

Paraguay

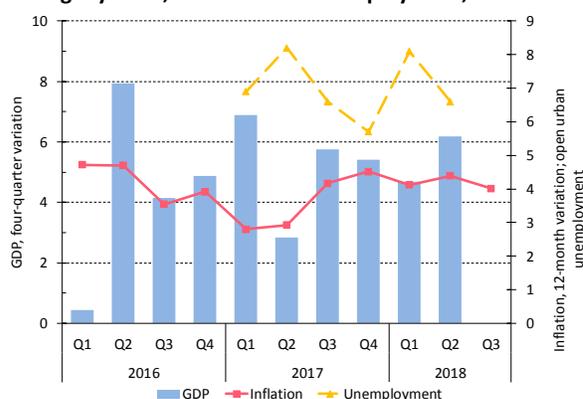
The Economic Commission for Latin America and the Caribbean (ECLAC) estimates GDP growth of 4.2% for Paraguay in 2018, above the regional average. Growth in the service, manufacturing and construction sectors underpinned a strong first-semester performance. Agricultural production also showed positive growth thanks to good yields of soybeans, maize, cassava and tobacco. Conversely, activity in the electricity and water sector declined year on year. Economic activity is expected to be less dynamic in the second half owing to a more difficult external environment affecting trade in border areas and falling electricity production. On the fiscal front, the overall deficit is expected to be within the limit of 1.5% of GDP set by the Fiscal Responsibility Act. The current account should post a modest surplus. ECLAC expects GDP growth in 2019 to be similar to that in 2018.

In early 2018, the Central Bank of Paraguay published new national accounts data owing to a change in the base year from 1994 to 2014. The methodology is consistent with international standards and makes improvements to the basic statistics and the use of up-to-date figures. The revision yields a figure for GDP at current prices that is on average 30% higher in nominal terms than when 1994 is used as the base year. On the supply side, the new base translates into a smaller share for the primary sector (16.1%) and a larger share for services (34.5%) and industry (68.1%). On the spending side, it yields a greater share for public spending and a smaller share for consumption, gross fixed capital formation and the external sector. This new structure of GDP makes the series less volatile and results in large changes to a number of macroeconomic indicators that use GDP as a basis of comparison.

The fiscal deficit ended 2017 at 1.1% of GDP, within the limit set by the Fiscal Responsibility Act (1.5% of GDP). The deficit will stay within this range during 2018, with growth in current spending and fairly stable capital spending. According to Ministry of Finance data, the cumulative deficit of the central administration up to October 2018 was 0.6% of GDP, equivalent to 1.0% of GDP in annualized terms. Total revenue to October was higher than the cumulative total up to the same month in 2017, mainly because of higher tax revenues. Revenue from external trade grew more quickly than overall revenue. A technical committee was set up in 2018 to evaluate a tax reform that would improve the tax take and expand the tax base, and a spending review is expected in 2019 with a view to proposing a comprehensive fiscal reform geared towards increasing revenues and promoting spending efficiency. The sixth sovereign bond issue, worth US\$ 530 million, was carried out in 2018. Public debt is expected to end the year at 18.7% of GDP. The budget provides for a new sovereign bond issue worth US\$ 500 million in 2019.

Paraguay has operated with an inflation targeting regime since 2011. The target has been set at 4.0% since early 2017. Year-on-year inflation averaged 4.0% in the third quarter, slightly above that of the same quarter of 2017 (3.8%). This trend is explained by rising prices for fuels and durable goods and by small increases in the prices of some services in the basket. The Central Bank of Paraguay projects that 2018 will

Paraguay: GDP, Inflation and Unemployment, 2016-2018



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

close with inflation of 3.8%. Given this relative stability, the monetary policy interest rate has been kept unchanged at 5.25% since August 2017. In 2019, a strengthening dollar could exert pressure on domestic prices, but inflation is expected to remain within the policy range established. The guaraní depreciated by about 6% against the dollar in the first 11 months of the year.

Because of the changes in the base year for GDP and adjustments to foreign direct investment estimates, the central bank made revisions to some foreign trade statistics. The current account balance for 2016 is now estimated at US\$ 1.276 billion (3.5% of GDP) and that for 2017 at US\$ 1.356 billion (3.4% of GDP). The expectation is for 2018 to end with a more modest surplus, mainly because of a lower volume of exports owing to declines in shipments of meat and electricity and in re-exports to Brazil. Paraguay has lost competitiveness against its main trading partners, Brazil and Argentina, because of the large devaluations in these countries' currencies.

Year-on-year GDP growth in Paraguay was strong during the first and second quarters of the year (4.7% and 6.2%, respectively), with the greatest expansion in services, manufacturing and construction. In the case of services, the growth was due to the favourable dynamics of commercial activity, associated with the strength of both imports and manufacturing. For its part, the positive trend in manufacturing is explained by good performances in the categories of beverages and tobacco, meat production, dairy products, wood products, textiles and wearing apparel, among others. The construction sector, lastly, was favoured by good weather conditions, which helped ensure that both public and private construction projects could proceed normally. This had a positive effect on commerce because of higher demand for the main inputs (cement, refractories, metals, chemicals and asphalt). Agricultural production also presented positive growth thanks to good yields of soybeans, maize, cassava and tobacco. Conversely, that of the electricity and water sector (which includes the binational dams) declined year on year. Growth is expected to slow in the third quarter in consequence of the more difficult external environment for trade in border areas and falling electricity production because of climatic factors. This was reflected in the monthly indicator of economic activity (IMAEP), which registered a decline of 2% in September. In this context, ECLAC estimates GDP growth of 4.2% for 2018.

In 2018, the continuous employment survey, which was conducted only in Asunción, the capital, was replaced with the continuous permanent household survey (EPHC), incorporating data from 16 of the country's departments. According to this new data source, the unemployment rate in the second quarter of 2018 was 5.9%, as compared to 7.3% in the same period of 2017. This improvement occurred within the framework of a fairly steady participation rate and an increase in the employment rate, mainly among women. At the same time, the central bank wages and salaries index registered a year-on-year change of 5.3% in the period to June 2018 and the minimum wage increased by 2.1% from mid-year.

Paraguay: main economic indicators, 2016-2018

	2016	2017	2018 ^a
	Annual growth rate		
Gross domestic product	4.3	5.2	4.2
Per capita gross domestic product	3.0	3.9	3.0
Consumer prices	3.9	4.5	4.1 ^b
Real average wage	0.7	0.3	0.9 ^c
Money (M1)	3.1	14.2	12.3 ^d
Real effective exchange rate ^e	3.9	3.0	-5.0 ^d
Terms of trade	0.3	-1.3	-0.3
	Annual average percentage		
Open urban unemployment rate	7.7 ^f	6.9	7.4 ^g
Central government			
Overall balance / GDP	-1.1	-1.1	-1.3
Nominal deposit rate ^h	6.7	6.4	6.5 ^d
Nominal lending rate ⁱ	15.6	14.3	12.9 ^d
	Millions of dollars		
Exports of goods and services	12 867	14 484	15 426
Imports of goods and services	10 893	12 735	14 579
Current account balance	1 276	1 356	498
Capital and financial balance ^j	-318	-479	-797
Overall balance	957	877	-298

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 growth 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/ Asunción and urban areas of the Central Department.

g/ Figures as of first semester.

h/ Weighted average of effective fix term deposit rates.

i/ Commercial lending rate, local currency.

j/ Includes errors and omissions.

For 2019, ECLAC estimates that the main macroeconomic variables will remain stable and output growth will be about 4.2%, sustained by a good performance by commerce, manufacturing and construction and improved economic conditions in Argentina and Brazil.