

PARAGUAY

1. General trends

After experiencing a robust recovery in early 2020 from the recession caused by adverse weather events in 2019, decisive public action to contain the spread of coronavirus disease (COVID-19) led to a deep contraction in the second quarter of the year. The subsequent recovery, driven by a broad-based set of public policies, as well as continued dynamism in agriculture, limited the contraction in GDP to 0.6% for the year as a whole. The Economic Commission for Latin America and the Caribbean (ECLAC) projects growth of 4.1% for 2021.

Weak demand, together with international fuel price trends and nominal exchange rate appreciation, influenced the behaviour of inflation over the course of 2020. Average annual inflation fell from 2.8% in 2019 to 1.8% at the close of 2020 and was relatively stable as of May 2021.

As a result of drop in revenue and the additional spending to deal with the COVID-19 pandemic, the central government's fiscal deficit increased from 2.9% of GDP in 2019 to 6.1% of GDP in 2020, bringing it, for the second consecutive year, above the limit of 1.5% of GDP set by the Fiscal Responsibility Act. In order to shore up the sustainability of public finances in the medium term, the budget approved for 2021 envisages a deficit reduction of 2.5% of GDP, with the medium-term objective of remaining within the ceiling mandated by the Fiscal Responsibility Act in 2024.

In 2020, the total public sector debt increased by nearly US\$ 3.4 billion to US\$ 12.2 billion, or 33.9% of GDP (22.9% of GDP in 2019). Most of this is external debt contracted with multilateral agencies (US\$ 1.7 billion) and through the placement of sovereign bonds (US\$ 1.5 billion). Paraguay continues to have adequate access to financing in international markets, as evinced by a successful sovereign bond placement for US\$ 826 million in January 2021.

With regard to the external sector, the current account balance of the balance of payments, which in 2019 recorded a deficit of 0.5% of GDP, ended 2020 with a surplus of 2.0% of GDP. This result is explained by a notable improvement in the goods account balance, driven by the decline in imports and the good performance of commodity exports. As of May 2021, external sector indicators point to an improvement in the trade balance.

2. Economic policy

(a) Fiscal policy

The deterioration in public finances was the result of the adoption of an expansionary fiscal policy in an environment characterized by a steep decline in revenues. The primary deficit, which in 2019 came to 2.0% of GDP, reached 5.1% of GDP.

In 2020, total revenues declined by 5.3% in real terms. The downturn was due to falls in the collection of selective goods tax (-9.9%), foreign trade tax (-18.8%) and, to a lesser extent, VAT (-1.8%). Current expenditure, meanwhile, grew by 13.5% in real terms, while public investment increased by 20.2%

in real terms. The items with the greatest impact on the rise in current expenditure were social benefits (56.1% in real terms) and personal services (4.7% in real terms).

As of April 2021, public finances were improving, with an 18.8% real increase in revenues, driven by the recovery of tax revenues and a 3.6% real reduction in current expenditure.

In order to strengthen revenue collection, at the beginning of 2021, the obligation to pay VAT on the sale of used cars was established, as well as an 8% tax on winnings from betting and gaming.

Although cumulative investment between January and April was lower than that seen in the same period in 2020, that was due to the relatively high basis of comparison. In May 2021, the stock of total public debt was equivalent to 34% of GDP.

(b) Monetary policy

Throughout 2020, the Central Bank of Paraguay maintained a resolutely expansionary monetary policy stance, aimed at complementing the government's efforts to mitigate the effects of the pandemic.

During the second half of March 2020, the central bank reduced the monetary policy rate from 4.0% to 2.25%. The benchmark rate was subsequently cut twice, the second time to 0.75% in June 2020, where it has remained ever since.

In order to provide liquidity to the financial system, the legal reserve ratio in both local and foreign currency was reduced, the cost of accessing short-term liquidity was lowered, and a special credit facility was created. In addition, prudential rules were relaxed to facilitate refinancing and renegotiation of existing loans.

To encourage the lending to micro-, small and medium-sized enterprises, resources were channelled through the Development Finance Agency (AFD) and the National Development Bank (BNF). This had an impact in terms of lowering interest rates. While lending rates came down from around 15% nominal at the beginning of the year to 12% at the end of 2020, nominal deposit rates fell from 4.5% to 3.2% over the same period. In 2020, the balance of credit granted by banks to the private sector increased by 7.7% in nominal terms, while the M2 monetary aggregate increased by 19.6%, also in nominal terms.

In line with the projected recovery, according to a survey of expectations of economic variables, an increase of 25 basis points in the monetary policy rate is anticipated before the end of the year.

(c) Exchange-rate policy

Under the inflation-targeting regime, the nominal exchange rate of the guaraní fluctuates freely. The central bank intervenes in the foreign exchange market to smooth out volatility. Throughout 2020, the guaraní maintained an appreciation trend against the Argentine peso and, to a lesser extent, against the Brazilian real, and a slight depreciation trend against the dollar. The guaraní closed 2020 with a nominal depreciation of 11.0% vis-à-vis the country's main trading partners; however, that had declined to 6.3% by May as a result of the upturn in the economic outlook.

(d) Other policies

In 2020, public policy was mainly oriented towards dealing with the pandemic and was organized around three pillars: health, social and economic. To mitigate the impact on health, health resources were significantly expanded, which included the construction of new hospitals. To mitigate the social effects, support for the Tekporã conditional transfer programme was expanded and two temporary programmes were launched: Pytyvõ, which consists of transfers targeted at informal and self-employed workers, and Ñangareko, which consists mainly of transfers and, to a lesser extent, food baskets for low-income families. The economic impact of the pandemic was addressed through increased public investment in infrastructure and social housing, the lowering of VAT on selected products, and the possibility of deferring corporate income tax payments.

One of the main public policy challenges in 2021 is to accelerate the pace of the COVID-19 vaccination campaign, which has been hampered by difficulties in securing supply, as well as by the logistics of vaccine distribution and delivery. The main supply of vaccines is through the COVAX mechanism, led by the World Health Organization (WHO), in addition to donations received from other countries, such as India and Mexico. As of mid-June, it is estimated that only 5% of the population has been vaccinated with at least one dose, impacting the buoyancy of the recovery.

The renegotiation of the Itaipu Treaty with Brazil is scheduled to begin during the second quarter of 2021. On the table is the possibility of Paraguay selling electricity directly to private distributors in Brazil, as well as to third countries.

3. The main variables**(a) The external sector**

The surplus in the balance of goods and services rose by more than US\$ 1 billion in 2020, to a level equivalent to 3.3% of GDP. This was a consequence of the 18.1% contraction in goods imports, which far outpaced the 9.5% decline in goods exports. Although the reduction in imports occurred across the board, by type of good, the 22.1% contraction in imports of capital goods stood out. In the case of exports, the 42.3% drop in re-exports was partially offset by the 6.9% increase in registered exports, most notably of soybean exports.

As regards the financial account, the main flows in 2020 were inflows of US\$ 568.3 million in foreign direct investment and over US\$ 2 billion from the placement of debt securities, as well as a decrease of US\$ 1.8 billion in foreign assets, mainly from banks.

The balance of net international reserves, which had contracted by 3.8% by the closed of 2019, ended 2020 with an increase of 11.8%, reaching US\$ 9.49 billion, equivalent to 26.3% of GDP and 11.3 months of imports.

During 2021, exports of goods, which showed year-on-year growth of 23.5% as of May, have benefited from the rebound in commodity prices. However, the effect on the current account is expected to be offset by an increase in imports of goods and services and a deterioration in the income deficit.

(b) Economic activity

After the steep slump during the first months of the pandemic, when the monthly index of economic activity in April 2020 showed a year-on-year contraction of 13.6%, the start of the gradual easing of lockdown measures from May 2020 onwards led to a partial resurgence in economic activity, adding to the recovery of the agricultural sector from the adverse weather events of 2019.

From a sectoral perspective, the downturn in activity was concentrated in the tertiary sector, mainly in the areas of commerce (-7.8%), restaurants and hotels (-30.7%), and household services (-14.7%), as the primary sector grew by 7.1%, driven by agricultural activity, while the secondary sector expanded by 1.7%, propelled by construction (12.6%).

On the demand side, the component most affected by the pandemic was private consumption, which fell by 3.5%. Although, at the aggregate level, investment declined by 4.5%, that was the result of a 74.4% drop in inventories, as gross fixed capital formation increased by 6.3%. The volume of goods exports contracted by 10.2%, while the volume of goods and services imports fell by 17.0%.

Figures for the first quarter of 2021 point to a modest recovery in economic activity, with GDP growth of 0.6% relative to the same period the previous year. The growth is due to the performance of the manufacturing (4.8%) and construction (14.2%) sectors, which have benefited from the implementation of the economic recovery plan, which places great importance on investment.

Due to the fact that Paraguay experienced one of the smallest declines in GDP during 2020, the growth forecast suggests that GDP will reach its pre-pandemic level during 2021.

During the first wave of infections in 2020, Paraguay stood out for its handling of the pandemic. However, the second wave of infections that started in March 2021 has threatened to overwhelm the health system, with infection and death rates in June 2021 exceeding the peaks seen during the first wave. Although mobility restrictions during the second quarter of 2021 have been limited to night commuting, it is estimated that the slow progress of the vaccination campaign could have an impact on the dynamism of the recovery.

(c) Prices, wages and employment

The sharp decline in year-on-year inflation, which reached a record low of 0.5% in June, was the result of a combination of the deep contraction in activity in the early months of the pandemic, the sharp fall in international fuel prices and the relative nominal appreciation of the guaraní. The pick-up in economic activity in the second half of the year and the pass-through effect of a possible depreciation of the guaraní pushed year-on-year inflation up to 2.2% at the end of 2020, compared with 2.8% in 2019.

As of May 2021, there was an uptick in year-on-year inflation (3.7%) driven by price movements in food and non-alcoholic beverages. The Central Bank of Paraguay projects an average inflation rate of 3.8% for 2021, very close to the midpoint of the target range of between 2% and 6%.

With respect to employment, although the participation rate declined from 72.9% at the end of 2019 to 66.7% in the second quarter of 2020, as of the first quarter of 2021 it was back at 72.9%. However, the unemployment rate, which was 5.7% at the end of 2019, rose to 8.1% in the first quarter of 2021. In the case of women, unemployment rose from 7.9% to 10.2% over the same period.

Meanwhile, growth in the wages and salaries index has maintained the slowing trend observed since the end of 2018, with growth of just 1.1% in nominal terms in 2020.

Table 1
PARAGUAY: MAIN ECONOMIC INDICATORS

	2012	2013	2014	2015	2016	2017	2018	2019	2020 a/
Annual growth rates b/									
Gross domestic product	-0.7	8.3	5.3	3.0	4.3	4.8	3.2	-0.4	-0.6
Per capita gross domestic product	-2.1	6.8	3.9	1.6	2.9	3.4	1.9	-1.7	-1.8
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	-29.8	43.5	7.2	-1.4	2.7	4.9	2.2	-3.4	10.5
Mining and quarrying	0.7	3.2	8.6	3.5	8.6	7.0	-6.8	6.2	0.0
Manufacturing	3.1	7.7	7.0	5.2	4.6	6.2	2.4	-1.2	-0.5
Electricity, gas and water	4.8	0.5	-6.2	2.3	10.3	-2.5	1.9	-11.5	-1.8
Construction	0.6	11.0	11.0	2.0	8.7	3.5	0.3	2.5	12.6
Wholesale and retail commerce, restaurants and hotels	-0.9	3.5	7.9	-0.2	2.5	9.0	5.3	-0.2	-12.5
Transport, storage and communications	7.2	4.7	4.1	4.3	2.7	6.7	3.1	2.4	3.6
Financial institutions, insurance, real estate and business services	5.5	5.3	2.6	4.5	5.5	3.3	3.7	2.8	-0.1
Community, social and personal services	6.1	2.9	4.8	6.3	0.5	2.9	5.3	4.7	-1.6
Gross domestic product, by type of expenditure									
Final consumption expenditure	3.3	3.9	6.8	2.5	3.3	4.5	4.2	2.2	-2.2
Government consumption	3.4	-0.1	10.0	5.0	1.4	2.7	3.0	4.7	5.2
Private consumption	3.3	4.6	6.2	2.0	3.7	4.8	4.4	1.8	-3.5
Gross capital formation	-13.0	9.4	12.5	-4.6	-5.6	11.1	14.8	-6.7	-4.5
Exports (goods and services)	-5.7	13.6	-4.3	3.2	9.2	8.5	-0.4	-3.4	-10.2
Imports (goods and services)	-5.7	5.0	2.1	-3.0	0.9	12.3	8.3	-2.0	-17.0
Investment and saving c/									
Percentages of GDP									
Gross capital formation	21.3	22.0	22.7	21.9	19.8	20.6	22.8	21.7	20.2
National saving	20.4	23.6	22.5	21.5	23.4	23.5	22.6	21.1	22.6
External saving	0.9	-1.6	0.1	0.4	-3.6	-2.9	0.2	0.6	-2.5
Balance of payments									
Millions of dollars									
Current account balance	-286	621	-51	-145	1 305	1 132	-68	-212	887
Goods balance	571	1 662	1 026	788	2 197	1 872	813	451	1 459
Exports, f.o.b.	11 654	13 605	13 105	11 104	11 984	13 396	13 730	12 702	11 494
Imports, f.o.b.	11 083	11 942	12 079	10 317	9 787	11 524	12 917	12 251	10 035
Services trade balance	-170	-219	-222	-244	-221	-273	-334	-325	-191
Income balance	-1 445	-1 542	-1 461	-1 361	-1 447	-1 290	-1 348	-1 133	-1 075
Net current transfers	759	720	606	672	775	823	801	795	694
Capital and financial balance d/	262	414	1 189	-415	-348	-255	-115	157	918
Net foreign direct investment	697	245	412	308	425	576	458	522	568
Other capital movements	-435	169	777	-723	-773	-831	-573	-365	350
Overall balance	-24	1 036	1 138	-560	957	877	-183	-55	1 805
Variation in reserve assets e/	25	-1 036	-1 131	560	-957	-877	183	55	-1 805
Other financing	0	0	-7	0	0	0	0	0	0
Other external-sector indicators									
Real effective exchange rate (index: 2005=100) f/	73.0	68.4	66.0	66.8	69.3	71.2	67.3	68.7	68.0
Terms of trade for goods (index: 2010=100)	102.5	113.3	126.4	128.5	128.9	127.5	124.6	120.2	126.9
Net resource transfer (millions of dollars)	-1 184	-1 127	-279	-1 775	-1 794	-1 545	-1 464	-975	-157
Total gross external debt (millions of dollars)	4 563	4 780	5 839	6 197	6 677	7 738	8 591	9 802	13 675
Employment g/									
Average annual rates									
Labour force participation rate h/	64.3	62.6	61.6	62.1	62.6	71.0	71.9	72.4	70.2
Open unemployment rate h/	4.6	5.0	6.0	5.4	6.0	6.1	6.2	6.6	7.7
Visible underemployment rate i/	5.3	4.7	4.8	4.6	4.0	5.5	5.3	7.0	7.6

Table 1 (concluded)

	2012	2013	2014	2015	2016	2017	2018	2019	2020 a/
Prices	Annual percentages								
Variation in consumer prices (December-December)	4.0	3.7	4.2	3.1	3.9	4.5	3.2	2.8	2.2
Variation in nominal exchange rate (annual average)	5.4	-2.6	3.6	16.6	9.0	-0.9	1.9	8.9	8.5
Variation in average real wage	0.7	2.2	1.2	0.4	0.6	0.3	1.8	1.5	-0.8
Nominal deposit rate j/	5.5	9.2	6.2	7.4	6.7	6.4	6.6	7.3	7.2
Nominal lending rate k/	16.6	16.6	15.7	14.4	15.6	14.3	12.9	12.7	10.7
Central government	Percentages of GDP								
Total revenue	14.0	12.9	13.7	14.1	13.9	14.2	14.1	14.2	13.6
Tax revenue	10.6	9.9	11.0	10.7	10.5	11.0	11.0	10.9	10.5
Total expenditure	15.2	14.2	14.6	15.4	15.0	15.3	15.4	17.0	19.8
Current expenditure	11.8	11.3	11.8	12.4	11.7	11.7	12.3	13.0	15.3
Interest	0.2	0.3	0.3	0.5	0.6	0.6	0.7	0.8	1.1
Capital expenditure	3.4	2.8	2.8	3.1	3.2	3.6	3.1	4.0	4.4
Primary balance	-1.1	-1.0	-0.6	-0.9	-0.5	-0.5	-0.6	-2.0	-5.1
Overall balance	-1.2	-1.3	-0.8	-1.3	-1.1	-1.1	-1.3	-2.8	-6.2
Central government public debt	9.5	9.7	12.1	13.3	15.1	15.7	16.9	19.6	29.5
Domestic	3.8	3.6	3.8	3.4	3.2	3.0	2.8	2.8	3.0
External	5.7	6.1	8.3	9.9	12.0	12.7	14.1	16.8	26.5
Money and credit	Percentages of GDP, end-of-year stocks								
Domestic credit	21.9	22.0	23.6	28.6	25.1	24.2	27.0	29.7	30.3
To the public sector	-4.1	-6.4	-7.8	-7.4	-8.0	-8.3	-8.5	-8.1	-9.6
To the private sector	26.6	29.1	32.5	37.5	34.8	34.2	37.6	40.1	42.5
Monetary base	9.2	7.9	8.1	8.0	7.8	8.4	8.5	8.6	9.0
Money (M1)	12.0	12.2	12.3	12.2	12.1	13.2	13.1	13.7	16.4
M2	18.9	19.6	19.5	19.8	19.7	21.4	21.6	22.5	26.4
Foreign-currency deposits	10.8	12.4	14.1	17.3	16.1	15.1	15.2	16.8	19.9

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 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. Up to 2017, nationwide total.

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

k/ Commercial lending rate, local currency.

Table 2
PARAGUAY: MAIN QUARTERLY INDICATORS

	2019				2020				2021	
	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/	-3.0	-3.7	2.2	3.2	4.3	-6.7	-1.3	1.0	0.6	...
Gross international reserves (millions of dollars)	8 222	8 015	7 812	7 789	8 175	9 293	8 986	9 143	9 921	10 326
Real effective exchange rate (index: 2005=100) c/	68.4	69.5	67.6	69.2	68.5	64.8	69.0	69.9	67.5	66.8 d/
Open unemployment rate	6.9	7.4	6.2	5.7	7.9	7.6	8.2	7.2	8.1	...
Employment rate	68.5	65.9	67.3	68.8	65.6	61.6	64.9	67.2	67.0	...
Consumer prices (12-month percentage variation)	2.8	2.8	2.6	2.8	2.5	0.5	1.6	2.2	2.4	4.5
Average nominal exchange rate (guaraníes per dollar)	6 070	6 261	6 181	6 451	6 539	6 603	6 944	6 998	6 726	6 624
Nominal interest rates (average annualized percentages)										
Deposit rate e/	7.4	7.6	7.4	7.0	7.4	7.3	7.1	7.1	6.6	7.1 f/
Lending rate g/	12.4	13.5	12.5	12.6	12.2	11.4	9.7	9.4	10.3	10.0 f/
Interbank rate	...	...	...	...	...	...	...	...	...	...
Monetary policy rates	5.0	4.8	4.3	4.0	3.8	1.4	0.8	0.8	0.8	0.8
Sovereign bond spread, Embi Global (basis points to end of period) h/	222	212	237	203	429	312	267	213	212	216
International bond issues (millions of dollars)	800	732	-	-	800	1 000	-	361	826	-
Domestic credit (variation from same quarter of preceding year)	15.1	18.3	16.6	14.1	9.7	5.0	7.2	6.0	8.9	16.9 d/

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

d/ Figures as of May.

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

f/ Figures as of April.

g/ Commercial lending rate, local currency.

h/ Measured by J.P.Morgan.