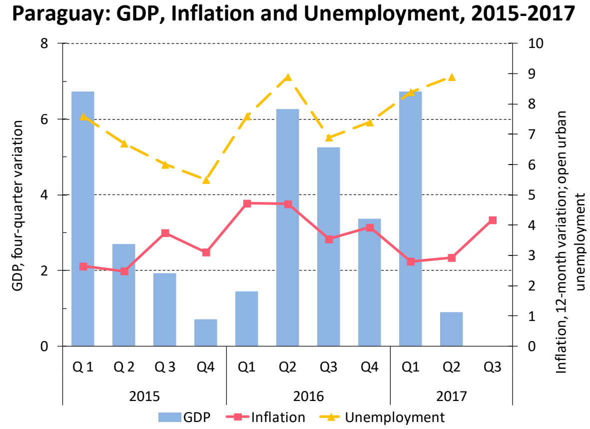
Paraguay

The Economic Commission for Latin America and the Caribbean (ECLAC) estimates 2017 GDP growth in Paraguay at 4%, a figure similar to the 2016 result and higher than the regional average. After a first quarter with significant year-on-year GDP growth (6.6%), the second quarter saw only a modest increase of 0.9%. This was due to a drop in the numbers of cattle sent to slaughter and reduced activity in the construction sector, caused by both lower private and public investment and unfavourable weather conditions. A rebound is expected in the second half of the year, with growth in the services sector and in manufacturing industry. On the fiscal front, the policy of holding down current spending and favouring capital expenditure remains in place and a deficit of 1.5% of GDP is expected, which would be within the limit established by the Fiscal Responsibility Act. Monetary policy was mainly expansionary in 2017. For 2018, ECLAC projects GDP growth at a level similar to 2017.

The country closed 2016 with a fiscal deficit of 1.4% of GDP, in line with the limit of 1.5% set by the Fiscal Responsibility Act. During 2017, fiscal policy continued to focus on controlling the deficit the country has been facing since 2012. The priority has been to contain current expenditure, with moderate growth in wage spending, in favour of increased capital expenditure. According to data from the Ministry of Finance, the central administration's accumulated deficit stood at 0.7% of GDP as of October 2017, equal to 1.2% in annualized terms. Up to October, total revenue increased slightly compared with the cumulative value for the same period in 2016, mainly due to improvements in non-tax revenues from foreign trade. At the same time, revenues from energy sales by the Itaipú and Yacyretá binational enterprises were down. Various initiatives to improve revenue collection —such as VAT on transactions by cooperatives and on motorcycle assembly, a special tax on cigarettes and changes to personal income tax deductions— have been prioritized. Nevertheless, the tax burden remains stable at around 12.7%, which is lower than the region's average. The country continues to make use of external financing: it has issued sovereign bonds every year since 2013 and the fifth offering, worth US$ 500 million, was issued in early 2017. Over the 2013–2017 period, public debt rose from 14.4% of GDP to 23.7%. The proposed budget for 2018 includes salary increases for teachers and a new sovereign bond issue.

Since 2011, Paraguay has been following an inflation-targeting model. In 2017, two factors defined monetary policy: the reduction of the annual inflation target from 4.5% to 4.0% at the beginning of the year, and a primarily expansionary policy, with a reduction in the monetary policy rate from 5.5% to 5.25% in August. The inflation rate evolved very moderately during the first half of the year and reached 3.2% in October; as a result, the Central Bank of Paraguay (BCP) forecasts a rate of 3.8% for the close of 2017. That figure is the result of higher prices for certain foodstuffs, services and durable goods in the second half of the year.

Paraguay: GDP, Inflation and Unemployment, 2015-2017



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

In the external sector, the central bank expects the year to close with a current account surplus of 0.2% of GDP, compared to the 1.5% of GDP posted in 2015. This less favourable result is on account of a moderate increase in exports (up 6.6% over the cumulative October 2016 level), mainly because of growth in re-exports, combined with a significant expansion of imports of consumer, intermediate and capital goods (up 19.9% over the cumulative October 2016 level). Particularly notable during 2017 was the increase in exports produced under the maquila regime, which reached a cumulative total of 44.2% in October. At the same time, foreign direct investment (FDI) data for the 2008–2015 series were reviewed and updated in 2016, and a new review was conducted in 2017 for 2014, 2015 and 2016, which resulted in slight modifications to the balance of payments results. These changes were caused by an expansion of the sources of information. According to the new estimates, total FDI stood at US$ 320.3 million in 2016, compared to US$ 305.7 million in 2015 and US$ 412 million in 2014. The main countries of origin for FDI were the United States, Brazil and Spain. FDI totalled US$ 223 million in the first half of 2017.

Paraguay: main economic indicators, 2015-2017

	2015	2016	2017 [a]
	Annual growth rate		
Gross domestic product	3.0	4.0	4.0
Per capita gross domestic product	1.6	2.8	2.8
Consumer prices	3.1	3.9	4.9 [b]
Real average wage	0.5	0.7	1.5 [c]
Money (M1)	11.6	3.1	13.6 [d]
Real effective exchange rate [e]	1.6	3.9	3.9 [d]
Terms of trade	-7.6	-0.9	-2.3
	Annual average percentage		
Open urban unemployment rate	6.5	7.7	8.7 [f]
Central government			
Overall balance / GDP	-1.8	-1.4	-1.5
Nominal deposit rate [g]	7.4	6.7	6.5 [d]
Nominal lending rate [h]	14.4	15.6	14.5 [d]
	Millions of dollars		
Exports of goods and services	11 758	12 038	12 649
Imports of goods and services	11 421	10 893	12 830
Current account balance	-301	415	-802
Capital and financial balance [i]	-258	543	1 632
Overall balance	-560	957	830

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
a/ Estimates.
b/ Figures as of October.
c/ Estimate based on interannual grwoth of average for January-June.
d/ Figures as of September.
e/ A negative rate indicates an appreciation of the currency in real terms.Refers to the global real effective exchange rate.
f/ Figures as of first semester.
g/ Weighted average of effective fix term deposit rates.
h/ Commercial lending rate, local currency.
i/ Includes errors and omissions.

After significant year-on-year GDP growth in the first quarter (6.6%), the second quarter saw a moderate expansion of around 0.9%. The sectors with lower growth included livestock, due to a reduced volume of cattle exports, and construction, on account of reduced dynamism in civil works and physical investment by the Government combined with unfavourable weather conditions. The energy sector also posted lower figures, due to reduced electricity generation by the Itaipú binational enterprise, which had registered record levels of output in 2016. In contrast, the sectors that performed well were agriculture, thanks to the positive campaign for the production of soybeans and other crops, such as rice, tobacco and beans; the services sector, on account of the favourable commercial dynamics associated with rising imports; and industry, which reported a growth rate of 9.7% over the first half of the year. Particularly successful industries included foodstuffs (beverages, tobacco, and grain mill and bakery products), textiles and apparel, paper and paper products, chemicals and base metals. A recovery in growth is expected for the third quarter of 2017, as Paraguay’s monthly indicator of economic activity (IMAEP) reported an increase of 3.1%, fuelled by the expansion of the services sector and manufacturing industry. In that context, ECLAC estimates a GDP growth of 4% in 2017, largely as a result of changes in commerce, other services and industry (on the supply side), as well in consumption and investment (on the expenditure side).

The labour market has shown few signs of vitality. According to data from the country’s continuous employment survey, in the second quarter of 2017 the unemployment rate remained similar to the level recorded during the same period the previous year (8.9%), with employment rising in construction and services and falling in agriculture and commerce. At the same time, the central bank’s wage and salary index posted a year-on-year change of 4.5% in June 2017 and the minimum wage rose by 3.9% from midyear to reach 2,041,000 guaraníes (approximately US$ 364).

ECLAC forecasts that the key macroeconomic variables will remain stable in 2018 and that GDP growth will be slightly lower than in 2017 at around 4.0%. This reduced growth would be on account of a slowdown in investment and reduced electricity generation. The risk factors associated with this forecast are both internal (higher public spending) and external (the recovery of trading partners Argentina and Brazil, changes in commodity prices and weather conditions).