Paraguay

In 2019, the Paraguayan economy was hampered by bad weather and by the adverse situation of its main trading partners. Growth forecasts for the year have been downgraded substantially to around 0.2%. In the first quarter, the country firstly suffered droughts that undermined agricultural production and electric power generation; then this was followed by heavy rains that caused flooding and displacement, affecting livestock production and the construction sector. These effects have spread indirectly to other economic sectors (manufacturing, trade and transport). Tourism and border trade were also affected by devaluations in Argentina and Brazil. To analyse economic policy alternatives to alleviate the effects of such events, in 2019 the government formed an economic team that prioritized reactivation through public investment. This initiative was supported by an expansionary monetary policy and exchange-rate control. The higher public expenditure and lower revenue intake is expected to produce an overall deficit exceeding that specified by the Fiscal Responsibility Law for the current year; and the current account balance is likely to post a small deficit. For 2020, ECLAC estimates GDP growth at around 3%.

The year-end fiscal deficit for 2018 came in at 1.2% of GDP, in line with the 1.5% limit set by the Fiscal Responsibility Law. In 2019, the slowdown in economic activity was reflected in a lower rate of revenue growth, while total mandatory expenditure grew as a result of increases in interest payments on the debt, the use of goods and services, social benefits and employee remuneration. In addition, investment, proxied by the net acquisition of non-financial assets, increased by 43.5%, in line with the expansionary fiscal policy deployed to compensate for the economic slowdown. In May 2019, the draft law for modernization and simplification of the national tax system was put forward, which involves a broadening of the tax base and rate hikes. The expected effects on revenue, although moderate, will only start to materialize in 2021. The fiscal deficit has been partly financed through bond issuance. The seventh issue of US$ 500 million in sovereign bonds occurred in 2019, and the year ended with a public debt representing 22.1% of GDP. The budget for 2020 envisages a new sovereign bond issue for the same amount.

Paraguay has been operating under an inflation-targeting regime since 2011. The target has been set at 4.0% since early 2017, with a tolerance range of ± 2 percentage points. In October, average year-on-year inflation amounted to 2.4%, close to the floor of the target range. This reflects a reduction in the price of some foods (beef, poultry, pork, fruit and vegetable production) and hydrocarbon products, and a moderate increase in the prices of non-tradables (housing, vehicle maintenance, mobile phone services) and durable goods, owing to the depreciation of the local currency. In the first ten months of the year, the guarani depreciated by almost 6.6% against the dollar. In a context of controlled inflation and sluggish economic activity, it was decided to adopt an expansionary monetary policy, by cutting the benchmark rate by 25 basis points on five occasions (in February, March, July, August and September). As a result,
During the first and second quarters of the year, Paraguay’s economic activity remained weak, posting contractions of 2.1% and 3.0%, respectively. On the supply side, this result was explained by reduced output in sectors that make a large contribution to GDP (crop farming, livestock activity and electric power generation). Lower agricultural output resulted from lower levels of soybean production in the 2018/2019 season, which had to contend with droughts during the sowing period. Soybeans, which represent almost 25% of the agricultural products exported in normal periods, also suffered from lower international prices. The decline in soybean output was partially offset by larger harvests of rice, maize, cassava, sesame and beans. The fall in the livestock sector was the result of a decline in cattle slaughter volumes, difficulties arising from floods, fires and increased competition in export markets. The central bank took steps to refinance the livestock sector’s debts in order to shore it up. Other institutions, such as the National Development Bank (BNF) and the Inter-American Development Bank (IDB), also extended loans to producers. For its part, the electricity and water sector suffered from the reduced flow of the Paraná River, which feeds the binational dams. These effects fed through to other economic sectors, such as manufacturing (with downturns in the production of beverages, tobacco and oils), commerce and transport. Activity in the construction sector was subdued as well, hampered by excessive rainfall from April onwards, which also affected the production of metallic products and non-metallic minerals. The only sector to post positive growth was services, based on strong performances by government services, and by household, financial intermediation, telecommunications and real estate services. From an expenditure standpoint, low GDP growth has been associated with falls in gross capital formation and net exports. A slight upturn in economic activity is expected for the second half of the year. Paraguay’s Monthly Economic Activity Indicator (IMAEP), which is used to proxy output, rose by 2.7% in the third quarter. In this context, ECLAC forecasts GDP growth of 0.2% for 2019.

The labour market was affected by the weaker economic activity in 2019. According to the new Continuous Permanent Household Survey (EPHC), unemployment averaged 6.9% for the first three quarters of the year, while the rate of underemployment reached 13.9%, compared to 6.4% and 11.5%,
respectively, in the year-earlier period. This deterioration occurred in the context of a higher participation rate and a zero-growth in employment. On the other hand, the central bank’s wage and salary index recorded a year-on-year rise of 4.2% as of June 2019, and the minimum wage increased by 3.8% from mid-year onwards.

For 2020, ECLAC expects a moderate economic recovery of close to 3%, founded on improvements in agricultural activity, increased public works execution and the normalization of energy production. In order to consolidate its growth, however, the country remains hostage to external factors such as the weather, fluctuations in commodity prices and the economic situation of its main trading partners.