

Paraguay

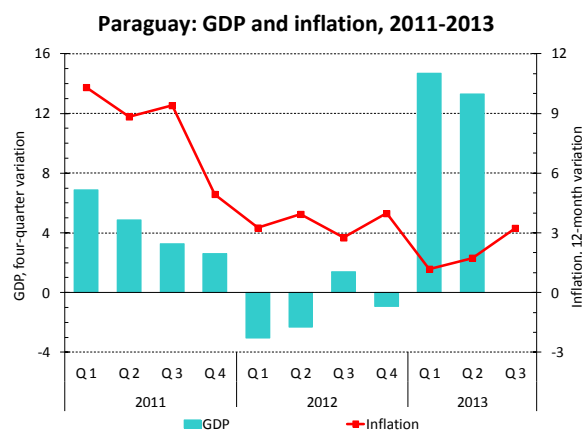
Paraguay's GDP is expected to increase by 13.0 % in 2013, making it the fastest-growing country in the region. This growth has been driven by the boom in agriculture, especially the soybean sector, with a bumper harvest in 2012/2013 following the drought of the previous year. A smaller than expected increase in tax revenue and continuing high levels of expenditure are expected to yield a second consecutive public-accounts deficit, estimated at 1.6% of GDP. In October 2013, a year-on-year rise of 4.4% in the consumer price index was recorded, above the 3.4% seen in 2012. In respect of external trade, the current-account surplus is expected to rise, spurred by buoyant agricultural and livestock exports (particularly meat) over the year. Growth in 2014 is expected to fall back to levels more in line with the country's long-term potential, with an expansion of the order of 4.5% forecast.

The fiscal deficit stands at 2.3% of GDP, above the level recorded in 2012 (1.8% of GDP). This is the second consecutive year the country has seen a public-accounts deficit after eight uninterrupted years of surplus. A 4.5% year-on-year increase in tax income was registered in August, rather sluggish given the year's strong economic figures and attributable to the very small contribution of the sector driving it — agriculture— to overall tax receipts. An even smaller increase, 3.4%, was recorded in overall income over this period, whereas total central government spending rose by 9.7%, driven by a 13.3% increase in fixed staffing costs.

Against this backdrop of rapid economic growth and inflationary pressures that have remained below target levels, the Committee for Open Market Operations and Reserves (CEOMA) of Paraguay's Central Bank has maintained the monetary policy interest rate at 5.5% since August 2012.

By October, the nominal exchange rate of the guaraní against the dollar reflected a 6.1% depreciation on levels recorded in January 2013, in line with trends in the region in the wake of expectations that the United States Federal Reserve would phase out its monetary stimulus. This depreciation has been mitigated somewhat in Paraguay's case by significant flows of foreign currency into the country as a result of this year's boom in agricultural exports. In real terms, between January and October, the guaraní fell by 5.1% against the dollar, 6.2% against the euro and 1.0% against the Brazilian real, but rose by 1.8% against the Argentine peso.

Significant developments in the legislative field in 2013 included the Fiscal Responsibility Act and the Public-Private Partnerships Act relating to investment in public infrastructure, both of which were passed by parliament and promulgated by the Executive. The former piece of legislation seeks to encourage greater fiscal discipline by imposing a raft of fiscal measures, including capping budget deficits at 1.5% of GDP and limiting increases in expenditure to 4% above the rate of inflation. The latter piece of legislation, for its part, fosters public-private partnerships with a view to increasing investment in the country's infrastructure and to improving the productivity of such investments.



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

Exports were up by 19% over the 2012 figure as a result of the upswing in exports of agricultural produce, particularly soybeans. Growth in imports was a far more moderate 9% year-on-year. As a consequence, the current-account surplus has widened and is expected to reach 4.2% of GDP, higher than the 0.2% recorded in 2012.

The strong growth in the Paraguayan economy in 2013 (estimated at 13%) comes in sharp contrast to the contraction of 1.2% in 2012, when agricultural output was hit by adverse weather conditions. The 2013 results are chiefly attributable to the dramatic recovery of the agricultural sector, which saw its output shoot up by 50%. Strong growth in the livestock sector, estimated at 9.6%, should also be stressed, proof that it has bounced back after the discovery of an outbreak of foot and mouth disease in the country in late 2011.

The impressive growth in GDP in 2013 did not, however, have much of a knock-on effect on consumption, with an estimated increase in private consumption of only 4.8%, which is fairly modest in comparison. This is primarily a result of two factors, firstly levels of consumer indebtedness, largely owing to efforts to bolster consumption after the contraction in the economy in 2012. A slowdown in the rise of consumer credit was also seen, with a year-on-year increase of 19.6% in such loans recorded in August, compared with a progression of 28.4% over the same period the previous year. The rate of default also rose from 1.7% in December 2011 to 2.3% in July 2013, a symptom of increasing levels of consumer indebtedness. The second factor is the guaraní's appreciation against the Argentine peso, making Argentine goods much more competitively priced and leading to increasing numbers of undeclared Argentine imports being sold unofficially on the Paraguayan market.

The inflation rate stood at 4.4% in October. Although this figure remains below the middle band of the central bank's target range (of 5%, plus or minus 2.5 percentage points), inflationary pressures became significantly stronger from the third quarter onwards. Inflation had stood at 0.9% as recently as May of this year. The upward trend in inflation in recent months is primarily a result of a major upswing in food prices in the second half of the year.

The continuous employment survey showed the unemployment rate to be 8.0% (7.4% for men and 8.8% for women) in the second quarter of 2013, below levels for the same period in 2012 (8.3%), and a year-on-year rise of 5.0% was recorded in the central bank's wage and salary index in June 2013.

Paraguay: main economic indicators, 2011-2013

	2011	2012	2013 ^a
Annual growth rate			
Gross domestic product	4.3	-1.2	13.0
Per capita gross domestic product	2.6	-2.8	11.2
Consumer prices	4.9	4.0	4.4 ^b
Real average wage	2.7	0.7	3.1 ^c
Money (M1)	7.8	8.6	16.5 ^d
Real effective exchange rate ^e	-10.4	1.4	-5.9 ^b
Terms of trade	2.4	1.0	-3.1
Annual average percentage			
Open urban unemployment rate	6.5	6.1	...
Central government			
Overall balance / GDP	0.7	-1.8	-2.3
Monetary policy rate	7.9	6.0	5.5 ^b
Nominal lending rate ^f	16.9	16.6	16.9 ^d
Millions of dollars			
Exports of goods and services	13 366	12 768	15 186
Imports of goods and services	12 639	12 006	13 225
Current account balance	132	44	1 197
Capital and financial balance ^g	649	-69	-400
Overall balance	782	-24	797

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

^a Estimates.

^b Figures as of October.

^c Figure for June.

^d Figures as of September.

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

^f Weighted average of some lending rates.

^g Includes errors and omissions.