

PARAGUAY

1. General trends

In 2018, Paraguay's GDP growth was 3.7%: less than expected and below that of 2017 (5%). On the supply side, this reflects moderate momentum in key sectors of the Paraguayan economy, such as agriculture and electric energy generation, which grew by 3.3% and 1.5%, respectively. The most dynamic sectors in 2018 were services, mainly commerce (7.4%), hotels and restaurants (8%) and household services. Manufacturing performed well, driven by the maquila sector. On the expenditure side, growth remains driven by domestic demand, especially investment. The year closed with a fiscal deficit equivalent to 1.3% of GDP, higher than in 2017, with a moderate increase in total income (4.6%) and an increase of 9.5% in expenditure due to higher interest payments on the debt, more extensive use of goods and services and higher social service outlays. The government issued debt securities on both the international and the domestic market. In 2018 and 2019, sovereign bond issues totalled US\$ 530 million and US\$ 500 million, respectively, raising total public debt to the equivalent of 24.3% of GDP. Annual inflation held steady at 3.2%. In this context of low inflation and moderate growth, the authorities opted for an expansionary monetary policy stance and lowered the monetary policy interest rate in the first few months of 2019, from 5.25% to 4.50% a year. The exchange rate depreciated by about 12.4% between January 2018 and May 2019. External sector data were updated and showed a surplus on the balance of payments current account in both 2017 (3.1% of GDP) and 2018 (0.6% of GDP).

More moderate, growth is forecast for 2019 close to 1.6%. In the first quarter of the year, growth was dampened by heavy rainfalls which caused flooding and displaced persons in both the capital and other parts of the country, adversely affecting agricultural and livestock output and the construction sector. Even though the exchange-rate depreciation could bolster exports, not much improvement in the current account position is expected, owing to the drop in the international price of soybeans and weak economic performance in Paraguay's principal trading partners.

2. Economic policy

(a) Fiscal policy

In 2018, the central government ran a deficit equivalent to around 1.3% of GDP, slightly wider than in 2017. It was the seventh consecutive year in which Paraguay posted an overall deficit. The latest is still below the cap set in the Fiscal Responsibility Act of 2015 (1.5% of GDP).

Total revenue recorded a modest increase of 4.6% in 2018, principally owing to higher tax revenue. Paraguay relies for much of its tax revenue on indirect taxes, such as the value added tax (VAT). Altogether, taxes on goods and services accounted for 46% of revenue in 2018. The country's direct taxes are the income tax on commercial, industrial and services activities (IRACIS), the income tax on agricultural and livestock activities (IRAGRO) and personal income tax (IRP). Those taxes accounted for 16% of total income in 2018. That year, tax pressure—measured as tax revenue as a percentage of GDP—dropped to 8.4%, from 9.9% in 2017, one of the lowest in the region. As for non-tax revenue, the proceeds from international trade were up slightly over the 2017 figure and accounted for 8% of total income, while revenue from the sale of energy produced at the Yacretá and Itaipú hydroelectric plants contributed approximately 5% of total income.

Public spending grew by 9.5% in 2018, a larger increase than in 2017 (7.8%), fuelled by an increase in interest payments on the debt (21%), the use of goods and services (14%), social benefits (13.7%) and wages (9.5%). Capital expenditure, measured approximately as the net acquisition of non-financial assets, fell by 16%. Net operating income (measured as income minus expenses, excluding public investment) remained relatively flat compared with 2017, representing around 1% of GDP.

The deficit continued to be financed by external borrowing. In March 2018, a sixth bond issue of US\$ 530 million was made for a 30-year term at an annual rate of 5.6%. As a result, at end-2018 the total public debt and the external debt were equivalent to 24.3% and 16.1% of GDP, respectively. These levels represent an increase since 2013 when Paraguay's first international bond issue was made and debt amounted to 10.8% of GDP.

For 2019, the deficit is expected to remain within the limit set by the Fiscal Responsibility Act; the annualized fiscal deficit for the first half of the year stood at 1.4% of GDP. If the proposed reform to modernize and simplify the national tax system by expanding the tax base and increasing rates is implemented, a slight improvement could be expected. The main changes include merging the tax on agricultural activities with the tax on commercial, industrial and service activities to create a corporate income tax (IRE) and a simplified regime for small and medium-sized enterprises. The following amendments are also proposed: (i) creation of a tax on dividends and earnings (IDU); (ii) changes in the personal income tax regime (8% for income and capital gains and rates of 8%, 9% and 10% depending on the net income for earnings derived from the provision of personal services); (iii) introduction of a non-resident income tax (IRNR) of 15%; and (iv) an increase of between 5% and 20% in the top rates of the selective consumption tax (ISC) with respect to the current rates. Debt will continue to gather pace since in early 2019, US\$ 500 million in 31-year sovereign bonds were issued at an interest rate of 5.4%.

(b) Monetary policy

The Central Bank of Paraguay has been operating an inflation-targeting regime since May 2011, and the annual target range was set in early 2017 at 4% +/- 2 percentage points. The central bank targets inflation through the monetary policy interest rate, which was held at 5.25% throughout 2018. However, the first months of 2019 were marked by weak domestic performance and inflation remained below target for several months. Because of this, the monetary authorities considered it timely to ease the monetary policy stance and cut the benchmark rate by 25 basis points in February, March and July, bringing it to 4.5% for the year.

Bank lending to the non-financial private sector maintained the upward trend that began in mid-2017, and 2018 ended with year-on-year growth of 15.3%. Lending in local currency and foreign-currency loans continued to trend upward to May 2019, with year-on-year growth of 18.5% and 16.2% respectively. By sector, lending was most buoyant in construction, in vehicle service, maintenance and repair, and in agribusiness. Lending to the agriculture and wholesale retail sectors also continued to increase, but at a slower pace. This increase in lending is partly attributable to the low levels observed in previous years, and partly to the central bank's policy of limiting interest rates on financial system loans. In August 2019, the annual interest rate was capped at 37.07% (against 38.94% in August 2018 and 41.68% in the same month in 2017). This steady lowering of the ceiling on interest rates on loans is owed largely to the cap on interest rates applicable to credit cards imposed in September 2015.

In June 2019, the central bank introduced two measures to support the sectors affected by adverse weather conditions: the legal reserve requirement on foreign-currency deposits was temporarily lowered so that banks could use these funds to grant loans or to renew, refinance or restructure portfolios for the

agricultural and livestock sector; and the time frame for the disposal of movable and fixed assets repossessed or received by financial institutions in lieu of payment of loans was extended.

(c) Exchange-rate policy

The nominal exchange rate of the guaraní against the dollar depreciated by 5.5% between January and December 2018. During this period, the average nominal exchange rate dropped from 5,619 to 5,928 guaraníes per dollar. The domestic currency continued to weaken in the first four months of 2019, reaching 6,317 guaraníes per dollar in May, which represented a total depreciation of 12.4% between January 2018 and May 2019. To offset the depreciation of the guaraní, the Central Bank of Paraguay conducted compensatory operations, selling a total of US\$ 776 million worth of foreign currency by May 2019. The country also has abundant foreign-exchange inflows in the form of remittances from abroad, which amounted to US\$ 570 million in 2018, down 3% compared with 2017. As a result, international reserves fell by 1.7% in 2018 and by 0.3% in the early months of 2019. As of June 2019, reserves amounted to US\$ 7.955 billion, or 20% of GDP. This level of reserves provides cover for seven months of imports and is equivalent to 1.25 times Paraguay's external public debt.

(d) Other policies

Over the course of the year, the National Economic Team, comprising representatives of various public agencies, was convened to propose measures to boost the economy. These have focused on shoring up investment in infrastructure, an area in which the country has significant shortfalls. In June 2019, a plan was submitted to accelerate high-impact investments that include the construction of a road network (US\$ 572 million); educational development (US\$ 95 million); departmental and municipal projects (US\$ 18 million); the international bridge in Carmelo Peralta (US\$ 34.1 million); support for access to housing (US\$ 20 million); public sector projects (US\$ 84 million); and energy projects (US\$ 234.6 million). In addition, US\$ 14.5 million will be allocated to social assistance and US\$ 254 million to support production, trade and employment.

The Inter-American Development Bank (IDB) also approved a loan portfolio of US\$ 1.59 billion for Paraguay for 2018, primarily for infrastructure projects. In 2019, the country entered into loan agreements with the World Bank (US\$ 115 million) to expand the primary health-care system, and with CAF—development bank of Latin America (US\$ 120 million) to finance the agricultural and agro-industrial sectors and related sectors (logistics, transport, road infrastructure, and investments in energy efficiency). The impact of these measures will depend on Paraguay's implementation capacity.

3. The main variables

(a) The external sector

The current account posted a surplus for the third year in a row. While in 2017 the surplus stood at around 3.1% of GDP, in 2018 it represented 0.6% of GDP. This result reflected the combination of a surplus on the goods and services account and a deficit on the income account.

Paraguay's total foreign trade (exports plus imports) was worth US\$ 26.7 billion in 2018, 7.3% more than in the previous year. Total exports stood at US\$ 13.813 billion, representing year-on-year growth of 3.1%. Recorded exports accounted for 65.4% of this total, re-exports (products imported duty-free and then re-exported mostly to Brazil) accounted for 23.5%, and the remaining 11.1% were other exports. The export commodities that saw the greatest annual increases in dollar terms were wheat, sugar and other

oilseeds and oleaginous fruits, while the sharpest falls in export value were in beef, soybean seeds and soybean oil and electricity. Despite the fall in the international price of soybean, the main export products continue to be soybean seeds, meal and oil, beef and electricity. Exports of goods produced under the maquila regime continued to increase throughout 2018 and totalled US\$ 545.8 million, a 31.4% increase on 2017. The main exports were wires and cables (autoparts), textiles and textile articles, plastics and articles thereof, leather and footwear.

At the end of 2018, goods imports totalled US\$ 12.925 billion, up sharply by 12.2% over the previous year. By category, imports for domestic consumption were up for consumer products (9.4%), intermediate goods (25.2%) and capital goods (15.7%). However, imports under the Tourism Regime declined by 4.3% for consumer goods, 10.5% for intermediate goods and 3.1% for capital goods. The largest year-on-year increases in import values were seen in mobile (cellular) phones, mineral fertilizers, maize seed, unprocessed tobacco and motor vehicles for the transport of persons. Imports of parts and accessories for automatic machines, diesel, motorcycles, tyres and printers showed the greatest declines in value.

Among the other components of the current account, the services trade balance and income balance posted deficits of US\$ 334 million and US\$ 1.180 billion, respectively, while foreign direct investment totalled US\$ 695.8 million.

During the first six months of 2019, foreign trade reached US\$ 12.037 billion, down 8.8% over the prior-year period. Total exports to May were 9.8% lower than levels registered to June of the previous year, while imports fell by 7.7%. The decrease in exports is explained by flooding that affected the country and led to a downward revision of projections for agriculture and livestock production. The decrease in import volumes can be attributed to lower domestic demand. By end-2019, the government is forecasting a current account deficit of around US\$ 173 million (0.4% of GDP).

(b) Economic activity

In 2018, Paraguay's GDP growth was lower than expected and stood at 3.7%, down from 5% in 2017. On the supply side, growth was driven by the modest performance of key sectors of the economy, such as agriculture, water and electricity. The agricultural sector ended the year with a rate of 3.4%, on the back of a significant increase in wheat production and higher production volumes of other crops such as corn, cassava, canola and yerba mate. However, this growth was tempered by weaker yields of sugar cane, rice and sunflower crops. The sector accounts for 8.5% of the country's GDP. The livestock sector shrank by 2.5% year-on-year, due primarily to a drop in cattle slaughter volumes. Electricity generation by the binational dams was affected by drought in the Paraná basin in Brazil. The services sector was among the best performers at the end of the year, with positive outturns in commercial activity (up 7.4%), hotels and restaurants (8%), household services (8%), government, financial intermediation and telecommunications. Manufacturing grew by 3.7%, driven by a robust maquila sector and, at the end of the year, by the production of pharmaceutical chemicals, dairy products, sugar, textiles and clothing.

Expenditure growth in 2018 was driven by domestic demand for the third straight year, primarily fixed capital formation (12.2%) as well as public consumption (6%) and private consumption (3.9%). The latter was driven by spending on non-durable goods (food and beverage purchases), on durable goods (appliances and motor vehicles) and on services such as health, education and recreation. Private spending was down slightly from the previous year, which may be attributed to the fall in remittances (-3%) caused primarily by lower cash inflows from Argentina and the United States, down 17% and 19%, respectively.

In 2019, growth in the Paraguayan economy is expected to remain modest, at close to 1,6%. Economic activity in the first quarter contracted by 2% year-on-year, as the agriculture sector fell by 11.9% as a result of adverse weather conditions. In addition, the electricity generation sector posted a weak performance (-12%) because of the reduced water flow of the Paraná River, while private sector construction slowed (-3.3%). Only the services sector grew, with financial intermediation, government, household, business and real estate services all contributing the 2.6% growth registered.

(c) Prices, wages and employment

The annual inflation rate was 3.2% in 2018, still within the range set by the central bank (target rate of 4% +/- 2 percentage points). The central bank projects inflation at end-2019 at around 3.9%. Inflation was low in the first half the year (2.8% year-on-year) and is expected to edge up in the coming months, mainly on the back of higher prices of imported durable goods stemming from the depreciation of the local currency.

The general index of wages and salaries recorded year-on-year growth of 6% in December 2018, led by the electricity and water (14%), transport (8.9%) financial intermediation (6.5%) and commerce (6.3%) sectors. In 2018, the National Minimum Wage Council (CONASAM) raised the legal minimum wage by 3.5%; the government has proposed a 3.8% increase for 2019. Both the general index of wages and salaries and the minimum wage exceeded inflation in 2018, pointing to a rise in real household incomes.

According to data from the Continuous Employment Survey, the average open unemployment rate stood at 6.2% in 2018, as the participation rate rose more sharply than the employment rate, especially among women. In 2018, job creation was highest in the services sectors; electricity, gas and water; transport, storage and communications; and finance, insurance and real estate. In the first half of 2019, unemployment reached 6.9% (6% for men and 8.9% for women).

Table 1
PARAGUAY: MAIN ECONOMIC INDICATORS

	2010	2011	2012	2013	2014	2015	2016	2017	2018 a/
	Annual growth rates b/								
Gross domestic product	11.1	4.2	-0.5	8.4	4.9	3.1	4.3	5.0	3.7
Per capita gross domestic product	9.7	2.8	-1.9	7.0	3.5	1.8	3.0	3.7	2.5
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	47.8	6.0	-30.8	49.2	4.1	-0.4	3.4	6.8	2.1
Mining and quarrying	12.5	0.9	-0.9	4.1	4.8	-0.2	2.7	-1.7	3.2
Manufacturing	4.9	4.0	3.1	7.7	7.0	5.2	4.6	6.2	3.7
Electricity, gas and water	-2.7	8.6	4.8	0.5	-6.2	2.3	10.3	-2.5	1.5
Construction	12.7	3.0	0.6	11.0	11.0	2.0	8.7	3.5	0.2
Wholesale and retail commerce, restaurants and hotels	11.8	-1.2	-0.6	3.1	7.3	-0.2	2.4	9.8	7.5
Transport, storage and communications	7.4	6.8	7.2	4.7	4.1	4.3	2.7	6.7	2.3
Financial institutions, insurance, real estate and business services	7.7	6.1	5.5	5.3	2.6	4.5	5.5	2.9	2.9
Community, social and personal services	5.3	3.0	6.1	2.9	4.8	6.3	0.5	2.9	6.7
Gross domestic product, by type of expenditure									
Final consumption expenditure	8.7	5.3	3.2	4.0	6.2	3.8	3.2	4.2	4.2
Government consumption	7.7	7.6	3.4	-0.2	9.9	5.4	1.5	2.1	6.0
Private consumption	8.9	4.9	3.2	4.8	5.6	3.5	3.6	4.5	3.9
Gross capital formation	34.7	3.4	-10.9	10.2	10.0	-2.9	-4.8	12.7	12.2
Exports (goods and services)	24.6	2.0	-6.6	13.1	-2.5	0.1	9.5	8.3	3.1
Imports (goods and services)	35.9	3.4	-5.9	4.5	2.9	-2.6	1.1	12.0	9.6
Investment and saving c/	Percentages of GDP								
Gross capital formation	23.8	24.6	21.3	22.3	22.5	22.1	20.2	21.2	23.3
National saving	24.0	25.2	20.4	23.9	22.4	21.7	23.7	24.3	23.7
External saving	-0.2	-0.6	0.9	-1.6	0.1	0.4	-3.5	-3.1	-0.4
Balance of payments	Millions of dollars								
Current account balance	49	200	-286	621	-51	-145	1 276	1 206	175
Goods balance	882	854	571	1 662	1 026	788	2 195	1 872	887
Exports, f.o.b.	10 474	12 639	11 654	13 605	13 105	11 104	11 984	13 396	13 813
Imports, f.o.b.	9 593	11 784	11 083	11 942	12 079	10 317	9 789	11 524	12 926
Services trade balance	-84	-181	-170	-219	-222	-244	-221	-273	-334
Income balance	-1 305	-1 187	-1 445	-1 542	-1 461	-1 361	-1 474	-1 216	-1 179
Net current transfers	557	714	759	720	606	672	775	823	801
Capital and financial balance d/	270	582	262	414	1 189	-415	-318	-329	-358
Net foreign direct investment	462	581	697	245	412	308	371	456	454
Other capital movements	-192	1	-435	169	777	-723	-689	-785	-812
Overall balance	319	782	-24	1 036	1 138	-560	957	877	-183
Variation in reserve assets e/	-319	-784	25	-1 036	-1 131	560	-957	-877	183
Other financing	0	2	0	0	-7	0	0	0	0
Other external-sector indicators									
Real effective exchange rate (index: 2005=100) f/	80.0	71.7	73.0	68.3	66.0	67.1	69.7	71.8	67.3
Terms of trade for goods (index: 2010=100) g/	100.0	102.4	103.4	102.8	103.3	95.5	94.6	91.5	91.2
Net resource transfer (millions of dollars)	-1 036	-603	-1 184	-1 127	-279	-1 775	-1 792	-1 545	-1 538
Total gross external debt (millions of dollars)	3 713	3 970	4 563	4 780	5 839	6 197	6 540	7 585	8 288
Employment h/	Average annual rates								
Labour force participation rate i/	60.5	60.7	64.3	62.6	61.6	62.1	62.6	71.0	71.9
Open unemployment rate j/	7.4	6.9	7.9	7.7	7.8	6.5	7.7	6.9	7.1
Visible underemployment rate j/	8.2	7.2	6.1	5.3	4.7	4.8	4.6	4.0	4.0

Table 1 (concluded)

	2010	2011	2012	2013	2014	2015	2016	2017	2018
Prices	Annual percentages								
Variation in consumer prices (December-December)	7.2	4.9	4.0	3.7	4.2	3.1	3.9	4.5	3.2
Variation in nominal exchange rate (annual average)	-4.4	-11.7	5.4	-2.6	3.6	16.6	9.0	-0.9	1.9
Variation in average real wage	0.6	2.8	0.7	2.2	1.2	0.4	0.6	0.3	1.8
Nominal deposit rate k/	2.0	4.2	5.5	9.2	6.2	7.4	6.7	6.4	6.6
Nominal lending rate l/	12.5	16.9	16.6	16.6	15.7	14.4	15.6	14.3	12.9
Central government	Percentages of GDP								
Total revenue	12.6	13.4	14.0	12.9	13.7	14.1	13.9	14.2	13.9
Tax revenue	9.7	10.3	10.6	9.8	11.0	10.7	10.5	11.0	10.8
Total expenditure	11.6	12.7	15.2	14.1	14.6	15.5	15.0	15.3	15.1
Current expenditure	9.2	9.9	11.8	11.3	11.8	12.4	11.7	11.7	12.1
Interest	0.3	0.2	0.2	0.2	0.3	0.5	0.6	0.6	0.7
Capital expenditure	2.4	2.8	3.4	2.8	2.8	3.1	3.2	3.6	3.0
Primary balance	1.2	0.9	-1.1	-1.0	-0.6	-0.9	-0.5	-0.5	-0.6
Overall balance	1.0	0.7	-1.2	-1.3	-0.9	-1.3	-1.1	-1.1	-1.3
Central government public debt	9.1	6.9	9.5	9.7	12.1	13.3	15.1	15.7	16.7
Domestic	1.8	1.2	3.8	3.6	3.8	3.4	3.2	3.0	2.7
External	7.3	5.7	5.7	6.1	8.3	9.9	12.0	12.7	14.0
Money and credit	Percentages of GDP, end-of-year stocks								
Domestic credit	15.9	18.0	21.9	22.0	23.6	28.7	25.2	24.2	26.5
To the public sector	-5.2	-6.0	-4.1	-6.4	-7.8	-7.4	-8.0	-8.3	-8.3
To the private sector	21.5	24.5	26.5	29.0	32.6	37.5	34.8	34.2	36.9
Monetary base	8.0	8.2	9.2	7.9	8.1	8.0	7.8	8.4	8.4
Money (M1)	11.2	11.4	12.0	12.2	12.4	12.3	12.1	13.2	12.9
M2	16.3	17.5	18.9	19.6	19.6	19.8	19.7	21.4	21.2
Foreign-currency deposits	10.3	10.1	10.8	12.3	14.1	17.3	16.1	15.1	14.9

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

a/ Preliminary figures.

b/ Based on figures in local currency at constant 2014 prices.

c/ Based on values calculated in national currency and expressed in current dollars.

d/ Includes errors and omissions.

e/ A minus sign (-) indicates an increase in reserve assets.

f/ Annual average, weighted by the value of goods exports and imports.

g/ Economic Development Division, calculations for Economic Survey of Latin America and the Caribbean, 2019.

h/ New measurements have been used since 2017; the data are not comparable with the previous series.

i/ Nationwide total.

j/ Asuncion and urban areas of Central Department.

k/ Weighted average of effective interest rates on time deposits.

l/ Commercial lending rate, local currency.

Table 2
PARAGUAY: MAIN QUARTERLY INDICATORS

	2017				2018				2019	
	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2 a/
Gross domestic product (variation from same quarter of preceding year) b/	7.8	2.4	4.6	5.0	5.4	6.6	1.4	1.2	-2.7	...
Gross international reserves (millions of dollars)	7 353	7 909	8 060	8 046	8 370	8 635	8 195	7 896	8 236	8 074 c/
Real effective exchange rate (index: 2005=100) d/	71.7	71.1	72.2	72.1	70.7	67.5	64.9	66.1	68.3	69.4 c/
Consumer prices (12-month percentage variation)	2.8	2.9	4.2	4.5	4.1	4.4	4.0	3.2	2.8	3.8 c/
Average nominal exchange rate (guaraníes per dollar)	5 667	5 579	5 602	5 642	5 578	5 619	5 785	5 939	6 070	6 261 c/
Nominal interest rates (average annualized percentages)										
Deposit rate e/	6.2	6.7	6.7	6.5	6.4	6.0	7.0	6.8	7.4	7.8 c/
Lending rate f/	15.7	14.8	14.8	13.1	13.7	13.2	12.9	12.8	12.4	13.5 c/
Interbank rate	...	...	...	...	4.9	5.1	...	...	...	... c/
Monetary policy rates	5.5	5.5	5.5	5.3	5.3	5.3	5.3	5.3	5.0	4.8 c/
International bond issues (millions of dollars)	500	-	-	-	530	-	-	-	800	732
Domestic credit (variation from same quarter of preceding year)	-4.7	-2.2	0.6	1.9	5.8	11.0	15.0	16.9	15.1	18.6 c/

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

a/ Preliminary figures.

b/ Based on figures in local currency at constant 1994 prices. Review of data with base 2014 in progress.

c/ Figures as of May.

d/ Quarterly average, weighted by the value of goods exports and imports.

e/ Weighted average of effective interest rates on time deposits.

f/ Commercial lending rate, local currency.