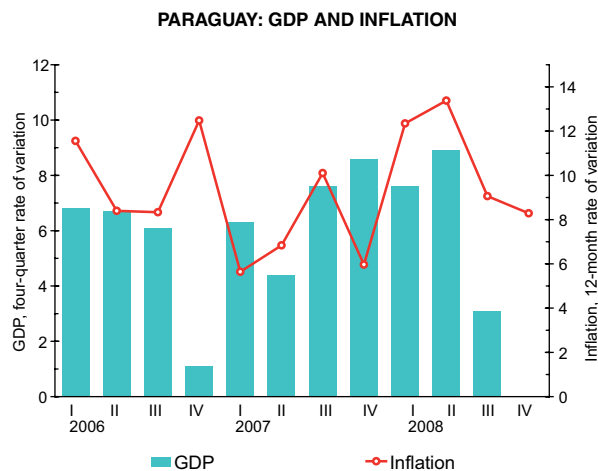


## Paraguay

The Paraguayan economy expanded by about 5% in 2008, its sixth consecutive year of growth. This performance was driven mainly by brisk growth in domestic demand, marked by substantial upturns in gross fixed capital formation and private consumption. The best-performing sectors were construction, agriculture and livestock. A slight fiscal surplus and a positive primary balance of around 1.2% of GDP are expected for the end of the year. The cumulative rise in consumer prices to November stood at 6.9%, so the final inflation rate should fall within the target range (5%, with a margin of 2.5% on either side) although closer to the upper limit. The current account deficit is expected to close the year at US\$ 335.2 million, equivalent to 2.1% of GDP. The presidential election in April was won by Fernando Lugo, the candidate of the Alianza Patriótica para el Cambio (Patriotic Alliance for Change), resulting in a new government after 61 years with the Colorado Party in power. The expansion of economic activity is projected to slow in 2009, with an estimated growth rate of 2%.

A positive primary balance of around 1.2% of GDP is expected for the end of 2008, with a small fiscal surplus equivalent to 0.5% of GDP, this being the fifth consecutive year of balanced fiscal accounts. The standby agreement signed in 2006 with the International Monetary Fund (IMF) expired in August. The latest IMF assessment indicated that all fiscal goals would be met. The cumulative surplus to September reached 2.03 trillion guaraníes, while cumulative revenue over the same period rose to 9.4 trillion guaraníes, 70% of which was from tax receipts. The largest component of tax revenue is value added tax (VAT), followed by taxes on income and foreign trade. Personal income tax, due to be introduced in January 2009, is expected to boost revenue and increase the tax burden, which is comparatively low (estimated at 12.1% for 2008). The largest component of government expenditure was staffing costs, which made up 49.1% of the total to September. Sound fiscal performance was reflected in a lessening of public-sector debt, which was down 2.8% by late October 2008. The external public financial debt recorded in the Debt Management and Financial Analysis System (DMFAS) dropped by 3.4% during the same period.

After holding the interest on monetary regulation instruments unchanged for four months, the central bank raised benchmark rates in March. In June, it began to auction the instruments and the legal reserve requirement



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

in national currency was raised. There was a slowdown in the growth of monetary aggregates from the second quarter onward, while the process of “guaranization” continued: in September 2008 the ratio of local- to foreign-currency deposits was 1.42, compared with 1.12 in September 2007. The effect was even more pronounced in the area of lending, where the same ratio reached 1.55 in September 2008 as against 1.16 in September 2007. In October, in reaction to the financial crisis in the international markets and the sharp devaluation of the guaraní, much of this process was reversed and the ratios were then 1.15 for deposits and 1.4 for loans. On 9 October the central bank loosened its monetary policy, reducing the legal reserve requirements for deposits in local and foreign currency, lowering by one percentage point the yield curve of the benchmark interest rate for the sale of monetary regulation instruments and establishing a credit line for local financial entities in the form of a facility for short-term liquidity through the repurchase of monetary regulation instruments (FLIR). On 14 November the central bank lowered the benchmark interest rate for the instruments by a further percentage point and created a facility for their early payment for up to 50 billion guaraníes per entity.

To July, the guaraní recorded a year-on-year real appreciation against the dollar of 27.95%. In order to soften the appreciation, the central bank intervened vigorously in the currency market; in late July, cumulative net purchases of dollars reached US\$ 459.7 million, causing an increase in international reserves to US\$ 3.187 billion or 21.1% of GDP. With respect to the country’s main trading partners, the real effective exchange rate index dropped by 19.76% during the same period. From August onward the dollar strengthened, forcing the central bank to sell foreign exchange in order to stabilize the exchange rate. From August to October US\$ 389 million were sold and the guaraní depreciated sharply against the dollar. Between August and November the guaraní fell heavily against the dollar, by 21.6% in nominal terms. The level of international reserves fell to US\$ 2.737 billion by the end of October.

The economy continued to expand in 2008. From January to September, GDP increased by 6.5% compared to the same period in 2007. Total growth for 2008 is estimated to reach 5%. Domestic demand was particularly influenced by gross fixed capital formation, which rose by 20.9% between January and September in relation to the same period in 2007, driven by dynamic growth in construction (in housing, and work on the binational Yacyreta hydroelectric dam project) and the machinery and equipment sector. As for production, the performance of the livestock, forestry and fishing sector was driven by increases in external demand and prices, and agriculture

## PARAGUAY: MAIN ECONOMIC INDICATORS

	2006	2007	2008 <sup>a</sup>
<b>Annual growth rates</b>			
Gross domestic product	4.3	6.8	5.0
Per capita gross domestic product	2.4	4.9	3.0
Consumer prices	12.5	6.0	8.3 <sup>b</sup>
Average real wage	0.6	2.4	-0.8 <sup>c</sup>
Money (M1)	10.8	46.1	18.3 <sup>d</sup>
Real effective exchange rate <sup>e</sup>	-10.4	-10.4	-13.5 <sup>f</sup>
Terms of trade	-1.9	4.8	4.7
<b>Annual average percentages</b>			
Urban unemployment rate	8.9	7.2	...
Central administration overall balance / GDP	0.5	1.0	0.5
Nominal deposit rate	9.8	5.9	5.8 <sup>g</sup>
Nominal lending rate	16.6	14.6	13.6 <sup>h</sup>
<b>Millions of dollars</b>			
Exports of goods and services	5 154	6 324	8 830
Imports of goods and services	5 406	6 486	9 421
Current account	120	45	-335
Capital and financial account	263	678	527
Overall balance	383	723	192

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

<sup>a</sup> Preliminary estimates.

<sup>b</sup> Twelve-month variation to November 2008.

<sup>c</sup> Figure for June.

<sup>d</sup> Twelve-month variation to October 2008.

<sup>e</sup> A negative rate indicates an appreciation of the currency in real terms.

<sup>f</sup> Year-on-year average variation, January to October.

<sup>g</sup> Average from January to September, annualized.

<sup>h</sup> Average from January to October, annualized.

benefited from increased production as well as rising food prices on international markets during the first semester. The manufacturing and mining sectors saw strong growth in machinery and equipment, mineral production (cement), meat production and paper and printing. Commerce and services increased by 5.4% between January and September, thanks to the good performance of transport and the financial services. Data are still not available for employment rates in 2008, so it is not yet known whether the economic growth has led to job creation.

Inflation measured as the year-on-year variation of the consumer price index (CPI) rose from 8.8% in January to 13.4% in July. Inflation began to fall in August, and in November the year-on-year variation stood at 8.3%. In the same month core inflation (which excludes fruit and vegetables) recorded a year-on-year rate of 8%, as did core X1 (which also excludes regulated services and fuels). Variations in prices for foods, raw materials and fuels have had a significant impact on CPI. There was a 12.9% increase in the index for wages and salaries during the first semester over the same period in 2007. The minimum wage, however, remained unchanged between October 2007 and 2008.

Rising international prices for commodities, and especially for agricultural goods, had a considerable impact on foreign trade. In October, the value of recorded exports was up by a year-on-year figure of 74.1%; particularly dynamic were soybean, vegetable oils, meat and flour, which were up 86.5%, 178.7%, 186.2% and 88.3%,

respectively. Imports increased by 62.7%, principally among intermediate goods (fuels) and capital goods. As of October, the trade deficit stood at US\$ 3.381 billion, 51.2% higher than the previous year. The current account is expected to post a deficit of US\$ 335.2 million, the first negative result since 2001.