

PARAGUAY

1. General trends

In 2017, Paraguay's GDP grew by 4.8%, surpassing both the previous year's 4.3% and the average for the region. On the supply side, this expansion was founded on agriculture, which grew by 4% during the year; manufacturing (8.4%) and commerce (12%). On the expenditure side, growth continues to be driven by private consumption and investment. These figures come from the new national accounts data following a change in the base year from 1994 to 2014. On the fiscal front, Paraguay ended 2017 with a deficit of around 1.1% of GDP, similar to the previous year's figure. Although revenue was up, expenditures were also higher because of increased outlays on social benefits and debt interest. In this connection, the country continues to draw on external financing. In 2017 and 2018, it made sovereign bond issues of US\$ 500 million and US\$ 530 million, respectively, which raised the external debt to 14.2% of GDP. Monetary policy was mildly expansionary during 2017, with a 0.25 percentage point cut in the monetary-policy interest rate in August. Annual inflation came in at 4.5%, within the central bank's target range. As for the external sector, the current account deficit represented 0.8% of GDP, caused mainly by a sustained increase in imports.

In 2018, growth is expected to be positive, close to 4.4%, based in particular on the primary sector and on power generation, and supported by strong performances in commerce and manufacturing. The current account is expected to remain in deficit, at around 1.0% of GDP; and inflation will be close to 3.7%.

2. Economic policy

(a) Fiscal policy

In 2017, the central government deficit was similar to the previous year's shortfall, around 1.1% of GDP, which was below the ceiling specified by the Fiscal Responsibility Law in 2015 (1.5%). This was the seventh consecutive year with an overall deficit.

Total income trended upwards, increasing by 9.2% in 2017, especially as a result of higher tax receipts, although customs revenues also contributed to this result. The tax burden, measured as tax revenue relative to GDP, edged up from 9.5% in 2016 to 9.9% in 2017, maintaining the moderately rising trend that began in 2007, when the ratio was around 7.8%. The country's tax revenues continue to depend on indirect taxes such as value-added tax (VAT), which generates 50% of the total. Although in Paraguay this tax is charged at a standard rate of 10%, and there are differentiated rates of 5% for products in the basic shopping basket, medicines, real estate and agricultural products, and even full exemptions, VAT is still the tax that raises the most revenue. The weak redistributive impact of the tax system reflects the scant contribution of taxes on corporate profits and personal income. The three forms of income tax, in revenue order, are: the tax on income from commercial, industrial and service activities (IRACIS), income tax on agricultural activities (IRAGRO) and personal income tax (IRP). Nonetheless, these taxes have been implemented quite recently, have numerous deductibility rules and lack adequate oversight capacity, so their collection rates are still low. Another feature of Paraguay's fiscal sector is the large contribution made by the Yacyretá and Itaipú hydroelectric plants, the first shared with Argentina and the second with Brazil. These joint ventures raised non-tax income by nearly 4% in 2017.

Public spending grew by 7.8% in 2017 relative to the previous year's level, fuelled by an increase in social benefits, mainly in the *Adulto Mayor* (Older Adult) and *Tekopora* programmes, and by interest payments on the debt. Wage increases were also agreed for certain categories of public-sector worker (teachers, police and the military), the consequences of which will be felt particularly in 2018. Capital or investment expenses, proxied by the net acquisition of non-financial assets, grew by 18.8% year-on-year to US\$ 950 million. Information from the Ministry of Finance shows that 72% of these expenses are executed through the Ministry of Public Works and Communications (MOPC); and they are financed with sovereign bonds, through the National Public Investment and Development Fund (FONACIDE) and with funding obtained from multilateral organizations, such as the Inter-American Development Bank (IDB) and the Development Bank of Latin America (CAF). Net operating income (measured as income minus expenses, excluding the acquisition of non-financial assets (public investment)) grew by 25% relative to the previous year's level to represent 1.3% of GDP.

The deficit has been financed mainly by external borrowing. In 2017, a new 10-year sovereign bond issue was made for US\$ 500 million at an annual interest rate of 4.75%. As a result, at end-2017 the total public debt and the external debt were equivalent to 18.2% and 14.2% of GDP, respectively. These levels represent an increase since 2013 when Paraguay's first international bond issue was made. In March 2018, a sixth issue of US\$ 530 million was made for a 30-year term at an annual rate of 5.6%. The Draft Law of the General Budget of the Nation for 2018 is again expected to envisage a deficit of 1.5% of GDP, which will be covered by external loan disbursements and the issuance of Treasury Bonds.

(b) Monetary policy

The Central Bank of Paraguay has been operating an inflation-targeting regime since May 2011, and the current annual target range was set in early 2017 at 4% +/- 2 percentage points. To implement this scheme, the central bank uses the monetary policy interest rate, which was held at 5.5% in the first few months of 2017 before being lowered to 5.25% in August. The relatively low and stable inflation rate has facilitated this slightly expansionary monetary policy. The policy rate has continued unchanged during the first six months of 2018.

Bank lending to the non-financial private sector started to recover in mid-2017, and the year ended with year-on-year growth of 4.3%. As of June 2018, lending in local currency had grown at a year-on-year rate of 12.9%, and foreign-currency loans had increased by 9.2%. This mainly reflects stronger lending to the agriculture sector. Credit for commerce (wholesale and retail) and for consumption has also been more buoyant.

(c) Exchange-rate policy

The nominal exchange rate of the guaraní against the dollar appreciated by 2.6% between January and December 2017, in line with the trend of other currencies in the region. During this period, the average nominal exchange rate dropped from 5,786 to 5,628 guaraníes per dollar; and the domestic currency continued to strengthen in the first four months of 2018. Nonetheless, during the first few days of May the country was hit by international financial volatility that caused currency depreciation in neighbouring countries. The central bank sold guaraní to ease the pressure on the dollar, although ultimately the local currency weakened, and in May it was again trading at rates close to those of early 2017.

International reserves totalled US\$ 8.145 billion in December 2017, 14% more than a year earlier. This level of reserves provides cover for 10 months of imports and is equivalent to 1.4 times Paraguay's external public debt.

(d) Other policies

With the aim of enhancing revenue collection capacity, in 2017 the Office of the Undersecretary of State for Taxation launched a project to universalize the electronic invoice; and a law creating the Implementation Service of the National Integrated Electronic Invoicing System (SIFEN) was passed. This system can be used for the online issuance of sales receipts (invoices, import and export invoices), complementary documents (credit and debit notes), bills of lading and tax withholding vouchers. The electronic invoicing system will be piloted throughout 2018 and then implemented gradually, with a voluntary phase in 2019, before becoming compulsory in 2021.

In early 2018, the Central Bank of Paraguay published revised national accounts data following a change in the base year from 1994 to 2014. On the supply side, the new base reports larger GDP shares for services and manufacturing industry, and a smaller primary-sector share. On the expenditure side, the new series upgrades the share of public expenditure at the expense of consumption and gross capital formation. The revision of the data covers 2008-2016 and calculates GDP at current prices as between 30% and 40% higher than previously estimated. This generates reductions in various macroeconomic indicators that are expressed relative to GDP (fiscal deficit, reserves, external debt and others). The rebasing process used data from the 2008 National Agricultural Census, the 2010 National Economic Census and the 2012 National Population Census. This country note was prepared using the new GDP estimations.

3. The main variables

(a) The external sector

In 2017, the current account reversed the previous year's surplus of 1.1% of GDP to post a deficit of US\$ 298.4 million, equivalent to 0.8% of GDP—with a merchandise trade surplus being outweighed by deficits on the service trade and income accounts.

Paraguay's total foreign trade (exports plus imports) was worth US\$ 23.606 billion in 2017, 12.7% more than in the previous year. Exports totalled US\$ 12.081 billion, representing a year-on-year increase of 8.3% due mainly to a 28.5% jump in the value of re-exports (products imported under the Tourism Regime (Decree No. 6406/05) and then re-exported mostly to Brazil). By levels of processing, commodity exports were up by 4.4% on the previous year, due to increased soybean sales; while foreign sales of agricultural manufactures faltered as soybean meal shipments declined. Exports of industrial manufactures grew by 19.3% due to the increase in the sales of products such as wires and cables (autoparts), textiles, plastics and articles thereof, paper, paperboard and manufactures thereof, and products covered by the Maquila Regime. Electric power, which accounts for 24% of all exports, grew slightly during 2017.

At the end of 2017, goods imports totalled US\$ 11.524 billion, up sharply by 17.7% over the previous year. While imports for domestic consumption grew by 16.4%, imports under the Tourism Regime increased by 48.5%. By category, imports were higher among consumer products (19.1%), intermediate goods (18.9%) and capital goods (27.6%). The increase in consumer imports was driven by food, beverages, textiles and the acquisition of durable goods, such as automobiles and electrical

appliances. The growth of imports of intermediate goods was caused by fuels and lubricants, among other items. Lastly, capital goods imports grew mainly because of an increase in the importation of tractors, agricultural equipment and machinery, along with extractor machines and industrial machinery.

Among the other components of the current account, both the balance of service trade and the income account posted deficits —of US\$ 273.0 million and US\$ 1.405 billion, respectively —while foreign direct investment totalled US\$ 355 million. These flows, together with the proceeds of the sovereign bond issue, boosted the country's international reserves by 14% to more than US\$ 8.1 billion in 2017.

During the first six months of 2018, foreign trade reached US\$ 12.535 billion, an increase of 13.5% over the prior-year period. However, year-on-year import growth (16.0%) exceeded export growth (10.5%). By end-2018, the government is forecasting a current account deficit of around 1.0% of GDP. This result would be based on the buoyancy of imports both for domestic use and for re-export, while exports are expected to grow at more moderate rates, encouraged by the expected increase in the price of soya, soybean meal and rice.

(b) Economic activity

In 2017 Paraguay's GDP expanded by 4.8%, above the previous year's 4.3%. Among the fastest-growing sectors was agriculture (4%), whose weight in output fell to 8% following the change in the base year for GDP estimations, compared with 19% previously. The country's main products include soya (with another record harvest), rice, beans and tobacco. The livestock sector, which now represents around 2.2% of gross national product, posted moderate growth of around 2.1% in 2017, and forestry grew by 9.8%. In the secondary sector, manufacturing industry grew by 8.4%, driven by paper production, edible oil processing, grain milling and baking, machinery and equipment, chemicals, beverages and tobacco. Construction, which was the main growth driver in 2016, slackened by 1.5%. The services sector also grew, mainly in commerce (12%), hotels and restaurants (10.6%) and household services (8%).

Another important sector for the Paraguayan economy is hydroelectric power generation by the binational entities. In 2017, this sector slipped back from the previous year's record levels of energy production.

On the expenditure side, in 2017 fixed capital formation (15%) and private consumption (4.8%) both expanded for the second straight year. The latter was driven by a revival of purchases of durable goods (household equipment and vehicles), along with spending on clothing, transport and restaurants, which is consistent with the growth in imports of goods for domestic consumption. This may have been stimulated by the revival of credit-card purchases in the wake of the interest-rate cap policy and an increase in remittances which, although growing by less than in 2016, climbed to US\$ 588 million, equivalent to 1.5% of GDP.

In 2018, growth in the Paraguayan economy is expected to be positive and close to 4.4%. During the first quarter, GDP grew by 4.1%. On the supply side, this output was attributable to services (5.8%), the manufacturing industry (5.4%), electricity and water (7.5%) and, to a lesser extent, agriculture. On the expenditure side, growth was explained mainly by domestic demand (total spending and investment). In the second quarter, the monthly indicator of economic activity (IMAEP) also trended upwards. The Government expects both exports and imports to rise. The latter, however, are set to grow continuously, so net external demand will detract from this year's growth. These projections will depend on the pace of

recovery among Paraguay's trading partners, especially Brazil, the evolution of commodity prices and the exchange rate, along with climate factors.

(c) Prices, wages and employment

Annual inflation came in at 4.5% in 2017 and remained within the central bank's target range. This is explained by increases in the prices of some food products, such as beef and its substitutes. There were also gasoline price hikes owing to the rise in oil prices on the international market. In services, there were price hikes among foods consumed in bars and restaurants, health services, hairdressing and domestic service. In contrast, other services, such as hotel accommodation, airline tickets and tourist packages abroad, saw price cuts in line with the slight appreciation of the guaraní against the dollar.

The central bank projects inflation at end-2018 at around 3.7%. The figures for the first quarter of the year was 4.1%, partly explained by the unwinding of price increases in certain food products (fruit and vegetables) that had risen sharply in late 2017. The inflation rate edged up to 4.4% in the second quarter.

The general index of wages and salaries displayed a year-on-year increase of 3.5% in December 2017, with manufacturing industry and financial intermediation leading the way. The legal minimum wage saw a year-on-year rise of 3.9%. Neither increase kept pace with inflation.

Data from the continuous employment survey report an average open unemployment rate of 8.3% for the first three months of 2017, which was above the rate in the year-earlier period. This trend was influenced by a moderate increase in the labour-force participation rate and a fall in the rate of employment, especially among men. Compared to the year-earlier period, there were fewer people employed in the commerce and services sectors such as electricity, gas and water; transport, storage and communications; and finance, insurance and real estate.

Table 1
PARAGUAY: MAIN ECONOMIC INDICATORS

	2009	2010	2011	2012	2013	2014	2015	2016	2017 a/
	Annual growth rates b/								
Gross domestic product	-0.3	11.1	4.2	-0.5	8.4	4.9	3.1	4.3	4.8
Per capita gross domestic product	-1.6	9.7	2.8	-1.9	7.0	3.5	1.8	3.0	3.5
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	-17.3	34.2	3.7	-19.8	41.2	4.7	5.2	2.9	4.7
Mining and quarrying	3.0	3.2	5.3	1.5	8.9	9.5	0.3	13.1	5.0
Manufacturing	-0.8	6.3	-1.6	4.6	7.9	9.5	3.1	5.4	9.4
Electricity, gas and water	-3.8	0.0	7.3	5.1	1.2	-6.7	1.6	12.6	-6.0
Construction	2.0	13.0	1.5	1.0	9.6	13.8	2.5	18.6	5.0
Wholesale and retail commerce, restaurants and hotels	-3.2	10.7	3.2	-2.2	10.3	5.9	-0.4	3.0	8.7
Transport, storage and communications	-3.2	6.6	9.1	7.8	12.7	5.1	1.5	-1.5	4.7
Financial institutions, insurance, real estate and business services	7.5	7.2	8.6	6.9	5.7	6.8	6.6	3.6	4.0
Community, social and personal services	11.5	9.1	6.2	15.9	6.0	6.1	4.2	0.2	2.4
Gross domestic product, by type of expenditure									
Final consumption expenditure	-1.4	13.4	5.5	4.8	4.5	3.8	1.9	1.2	4.6
Government consumption	13.7	12.0	5.3	21.0	3.5	4.2	4.3	-2.8	1.5
Private consumption	-3.0	13.5	5.6	2.8	4.6	3.7	1.5	1.7	5.0
Gross capital formation	-12.5	22.7	10.8	-13.5	20.2	11.0	1.2	6.4	11.5
Exports (goods and services)	-8.2	19.9	6.2	-6.7	18.4	4.3	-1.3	2.7	6.5
Imports (goods and services)	-8.5	24.8	10.4	-3.5	6.8	5.3	-4.0	-0.7	10.5
Investment and saving c/	Percentajes of GDP								
Gross capital formation	13.8	16.2	17.1	15.1	15.4	16.3	16.8	18.0	19.7
National saving	17.6	16.4	17.9	13.9	17.6	16.1	15.7	19.5	18.4
External saving	-3.8	-0.2	-0.8	1.2	-2.1	0.2	1.1	-1.5	1.2
Balance of payments	Millions of dollars								
Current account balance	604	49	200	-286	621	-51	-301	416	-298
Goods balance	1 124	882	854	571	1 662	1 026	581	1 367	558
Exports, f.o.b.	7 756	10 474	12 639	11 654	13 605	13 105	10 898	11 155	12 082
Imports, f.o.b.	6 632	9 593	11 784	11 083	11 942	12 079	10 317	9 789	11 524
Services trade balance	40	-84	-181	-170	-219	-222	-244	-221	-273
Income balance	-1 079	-1 305	-1 187	-1 445	-1 542	-1 461	-1 311	-1 505	-1 406
Net current transfers	519	557	714	759	720	606	672	775	823
Capital and financial balance d/	312	270	582	262	414	1 189	-258	542	1 175
Net foreign direct investment	71	462	581	697	245	412	306	320	386
Other capital movements	240	-192	1	-435	169	777	-564	221	789
Overall balance	915	319	782	-24	1 036	1 138	-560	957	877
Variation in reserve assets e/	-915	-319	-784	25	-1 036	-1 131	560	-957	-877
Other financing	0	0	2	0	0	-7	0	0	0
Other external-sector indicators									
Real effective exchange rate (index: 2005=100) f/	81.6	80.1	71.7	73.0	68.3	66.0	67.1	69.7	71.8
Terms of trade for goods (index: 2010=100)	100.0	100.0	102.4	103.4	102.8	103.3	95.5	94.6	92.0
Net resource transfer (millions of dollars)	-767	-1 036	-603	-1 184	-1 127	-279	-1 569	-964	-230
Total gross external debt (millions of dollars)	3 177	3 713	3 970	4 563	4 776	6 126	6 513	6 751	7 708
Employment	Average annual rates								
Labour force participation rate g/	63.1	60.8	60.7	64.3	62.6	61.6	62.1	62.6	63.1
Open unemployment rate h/	8.2	7.4	6.9	7.9	7.7	7.8	6.5	7.7	8.3
Visible underemployment rate h/	8.2	7.2	6.1	5.3	4.7	4.8	4.6	4.0	4.0

Table 1 (concluded)

	2009	2010	2011	2012	2013	2014	2015	2016	2017
Prices	Annual percentages								
Variation in consumer prices (December-December)	1.9	7.2	4.9	4.0	3.7	4.2	3.1	3.9	4.5
Variation in nominal exchange rate (annual average)	14.3	-4.4	-11.7	5.4	-2.6	3.6	16.6	9.0	-0.9
Variation in average real wage	4.5	0.6	2.8	0.7	2.2	1.2	0.4	0.6	0.3
Nominal deposit rate i/	3.4	2.0	4.2	5.5	9.2	6.2	7.4	6.7	6.4
Nominal lending rate j/	14.6	12.5	16.9	16.6	16.6	15.7	14.4	15.6	14.3
Central government	Percentajes of GDP								
Total revenue	12.5	12.6	13.4	14.0	12.9	13.7	14.1	13.9	14.2
Tax revenue	9.2	9.7	10.3	10.6	9.8	11.0	10.7	10.5	11.0
Total expenditure	12.4	11.6	12.7	15.2	14.1	14.6	15.5	15.0	15.3
Current expenditure	9.5	9.2	9.9	11.8	11.3	11.8	12.4	11.7	11.7
Interest	0.4	0.3	0.2	0.2	0.2	0.3	0.5	0.6	0.6
Capital expenditure	2.9	2.4	2.8	3.4	2.8	2.8	3.1	3.2	3.6
Primary balance	0.5	1.2	0.9	-1.1	-1.0	-0.6	-0.9	-0.5	-0.5
Overall balance	0.1	1.0	0.7	-1.2	-1.3	-0.9	-1.3	-1.1	-1.1
Central government public debt	10.5	9.1	6.9	9.5	9.7	12.1	13.3	15.1	15.8
Domestic	2.1	1.8	1.2	3.8	3.6	3.8	3.4	3.2	3.0
External	8.4	7.3	5.7	5.7	6.1	8.3	9.9	12.0	12.8
Money and credit	Percentages of GDP, end-of-year stocks								
Domestic credit	18.0	21.5	24.2	29.7	29.2	30.8	38.0	33.1	32.0
To the public sector	-6.5	-7.1	-8.1	-5.6	-8.5	-10.2	-9.9	-10.6	-10.9
To the private sector	25.2	29.2	33.0	35.9	38.7	42.5	49.7	45.8	45.2
Monetary base	12.8	10.8	11.0	12.5	10.5	10.6	10.6	10.3	11.1
Money (M1)	16.2	15.3	15.4	16.3	16.3	16.1	16.2	16.0	17.5
M2	23.0	22.1	23.4	25.5	26.1	25.6	26.2	25.9	28.3
Foreign-currency deposits	12.6	14.0	13.6	14.6	16.4	18.4	22.9	21.2	20.0

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/ 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/ Nationwide total.

h/ Up to 2009, figures correspond to the urban total. From 2010, they correspond to Asuncion and urban areas of Central Department.

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

j/ Commercial lending rate, local currency.

Table 2
PARAGUAY: MAIN QUARTERLY INDICATORS

	2016				2017				2018	
	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/	0.4	7.9	4.1	4.9	6.9	2.0	4.7	5.4	4.1	...
Gross international reserves (millions of dollars)	6 164	6 859	6 918	6 988	7 353	7 909	8 060	8 046	8 370	8 635
Real effective exchange rate (index: 2005=100) c/	66.5	69.3	70.9	72.3	71.8	71.1	72.3	72.2	70.9	67.7
Consumer prices (12-month percentage variation)	4.7	4.7	3.5	3.9	2.8	2.9	4.2	4.5	4.1	4.4
Average nominal exchange rate (guaranies per dollar)	5 795	5 611	5 552	5 727	5 667	5 579	5 602	5 642	5 578	5 619
Nominal interest rates (average annualized percentages)										
Deposit rate d/	7.7	6.0	7.2	5.8	6.2	6.7	6.7	6.5	6.4	6.2 e/
Lending rate f/	16.4	16.0	15.3	14.8	15.7	14.8	14.8	13.1	13.7	13.7 e/
Interbank rate	7.0	6.3	8.1	4.9	...
Monetary policy rates	5.9	5.9	5.6	5.5	5.5	5.5	5.5	5.3	5.3	5.3
International bond issues (millions of dollars)	600	-	-	-	500	-	-	-	530	-
Domestic credit (variation from same quarter of preceding year)	18.6	8.9	1.3	-3.3	-4.7	-2.2	0.6	1.9	5.8	11.0
Non-performing loans as a percentage of total credit	2.8	3.0	3.2	3.1	3.1	3.2	3.5	3.0	3.0	3.1

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

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

e/ Figures as of May.

f/ Commercial lending rate, local currency.