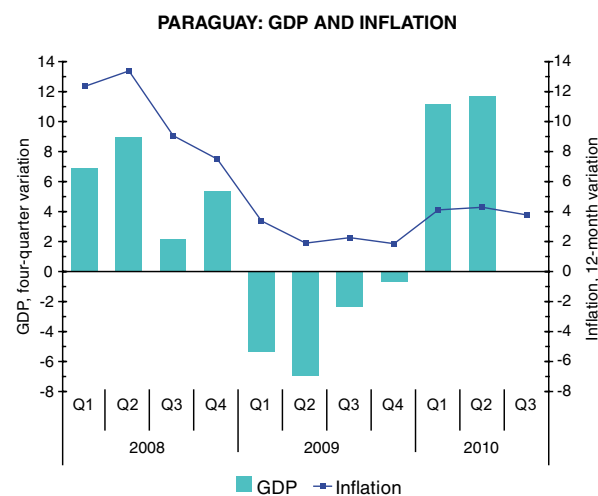
Paraguay

The economy of Paraguay is expected to record 9.7% growth in 2010, the highest rate in the region. This result was due largely to a strong performance by the agricultural sector, particularly soybean output—thanks to favourable weather conditions during the 2009-2010 harvest—and cattle farming, although other sectors, in particular construction, also made a substantial contribution. Public spending continued to expand in 2010, but a significant increase in fiscal revenue held the central government fiscal deficit down to a moderate 0.5% of GDP. The year-on-year variation in the consumer price index (CPI) to November 2010 was 6.1%, outstripping 2009 (1.9%). The current account deficit widened to 2.2% of GDP, owing to a larger trade deficit. Moderate GDP growth of 4.0% is forecast for 2011.

Thanks to the favourable economic performance in 2010, fiscal revenues were 7% higher, in real terms, than in 2009, exceeding the forecasted levels of the 2010 national budget. This increase was due to the rise in tax revenues (11% in real terms over the preceding year), driven chiefly by value added tax (VAT) and taxes on foreign trade. Receipts for both were up, thanks, respectively, to expanding internal demand and a buoyant external sector. Improvements in tax administration and in collection systems contributed to the greater tax take, as the authorities increased the taxpayer rolls by almost 9% between July 2009 and July 2010. These stronger results were achieved notwithstanding the fact that the National Congress of Paraguay did not pass the personal income tax bill and the National Congress of Brazil did not ratify the proposed increase in royalties and compensation payable by Brazil for the power generated by the Itaipú binational hydropower plant.

Although Paraguay continued to apply an expansionary public spending policy in 2010 (with total expenditure increasing by approximately 10% in real terms compared with the previous year), the negative fiscal balance, equivalent to 0.5% of GDP, is significantly smaller than the deficit approved in the national budget for 2010 (2.1%-2.4% of GDP). This is attributable to the country's robust economic recovery and the resulting higher tax revenues. In 2009, the central government's overall fiscal balance was a small surplus equivalent to 0.1% of GDP.

The rebounding economy and concerns over rising inflation led the Executive Committee for Open Market Operations and Reserves (CEOMA) of the Central Bank of Paraguay to announce in May that it would start to apply a more restrictive monetary policy. Last year, in response to expectations of lower inflation and in order to stimulate the credit market, CEOMA lowered the interest rates of the monetary regulation instruments, or IRM. These rates bottomed out at an average 0.6% in May 2009. After the monetary stimulus, CEOMA raised the IRM rates,



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

which had been edging up and signalling a hardening of monetary policy. Thus, in November 2010, the average rate of return on the IRM was 3.9%.

Despite the increase in the current account deficit, the nominal exchange rate of the guaraní against the United States dollar reflected a year-on-year appreciation of 2.4% as of November 2010. The real effective exchange rate as of September 2010 showed a 2.6% year-on-year appreciation against the dollar and had depreciated 7.4% against the Brazilian real and 2.6% against the Argentine peso. The appreciation of the guaraní with respect to the dollar is in line with the pattern in much of Latin America, where currencies have been boosted by abundant liquidity worldwide, stronger capital inflows and burgeoning international reserves.

After posting one of the slowest rates of growth in Latin America in 2009 (with GDP contracting by 3.8%), Paraguay boasted the sharpest growth rate in the region in 2010: 9.7%. This growth is due above all to the performance of agriculture, and livestock, forestry and fishing, which benefited from rising demand and high international prices for its products. Soybean production accounted for most of this growth. Coming in the wake of the intense drought in 2008-2009, good farming weather in 2009-2010 made for a bumper crop, one of the best in recent years. Paraguay's remarkable economic growth in 2010 was also driven by the increase in cattle production, the expansion of the construction sector and the recovery in industry. On the demand side, Paraguay's economic expansion is due to stronger public and private spending and vibrant foreign trade.

With respect to the labour market, the Continuous Employment Survey recorded open unemployment of 7% (7.2% for men and 6.7% for women) in the third quarter of 2010. The rate is expected to be lower in the fourth quarter. Just as a reference, the open unemployment rate according to the Permanent Household Survey conducted in October to December 2009 was 6.4%. In June 2010, the Central Bank of Paraguay's index for wages and salaries showed a year-on-year variation of 5.3%. By decree, the legal minimum wage for the private sector was raised by 7%, effective July 2010.

Demand-side pressures and higher producer prices fuelled inflation of over 5%¹ towards the end of 2010, topping the 1.9% recorded in 2009. In November 2010, total year-on-year inflation was 6.1%. Year-on-year core

PARAGUAY: MAIN ECONOMIC INDICATORS

	2008	2009	2010 ^a
Annual percentage growth rates			
Gross domestic product	5.8	-3.8	9.7
Per capita gross domestic product	3.9	-5.5	7.8
Consumer prices	7.5	1.9	6.1 ^b
Average real wage	-0.7	4.5	1.0 ^c
Money (M1)	7.5	29.6	24.9 ^d
Real effective exchange rate ^e	-11.3	10.2	-2.0 ^f
Terms of trade	7.3	-2.2	-1.9
Annual average percentages			
Urban unemployment rate	7.4	8.2	7.8 ^g
Central administration overall balance / GDP	2.5	0.1	-0.5
Nominal deposit rate	6.2	3.4	1.8 ^h
Nominal lending rate	14.6	15.6	13.1 ^h
Millions of dollars			
Exports of goods and services	8 948	7 253	9 582
Imports of goods and services	9 436	7 374	10 245
Current account	-298	40	-368
Capital and financial account ⁱ	693	875	518
Overall balance	395	915	150

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Preliminary estimates.

^b Twelve-month variation to October 2010.

^c Figure for June.

^d Twelve-month variation to September 2010.

^e A negative rate indicates an appreciation of the currency in real terms.

^f Year-on-year variation, January to October average.

^g Average from January to September.

^h Average from January to October.

ⁱ Includes errors and omissions.

inflation, an indicator that excludes the most volatile items in the food basket (fruits and vegetables), reached 7.5% in November 2010. Year-on-year X1 core inflation, which excludes not only fruits and vegetables but also regulated services and fuels, stood at 7.9% in November 2010. The level of inflation in Paraguay is due mainly to rising prices for food products, in particular beef (attributable in part to robust sales on international markets).

As regards the external sector, the upturn in the Paraguayan economy was accompanied by a 41% surge in imports with respect to 2009, consisting to a large extent of capital goods. This widened the current account deficit despite a 39% increase in exports over 2009, boosted by external sales of soybean and beef. The trade deficit increased by 48.5% with respect to 2009; the current account is expected to close with a deficit of approximately 2.2% of GDP (1.4% in 2009).

Moderate GDP growth, of the order of 4.0%, is projected for Paraguay in 2011, after contracting by 3.8% in 2009 and expanding by 9.7% in 2010. Agriculture is the most important sector of the economy and 2009 and 2010 were atypical years (severe drought followed by an exceptionally good harvest), so this year of robust growth is expected to be followed by a slowdown next year and a subsequent return to a normal pace of growth.

¹ The inflation target set for 2010 by the Central Bank of Paraguay was 5% with a margin of 2.5 percentage points on either side.