

## PARAGUAY

### 1. General trends

Following two years of contractions in economic activity, the Paraguayan economy grew by 4.1% in 2021, driven by a recovery in services and manufacturing, which offset a downturn in primary activities and electricity generation. However, the Economic Commission for Latin America and the Caribbean (ECLAC) forecasts growth of just 0.2% for 2022, owing firstly to the severe drought since the end of 2021 that is estimated to have affected up to 60% of the soybean crop and secondly to external shocks —particularly the effect of the Russian Federation’s invasion of Ukraine on international food and fuel prices.

The international price shock has added to the uptrend in inflation seen since mid-2021, pushing the year-on-year rate up to 6.8% at the end of 2021. By May 2022, consumer prices had risen 11.4% year-on-year, a rate which is almost double the ceiling of the monetary policy target range. According to the central bank’s survey of economic expectations, although inflation will be around 8% at the end of 2022, it will return to the target range in 2023.

After reaching an equivalent of 6.1% of GDP in 2020, the central government deficit narrowed to 3.8% in 2021, and it is estimated that the fiscal deficit for 2022 will be around 3% of GDP.

At the end of 2021, the balance of payments current account surplus was equivalent to 0.8% of GDP. As a result of the decline in agricultural and electricity exports and rises in international food and fuel prices, the current account balance is expected to fall significantly in 2022, with a deficit of close to 3% of GDP by the end of the year.

### 2. Economic policy

#### (a) Fiscal policy

The reduction in the central government deficit in 2021 marked a sharp contractionary shift in fiscal policy stance. Fiscal impulse was weaker, mainly owing to the end of emergency programmes that were put in place in 2020 in response to the pandemic.

In 2021, total revenues grew by 8.7% in real terms, compared to a drop of 5.3% the previous year, as buoyant economic activity drove up tax revenues (10% of GDP). Total spending contracted by 3.3% in real terms, following a 13.5% expansion in 2020. The items that showed the largest falls were social benefits (31.8%) and net acquisition of non-financial assets (13.4%).

The balance of public debt at the end of 2021 was US\$ 13.631 billion, equivalent to 35.1% of GDP. The increase from 2020, equivalent to 1.3% of GDP, is the result of official loans amounting to around US\$ 670 million, the net placement of international bonds for a total of almost US\$ 500 million and close to US\$ 150 million of new debt linked to infrastructure projects implemented in partnership with the private sector.

By the end of the first quarter of 2022, the general government deficit had expanded slightly, owing to a drop in non-tax revenues, which were affected by lower electric power generation and a rise in interest payments. At the end of April 2022, the balance of public debt was US\$ 492 million higher than at the end

of 2021, as a result of placement of a ten-year sovereign bond for US\$ 500 million in January 2022, at a rate of 3.85%.

Achieving the goal of reducing the central government deficit by the end of 2022 poses significant challenges. These include the decline in non-tax revenues from electricity generation and the potential impact on spending of the various initiatives to increase wages and subsidies.

### **(b) Monetary policy**

Since August 2021, year-on-year inflation has remained above the target range (4% with a  $\pm 2$  percentage point tolerance range). To address the spike in inflation, the Central Bank of Paraguay has tightened its policy stance since mid-2021. Since August 2021, the Monetary Policy Committee has raised the benchmark rate at all of its meetings, with a cumulative rise of 650 basis points to 7.25% in May 2022. Continued inflationary pressure meant that year-on-year underlying inflation was 8.2% in April, and the consensus from the survey of expectations is a monetary policy rate of around 7.5% at the end of 2022.

Interest rates in the financial system have also followed an upward trend, albeit with some lag with respect to the policy rate. The weighted average lending rate rose from 10.91% in October 2021 to 13.91% in March 2022 in nominal terms, while the weighted average deposit rate climbed from 2.53% in July 2021 to 3.96% in March 2022, also in nominal terms.

Persistent negative deposit rates in real terms translated into nominal growth of just 0.5% in the M2 monetary aggregate in the 12-month period ending April 2022 (compared to 15.2% in the 12 months ending April 2021). In contrast, although higher lending rates contributed to the slowdown in the year-on-year growth of guaraní-denominated banking sector lending to the private sector, which slackened from 18.7% in March 2021 to 9.9% in March 2022, the recovery in foreign currency-denominated lending more than offset this. Growth in total lending picked up from 7.2% in March 2021 to 14.5% in March 2022.

The domestic banking system is largely well-capitalized and profitable, and had a non-performing loan rate of 2.5% at the end of the first quarter of 2022. However, both assets and liabilities are highly dollarized (41.3% and 47.6% of the totals, respectively).

### **(c) Exchange-rate policy**

Under the inflation-targeting regime adopted by Paraguay in 2011, the nominal exchange rate is free-floating. Over the course of 2021, average annual depreciation slowed, as measured by the nominal exchange rate index weighted according to trade volumes, and by the end of the year had reached almost zero. This mainly reflects the performance of the guaraní against reserve currencies such as the dollar and the euro, since during this period it continued to appreciate against both the Argentine peso and the Brazilian real. In the first few months of 2022, the trade volume-weighted nominal exchange rate was relatively steady. However, owing to the interest rate differentials with respect to Paraguay's trading partners, since the fourth quarter of 2021 the real exchange rate has depreciated at an annual rate of around 10%.

### **(d) Other policies**

In August 2021, Paraguay received around US\$ 275 million from the International Monetary Fund (IMF), equivalent to 0.7% of GDP, from a general allocation of special drawing rights (SDR). The resources were transferred by the central bank to the Ministry of Finance and were used to finance some of the

emergency measures in response to the pandemic. As part of the transfer, the Government of Paraguay assumed the corresponding liability as external public debt.

### 3. The main variables

#### (a) The external sector

In 2021, the narrowing of the current account surplus with respect to the 2.1% of GDP recorded in 2020 was mainly a result of buoyant domestic demand and trends in international fuel prices, which contributed to a decline in the goods balance to 2.4% of GDP (4% in 2020).

Although goods exports recovered considerably in 2021 with respect to 2020 (nominal 23.9% growth compared to nominal 6.9% in 2020), driven by international soybean prices and higher volumes of meat exports, the rebound was not enough to offset the 30.4% nominal increase in goods imports (compared to a decline of 18.1% in 2020), with rises in the value of imports of intermediate goods of 42.9% and of capital goods of 34.4%.

The income and transfer balances were both relatively steady and ended 2021 at -2.8% and 1.8% of GDP, respectively. In the case of transfers, the decline in remittances from other Latin American countries, particularly Argentina and Brazil, was offset by growth in remittances from Spain and the United States.

In 2021, inward foreign direct investment remained close to the US\$ 120 million (0.3% of GDP) recorded in 2020. This was accompanied by nearly US\$ 500 million (1.3% of GDP) in portfolio investment. As a result, the country accumulated reserve assets totalling around US\$ 600 million. At the end of 2021, net international reserves stood at US\$ 9.947 billion (25.6% of GDP), representing coverage of approximately nine months of imports.

Although higher international food prices should, on paper, drive up the value of goods exports in 2022, the severe drought in the country since late 2021 has eroded soybean and energy exports in value terms, with cumulative falls of 32.2% and 24.8%, respectively, by April 2022. Over the same period, growth in meat product exports also slowed sharply, from 44.8% to 10.1%, as a result of the economic sanctions imposed on the Russian Federation, which was the destination for 20% of Paraguay's beef exports in 2021. In addition, there was a 39.2% rise in the value of imports of intermediate goods, reflecting the rebound in international fuel prices. As a result, the current account is expected to end the year with a deficit.

#### (b) Economic activity

After contracting by just 0.8% in 2020, in 2021 the Paraguayan economy recovered strongly, expanding by 4.2%.

Following the lifting of restrictions on movement put in place in response to the pandemic, the driver of the recovery in economic activity was the services sector, and particularly commerce, restaurants and hotels, and household services, which grew by 15.2%, 19.4% and 17.8% in real terms, respectively. The secondary sector recorded real growth of 4.6%, fuelled by a recovery in manufacturing (6.6%) and continued robust growth in construction (12.8%), which benefited from the economic recovery plan's focus on infrastructure. In contrast, the primary sector contracted by 10.4%, owing to 16.5% decline in agricultural activity.

On the expenditure side, the recovery was driven by strong growth in private consumption (5.9%) and gross capital formation (26.2%). The net effect on activity was reduced by the 21.4% real increase in imports of goods and services.

The monthly economic activity indicator showed a contraction of 2.7% in the first quarter of 2022. This was a result of effect of the drought on agricultural activity and electricity generation, since if the two activities are excluded, the monthly indicator shows 5.3% growth.

Despite the sharp slowdown in economic growth forecast for 2022 (0.7%), the central bank's survey of expectations suggests GDP growth will recover to around 4% in 2023.

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

Over the first few months of 2022, inflation continued to accelerate. While the main determining factors for inflation are still food and fuel prices, the same trend was also seen in underlying inflation, which climbed from 5.8% year-on-year in December 2021 to 8.2% year-on-year in May 2022.

Owing to the deterioration in economic activity, the labour force participation rate fell from 72.9% in the first quarter of 2021 to 71.2% in the same quarter of 2022, while unemployment rose from 8.1% to 8.5% over the same period. The effect was less marked in the case of women, whose participation rate dropped 0.8 percentage points to 60% and whose unemployment rate fell 0.4 percentage points to 9.8%, resulting in a slight narrowing of the labour market inclusion gap with respect to men.

With regard to wages, the average nominal increase of 4.1% in 2021 was not enough to maintain purchasing power, as wages fell 1.4% in real terms. The only sectors with wage rises in real terms at the end of 2021 were electricity and water (0.4%) and commerce (1.8%). The sectors with the largest falls in wages in real terms were communications (6.4%), general services (3.2%) and hotels and restaurants (3.1%). In mid-June 2022, the National Minimum Wage Council requested that the executive increase the minimum wage for private sector workers by 11.4%.

Table 1  
**PARAGUAY: MAIN ECONOMIC INDICATORS**

	2013	2014	2015	2016	2017	2018	2019	2020	2021 a/
	<b>Annual growth rates b/</b>								
Gross domestic product	8.3	5.3	3.0	4.3	4.8	3.2	-0.4	-0.8	4.1
Per capita gross domestic product	6.8	3.9	1.6	2.9	3.4	1.9	-1.7	-2.0	2.8
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	43.5	7.2	-1.4	2.7	4.9	2.2	-3.4	7.4	-8.8
Mining and quarrying	3.2	8.6	3.5	8.6	7.0	-6.8	6.2	7.1	0.0
Manufacturing	7.7	7.0	5.2	4.6	6.2	2.4	-1.2	-1.2	6.7
Electricity, gas and water	0.5	-6.2	2.3	10.3	-2.5	1.9	-11.5	-2.3	386.8
Construction	11.0	11.0	2.0	8.7	3.5	0.3	2.5	10.5	-5.9
Wholesale and retail commerce, restaurants and hotels	3.5	7.9	-0.2	2.5	9.0	5.3	-0.2	-12.7	-22.1
Transport, storage and communications	4.7	4.1	4.3	2.7	6.7	3.1	2.4	3.4	29.5
Financial institutions, insurance, real estate and business services	5.3	2.6	4.5	5.5	3.3	3.7	2.8	-0.7	-22.6
Community, social and personal services	2.9	4.8	6.3	0.5	2.9	5.3	4.7	0.1	333.8
Gross domestic product, by type of expenditure									
Final consumption expenditure	3.9	6.8	2.5	3.3	4.5	4.2	2.2	-2.2	5.8
Government consumption	-0.1	10.0	5.0	1.4	2.7	3.0	4.7	5.1	5.3
Private consumption	4.6	6.2	2.0	3.7	4.8	4.4	1.8	-3.6	5.7
Gross capital formation	9.4	12.5	-4.6	-5.6	11.1	14.8	-6.7	-4.7	26.3
Exports (goods and services)	13.6	-4.3	3.2	9.2	8.5	-0.4	-3.4	-9.0	2.2
Imports (goods and services)	5.0	2.1	-3.0	0.9	12.3	8.3	-2.0	-15.2	21.4
Investment and saving c/	<b>Percentages of GDP</b>								
Gross capital formation	22.0	22.7	21.9	19.8	20.6	22.8	21.7	20.0	23.2
National saving	23.7	22.6	21.7	24.1	23.6	22.6	21.2	22.7	24.0
External saving	-1.7	0.0	0.2	-4.3	-3.0	0.2	0.5	-2.7	-0.8
Balance of payments	<b>Millions of dollars</b>								
Current account balance	650	-5	-78	1 538	1 172	-68	-178	960	311
Goods balance	1 662	1 026	788	2 197	1 872	813	451	1 459	939
Exports, f.o.b.	13 605	13 105	11 104	11 984	13 396	13 730	12 702	11 494	14 025
Imports, f.o.b.	11 942	12 079	10 317	9 787	11 524	12 917	12 251	10 035	13 086
Services trade balance	-219	-222	-244	-221	-273	-334	-325	-125	-239
Income balance	-1 513	-1 415	-1 294	-1 214	-1 250	-1 348	-1 099	-1 068	-1 085
Net current transfers	720	606	672	775	823	801	795	694	696
Capital and financial balance d/	386	1 143	-482	-581	-295	-115	123	846	10
Net foreign direct investment	432	604	378	505	336	156	225	120	122
Other capital movements	-46	539	-860	-1 085	-631	-271	-101	725	-112
Overall balance	1 036	1 138	-560	957	877	-183	-55	1 805	321
Variation in reserve assets e/	-1 036	-1 131	560	-957	-877	183	55	-1 805	-593
Other financing	0	-7	0	0	0	0	0	0	272
Other external-sector indicators									
Terms of trade for goods (index: 2010=100)	91.0	101.5	103.2	103.5	102.4	100.0	96.5	128.8	150.5
Net resource transfer (millions of dollars)	-1 127	-279	-1 775	-1 794	-1 545	-1 464	-975	-223	-803
Total gross external debt (millions of dollars)	4 780	5 839	6 197	6 677	7 738	8 591	9 802	13 675	14 503
Employment g/	<b>Average annual rates</b>								
Labour force participation rate h/	62.4	62.3	62.1	62.6	71.0	71.9	72.4	70.2	72.1
Open unemployment rate h/	5.0	6.0	5.4	6.0	6.1	6.2	6.6	7.7	7.5
Visible underemployment rate i/	4.7	4.8	4.6	4.0	5.5	5.3	7.0	7.6	6.0

Table 1 (concluded)

	2013	2014	2015	2016	2017	2018	2019	2020	2021 a/
<b>Prices</b>	<b>Annual percentages</b>								
Variation in consumer prices (December-December)	3.7	4.2	3.1	3.9	4.5	3.2	2.8	2.2	6.8
Variation in nominal exchange rate (annual average)	-2.6	3.6	16.6	9.0	-0.9	1.9	8.9	8.5	...
Variation in average real wage	2.2	1.2	0.4	0.6	0.3	1.8	1.5	-0.8	-2.9
Nominal deposit rate j/	9.2	6.2	7.4	6.7	6.4	6.6	7.3	7.2	6.7
Nominal lending rate k/	16.6	15.7	14.4	15.6	14.3	12.9	12.7	10.7	9.8
<b>Central government</b>	<b>Percentages of GDP</b>								
Total revenue	12.9	13.7	14.1	13.9	14.2	14.1	14.2	13.5	14.0
Tax revenue	9.9	11.0	10.7	10.5	11.0	11.0	10.9	10.5	11.1
Total expenditure	14.2	14.6	15.4	15.0	15.3	15.4	17.0	19.7	17.8
Current expenditure	11.3	11.8	12.4	11.7	11.7	12.3	13.0	15.3	13.8
Interest	0.3	0.3	0.5	0.6	0.6	0.7	0.8	1.1	1.1
Capital expenditure	2.8	2.8	3.1	3.2	3.6	3.1	4.0	4.4	3.9
Primary balance	-1.0	-0.6	-0.9	-0.5	-0.5	-0.6	-2.0	-5.1	-2.6
Overall balance	-1.3	-0.8	-1.3	-1.1	-1.1	-1.3	-2.8	-6.1	-3.7
<b>Central government public debt</b>	9.7	12.1	13.3	15.1	15.7	16.9	19.6	29.7	30.1
Domestic	3.6	3.8	3.4	3.2	3.0	2.8	2.8	3.2	2.4
External	6.1	8.3	9.9	12.0	12.7	14.1	16.8	26.5	27.7
<b>Money and credit</b>	<b>Percentages of GDP, end-of-year stocks</b>								
Domestic credit	22.0	23.6	28.6	25.1	24.2	27.0	29.7	30.5	33.0
To the public sector	-6.4	-7.8	-7.4	-8.0	-8.3	-8.5	-8.1	-9.6	-7.8
To the private sector	29.1	32.5	37.5	34.8	34.2	37.6	40.1	42.8	43.0
Monetary base	7.9	8.1	8.0	7.8	8.4	8.5	8.6	9.1	9.2
Money (M1)	12.2	12.3	12.2	12.1	13.2	13.1	13.7	16.5	15.9
M2	19.6	19.5	19.8	19.7	21.4	21.6	22.5	26.6	25.4
Foreign-currency deposits	12.4	14.1	17.3	16.1	15.1	15.2	16.8	20.0	19.7

**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.