

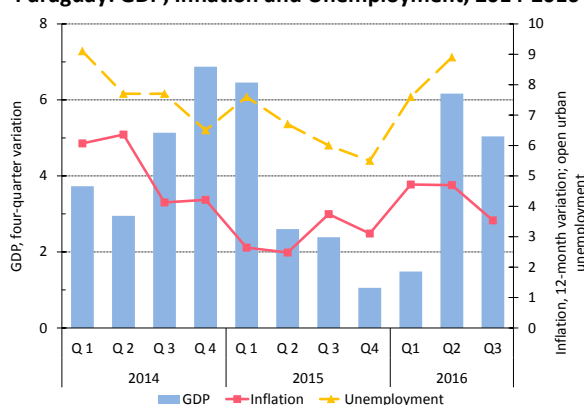
## Paraguay

ECLAC estimates Paraguay's GDP growth for 2016 at 4%, up from the 3% posted in 2015 and above the regional average. The country's economy picked up strongly in the second quarter with growth of 6.2% year on year, thanks essentially to recovery in some branches of industry, construction, trade and livestock farming. On the fiscal front, priority was given to holding down spending and increasing the tax burden. Although a deficit of 1.5% of GDP is expected, this would be within the limit established under the Fiscal Responsibility Act. To compensate for the adverse external context, and given that inflationary pressures were low, monetary policy was broadly expansionary. For 2017, ECLAC projects GDP growth slightly lower than in the current year.

Fiscal policy in 2016 gave priority to controlling the deficit by slightly limiting growth in spending on pay, which represents just over 40% of total expenditure, and by boosting investment spending. According to Ministry of Finance data, the cumulative central government deficit for the period to October 2016 was 0.9% of GDP, owing to increases in both tax revenues (6.5%) and non-tax revenues (8.6%), largely as a result of energy sales through the binational enterprises Itaipú and Yacretá and revenue from the sale of 4G mobile telephony licences. The year is expected to close with a deficit of 1.5% of GDP, the maximum allowed under the Fiscal Responsibility Act. This would represent an improvement over the 2015 deficit of 1.8% of GDP, and would be due to revenues growing faster than expenditure. Paraguay has run a fiscal deficit since 2012, when it increased public spending substantially as a countercyclical measure. To reverse this, the State Undersecretariat of Taxation is looking to improve revenue collection through various schemes such as VAT on transactions by cooperatives and on motorcycle assembly, a special tax on cigarettes and changes to personal income tax. Paraguay turned to external financing to fund part of the deficit, issuing sovereign bonds worth US\$ 500 million in 2013, US\$ 1.0 billion in 2014, US\$ 280 million in 2015 and US\$ 600 million in March 2016, bringing current external debt and total public debt to 17.1% and 22.3% of GDP, respectively.

Paraguay uses a system of inflation targeting, and monetary policy was broadly expansionary for most of 2016. Giving the easing of both internal and external inflationary pressures, the monetary policy interest rate was cut twice in the year and then left at 5.5% from July 2016. Inflation did in fact moderate from the second quarter of 2016. The main factors in this were the reversal of increases in some volatile prices in the basket of basic items and a lessening of exchange-rate pressures, as reflected in the price behaviour of imported goods (chiefly durables). Inflation in November 2016 as measured by the change in the consumer price index was 1%, implying a year-on-year figure of 4.3%. This trend was the outcome of higher prices for some food products in the basket and lower prices for products derived from oil (petrol and diesel), urban public transport and communication services. As of September, the Central Bank of Paraguay was projecting inflation of 3.3% for the close of 2016, which would be within the target range (4.5% with a tolerance of 2 percentage points either side).

**Paraguay: GDP, Inflation and Unemployment, 2014-2016**



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

As regards the exchange rate, upward pressures were mitigated and the guaraní appreciated slightly against the dollar (6%) between January and September 2016. This strengthening was down to low expectations of any adjustment in monetary policy by the United States Federal Reserve (in the run-up to elections) and to foreign currency inflows resulting from exports in the first half of the year.

In the external sector, the central bank expects the year to close with a balance-of-payments current account surplus of 0.5% of GDP, as compared with a deficit of 1.0% of GDP in 2015. This favourable balance is anticipated because of lower imports and slightly higher exports, influenced by buoyancy in both volumes and prices for the main products (soya and its derivatives, cereals, beef and electricity). Re-exports are also expected to recover as prospects for the Brazilian economy improve and the Brazilian currency appreciates against the dollar. Foreign direct investment (FDI) data for the 2008-2015 series were reviewed and updated in 2016, and the result was to slightly alter the income and current account balances. According to the new estimates, the FDI balance dropped from US\$ 382 million in 2014 to US\$ 260 million in 2015. The tertiary sector was the largest recipient, despite a drop from 2014 because of a decrease in financial intermediation and negative FDI flows in communications. The secondary sector also benefited particularly beef and oil production, while the primary sector registered a negative flow. The main countries of origin for FDI were the United States, Brazil and Panama. FDI was US\$ 260 million in the first half of 2016. A build-up of international reserves continued during the current year, leaving them at 26.5% of GDP.

The Paraguayan economy has withstood a volatile external situation and a weak regional context. Although economic activity moderated from the middle of 2015, it regained momentum in the second quarter of 2016 due to the impact of certain branches of the secondary and tertiary sectors. Greater diversification of export destinations, signs of stabilization in the Brazilian economy and favourable weather conditions were some of the factors that had a positive impact on performance in these sectors. ECLAC estimates GDP growth of about 4% in 2016, an increase on the 3% posted in 2015. This greater dynamism is explained by positive trends in the secondary sector (especially in construction, owing to an increase in central government public works, and in electricity production, owing to increased use of installed capacity and favourable hydrological conditions) and in the primary sector (increased stockbreeding activity). On the expenditure side, the biggest contribution to growth was from investment and the external sector. Private consumption weakened, possibly owing to the impact of depreciation on durable goods prices and a new law imposing limits on credit card interest.

The labour market has shown few signs of vitality. According to data from the country's continuous employment survey, the working-age population was higher and the number in employment

#### Paraguay: main economic indicators, 2014-2016

	2014	2015	2016 <sup>a</sup>
	<b>Annual growth rate</b>		
Gross domestic product	4.7	3.0	4.0
Per capita gross domestic product	3.3	1.6	2.7
Consumer prices	4.2	3.1	3.5 <sup>b</sup>
Real average wage	1.2	0.5	...
Money (M1)	9.6	11.6	1.5 <sup>b</sup>
Real effective exchange rate <sup>c</sup>	-3.1	1.5	4.1 <sup>b</sup>
Terms of trade	0.5	4.0	2.2
	<b>Annual average percentage</b>		
Open urban unemployment rate	7.8	6.5	8.3 <sup>d</sup>
Central government			
Overall balance / GDP	-1.1	-1.8	-1.5
Nominal deposit rate <sup>e</sup>	6.2	7.4	7.0 <sup>b</sup>
Nominal lending rate <sup>f</sup>	15.7	14.4	15.9 <sup>b</sup>
	<b>Millions of dollars</b>		
Exports of goods and services	13,997	11,758	12,085
Imports of goods and services	13,193	11,421	10,755
Current account balance	27	-287	592
Capital and financial balance <sup>g</sup>	1,112	-272	131
Overall balance	1,138	-560	724

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

a/ Estimates.

b/ Figures as of September.

c/ A negative rate indicates an appreciation of the currency in real terms. Refers to the global real effective exchange rate.

d/ Figures as of first semester.

e/ Weighted average of effective fix term deposit rates.

f/ Weighted average of some lending rates.

g/ Includes errors and omissions.

lower in the second quarter of 2016 than in the same quarter the year before, which caused the unemployment rate to increase to 9.0% from 6.7% in 2015. On the other hand, the central bank's annualized wage and salary index showed a year-on-year rise of 4.3% as of June 2016, and a 7.7% increase in the minimum wage was announced with effect from December 2016.

For 2017, ECLAC estimates GDP growth to be slightly lower than in 2016, at about 3.8%. Expansion will be underpinned by higher private and public investment and a positive but modest rise in electricity production. Risk factors associated with this growth are both internal (the recovery of private consumption) and external (the recovery of trading partners, Argentina and Brazil, the soya price and climate factors).