

PARAGUAY

1. General trends

Paraguay's gross national product (GDP) grew by 4.4% in 2014, outperforming the regional average. Crop farming continued to account for the largest share of GDP (17%), but its growth slackened in 2014. Livestock farming —particularly cattle and poultry— and construction were among the fastest-growing sectors, with the latter enjoying cumulative growth of 14.0% over 2014. On the fiscal front, Paraguay posted a deficit of 2.3% of GDP, which exceeded the limit of 1.5% laid down in the Fiscal Responsibility Act for 2015. Efforts to improve the fiscal accounts were hampered by the fact that the bulk of outgoings corresponded to pay rises set out in the fiscal stimulus package for 2012 and 2013 and a prior commitment made by the government to increase capital expenditure. The proportion of the deficit financed by borrowing rose from 14.5% to 18% of GDP between 2013 and 2014. Annual inflation stood at 4.2% at the end of the year, within the target range of 4.5% (with a margin of 2 percentage points on either side) set in December. In the external sector, the current account posted a deficit of 0.3% of GDP in 2014, reversing the surplus achieved in 2013, a development that was attributable chiefly to a smaller balance of trade surplus.

Economic activity is expected to continue to expand, at a rate of around 4.0%, in 2015, driven by growth in livestock farming and the meat industry, construction (in both the public and private sectors), industry and services. The current account deficit is also likely to widen, as a result of the effect of lower global commodities prices (particularly of soybeans, wheat and maize) on exports and slacker growth in electricity exports.

2. Economic policy

(a) Fiscal policy

A rise in tax receipts was insufficient to offset higher expenditure, leaving a fiscal deficit of 2.3% of GDP at year-end 2014, above the limit of 1.5% set in the Fiscal Responsibility Act for 2015.

Central government tax revenue surged by 18.2% over 2013 levels. The tax burden widened from 11.8% in 2013 to 13% in 2014, mainly as a result of an uptick in revenue from value added tax —which alone accounted for 53% of the tax take— and income and profits tax. Non-tax revenue, meanwhile, rose by 9.3% in 2014, driven by growth in contributions to the pension fund that outweighed a slump in revenue from power generation from the binational enterprises Itaipú and Yacyretá.

Budget execution, as a percentage of GDP, increased by 16.3% year-on-year; from 19.2% in 2013 to 20.7% of GDP in 2014. Current expenditure was up by 12.7%, while growth in personal services spending was more moderate (6.6%) in 2014. Capital expenditures shot up by 30% to 4.2% of GDP, regaining the momentum seen prior to 2013.

Official forecasts for 2015 point to similar rates of growth in both tax receipts and public expenditure to those seen in 2014. According to 2015 national budget estimates, public income will rise by 12.3% and

spending will expand by 6.2%. This reflects the increase in capital expenditure pledged in the government's commitment to boost investment, particularly in infrastructure. The Budget Act has approved an overall deficit of 3.5% GDP for 2015. In early 2015, the Ministry of Finance changed the method for calculating fiscal statistics, moving from the 1986 manual on government finance statistics (MEFP 1986) to the 2001 edition (MEFP 2001). One major consequence of this change is a reclassification of the categories of "financial investment" and "net lending", which now fall under net acquisitions of financial assets rather than capital expenditure. The amount of capital expenditure has therefore been revised down, so that under the new method the fiscal deficit is projected at 1.1% of GDP for 2014, and about 2.3% of GDP for 2015.

The deficit was partially funded by bond issues, and total public debt stood at 18% of GDP at the end of 2014. In August 2014, Paraguay placed US\$ 1 billion in 30-year sovereign bonds with a yield of 6.1%, an unprecedented event in the country's history. This pushed its external debt up from 9.3% of GDP in 2013 to 12.2% of GDP in 2014.

(b) Monetary policy

Since May 2011, the Central Bank of Paraguay's monetary policy has revolved around an inflation-targeting scheme, under which it publicly commits to achieving a specific inflation rate within a given timeframe. In 2014 this target was 5%, with a tolerance band of 2 percentage points above or below this target. The central bank's main tool for inflation-targeting is the monetary policy rate, which affects interest rates and market liquidity and hence economic activity, in turn influencing inflation through the range of monetary policy transmission mechanisms. Thus, in response to inflationary pressures in late 2013, the central bank's Executive Committee for Open Market Operations and Reserves (CEOMA) tightened the money supply by raising the monetary policy rate to 6.75% in February 2014 (from 5.5% in December 2013), where it remained for the rest of the year.

In mid-2014, however, inflation started to ease amid deflationary external conditions, so in December 2014 the inflation target was reduced to 4.5% (plus or minus 2 percentage points). With this lower target, CEOMA cut the policy rate, by 25 basis points per month in March, April and June 2015, respectively, to an annual rate of 6.00%.

The growth trend in bank lending to the private non-financial sector continued in 2014, both in the local and foreign currencies. Total credit was up by 21.1% year-on-year in December, similar to figures for the same month of 2013. Local-currency lending, concentrated in the household, trade and livestock-farming sectors, expanded slightly more slowly than foreign-currency-denominated credit, the bulk of which went to crop and livestock farming and industry. According to the central bank's survey of overall lending in December 2014, financial institutions saw conditions for granting loans as optimal.

(c) Exchange-rate policy

The guaraní appreciated against the dollar for most of 2014, but between August 2014 and April 2015 it depreciated by 16.3%, in line with other currencies in the region, whose dollar exchange rates have trended upwards. The dollar has strengthened in a wider context of monetary stimulus withdrawal by the Federal Reserve.

The guaraní also rose in respect of other currencies: 6.5% against the Argentine peso, 9.3% against the Brazilian real and 7.9% against the euro between January and December 2014. This trend continued into the early months of 2015.

The central bank purchased a net amount of US\$ 382.9 million on the foreign-exchange market over the year. In December 2014, net international reserves stood at US\$ 6.382 billion (equivalent to 21.2% of GDP).

(d) Other policies

October 2013 saw the adoption of the Public-Private Partnership Act, which seeks to promote investments in physical infrastructure and maximize their productivity by encouraging joint public-private ownership. The act proved to be a major boon for the construction industry in 2014, and several major government-led infrastructure projects are expected to gain substance under this legal framework in 2015 (including the light railway between Asunción and Ypacaraí, invitations to tender for upgrading the highway network and works to increase the capacity of the power grid). Works undertaken by the public sector, such as hotel complexes and office blocks, will also continue apace, giving fresh impetus to trade.

3. The main variables

(a) The external sector

In 2014, the current account posted a deficit of US\$ 105.1 million (0.3% of GDP) —a reversal of the 2013 trend, which had seen a surplus of US\$ 479.4 million (1.7% GDP)— as a result of a narrowing trade surplus.

Exports of goods totalled US\$ 13.116 billion in 2014, a drop of 3.6% on 2013 levels. The most dramatic falls were seen in cotton fibres (-77%) and cereals (-20%), but the country's core export sectors, such as soybeans (-8%) and electricity (-2.6%), also declined. The latter two sectors each account for around 23% of total exports. The country's export structure shifted towards goods with greater added value throughout the year. Exports of electricity and goods for re-export both fell (owing to deteriorating economic conditions in Brazil), versus a surge in exports of beef (29%) and soybean flour.

Goods imports stood at US\$ 12.079 billion in 2014, a rise of 1.1% in respect of 2013. Imports for domestic use (3.6%) grew, but the value of goods imported for re-export slumped (-10.9%). These goods are imported under a special regime then taxed and marked up for resale in border areas.

As for the other components of the current account, both the services and income balances ran deficits, of US\$ 222.3 million and US\$ 1.542 billion, respectively. The balance of payments posted a surplus of US\$ 1.131 billion in 2014 (3.8% of GDP). Foreign direct investment in the country totalled US\$ 238.3 million, a considerable increase on 2013 figures.

A current account deficit of 0.8% of GDP is projected for 2015 as exports values show the effects of lower commodities prices and weaker growth in electricity exports. Export values were down by 14.1% year-on-year in the first four months of 2015, pulled down in particular by falling export values for soybeans, but also for flours, cereals and electricity. Other factors that will influence trade in 2015 include the decision by the Government of Brazil to reduce the limit on tax-free purchases outside the country from US\$ 300 to US\$ 150, the signing of a new trade agreement with the European Union and the latter's abolishing of the ban on Paraguayan meat imports.

(b) Economic activity

The Paraguayan economy grew by 4.4% in 2014. On the supply side, the crop-farming sector continued to account for the largest share of GDP (17%), and posted growth of 1.5% in 2014, driven by yields in the country's core crops, such as soybeans, sugar cane, wheat and rice. The livestock-farming sector—cattle and poultry in particular—also grew strongly in 2014. This is attributable to policies implemented to promote Paraguayan beef abroad that led to record-breaking levels of exports by both volume and value by the end of the year. Growth in these two categories had the knock-on effect of boosting industry, chiefly agro-industrial subsectors such as meat, cooking oils and dairy. The fastest-growing sector in 2014 was construction, both public and private, which saw a cumulative expansion of 14.9%.

On the expenditure side, private consumption contributed the most to GDP growth (accounting for 2.8 percentage points), followed by gross fixed capital formation (2 percentage points).

Economic activity is expected to expand by around 4.0% in 2015, driven chiefly by growth in the livestock and meat industry, construction (both public and private), industry and services. Crop farming is expected to post only slight growth. The Ministry of Agriculture and Livestock's most recent estimates for the 2014/2015 growing season point to a fairly good yield in staple crops. The restraint evident in these estimates is explained by the bumper harvests seen in previous seasons (2013 and 2014), when yields almost reached full output capacity. On the expenditure side, domestic demand is expected to make a greater contribution to GDP growth and mitigate the effects of a less favourable external context.

(c) Prices, wages and employment

The annual inflation rate stood at 4.2% in 2014, very close to the new target range set by the central bank in December 2014 (4.5%, with a margin of 2 percentage points on either side).

Year-on-year inflation hit 7% in May 2014, but several negative variations in the consumer price index in the second half of the year brought the rate to a low of 3.5%. These deflationary pressures began to lift from October—owing mainly to rising prices for food and services—and the rate for the year overall came to the aforementioned level of 4.2%. Movements in the exchange rate from September helped steady the situation by forcing up the price of imported goods.

In the first five months of 2015 year-on-year inflation stood at 3.3%, chiefly reflecting a drop in fuel prices. In this context, inflation for 2015 overall will most likely reach 3.6%.

The general wage and salary index was up by 6.9% year-on-year in December 2014, with the strongest wage growth in the services sector, followed by manufacturing and commerce. In 2013, by contrast, wages had risen the most in the electricity and water sector and in financial intermediation. The legal minimum wage has remained at 1,824,055 guaraníes (US\$ 408) since March 2014, which means that its purchasing power has contracted slightly.

Despite the country's economic growth, employment held relatively steady compared with 2013. The country's continuous employment survey put the average annual employment rate for 2014 at 59.7% and the average open unemployment rate at around 8%. A breakdown of these figures by gender reveals, however, that the employment rate rose by 1.4 percentage points for men but fell by a similar amount for women, so that the unemployment rate was 6.5% for male and 9.9% for female workers. The employment

rate edged up in the first quarter of 2015, but higher labour market participation held the unemployment rate unchanged at 8.0%.

Table 1
PARAGUAY: MAIN ECONOMIC INDICATORS

	2006	2007	2008	2009	2010	2011	2012	2013	2014 a/
	Annual growth rates b/								
Gross domestic product	4.8	5.4	6.4	-4.0	13.1	4.3	-1.2	14.2	4.4
Per capita gross domestic product	2.9	3.5	4.5	-5.6	11.2	2.6	-2.8	12.4	2.7
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	3.6	14.3	9.2	-17.3	34.2	3.7	-19.8	41.2	3.9
Mining and quarrying	-2.2	3.5	5.0	3.0	3.2	5.3	1.5	8.9	9.9
Manufacturing	2.5	-1.2	2.0	-0.8	6.3	-1.6	4.6	7.9	8.3
Electricity, gas and water	8.0	-2.4	9.4	-3.8	0.0	7.3	5.1	1.2	-6.7
Construction	-3.5	7.2	11.0	2.0	13.0	1.5	1.0	9.6	14.0
Wholesale and retail commerce, restaurants and hotels	5.5	5.1	4.2	-3.2	10.7	3.2	-2.2	10.3	5.6
Transport, storage and communications	10.7	10.7	5.2	-3.2	6.6	9.1	7.8	12.7	5.1
Financial institutions, insurance, real estate and business services	4.0	3.8	7.9	7.5	7.2	8.6	6.9	5.7	7.4
Community, social and personal services	4.3	3.0	3.9	11.5	9.1	6.2	15.9	7.3	5.6
Gross domestic product, by type of expenditure									
Final consumption expenditure	3.6	5.3	8.1	-1.4	13.4	5.5	4.8	4.7	4.4
Government consumption	4.0	3.0	3.5	13.7	12.0	5.3	21.0	5.3	4.4
Private consumption	3.5	5.6	8.6	-3.0	13.5	5.6	2.8	4.6	4.4
Gross capital formation	8.2	4.8	20.6	-12.5	22.7	10.8	-13.5	20.2	10.6
Exports (goods and services)	3.0	9.3	0.9	-8.2	19.9	6.2	-6.7	18.4	0.9
Imports (goods and services)	2.0	9.7	7.0	-8.5	24.8	10.4	-3.5	6.8	2.8
Investment and saving c/	Percentajes of GDP								
Gross capital formation	17.1	15.8	16.4	13.8	16.2	17.1	15.1	15.4	16.4
National saving	18.7	21.4	17.4	16.8	15.9	17.5	13.0	17.1	16.0
External saving	-1.6	-5.6	-1.0	-3.0	0.3	-0.4	2.0	-1.7	0.3
Balance of payments	Millions of dollars								
Current account balance	167	779	183	482	-57	109	-501	479	-105
Goods balance	1,130	1,504	1,050	1,124	882	854	571	1,662	1,038
Exports, f.o.b.	6,007	7,534	9,731	7,756	10,474	12,639	11,654	13,605	13,117
Imports, f.o.b.	4,877	6,030	8,681	6,632	9,593	11,784	11,083	11,942	12,079
Services trade balance	-68	-104	-155	40	-84	-181	-170	-219	-222
Income balance	-1,321	-994	-1,126	-1,201	-1,412	-1,278	-1,661	-1,683	-1,542
Net current transfers	426	373	414	519	557	714	759	720	621
Capital and financial balance d/	216	-56	212	434	377	673	477	556	1,243
Net foreign direct investment	114	202	209	95	216	557	738	72	238
Other capital movements	101	-258	3	339	161	116	-260	485	1,005
Overall balance	383	723	395	915	319	782	-24	1,036	1,138
Variation in reserve assets e/	-387	-727	-394	-915	-319	-784	25	-1,036	-1,131
Other financing	4	5	0	0	0	2	0	0	-7
Other external-sector indicators									
Real effective exchange rate (index: 2005=100) f/	89.2	82.1	73.8	81.6	80.1	71.7	73.0	68.5	66.3
Terms of trade for goods (index: 2010=100)	91.0	95.3	102.3	100.0	100.0	102.4	103.4	102.8	103.3
Net resource transfer (millions of dollars)	-1,101	-1,046	-915	-767	-1,036	-603	-1,184	-1,127	-305
Total gross external debt (millions of dollars)	2,618	2,731	3,124	3,044	3,621	3,864	4,580	5,131	5,324
Employment	Average annual rates								
Labour force participation rate g/	59.4	60.8	61.7	62.9	60.5	60.7	64.3	62.6	61.6
Open unemployment rate h/	8.9	7.2	7.4	8.2	7.2	7.1	8.1	8.1	8.0
Visible underemployment rate i/	5.6	5.8	6.6	8.2	7.3	6.3	5.4	5.1	4.9

Table 1 (concluded)

	2006	2007	2008	2009	2010	2011	2012	2013	2014 a/
Prices	Annual percentages								
Variation in consumer prices (December-December)	12.5	6.0	7.5	1.9	7.2	4.9	4.0	3.7	4.2
Variation in nominal exchange rate (annual average)	-8.7	-10.8	-13.5	14.3	-4.4	-11.7	5.4	-2.6	3.6
Variation in average real wage	1.1	2.4	-0.7	4.5	0.6	2.8	0.7	2.2	1.3
Nominal deposit rate j/	9.8	5.9	6.2	3.4	2.0	4.2	5.5	9.2	6.2
Nominal lending rate k/	15.7	12.8	13.5	14.6	12.5	16.9	16.6	16.6	15.7
Central government	Percentajes of GDP								
Total revenue	16.0	15.6	15.8	17.5	17.1	18.0	19.0	17.2	17.9
Tax revenue	11.4	11.2	11.8	12.9	13.2	13.8	14.4	13.2	14.4
Total expenditure	15.5	14.8	13.5	17.5	15.9	17.3	20.6	18.9	19.0
Current expenditure	11.9	11.5	11.1	13.4	12.5	13.3	18.0	16.5	16.6
Interest	0.9	0.7	0.6	0.5	0.4	0.3	0.2	0.3	0.4
Capital expenditure	3.7	3.3	2.5	4.1	3.4	4.0	2.6	2.3	2.4
Primary balance	1.3	1.6	2.8	0.6	1.6	1.0	-1.4	-1.4	-0.7
Overall balance	0.4	0.9	2.3	0.1	1.2	0.7	-1.7	-1.7	-1.1
Central government public debt	23.2	15.9	14.3	14.6	14.1	12.1	11.3	13.6	16.6
Domestic	4.3	3.6	3.3	3.4	2.9	2.6	2.6	5.1	5.1
External	18.8	12.3	11.0	11.2	11.2	9.5	8.7	8.6	11.5
Money and credit	Percentages of GDP, end-of-year stocks								
Domestic credit	13.5	14.4	16.5	18.0	21.5	24.2	29.7	29.3	30.7
To the public sector	-0.5	-2.5	-4.1	-6.5	-7.1	-8.1	-5.6	-8.5	-10.1
To the private sector	14.2	17.3	20.9	25.2	29.2	33.0	35.9	38.8	42.3
Monetary base	5.7	5.3	5.2	5.8	5.8	6.5	7.3	7.0	5.9
Money (M1)	11.0	13.2	12.2	16.2	15.3	15.4	16.3	16.3	16.1
M2	14.2	17.1	17.5	23.0	22.1	23.4	25.5	26.2	25.5
Foreign-currency deposits	9.2	9.5	11.1	12.6	14.0	13.6	14.6	16.5	18.4

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

a/ Preliminary figures.

b/ Based on figures in local currency at constant 1994 prices.

c/ Based on values calculated in national currency and expressed in current dollars.

d/ Includes errors and omissions.

e/ A minus sign (-) indicates an increase in reserve assets.

f/ Annual average, weighted by the value of goods exports and imports.

g/ Nationwide total.

h/ Asunción and urban areas of the Departamento Central. Up to 2009, urban total.

i/ Urban total. New measurements have been used since 2010; the data are not comparable with the previous series.

j/ Weighted average of effective interest rates on time deposits.

k/ Commercial lending rate, local currency.

Table 2
PARAGUAY: MAIN QUARTERLY INDICATORS

	2013				2014				2015	
	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2 a/
Gross domestic product (variation from same quarter of preceding year) b/	16.5	14.8	11.3	14.3	4.1	3.2	4.2	5.8	4.2	...
Gross international reserves (millions of dollars)	5,691	5,865	5,854	5,833	5,837	6,304	6,884	6,981	6,733	7,071 c/
Real effective exchange rate (index: 2005=100) d/	66.5	68.5	69.5	69.3	67.2	66.8	65.1	66.3	63.9	67.1 c/
Consumer prices (12-month percentage variation)	2.3	1.4	2.8	4.2	5.1	6.6	4.7	3.7	3.1	2.6
Average nominal exchange rate (guaraníes per dollar)	4,085	4,226	4,456	4,467	4,524	4,420	4,293	4,617	4,759	5,055
Nominal interest rates (average annualized percentages)										
Deposit rate e/	9.4	9.6	8.5	9.1	5.4	6.2	6.6	6.7	8.3	...
Lending rate f/	17.3	17.3	16.1	15.7	17.6	15.8	14.9	14.4	14.3	14.9 g/
Interbank rate	5.5	4.9	4.8	4.8	...	5.9	...	5.8	4.5	...
Monetary policy rates	5.5	5.5	5.5	5.7	6.6	6.8	6.8	6.8	6.8	6.3
International bond issues (millions of dollars)	500	-	-	-	-	-	1,000	-	-	280
Domestic credit (variation from same quarter of preceding year)	19.0	21.6	23.3	19.3	18.5	12.9	6.1	11.2	21.6	22.0 c/
Non-performing loans as a percentage of total credit	2.3	2.4	2.3	2.1	2.1	2.3	2.2	2.0	2.0	2.1 c/

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

a/ Preliminary figures.

b/ Based on figures in local currency at constant 1994 prices.

c/ Figures as of May.

d/ Quarterly average, weighted by the value of goods exports and imports.

e/ Weighted average of effective interest rates on time deposits.

f/ Commercial lending rate, local currency.

g/ Figures as of April.