

Paraguay

In 2007, the growth rate of the Paraguayan economy was in the 5.5% range, driven by the extraordinary output in the crop-farming sector. Livestock farming, in contrast with the three preceding years, was affected by a decline in external demand and by drought in the second part of the year —and contracted, resulting in a fall in meat exports. On the other hand, external sales of soybean and cereals strengthened significantly and, together with services, contributed to the surplus on the current account. The guaraní continued to appreciate and, at the same time, inflation remained high.

The central government ended the year with fiscal accounts in equilibrium and a primary balance estimated at 0.9% of GDP. Growth in revenues is also forecast to be significant, exceeding the figure recorded in 2006. Once again, the entry into force of personal income tax was postponed, this time until 1 January 2009. Preparations for presidential elections (April 2008) were intensified and fiscal spending also increased substantially. In March, treasury bond issues amounted to 90 billion guaraníes and US\$ 7.1 million (a total equivalent to US\$ 24.85 million) and, in the same month, due bonds, amounting to close to US\$ 60 million at the close of 2006, were paid up. External financial public debt recorded in the Debt Management and Financial Analysis System (DMFAS) Programme diminished by 4.5% between December 2006 and October 2007; total external public debt was up by 1.2% in the first quarter of 2007, while private external debt grew by 7.2%.¹

The Development Finance Agency (AFD) issued State-guaranteed bonds to the tune of US\$ 6 million in October; in November, the Inter-American Development Bank (IDB) approved a loan for US\$ 10 million to

support the export sector, leaving AFD in charge of loan allocations.

The appointment of a new board of directors of the central bank in March resulted in a few changes in monetary policy. Monetary regulation instruments were first sold at auction and then, as of mid-April, reinvested at benchmark rates. The respective rates fell considerably, from an average of 11% in February to 8% in March and 5.1% in October. The authorities continued to issue increasing volumes of monetary regulation instruments in their effort to attenuate the monetary effects of the central bank's intervention in the foreign-exchange market.

Monetary aggregates grew significantly throughout the year in both nominal and real terms, influenced by the substantial expansion in local-currency deposits. The latter outstripped growth in foreign currency deposits, while the expansion in savings deposits was much greater than that of sight deposits. These trends reflect moves to take advantage of the appreciation of the guaraní against the United States dollar and the higher rates of return on local-currency, in particular, term deposits. Foreign-currency loans (measured in

¹ The total external public debt includes debt recorded by DMFAS, the debt of the Central Bank of Paraguay with the Latin American Integration Association (LAIA), the external debt of the National Electricity Administration and external public commercial loans.

guaraníes) showed a marginally higher increase than loans in local currency. Although this still denotes risk aversion, the increase in lending is indicative of greater confidence in the financial system and in the economy in general; moreover, it is consistent with the decline in lending rates.

As regards the inflation target (5%), the consumer price index recorded a final variation close to the upper limit (7.5%) of the corresponding band. Prices were influenced by supply shortages (in the case of fruits and vegetables) and increases in international prices (bakery goods). In November 2007, the consumer price index rose by 7.4% compared with the previous year; meanwhile, core inflation (not including fruits and vegetables) stood at 7.3% and core X1 (not including fruits and vegetables or regulated services and fuels), at 8.3%. The rise in oil prices started to have an impact on fuel and transport prices in October, when the price of diesel was raised by 7.6% and transport by 5%, while the minimum wage was increased by 10% (close to US\$ 270).²

The exchange rate reflected a strong appreciation of the currency. Following a decisive intervention by the central bank in March and April, the foreign-exchange market started to show signs of greater stability but the appreciation intensified towards the end of the year. The guaraní appreciated against the dollar and the Argentine peso, but, up to October, these appreciations were lower than those of the previous year, while, in relation to the real, from the middle of the year it registered a nominal and real depreciation as a result of the substantial appreciation of the Brazilian currency against the dollar. The real effective exchange rate showed an 8% appreciation on average up to October, a result which has not affected the current account in any significant way.

In 2006, the Paraguay economy received a strong boost from the crop-growing sector, which achieved growth of close to 20%. Soybean production expanded by almost 72%, while cotton output contracted for the third year in a row, this time by 42%, although its yield was up by 30%. The output of other major crops, such as sugar cane (up 28%) and maize (up 14%), also contributed to the sector's robust performance. Livestock farming was affected by weak external demand and drought in the third quarter, which led to a decline of approximately 7%. Meat production, which accounts for 20% of the manufacturing industry, was affected, thus contributing to the downturn in the sector's performance.

PARAGUAY: MAIN ECONOMIC INDICATORS

	2005	2006	2007 ^a
Annual growth rates			
Gross domestic product	2.9	4.3	5.5
Per capita gross domestic product	0.9	2.3	3.6
Consumer prices	9.9	12.5	7.4 ^b
Average real wage	1.1	0.6	-0.4 ^c
Money (M1)	22.3	16.5	33.0 ^d
Real effective exchange rate ^e	9.5	-10.5	-10.4 ^f
Terms of trade	-6.6	-1.9	3.9
Annual average percentages			
Urban unemployment rate	7.6	8.9	...
Central administration overall balance / GDP	0.8	0.5	0.0
Nominal deposit rate	6.1	9.9	6.3 ^g
Nominal lending rate	15.3	16.8	15.3 ^h
Millions of dollars			
Exports of goods and services	4 045	5 645	7 418
Imports of goods and services	4 158	6 167	7 384
Current account	41	-110	422
Capital and financial account	119	493	120
Overall balance	160	383	541

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

^a Preliminary estimates.

^b Twelve-month variation to November 2007.

^c Estimate based on data for June.

^d Twelve-month variation to October 2007.

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

^f Year-on-year average variation, January to October 2007.

^g Average from January to September, annualized.

^h Average from January to August, annualized.

In the services sector, the strongest components were communications, which continued to attract significant inflows of foreign direct investment (FDI), and the financial sector. Net FDI inflows were buoyant for the second consecutive year in 2007, when they are estimated to have increased by close to 9% and to have reached the highest level for eight years.

Paraguay's current account reflects the increase in exports of goods and services. Goods exports are estimated to have expanded considerably more than imports, thanks in part to the good crop harvest. Up to October, exports of soybean grew by 143% over the previous year's figure. External sales of oils, cereals and flours also increased quite substantially. Thus, the year-on-year decline in meat exports, which stood at 21% in October, was more than offset by the exports of crops, resulting in an overall 67% rise in exports to October. Imports of capital goods, in particular machinery and equipment, continued

² Diesel and transport prices are controlled by the government.

to play a prominent role, soaring by 42% over the previous year in October; this boosted gross domestic investment and productive activity.

The services sector's sound performance, largely attributable to the export of electricity by the binational entities, was partially counterbalanced by a decrease in current transfers. The current account showed a surplus estimated at around 3.5% of GDP. The capital

and financial balances, including errors and omissions, showed a smaller surplus than in 2006 (1% of GDP), owing to a slight outflow of financial capital. Lastly, in keeping with the central bank's foreign-exchange operations and external trade balance figures, international reserves swelled to US\$ 2.24 billion at the end of October. The build-up of net reserves corresponded to 5% of GDP.