

PARAGUAY

1. General trends

Paraguay recorded 13.6% GDP growth in 2013, the highest in the region in that year, driven by the performance of the crop-farming sector, especially the soybean industry, which experienced a bumper harvest in the 2012-2013 crop year, following the drought of the previous year. Other sectors, including stock-farming, industry and construction also made an outstanding contribution to this overall result. In the absence of inflationary pressures, the Central Bank of Paraguay maintained a neutral monetary policy. In terms of fiscal performance, public spending slowed in 2013 following a marked increase in 2012, when the economy contracted. The downtrend in public spending was reflected in a fairly moderate increase in expenditure (5.8%) by the government in 2013, compared with surges of over 20% in the two preceding years. Meanwhile, notwithstanding the robust expansion of the economy in 2013, total revenues were up very slightly: by 4.0%, owing to the fact that the sector that drove GDP growth (crop-farming) continues to contribute little to tax proceeds in relative terms. Consequently, the deficit on the public accounts remained relatively stable in 2013, at the equivalent of 1.9% of GDP. At the end of 2013, year-on-year inflation stood at 3.7%, the lowest rate since 2009. As for the external sector, the current account showed a surplus, at 2.1% of GDP, compared with a deficit in 2012 of 0.9% of GDP. This outturn reflects the remarkable boom in exports of agricultural products and of livestock (in particular, meats) during the year.

In 2014, economic activity is expected to rebound at a rate of around 4.5%, which is more in keeping with the country's long-term growth potential. Year-on-year inflation to April 2014 stood at 6.4%, owing mainly to the surge in food prices in the first few months of the year. In terms of the external sector, a smaller current account surplus is predicted as the prices of the country's main export crops, above all soybean, are expected to remain flat, leading to a slighter increase in export values. Re-exports of manufactures to Brazil and Argentina will reflect the negative impact of the relatively low growth forecast for these two economies.

2. Economic policy

(a) Fiscal policy

In the wake of the vibrant expansion of economic activity in 2013, driven by robust growth in the crop-growing sector, the government sought to rein in public spending. The central government limited the rise in expenditure to 5.8% in 2013, down from increases of 20.7% and 24.2% in 2011 and 2012, respectively, thus registering a figure equivalent to 18.6% of GDP. The higher expenditure was due to an 8.4% rise in current expenditure, attributable to an 11.9% increase in personnel expenditure. Capital expenditure was down by 2.7%. The limited increase in expenditure did not, however, yield any significant improvement in the deficit on the public accounts as fiscal revenue rose moderately (by 4.0%) over the 2012 figure, representing a very slight gain, bearing in mind the significant expansion recorded by the economy in 2013. Tax revenues were up by 6.6% with the greatest gains coming from the proceeds of value added tax (VAT), which expanded by 11.4%. The marked expansion in the crop-farming sector

had little impact on the public coffers as relatively speaking its contribution to government revenue is very low.

In 2013, the fiscal deficit stood at 1.9% of GDP, similar to the 2012 figure of 1.8% of GDP, owing to the limited increase in public revenues, which were slightly below expenditure. The primary balance showed a deficit equivalent to 1.6% of GDP. Thus, for the second consecutive year, the public accounts yielded a deficit, following eight years of surplus. The more restrictive fiscal policy adopted in 2013 had a disproportionate impact on the capital expenditure account, since much of the fiscal stimulus applied in 2012 was implemented through higher current expenditure, especially through rises in public-sector wages, which proved difficult to reverse in the short term.

The Fiscal Responsibility Act was adopted towards the end of 2013, in an effort to enforce greater discipline over fiscal policy management. The Act imposes a series of fiscal rules, including the establishment of a cap on the fiscal deficit, equivalent to 1.5% of GDP. In addition, increases in current expenditures are limited to 4% plus the rate of inflation.

For 2014, forecasts point to growth rates for both fiscal revenues and public expenditures that will far exceed those of 2013. According to estimates from the overall national budget in 2014, public revenues will soar by 24.2% (in contrast with 4.0% in 2013), while expenditure will rise by 22.8% (up from 5.8% in 2013). These figures reflect the planned 41.5% increase in capital expenditure, due to a shift in public spending towards investments, particularly in infrastructure.

The external public debt of Paraguay remained stable during the first few months of 2014, at 9.0% of GDP, a relatively low figure compared with the rest of the region and with historical levels within Paraguay.

(b) Monetary policy

Against a backdrop of rapid economic growth and relatively subdued inflationary pressures, with the rate of inflation itself remaining below the set target, the Committee for Open Market Operations and Reserves (CEOMA) of the Central Bank of Paraguay maintained the monetary policy rate at 5.5% for most of the year 2013. In December, however, it raised the rate by 50 basis points to 6% amid external pressures which led to a depreciation of the guaraní towards the end of the year. Thus, the weighted average rate of the monetary regulation instruments (IRM) moved from 5.5% in October to 5.9% in December. Bank rates followed a similar trend. Thus, bank lending rates on loans in foreign currency were raised from 8.30% in October to 8.65% in December. Credit provided by the local finance system expanded steadily during this period. In December 2013, total bank loans to the private sector grew by 23.9% compared with the figure for the same month in 2012.

In 2014, the Central Bank adopted a more restrictive monetary policy to counter the rising inflationary pressures observed in the first quarter of the year. As a result, the CEOMA raised the monetary policy interest rate by 75 basis points from 6% to 6.75% in the first three months of 2014. In this way, the weighted average rate of the monetary regulation instruments rose from 5.6% in January to 6.8% in March, while the average balance of these instruments showed an increase of 8.9% during that period. In February 2014, bank loans to the private sector increased by 24.4% year-on-year.

(c) Exchange-rate policy

The nominal exchange rate of the guaraní against the dollar reflected a 5.5% year-on-year depreciation in December 2013. The currency mirrored the trend observed in the region following the tapering-off of monetary easing by the United States Federal Reserve. In the case of Paraguay, the depreciation was cushioned to some extent by the strong inflow of foreign exchange into the country as a result of the agricultural export boom observed towards the end of 2013. Since the beginning of 2014, the local currency has remained relatively stable, appreciating slightly (by 0.3%) against the dollar in February.

In December 2013, the real exchange rate of the guaraní reflected gains against the Argentine peso (12.4%) and the Brazilian real (5.2%) and losses against the dollar (down 2.9%) and the euro (down 6.8%). At the beginning of 2014, the local currency rebounded in real terms. In comparison with December 2013, it appreciated in February 2014 by 14.0% against the Argentine peso, by 0.3% against the Brazilian real, by 2.2% against the dollar and by 2.7% against the euro.

The Central Bank sold a net amount of US\$ 394.5 million on the foreign exchange market in 2013 in order to tame the fluctuations in the value of the guaraní against the dollar. In December, net international reserves stood at US\$ 5.876 billion (equivalent to 19.8% of GDP). During the first quarter of 2014, the Central Bank accumulated net sales of US\$ 248.5 million. During this period, net international reserves swelled to US\$ 6.166 billion.

(d) Other policies

October 2013 saw the adoption of the Public-Private Partnership Act for the promotion of investment in public infrastructure and the expansion and improvement of State-provided goods and services. This Act seeks to promote investments in physical infrastructure through joint public-private ownership and to boost the productivity of these investments. The Act entered into force in November 2013. The first proposal under the new legislation, received at the beginning of this year, is for an infrastructure project valued at US\$ 2.5 billion, geared to the expansion and upgrading of motorways in the country and the installation of electrical transmission and distribution lines.

3. The main variables

(a) The external sector

Exports of goods and services totalled US\$ 14.447 billion in 2013, which represents an increase of 16.4%, compared with the previous year. This result is due mainly to the surge in crop exports following the drought, which had caused a drop in agricultural shipments in 2012. Soybean (the country's leading export) accounted for a substantial proportion and export values of this crop were up by 58.6%, the equivalent of a 60.7% rise in volumes. In terms of the livestock sector, exports of meat products expanded by 33.1%, owing mainly to the reopening of several destination markets following the outbreak of foot-and-mouth disease towards the end of 2011. Exports of electrical energy, which came from the surplus energy from the binational hydroelectric installations of Itaipú (with Brazil) and Yacyretá (with Argentina), remained relatively stable in 2013 (increasing by a mere 0.2%). In terms of the main destination markets for Paraguayan exports, significant expansions were recorded for shipments to the European Union (33.5%), the Russian Federation (33.6%), Asia (68.1%) and Argentina (22.8%). Exports to Brazil, the main destination market for Paraguayan shipments, dipped by 0.6%.

The value of imports of goods and services increased to US\$ 13.012 million, which represents a rise of 8.3% in relation to the previous year. Imports of consumer goods and intermediate goods showed moderate rises of 2.2% and 1.6%, respectively, while capital goods imports soared by 11.3%. Under capital goods, imports of machinery, appliances and engines were buoyant, up by 9.8% on the previous year's figure. The overall value of imports from Argentina, Brazil and Uruguay rose by 6.2%, in keeping with the positive pattern of trade flows observed in 2013. In addition, imports from Asia were up by 4.6% in value terms.

In 2013, the robust expansion in exports pushed the current account balance back into surplus to stand at the equivalent to 2.1% of GDP, compared with a deficit of 0.9% of GDP in 2012. As a result, the balance of payments moved from a deficit of US\$ 24.1 million in 2012 to a surplus of US\$ 1.036 billion in 2013. Substantial foreign direct investment flows continue to pour into the country and in 2013 totalled US\$ 382.4 million. In addition to these flows, sovereign bonds valued at US\$ 500 million were issued by Paraguay on the international market in January 2013; this was the first such issue since 2000. The transaction brought the country's external public debt to 9.0% of GDP and it remained at that level for the rest of the year.

The forecast for 2014 is for strong expansions in both exports and imports, albeit the pace will be slower than in 2013. In the first quarter of the year, the value of merchandise exports registered a year-on-year increase of 14.2%, driven by shipments of soybean and meat during this period.

(b) Economic activity

In 2013, GDP in Paraguay expanded by 13.6%. On the supply side, a strong rally (50.5%) in the crop-farming sector – the most robust sector in the Paraguayan economy – boosted results thanks to the excellent harvest in the 2012/2013 crop season following the severe drought which slashed agricultural output in the previous year. Growth of the livestock sector, estimated at 9.6%, is evidence that this activity has rebounded from the losses caused by the outbreak of foot-and-mouth disease in the country in late 2011.

On the expenditure side, domestic demand rallied significantly, with strong increases of both private consumption (8.8% in real terms) and public consumption (7.7%), yielding a total increase in consumption of 8.7%. Meanwhile, gross fixed capital formation was up by 14.2%, reflecting greater emphasis on investment, especially in infrastructure. The strong recovery in the shipments of crops was reflected in a 17.6% rise in exports. On the demand side, robust domestic demand fuelled an 11.8% jump in imports over the previous year.

For 2014, the pace of economic expansion is expected to be more in line with the country's long-term growth potential. Thus, a growth rate of close to 4.5% is projected. The livestock sector (up 10%) is predicted to be the main driver of growth in 2014, followed by construction (up 7.5%) and industry (up 7.2%). Growth in the crop-farming sector is expected to be very low this year at just 0.9%.

(c) Prices, wages and employment

The annual rate of inflation stood at 3.7% in 2013, that is, it was below the middle of the Central Bank's target range of 5% plus or minus 2 percentage points. Although the inflation figure remained below the middle of the target range throughout the year, a strong upsurge in inflationary pressures was observed from the third quarter onwards. In May 2013, inflation had been as low as 0.9%. The upward trend over the last few months of the year was attributable mainly to a sharp

escalation in food prices. Year-on-year core inflation, which does not take into account the more volatile products in the food basket (fruit and vegetables), stood at 3.5%. Core inflation (X1), which does not include either fruit and vegetables or rates and fuels, represented 4.8%. In April 2014, year-on-year inflation was 6.4%. Inflation since the start of the year reflects mainly a continuation of upward pressures on food prices, which started to be felt towards the end of the year.

The general wage and salary index had risen by 5.0% in June 2013, which implies a year-on-year increase of 3.3% in real terms. Electricity and water recorded the sharpest increase (13.0% in nominal terms), while communications registered the lowest (0.7%). Since 2011, the legal minimum wage had stood at 1,658,232 guaraníes and it remained at this level throughout 2013, reflecting a decline in real terms of 2.6% as an annual average for 2013 compared with 2012. However, a nominal increase of 10% was registered in March 2014, bringing it to 1,824,055 guaraníes.

In keeping with the results of the continuous employment survey, the average annual open unemployment rate was 8.1% in 2013, the same rate as in 2012. While the unemployment rate remained stable, the employment rate went up from 57.8% to 59.9% over the year. In that period, the open unemployment rate was 6.5% for men and 9% for women.

Table 1
PARAGUAY: MAIN ECONOMIC INDICATORS

	2005	2006	2007	2008	2009	2010	2011	2012	2013 a/
Annual growth rates b/									
Gross domestic product	2.1	4.8	5.4	6.4	-4.0	13.1	4.3	-1.2	13.6
Per capita gross domestic product	0.2	2.9	3.5	4.5	-5.6	11.2	2.6	-2.8	11.8
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fish	-0.1	3.6	14.3	9.2	-17.3	34.2	3.7	-19.8	36.6
Mining and quarrying	7.8	-2.2	3.5	5.0	3.0	3.2	5.3	1.5	4.0
Manufacturing	2.7	2.5	-1.2	2.0	-0.8	6.3	-1.6	4.6	7.9
Electricity, gas and water	-2.0	8.0	-2.4	9.4	-3.8	0.0	7.3	5.1	0.3
Construction	4.5	-3.5	7.2	11.0	2.0	13.0	1.5	1.0	14.0
Wholesale and retail commerce, restaurants and hotels	2.4	5.5	5.1	4.2	-3.2	10.7	3.2	-2.2	10.3
Transport, storage and communications	7.2	10.7	10.7	5.2	-3.2	6.6	9.1	7.8	14.2
Financial institutions, insurance, real estate and business services	4.0	4.0	3.8	7.9	7.5	7.2	8.6	6.9	4.9
Community, social and personal services	5.9	4.3	3.0	3.9	11.5	9.1	6.2	15.9	5.7
Gross domestic product, by type of expenditure									
Final consumption expenditure	2.8	3.6	5.3	8.1	-1.4	13.4	5.5	3.2	8.7
Government consumption	11.5	4.0	3.0	3.5	13.7	12.0	5.3	21.0	7.7
Private consumption	1.8	3.5	5.6	8.6	-3.0	13.5	5.6	0.9	8.8
Gross capital formation	-12.2	8.2	4.8	20.6	-12.5	22.7	10.8	-7.5	16.7
Exports (goods and services)	11.5	3.0	9.3	0.9	-8.2	19.9	6.2	-6.7	17.6
Imports (goods and services)	8.1	2.0	9.7	7.0	-8.5	24.8	10.4	-3.5	11.8
Percentajes of GDP									
Investment and saving c/									
Gross capital formation	17.0	17.1	15.8	16.4	13.8	16.2	16.8	15.5	15.2
National saving	16.2	18.7	21.4	17.4	16.8	15.9	17.2	14.6	17.2
External saving	0.8	-1.6	-5.6	-1.0	-3.0	0.3	-0.4	0.9	-2.0
Millions of dollars									
Balance of payments									
Current account balance	-68	167	779	183	482	-57	109	-222	621
Goods balance	1,164	1,130	1,504	1,050	1,124	882	854	571	1,662
Exports, f.o.b.	4,857	6,007	7,534	9,731	7,756	10,474	12,639	11,654	13,605
Imports, f.o.b.	3,694	4,877	6,030	8,681	6,632	9,593	11,784	11,083	11,942
Services trade balance	-81	-68	-104	-155	40	-84	-181	-170	-227
Income balance	-1,374	-1,321	-994	-1,126	-1,201	-1,412	-1,278	-1,381	-1,502
Net current transfers	224	426	373	414	519	557	714	759	688
Capital and financial balance d/	228	216	-56	212	434	377	673	198	415
Net foreign direct investment	36	114	202	209	95	216	557	480	382
Other capital movements	192	101	-258	3	339	161	116	-282	33
Overall balance	160	383	723	395	915	319	782	-24	1,036
Variation in reserve assets e/	-146	-387	-727	-394	-915	-319	-784	25	-1,036
Other financing	-14	4	5	0	0	0	2	0	0
Other external-sector indicators									
Real effective exchange rate (index: 2005=100)	100.0	88.5	82.1	73.9	81.6	80.4	73.1	75.2	72.1
Terms of trade for goods (index: 2005=100)	100.0	98.1	102.7	110.2	107.8	107.8	110.3	111.4	110.8
Net resource transfer (millions of dollars)	-1,161	-1,101	-1,046	-915	-767	-1,036	-603	-1,184	-1,087
Total gross external debt (millions of dollars)	2,571	2,618	2,731	3,124	3,044	3,621	3,864	4,580	5,131
Average annual rates									
Employment									
Labour force participation rate g/	61.8	59.4	60.8	61.7	62.9	60.5	60.7	64.3	62.6
Open unemployment rate h/	7.6	8.9	7.2	7.4	8.2	7.2	7.1	8.1	8.1
Visible underemployment rate i/	7.5	5.6	5.8	6.6	8.2	5.7	6.3	5.4	5.1

Table 1 (concluded)

	2005	2006	2007	2008	2009	2010	2011	2012	2013 a/
Prices	Annual percentages								
Variation in consumer prices (December-December)	9.9	12.5	6.0	7.5	1.9	7.2	4.9	4.0	3.7
Variation in nominal exchange rate (annual average)	3.3	-8.7	-10.8	-13.5	14.3	-4.4	-11.7	5.4	-2.6
Variation in average real wage	1.7	1.1	2.4	-0.8	4.6	0.6	2.8	0.7	2.2
Nominal deposit rate j/	6.1	9.8	5.9	6.2	3.4	2.0	4.2	5.5	9.2
Nominal lending rate k/	15.5	15.7	12.8	13.5	14.6	12.5	16.9	16.6	16.6
Central government	Percentajes of GDP								
Total revenue	15.7	16.0	15.6	15.8	17.5	17.1	18.0	19.0	16.6
Tax revenue	11.1	11.4	11.2	11.8	12.9	13.2	13.8	14.3	12.7
Total expenditure	15.0	15.5	14.8	13.5	17.5	15.9	17.3	20.8	18.6
Current expenditure	11.5	11.9	11.5	11.1	13.4	12.5	13.3	16.0	14.6
Interest	1.0	0.9	0.7	0.6	0.5	0.4	0.3	0.2	0.3
Capital expenditure	3.5	3.7	3.3	2.5	4.1	3.4	4.0	4.8	3.6
Primary balance	1.7	1.3	1.6	2.8	0.6	1.6	1.0	-1.6	-1.6
Overall balance	0.7	0.4	0.9	2.3	0.1	1.2	0.7	-1.8	-1.9
Central government public debt	29.3	23.2	15.9	14.3	14.6	14.1	12.1	11.3	12.4
Domestic	5.1	4.3	3.6	3.3	3.4	2.9	2.6	2.6	4.6
External	24.2	18.8	12.3	11.0	11.2	11.2	9.5	8.7	7.8
Money and credit	Percentages of GDP, end-of-year stocks								
Domestic credit	15.0	13.5	14.4	16.5	18.0	21.5	24.2	29.7	28.4
To the public sector	0.6	-0.5	-2.5	-4.1	-6.5	-7.1	-8.1	-5.6	-8.3
To the private sector	14.3	14.2	17.3	20.9	25.2	29.2	33.0	35.9	37.6
Monetary base	5.4	5.7	5.3	5.2	5.8	5.8	6.5	7.3	6.8
Money (M1)	10.5	11.0	13.2	12.2	16.2	15.3	15.4	16.3	15.8
M2	13.6	14.2	17.1	17.5	23.0	22.1	23.4	25.5	25.3
Foreign-currency deposits	10.0	9.2	9.5	11.1	12.6	14.0	13.6	14.6	15.9

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.

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/ Asunción and urban areas of the Departamento Central. Up to 2009, urban total.

i/ Urban total. New measurements have been used since 2010; the data are not comparable with the previous series.

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

k/ Commercial lending rate, local currency.

Table 2
PARAGUAY: MAIN QUARTERLY INDICATORS

	2012				2013				2014	
	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/	-3.3	-2.4	1.3	-0.6	16.4	15.5	13.7	12.1	4.1	...
Gross international reserves (millions of dollars)	4,855	4,830	4,841	4,934	5,691	5,865	5,854	5,833	5,837	6,296 c/
Real effective exchange rate (index: 2005=100) e/	73.8	67.8	66.4	71.1	72.6	69.8	69.8	70.2	64.9	65.7 c/
Consumer prices (12-month percentage variation)	4.0	3.7	3.2	3.8	2.3	1.4	2.8	4.2	5.1	6.7 c/
Average nominal exchange rate (guaraníes per dollar)	4,451	4,409	4,436	4,406	4,085	4,226	4,456	4,467	4,524	4,427
Nominal interest rates (annualized percentages)										
Deposit rate f/	6.0	5.4	5.5	5.3	9.4	9.6	8.5	9.1	5.4	...
Lending rate g/	16.7	16.1	16.7	16.8	17.3	17.3	16.1	15.7	17.6	15.8
Interbank rate	6.2	6.1	5.4	5.0	5.5	4.9	4.8	4.8
Monetary policy rates	6.5	6.3	5.7	5.5	5.5	5.5	5.5	5.7	6.6	6.8
International bond issues (millions of dollars)	-	-	-	500	500	-	-	-	-	...
Domestic credit (variation from same quarter of preceding year)	25.2	29.8	31.0	27.8	19.0	21.6	23.3	19.3	18.5	12.4 g/
Non-performing loans as a percentage of total credit	2.0	2.2	2.3	2.2	2.3	2.4	2.3	2.1	2.1	...

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.

c/ Figures as of May.

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

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

f/ Commercial lending rate, local currency.

g/ Figures as of April.