

Paraguay

ECLAC estimates Paraguay's GDP growth for 2015 at 2.9% —down from the 4.7% posted in 2014. The slower pace of expansion is explained mainly by lacklustre growth in the country's main trading partner economies and the fall in the soybean price. On the fiscal front, the public accounts are expected to record a deficit of 2.1% of GDP. This situation is unlikely to be turned round in the short run, given the country's low tax burden, scant political support for measures to expand the tax base, and the anticipated increases in capital expenditure. The debt has been financed by issuing bonds on the international market, with the country making its third ever bond issue in April. To offset these adverse factors, the government has adopted an expansionary monetary policy by lowering the monetary policy interest rate, and has announced measures to promote public investment and increase social spending. For 2016, GDP growth is forecast at 3.0%, underpinned by domestic demand.

Paraguay's growth slowdown hindered the recovery of its public finances, so a fiscal deficit is forecast for the fourth straight year. As of October 2015, the central government deficit stood at 1.1% of GDP, owing to a moderate increase in tax revenues (3.8%) offset by higher expenditure (13%). Among the latter, the fastest-growing items were interest payments, the use of goods and services, social benefits and wages. Paraguay has a low tax burden, and nearly half of all tax revenue is obtained from value added tax (VAT). Under a tax reform passed in 2013, income tax started to be applied to the agriculture sector and VAT to agricultural products, but the impact of this measure has been moderate.

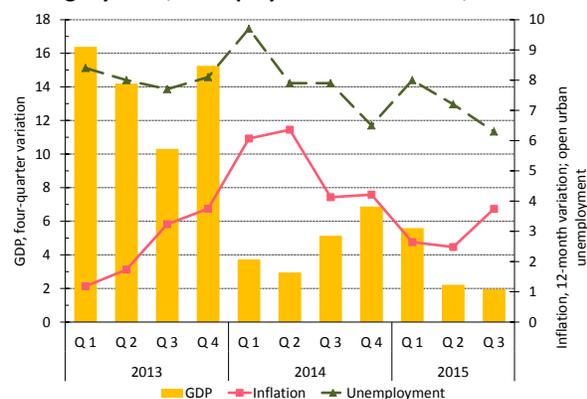
In early 2015, the method used to calculate fiscal statistics was altered to realign from the 1986 version of the Government Finance Statistics Manual to the 2001 edition. The new model changes the way capital expenditure is recorded, and this has the effect of downgrading the overall fiscal outcome compared to previous years. Under the new methodology, the deficit in 2015 will be 2.1% of GDP, compared to 1.1% in 2014, exceeding the 1.5% limit laid down in the Fiscal Responsibility Act.

Over the past few years, Paraguay has tapped external financing through international bond flotations of US\$ 500 million in 2013 and US\$ 1.0 billion in 2014. The country made its third ever international bond issue in April 2015, for US\$ 280 million, and further issues are expected before the year's end. External debt and total public debt currently represent 13% and 18% of GDP, respectively.

Paraguay adopted an expansionary monetary policy in 2015. In a context of low price inflation, the authorities cut the monetary policy interest rate by 25 basis points successively in March, April, June and July, lowering it from 6.75% to 5.75% per year.

In line with the trend of other currencies in the region, between July 2014 and September 2015 the guaraní depreciated by 29% against the strengthening dollar, owing to the tapering of monetary stimulus by the Federal Reserve and Paraguay's deteriorating trade balance.

Paraguay: GDP, unemployment and inflation, 2013-2015



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

In the external sector, Paraguay was affected by the slack growth of its main MERCOSUR trading partners and by the fall in commodity prices. The Central Bank of Paraguay (BCP) estimates the balance-of-payments current account deficit for 2015 at 1.6% of GDP, compared to the 0.4% recorded in 2014. As of October 2015, export values were down by 15% year-on-year. Exports of products such as soybean and its derivatives (soybean oils and flour) were affected by the fall in international prices; while meat and re-exports suffered from faltering demand. That same month, imports were down by 15.6% year-on-year, with reductions in foreign purchases of intermediate goods (-18%) owing to the lower oil price, but also of capital goods (-16%) and consumer goods (-11%). The balance of net foreign direct investment (FDI) was positive, fuelled by Brazilian funds attracted by tax benefits. There was also an accumulation of international reserves, which held steady at around 21% of GDP.

The pace of economic growth slackened in the course of 2015, and output expansion for the year overall is projected at 2.9%, compared to 4.7% in 2014. This weaker performance is explained mainly by external factors such as the meagre growth of main trading partners, including Brazil, which absorbs 30% of Paraguay's exports; and by the steep fall in commodity prices, particularly soybeans. The meat industry has also suffered from the economic weaknesses of the Russian Federation, the main export market for this product.

In August 2015, the government announced a policy package to boost the economy and counteract external headwinds. The measures include the speeding up of public works, mainly the construction of highways programmed by the Ministry of Public Works and Communications, and energy works which are the responsibility of the National Electricity Administration — projects in which an injection of US\$ 380 million is expected. Social spending is also set to rise, owing to the larger number of beneficiaries covered by the “Tekoporã” conditional cash transfer programme, and other schemes to alleviate extreme poverty. In order to maintain these policies even with the budget constraint, cuts of US\$ 100 million were announced for current expenditure (purchase of vehicles, fuel, equipment, travel expenses, and others). In addition, the government will attempt to increase revenue by imposing heavier fines on tax evaders, increasing property tax and the tax on cigarette consumption, and introducing VAT in the cooperative sector. These two latter measures have attracted little political support and their implementation has been postponed until 2016.

Inflation trended slightly downwards in the third quarter of 2015. As of October, prices were up by 3.2% year-on-year, owing largely to increases across virtually all segments of the consumer price index, particularly services and durable goods — the latter influenced by the depreciation of the local currency against the dollar. Inflation of 3.7% is forecast for end-2015, which is within the 4.5% inflation target with +/- 2 % tolerance band.

**Paraguay: main economic indicators,
2013-2015**

	2013	2014	2015 ^a
	Annual growth rate		
Gross domestic product	14.0	4.7	2.9
Per capita gross domestic product	12.5	3.3	1.6
Consumer prices	3.7	4.2	3.2 ^b
Real average wage	2.2	1.3	0.0
Money (M1)	15.6	9.6	13.1 ^b
Real effective exchange rate ^c	-3.0	-1.4	2.8 ^b
Terms of trade	-0.6	0.5	4.0
	Annual average percentage		
Open urban unemployment rate	8.1	8.0	7.2
Central government			
Overall balance / GDP	-1.7	-1.1	-1.5
Nominal deposit rate ^d	9.2	6.2	7.7 ^b
Nominal lending rate ^e	16.6	15.7	14.1 ^f
	Millions of dollars		
Exports of goods and services	14,453	14,007	12,130
Imports of goods and services	13,010	13,193	11,320
Current account balance	477	-117	-82
Capital and financial balance ^g	558	1,255	-579
Overall balance	1,036	1,138	-661

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

a Estimates.

b Figures as of October.

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

d Refers to the extraregional real effective exchange rate.

e Weighted average of effective fix term deposit rates.

f Weighted average of some lending rates.

g Figure as of September.

h Includes errors and omissions.

Lastly, the labour market is showing signs of improvement. The unemployment rate in the third quarter of 2015 was estimated at 6.3%, compared to 7.9% in the year-earlier period. The central bank index of salaries and wages had risen by 3.6% year-on-year in June 2015. In the second half of the year, however, the lacklustre performance of manufacturing industry and services, which account for a large proportion of all jobs, is expected to prevent further improvements in labour indicators. Paraguay's labour market structure feature high rates of underemployment and informality, which pose recurrent challenges.

For 2016, ECLAC projects GDP growth of around 3%, on the back of domestic demand. Private consumption will be buoyed by upturns in real wages and by cash transfer programmes, and public spending by higher wage and capital expenditure. Public-private partnerships are also expected to boost investment. Nonetheless, these projections are contingent on the economic situation in Brazil and the trend of international commodity prices, together with climate factors that could affect the agriculture sector.