

## Paraguay

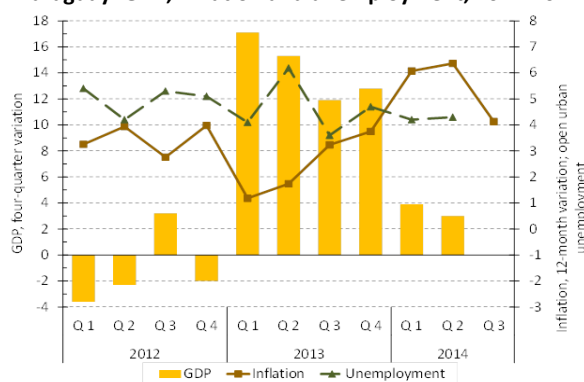
It is estimated that Paraguay's GDP will expand by 4.0% in 2014, outpacing the average growth rate for the region. Arable agriculture was again the engine of growth, but a strong performance was also rendered by the production of edible oils, livestock and the meat and dairy industries. Thanks to the reforms of 2012 and 2013, tax revenues have risen during the current fiscal year, while public accounts are expected to show a deficit of approximately 1.8% of GDP, a narrow improvement on the 2% posted in 2013. Bond issues on the international market financed part of this deficit, with the proceeds also likely to be invested in infrastructure improvements. Following the central bank interventions early in the year, the year-on-year variation in the consumer price index to October (3.5%) remained below the midpoint of the target range set by the central bank (5%, with a margin of 2 percentage points on either side). In the external sector, the current account surplus is projected to be modest, as a result of lower soybean and electricity exports. Economic growth in 2015 is expected to be similar to that of 2014.

The Ministry of Finance forecasts that current income and expenditure trends could yield a fiscal deficit of 1.8% of GDP at the close of the year—close to the 1.5% target for 2015 established under the Fiscal Responsibility Act. This result would be an improvement on 2013, when the deficit stood at 2% of GDP, and would be similar to the 2012 figure, when expansionary fiscal policies led to the first deficit on the public accounts after eight years of surplus. A fiscal reform was adopted in 2013 to expand the tax base, introducing value added tax for agricultural products and a new agricultural income tax. The impact of these reforms was seen in 2014: by September, tax revenues were 18.4% higher than in the same period the previous year. Another positive factor was the personal income tax penalty, which took effect in August 2012 and had a favourable impact on the formalization of the economy. However, in September 2014 total revenues showed a more modest increase (14%)—largely owing to the drop in revenue from binational enterprises—while total central government spending swelled by 16.3% on the back of a 31.4% rise in capital expenditure.

Paraguay financed some of its debt by issuing bonds on the international market. In 2014, the country sold US\$ 1.000 billion in 30-year bonds with a yield of 6.1%, an unprecedented event in the country's history. The decision to turn to the international markets was mainly grounded in the need to upgrade infrastructure, with 66% of the proceeds allocated to the Ministry of Public Works and Communications (MOPC) and the National Secretariat for Housing and Habitat (SENAVITAT). During 2013, both the Fiscal Responsibility Act and the Public-Private Partnership Act led to an upgraded credit rating for Paraguay, which in turn helped the country improve its terms of access to international credit. As a result of the bond issue, the external debt rose from 8.7% of GDP to almost 12% of GDP.

In terms of monetary policy, the Central Bank of Paraguay has followed an inflation-targeting scheme since May 2011. Thus, after a 12-month period of stability and in response to inflationary pressures in late 2013, the bank

**Paraguay: GDP, Inflation and unemployment, 2012-2014**



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

decided to restrict the money supply, raising the monetary policy rate from 5.5% in December 2013 to 6.75% in February 2014, where it remained for the rest of the year.

The nominal exchange rate of the guaraní against the dollar fell by 6.5% (appreciation) between January and September 2014, largely as a result of the trade balance surplus. The real exchange rate also fell against the dollar, as the guaraní appreciated by 6.4% between January and September 2014. The local currency also strengthened against the euro (by 14.4%) and the Brazilian real (7.7%), though it weakened against the Argentine peso (by 3.6%).

Regarding the country's external position, the current account posted a surplus of 1.4% of GDP in the second quarter of 2014. The trade balance reversed trend in the second half of the year and is expected to end 2014 with a surplus of about 1.1% of GDP. In October 2014, the value of exports posted a year-on-year increase of 3.6%, mainly on the strength of soybean exports, which accounted for 27% of total export value. Imports suffered a negative year-on-year variation (of 0.1%), as capital goods imports diminished (by 10%), especially goods for re-export that were affected by the slowdown of the Brazilian economy. It is also thought that the depreciation of the Argentine peso has provided an incentive for unregistered imports.

The Paraguayan economy is projected to expand by 4% during 2014. This percentage is lower than the extraordinary growth of 13% that was witnessed in 2013 as the farming sector bounced back after contracting in 2012 owing to a drought. Economic activity in 2014 was notable for extremely positive results in crop-farming, livestock and the agricultural production chain overall (including the meat, edible oil and dairy industries). There was also an upturn in construction and related sectors such as mining and the production of construction materials. Conversely, the binational hydropower sector shrank in 2014, mainly as a result of operational factors at the hydroelectric facilities.

Year-on-year inflation rose by 3.5% to October, thus remaining below the midpoint of the target range set by the central bank (of 5%, plus or minus 2%). This was largely due to deflationary pressures from June 2014 onwards, since year-on-year inflation stood at 7% in May. Consumer prices remained stable as lower food prices offset rises in other categories (alcoholic beverages and tobacco, communications and durable goods).

According to the findings of the continuous employment survey, unemployment stood at 7.9% in the second quarter of 2014, slightly down on the rate recorded in the year-earlier period (8.1%). However, while the male unemployment rate dropped from 7.4% to 6.0%, female unemployment climbed from 8.8% to 10.3%. The central bank's wage and salary index posted a year-on-year variation of 6.4% in June 2014.

**Paraguay: main economic indicators, 2012-2014**

	2012	2013	2014 <sup>a</sup>
	<b>Annual growth rate</b>		
Gross domestic product	-1.2	14.2	4.0
Per capita gross domestic product	-2.8	12.4	2.4
Consumer prices	4.0	3.7	3.5 <sup>b</sup>
Real average wage	0.7	2.2	-0.1 <sup>c</sup>
Money (M1)	8.6	15.6	9.2 <sup>b</sup>
Real effective exchange rate <sup>d</sup>	3.4	-2.8	-0.6 <sup>b</sup>
Terms of trade	1.0	-0.6	-0.8
	<b>Annual average percentage</b>		
Open urban unemployment rate	6.1	5.9	...
Central government			
Overall balance / GDP	-1.8	-2.0	-1.8
Nominal deposit rate	5.5	9.2	6.1 <sup>b</sup>
Nominal lending rate <sup>e</sup>	16.6	16.6	15.9 <sup>b</sup>
	<b>Millions of dollars</b>		
Exports of goods and services	12,410	14,447	15,179
Imports of goods and services	12,009	13,012	13,070
Current account balance	-231	621	1,334
Capital and financial balance <sup>f</sup>	207	415	-187
Overall balance	-24	1,036	1,147

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

e/ Weighted average of some lending rates.

f/ Includes errors and omissions.