

## PARAGUAY

### 1. General trends

After growing at an average annual rate of 4.1% during the period 2013–2018, the Paraguayan economy stagnated in 2019 (0.0%), as a result of both adverse weather events and the economic situation of its main trading partners, Argentina and Brazil. Although signs of recovery began to be detected in the second half of 2019, the impact of measures aimed at controlling the pandemic has reduced growth expectations for 2020: the economy is expected to contract by 2.5%.

As a result of the evolution of aggregate demand, as well as a relatively favourable international price environment, average annual inflation trended downward throughout 2019, ending the year at 2.8% (compared to 4.0% in December 2018). By June 2020, cumulative inflation since December 2019 was -0.8% (compared to 1.6% in June 2018).

By the end of 2019, the central government's fiscal deficit was equivalent to 2.8% of GDP, compared to 1.3% in 2018. This increase was the result of a significant increase in capital expenditure caused by efforts to revive the economy. The combination of the collapse in government revenues and the jump in spending that occurred as a result of the health crisis has resulted in a significant widening of the fiscal deficit, which, for the period from January to June 2020, was more than three times higher than it was in the same period in 2019, reaching 5.9 trillion guaraníes (2.5% of GDP). As a result, the total public debt balance reached 30.7% of GDP by the end of June 2020, an increase of almost 8 percentage points of GDP, compared to the balance at the end of 2019.

In 2019, the current account deficit balance was equivalent to 1.0% of GDP. The increase in the deficit from 0.2% of GDP in 2018 is due to a drop in exports, which were affected by the drought and subsequent floods that occurred earlier in 2019. There has been a sharp decline in exports from April 2020 onwards, which has been only partially offset by the contraction in imports.

### 2. Economic policy

#### (a) Fiscal policy

In 2019, in response to the deteriorating economic outlook, the Government of Paraguay adopted an expansionary fiscal policy stance that led to an increase equivalent to 1.4% of GDP in the central government primary deficit, pushing it up to 2.0% of GDP. This was mainly due to the acquisition of non-financial assets, which rose from 4.7 trillion to 7.1 trillion guaraníes between 2018 and 2019, equivalent to a real growth rate of 47.1%. Meanwhile, current expenditure rose by 0.7 percentage points to 14% of GDP, driven by 5.0% real growth in personal services and, to a lesser extent, by a 5.9% real increase in social benefits.

Although the increase in the deficit exceeded the limit established in the Fiscal Responsibility Act (1.5% of GDP), it was authorized, temporarily, by Congress to mitigate the economic contraction.

During the same period, total revenues grew by just 0.6% in real terms and remained equivalent to 14.1% of GDP. The fluctuations in revenue are the result of the balance between the 4.1% increase in non-

tax revenues and the 0.8% real contraction in tax revenues to 9.9% of GDP, which was driven by the drop in revenue collected through VAT (-3.7%), selective goods tax (-7.8%) and foreign trade taxes (-6.5%).

By the end of 2019, the balance of total public debt was US\$ 8.859 billion (22.9% of GDP), which is an increase of nearly US\$ 800 million compared to 2018, of which US\$ 500 million corresponds to a sovereign bond placement and US\$ 250 million to net loans from multilateral banks.

To tackle the epidemic, at the end of March and in the framework of the Health Emergency Act, Congress authorized a series of measures involving additional spending equivalent to 2.5% of GDP. This spending will be concentrated in the health sector (1.3% of GDP) and used to strengthen measures to protect vulnerable populations (1.1% of GDP) and, to a lesser extent, set up a fund to support micro- and small enterprises.

Budget execution figures indicate that, in the first half of 2020, revenues contracted by 14.4% in real terms compared to the same period in 2019, while total expenditures, driven by an uptick in social benefit spending, saw a real increase of 7.5%. The fiscal deficit is expected to widen to 4% of GDP in 2020 and, to finance it, Congress approved additional borrowing of up to US\$ 1.6 billion (4% of GDP).

To date, the government has received a US\$ 274 million loan from the International Monetary Fund (IMF) and issued US\$ 1 billion of 10-year sovereign bonds with a yield of 4.95% (the latter in April 2020). This is in addition to the US\$ 300 million loan received in mid-March from the World Bank and the sale, as part of the regular financing strategy, of US\$ 450 million of 30-year sovereign bonds in January, with a yield of 4.45%.

## **(b) Monetary policy**

Under the inflation-targeting regime that the Central Bank of Paraguay has been applying since 2011, it has maintained an expansionary monetary policy in a context where inflation has remained close to the lower limit of the 2-percentage-point buffer on either side of the 4% target. Starting in February 2019 and over the course of the year, the monetary policy benchmark rate was reduced from 5.25%, the rate since August 2017, to 4% by the end of 2019.

The cut in the benchmark rate affected the weighted average of the nominal lending and deposit rates during the second half of 2019: the former fell from 15.7% in June 2019 to 14.8% in December of that year, and the latter from 4.9% to 4.5% over the same period. Meanwhile, growth of the M2 monetary aggregate decelerated slightly from 6.6% in 2018 to 6.3% in 2019, while nominal credit portfolio growth slowed from 15.2% to 11.0%.

Since mid-March 2020, the Central Bank of Paraguay has drastically reduced the monetary policy benchmark rate to 0.75% by the end of June and has also cut the discount window rate by 200 basis points to 2.5%. In addition, legal reserve requirements were reduced, nearly US\$ 1 billion was released for new loans and a special credit facility was created, which aims to channel up to US\$ 760 million to micro- and small enterprises through the financial system. Nevertheless, the loan portfolio grew by just 1.2% in nominal terms between December 2019 and June 2020.

In addition to the aforementioned measures, a special guarantee fund with resources of approximately US\$ 500 million has been set up to support micro-, small and medium-sized enterprises, and various Development Finance Agency programmes launched to refinance home loans and provide working capital loans to small and medium-sized enterprises.

**(c) Exchange-rate policy**

Under the inflation-targeting regime, the nominal exchange rate of the guaraní fluctuates freely. The central bank intervenes in the foreign exchange market to smooth out volatility. Until mid-2019, the nominal exchange rate index showed a tendency to appreciate as a result of the depreciation of the Argentine peso and the Brazilian real. However, as the real stabilized and the guaraní depreciated further against the dollar, the nominal exchange rate index closed 2019 with an average annual depreciation of 9.0%. That rate fell to 8.6% in April 2020 as a result of the successful sovereign bond issuance and access to credit through the IMF Rapid Financing Facility.

Although the average balance of the net international reserves fell by 3.8% in nominal terms during 2019, they remained at levels similar to those seen in 2018, when expressed both as a proportion of GDP (19.7%) and in terms of the number of months of imports that they can cover (7.5).

**(d) Other policies**

The first confirmed case of coronavirus disease (COVID-19) in Paraguay was recorded in early March 2020. As at 19 June, 1,362 cases and 13 deaths have been reported. Since mid-March, the government has implemented a series of measures to limit the transmission of the disease; for example, the partial closure of borders, movement restrictions, school closures, the prohibition of mass events and imposition of a curfew.

Strict quarantine measures were imposed throughout the country starting on 20 March, which began to be relaxed with the adoption of the so-called smart quarantine on 25 May, under which a gradual return to different activities is foreseen. As at 15 June, most of the country entered phase 3 of the smart quarantine, according to which, in addition to the activities permitted under phases 1 and 2, shops on the border, outdoor gyms and restaurants can reopen and higher education institutions can resume some activities. Under phase 1, manufacturing and passenger transport firms resumed activities, and home services and deliveries, and some elective medical procedures were permitted, while phase 2 consisted of reopening the film industry, beauty salons, religious institutions, corporate offices and shops, and permitting professional sports events without spectators.

Until further notice, people must wear masks in public spaces, have their temperature taken at the entrance to buildings and shops, and wash their hands regularly. Face-to-face classes are suspended for the rest of the school year until December 2020.

**3. The main variables****(a) The external sector**

The widening of the current account deficit is mainly the result of the fall in the value of goods exports. The largest decreases were recorded in the production of grains (-28.5%) soybean flour (-27%) and generation of electric power (-10.6%), sectors that were affected by the drought during the 2018/19 sowing period. In addition, the floods that occurred during the second half of 2019 affected meat exports, which fell by 7.3%.

This was only partially offset by the 5.5% drop in the value of goods imports, as the effects began to be felt of sluggish domestic demand on imports of consumer goods (-10.1%) and of lower international fuel prices on imports of intermediate goods (-10.6%).

The income balance (-3.4% of GDP) and the transfer balance (2% of GDP) remained at levels similar to those of 2018. The current account deficit was financed by foreign direct investment (1.2% of GDP) and portfolio investment (1.3% of GDP).

By June 2020, the value of the accumulated surplus on the balance of goods had fallen by 33.2% to US\$ 504.7 million. This mainly reflects the collapse of external demand from Argentina and Brazil.

By the end of 2019, the external public debt balance stood at US\$ 7.239 billion, equivalent to 18.6% of GDP and 81.7% of total public debt. The increase over 2018 was mainly driven by the US\$ 500 million sovereign bond issuance. Paraguay has issued two lots of sovereign bonds in 2020. As a result, the external public debt balance was US\$ 9.339 billion by the end of June, equivalent to 26.3% of GDP.

### **(b) Economic activity**

Economic activity stagnated during 2019 as a result of the drought that occurred at the beginning of the year, which affected soybean planting and electricity generation. The effect on soybean production led to a 3.6% contraction in the primary sector as a whole. The decline in the energy and water sector (-11.2%) was compounded by a 1% drop in manufacturing, which was affected by lower external demand. This was only partially offset by the economic activation plan implemented by the government, which boosted the performance of the construction sector (1.1%) and government services (5.1%).

From the demand side, the sluggish pace of economic activity stemmed from a significant slowdown in the growth rate of private consumption (from 4.3% in 2018 to 1.3% in 2019), a 6.6% contraction in gross fixed capital formation (compared with 6.9% growth in 2018) and, to a lesser extent, a 2.9% fall in exports of goods and services, which was partially offset by a 0.9% reduction in imports of these.

The monthly activity indicators, which until February 2020 pointed to a recovery in economic activity, reveal a major contraction in that activity since the state of emergency was declared and quarantine measures were introduced in March. The monthly economic activity indicator for April showed a 13.9% year-on-year contraction (-16.8% if the agriculture sector and binational hydroelectric plants are excluded). According to the turnover index, the main drop was in department stores', household equipment, and vehicle and fuel sales. Conversely, the performance of the supermarket sector has managed to maintain a certain buoyancy, and telecommunications services have expanded significantly.

Taking into account the gradual reopening of the economy that began at the end of May under the smart quarantine mechanism, and assuming an eventual recovery in activity during the second half of 2020, ECLAC estimates that the Paraguayan economy will contract by 2.5%. The performance of the primary sector will counteract to some extent the magnitude of the impact of the measures to tackle the health crisis, which have mainly affected services. With regard to demand, the fall in private consumption and investment will be only partially offset by a significant increase in government consumption.

### **(c) Prices, wages and employment**

Average annual inflation, which stood at 4.0% at the end of 2018, followed a downward trend during 2019 and closed the year with an annual average of 2.8%. This mainly reflects movements in the prices of food and non-alcoholic beverages, as average annual inflation for those products dropped from 3.9% at the end of 2018 to 1.2% at the end of 2019, and, to a lesser extent, inflation in the transport sector, which fell from 7% to 5.5% over the same period. As a result of stagnant economic activity, core inflation,

which excludes food and fuel, also declined from 3.8% to 2.8%. By June 2020, cumulative inflation since December 2019 was -0.8%, while core inflation was -0.4%.

In 2019, the minimum wage index rose by 3.7% in nominal terms, which translated into real growth of 0.9%. With regard to employment, the national participation rate inched up from 72% in 2018 to 72.9% in 2019. Although the unemployment rate remained relatively constant at 5.7% at the end of 2019, when the rate is disaggregated by sex it shows women's unemployment increased by more than 1 percentage point to 7.9%. In addition, in the same period, the underemployment rate rose from 5.9% to 6.6%. As a result of the restrictions imposed by the health crisis, the Continuous Permanent Household Survey for 2020, from which employment statistics are obtained, has been conducted by telephone since the end of March.

As part of the measures implemented in the framework of the health crisis, the salaries of the highest-paid civil servants were cut. In addition, an emergency subsidy for informal workers was introduced, consisting of up to two payments of 548,000 guaraníes (approximately US\$ 80). According to official information, this subsidy will benefit some 1.5 million workers.

Table 1  
**PARAGUAY: MAIN ECONOMIC INDICATORS**

	2011	2012	2013	2014	2015	2016	2017	2018	2019 a/
	<b>Annual growth rates b/</b>								
Gross domestic product	4.2	-0.5	8.4	4.9	3.1	4.3	5.0	3.4	0.0
Per capita gross domestic product	2.8	-1.9	6.9	3.4	1.7	2.9	3.6	2.0	-1.3
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	5.5	-28.9	45.2	4.0	-0.5	3.1	6.0	1.3	-3.6
Mining and quarrying	6.5	0.7	3.2	8.6	3.5	8.6	7.0	-6.8	-3.6
Manufacturing	4.0	3.1	7.7	7.0	5.2	4.6	6.2	2.4	-1.0
Electricity, gas and water	8.6	4.8	0.5	-6.2	2.3	10.3	-2.5	1.9	-11.2
Construction	3.0	0.6	11.0	11.0	2.0	8.7	3.5	0.3	1.1
Wholesale and retail commerce, restaurants and hotels	-1.2	-0.6	3.1	7.3	-0.2	2.4	9.8	7.5	0.8
Transport, storage and communications	6.8	7.2	4.7	4.1	4.3	2.7	6.7	3.1	3.3
Financial institutions, insurance, real estate and business services	6.1	5.5	5.3	2.6	4.5	5.5	2.9	3.5	3.3
Community, social and personal services	3.0	6.1	2.9	4.8	6.3	0.5	2.9	5.3	5.7
Gross domestic product, by type of expenditure									
Final consumption expenditure	5.3	3.2	4.0	6.2	3.8	3.2	4.2	4.1	1.9
Government consumption	7.6	3.4	-0.2	9.9	5.4	1.5	2.1	3.0	5.1
Private consumption	4.9	3.2	4.8	5.6	3.5	3.6	4.5	4.3	1.3
Gross capital formation	3.4	-10.9	10.2	10.0	-2.9	-4.8	12.7	11.9	-3.0
Exports (goods and services)	2.0	-6.6	13.1	-2.5	0.1	9.5	8.3	1.8	-2.9
Imports (goods and services)	3.4	-5.9	4.5	2.9	-2.6	1.1	12.0	8.9	-0.9
Investment and saving c/	<b>Percentages of GDP</b>								
Gross capital formation	24.6	21.3	22.3	22.5	22.1	20.2	21.2	22.8	22.4
National saving	25.2	20.4	23.9	22.4	21.7	23.8	24.3	22.6	21.4
External saving	-0.6	0.9	-1.6	0.1	0.4	-3.6	-3.1	0.2	1.0
Balance of payments	<b>Millions of dollars</b>								
Current account balance	200	-286	621	-51	-145	1 305	1 214	-70	-391
Goods balance	854	571	1 662	1 026	788	2 197	1 872	813	445
Exports, f.o.b.	12 639	11 654	13 605	13 105	11 104	11 984	13 396	13 731	12 696
Imports, f.o.b.	11 784	11 083	11 942	12 079	10 317	9 787	11 524	12 917	12 251
Services trade balance	-181	-170	-219	-222	-244	-221	-273	-334	-325
Income balance	-1 187	-1 445	-1 542	-1 461	-1 361	-1 447	-1 207	-1 351	-1 306
Net current transfers	714	759	720	606	672	775	823	801	795
Capital and financial balance d/	582	262	414	1 189	-415	-348	-337	-113	336
Net foreign direct investment	581	697	245	412	308	425	526	481	480
Other capital movements	1	-435	169	777	-723	-773	-864	-594	-143
Overall balance	782	-24	1 036	1 138	-560	957	877	-183	-55
Variation in reserve assets e/	-784	25	-1 036	-1 131	560	-957	-877	183	55
Other financing	2	0	0	-7	0	0	0	0	0
Other external-sector indicators									
Real effective exchange rate (index: 2005=100) f/	71.7	73.0	68.3	65.9	66.7	69.2	71.0	67.2	68.5
Terms of trade for goods (index: 2010=100)	114.3	102.5	113.3	126.4	128.5	128.9	127.4	124.6	120.3
Net resource transfer (millions of dollars)	-603	-1 184	-1 127	-279	-1 775	-1 794	-1 545	-1 464	-970
Total gross external debt (millions of dollars)	3 970	4 563	4 780	5 839	6 197	6 677	7 738	8 581	9 492
Employment g/	<b>Average annual rates</b>								
Labour force participation rate h/	60.7	64.3	62.6	61.6	62.1	62.6	71.0	71.9	72.4
Open unemployment rate h/	5.5	4.6	5.0	6.0	5.4	6.0	6.1	6.2	6.6
Visible underemployment rate i/	6.1	5.3	4.7	4.8	4.6	4.0	5.5	5.3	6.9

Table 1 (concluded)

	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Prices</b>	<b>Annual percentages</b>								
Variation in consumer prices (December-December)	4.9	4.0	3.7	4.2	3.1	3.9	4.5	3.2	2.8
Variation in nominal exchange rate (annual average)	-11.7	5.4	-2.6	3.6	16.6	9.0	-0.9	1.9	8.9
Variation in average real wage	2.8	0.7	2.2	1.2	0.4	0.6	0.3	1.8	1.0
Nominal deposit rate j/	4.2	5.5	9.2	6.2	7.4	6.7	6.4	6.6	7.3
Nominal lending rate k/	16.9	16.6	16.6	15.7	14.4	15.6	14.3	12.9	12.7
<b>Central government</b>	<b>Percentages of GDP</b>								
Total revenue	13.4	14.0	12.9	13.7	14.1	13.9	14.2	14.1	14.1
Tax revenue	10.3	10.6	9.8	11.0	10.7	10.5	11.0	10.9	10.8
Total expenditure	12.7	15.2	14.1	14.6	15.5	15.0	15.3	15.3	16.9
Current expenditure	9.9	11.8	11.3	11.8	12.4	11.7	11.7	12.3	13.0
Interest	0.2	0.2	0.2	0.3	0.5	0.6	0.6	0.7	0.8
Capital expenditure	2.8	3.4	2.8	2.8	3.1	3.2	3.6	3.1	4.0
Primary balance	0.9	-1.1	-1.0	-0.6	-0.9	-0.5	-0.5	-0.6	-2.0
Overall balance	0.7	-1.2	-1.3	-0.9	-1.3	-1.1	-1.1	-1.3	-2.8
Central government public debt	6.9	9.5	9.7	12.1	13.3	15.1	15.7	16.9	19.6
Domestic	1.2	3.8	3.6	3.8	3.4	3.2	3.0	2.8	2.8
External	5.7	5.7	6.1	8.3	9.9	12.0	12.7	14.1	16.8
<b>Money and credit</b>	<b>Percentages of GDP, end-of-year stocks</b>								
Domestic credit	18.0	21.9	22.0	23.6	28.7	25.2	24.2	26.9	29.5
To the public sector	-6.0	-4.1	-6.4	-7.8	-7.4	-8.0	-8.3	-8.4	-8.0
To the private sector	24.5	26.5	29.0	32.6	37.5	34.8	34.2	37.4	39.9
Monetary base	8.2	9.2	7.9	8.1	8.0	7.8	8.4	8.5	8.6
Money (M1)	11.4	12.0	12.2	12.4	12.3	12.1	13.2	13.0	13.7
M2	17.5	18.9	19.6	19.6	19.8	19.7	21.4	21.5	22.4
Foreign-currency deposits	10.1	10.8	12.3	14.1	17.3	16.1	15.1	15.1	16.7

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

h/ Nationwide total.

i/ Asuncion and urban areas of Central Department.

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

k/ Commercial lending rate, local currency.

Table 2  
**PARAGUAY: MAIN QUARTERLY INDICATORS**

	2018				2019				2020	
	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/	5.1	6.7	1.2	0.5	-2.7	-3.3	2.6	3.5	3.5	...
Gross international reserves (millions of dollars)	8 370	8 635	8 195	7 882	8 222	8 015	7 812	7 789	8 175	9 293
Real effective exchange rate (index: 2005=100) c/	70.4	67.5	64.9	66.0	68.3	69.3	67.5	69.1	68.4	63.4 d/
Open unemployment rate	7.4	5.9	6.0	5.6	6.9	7.4	6.2	5.7	7.9	...
Employment rate	66.6	67.0	68.0	68.0	68.5	65.9	67.3	68.8	65.6	...
Consumer prices (12-month percentage variation)	4.1	4.4	4.0	3.2	2.8	2.8	2.6	2.8	2.5	0.5
Average nominal exchange rate (guaraníes per dollar)	5 578	5 619	5 785	5 939	6 070	6 261	6 181	6 451	6 539	6 550 d/
Nominal interest rates (average annualized percentages)										
Deposit rate e/	6.4	6.0	7.0	6.8	7.4	7.6	7.4	7.0	7.4	7.6 f/
Lending rate g/	13.7	13.2	12.9	12.8	12.4	13.5	12.5	12.6	12.2	11.7 f/
Interbank rate	4.9	5.1	...	...	...	...	...	...	...	...
Monetary policy rates	5.3	5.3	5.3	5.3	5.0	4.8	4.3	4.0	3.8	1.4
Sovereign bond spread, Embi Global (basis points to end of period) h/	218	245	214	260	222	212	237	203	429	312
International bond issues (millions of dollars)	500	-	-	-	530	-	-	-	800	1 000
Domestic credit (variation from same quarter of preceding year)	5.8	11.0	15.0	16.9	15.1	18.3	16.6	14.1	9.7	3.6 d/

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

d/ Figures as of May.

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

f/ Figures as of April.

g/ Commercial lending rate, local currency.

h/ Measured by J.P.Morgan.