

## Paraguay

After growing by 15% in 2010, the economy of Paraguay expanded by 4% in 2011, largely due to strong performance by the agricultural sector on the supply side and domestic demand on the expenditure side. Although public spending continued to expand in 2011, total revenue also grew, resulting in a central administration fiscal surplus of 0.4% of GDP. To November 2011, the year-on-year variation in the consumer price index was 5.6%, lower than the 6.1% posted in 2010. The current account was in deficit by 2.1% of GDP, lower than the deficit of 3.7% of GDP in 2010.

Tax revenue recorded year-on-year growth of 18.7% to July 2011 (17.1% to November). This expansion came on the strength of higher receipts in nominal terms from value added tax (up by 15.9%), net income and profits tax (22.6%) and foreign trade tax (21.7%). The main contributing factor was the soaring performance of the Paraguayan economy in the first half of the year, when domestic demand registered double-digit growth. The incorporation of nearly 40,000 new taxpayers to July 2011 also contributed to the surge in tax revenue. In total, public revenue (tax, non-tax and capital revenue) posted year-on-year growth in nominal terms of 19.7% to July 2011. The personal income tax bill was shelved for the fourth consecutive year, making Paraguay the only country in Latin America without personal income tax and making the government heavily dependent on indirect taxes for its fiscal revenue.

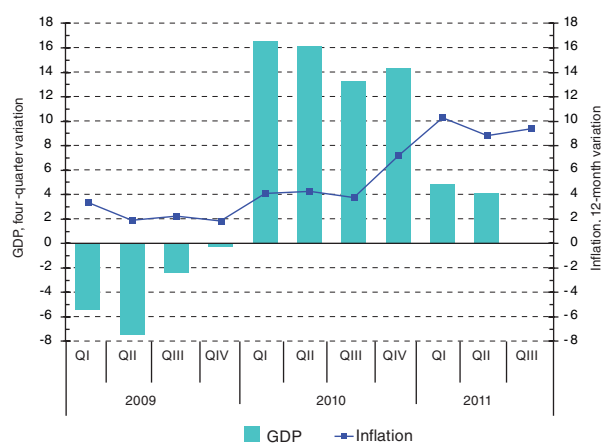
On the public spending front, to July 2011 current expenditure posted year-on-year growth of 19.3% in nominal terms. Capital expenditure expanded by 19.8%, pushing total expenditure up by 19.4%. Although public spending rose, it did so at a slower pace than total revenue. The result was a central administration fiscal surplus of 0.4% of GDP for 2011, compared with 1.4% in 2010. A reversal in fiscal results is likely in the short term, however, since tax pressure in Paraguay is low (13.5% in 2010); 2012 is a pre-election year, and the country's economy is expected to grow at a slower pace.

Based on economic conditions in the first half of the year, when burgeoning domestic demand helped fuel inflationary pressures, the Executive Committee for Open Market Operations and Reserves (CEOMA) of the Central

Bank of Paraguay adopted a more restrictive monetary policy stance. The weighted average interest rate on monetary regulation instruments thus reached its highest average yield for 2011 (9.3%) in June. Monetary policy began to ease in July as the Paraguayan economy slowed, and the average yield on monetary regulation instruments dropped to 8.8%. To October 2011, the average yield on these instruments was 8.0%.

The nominal exchange rate of the guaraní against the United States dollar reflected a year-on-year appreciation of 15.2% to October 2011. With regard to the real effective exchange rate, the guaraní appreciated against the dollar

PARAGUAY: GDP AND INFLATION



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

(by 15.2%), euro (4.5%), Argentine peso (16.5%) and Brazilian real (19.3%). The guaraní nonetheless showed considerable volatility in 2011 as a result of international economic uncertainty. The current account deficit helped to slow the appreciation of the guaraní against the dollar, which was evident in the closing months of 2011.

After posting the sharpest rate of growth in the region in 2010 (15%), the Paraguayan economy expanded by 4.0% in 2011. This is a more normal pace, considering that the economy contracted by 3.8% in 2009 in the wake of the drought that hit the agricultural sector, and it rebounded robustly in 2010 thanks to one of the best soybean harvests in the country's history. On the supply side, several factors contributed to the economy's performance in 2011. One of the main ones was the positive momentum of the agricultural sector, boosted by excellent soybean harvest conditions in 2010-2011. Another was the livestock industry slowdown, with external demand chilled, among other reasons, by an animal health emergency arising from an outbreak of foot-and-mouth disease that hit the beef cattle industry. And, lastly, the lacklustre year for the construction industry that was largely due to a shortage of cement. On the expenditure side, the performance of the national economy was mainly attributable to double-digit growth in domestic demand, especially in the first half of the year, and to a decline in exports. This decline was caused in part by the drop in meat exports following the foot-and-mouth disease outbreak but, above all, by the global economic slowdown that impacted Paraguay's exports across the board.

According to the findings of the Continuous Employment Survey,<sup>1</sup> unemployment stood at 7.0% in the third quarter of 2011, close to the rate for the same period of 2010, and was 6.1% for men and 8.1% for women. The Central Bank of Paraguay's wage and salary index showed a year-on-year variation of 11% to June 2011. By decree, the legal minimum wage applicable to the private sector was raised by 10% with effect from April 2011.

The growth in domestic demand put pressure on prices, as reflected in inflation rates well above the target set by the central bank.<sup>2</sup> To September, year-on-year inflation stood at 9.4%, but dropped to 5.6% in November in response to tumbling food prices. Year-on-year core inflation, an indicator that excludes the most volatile items in the basket (fruits and vegetables), stood at 4.8% to November 2011. Year-on-year X1 core inflation, which

#### PARAGUAY: MAIN ECONOMIC INDICATORS

	2009	2010	2011 <sup>a</sup>
<b>Annual growth rates</b>			
Gross domestic product	-3.8	15.0	4.0
Per capita gross domestic product	-5.5	13.1	2.3
Consumer prices	1.9	7.2	5.6 <sup>b</sup>
Real average wage	4.5	0.7	2.2 <sup>c</sup>
Money (M1)	29.6	13.4	5.7 <sup>d</sup>
Real effective exchange rate <sup>e</sup>	10.5	-2.4	-10.8 <sup>f</sup>
Terms of trade	-2.2	0.0	2.4
<b>Annual average percentages</b>			
Open urban unemployment rate	8.2	7.0	7.5 <sup>g</sup>
Central government overall balance / GDP	0.1	1.4	0.4
Nominal deposit rate <sup>h</sup>	3.4	2.0	4.5 <sup>i</sup>
Nominal lending rate <sup>j</sup>	15.6	13.2	16.5 <sup>i</sup>
<b>Millions of dollars</b>			
Exports of goods and services	7 295	9 989	12 452
Imports of goods and services	7 448	10 671	13 092
Current account balance	64	-677	-460
Capital and financial balance <sup>k</sup>	851	996	1 238
Overall balance	915	319	778

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

<sup>a</sup> Preliminary estimates.

<sup>b</sup> Twelve-month variation to November 2011.

<sup>c</sup> Figure for June.

<sup>d</sup> Twelve-month variation to October 2011.

<sup>e</sup> A negative rate indicates an appreciation of the currency in real terms.

<sup>f</sup> January to October average, year-on-year variation.

<sup>g</sup> Estimate based on data from January to September.

<sup>h</sup> Weighted average of effective interest rates on time deposits.

<sup>i</sup> January-October average.

<sup>j</sup> Weighted average of lending rates.

<sup>k</sup> Includes errors and omissions.

excludes not only fruits and vegetables but also regulated services and fuels, was 4.1% to November 2011.

Exports of goods from Paraguay grew by 23.7% in 2011, less than the 45.2% posted in 2010. Sluggish export growth was due to sagging external demand for soybeans and beef. Imports expanded by 23.2% in 2011, especially external purchases of fuel and lubricants, and capital goods. Substantial capital inflows, especially foreign direct investment, helped to offset the current account deficit (2.1% of GDP) and made it possible to accumulate more international reserves.

The economy is expected to expand by around 4% in 2012. The exact rate will depend on international prices, demand for goods exported by Paraguay and the performance of the construction industry, among other factors.

<sup>1</sup> The survey covers Asunción and urban areas of the Central Department, which account for more than 60% of the economically active urban population.

<sup>2</sup> Target of 5% ± 2.5 percentage points.