

Paraguay

1. General trends

In 2015, Paraguay's gross domestic product (GDP) grew by 3%, which is lower than the 4.7% posted in 2014, but higher than the regional average. This growth was fuelled by the agriculture and electricity production sectors and some agro-industrial subsectors. Heavy rains, caused by the El Niño phenomenon, had a negative impact on the farming and construction sectors, but boosted energy generation. On the fiscal front, the country posted a deficit of 1.8% of GDP, up from 2014, mainly because revenue was largely exceeded by expenditure in the form of a higher wage bill and social benefits, which made up 52% and 14% of total expenditure, respectively. In addition, tax receipts were down due to the lower volume of international trade and the limited political support for tax hikes. Part of the deficit was financed with public debt, which ballooned from 14.5% of GDP in 2013 to 19.7% in 2015. Monetary policy was expansionary in 2015 and annual inflation reached 3.1%. The external sector was hit by the recession in Brazil, lower commodity prices and the drop in beef exports to the Russian Federation, all of which pushed the current account deficit up to 1.8% of GDP.

The economy is expected to continue to grow by around 2.8% in 2016, thanks chiefly to agriculture and energy production. Private consumption will continue to contribute to that growth, as a result of employment growth, access to credit, cash transfers and other social programmes. Public consumption as part of public-private partnerships is also set to increase. Conversely, the external sector is expected to continue to suffer from the sluggish performance of the other economies in the region.

2. Economic policy

(a) Fiscal policy

Higher tax revenues were not enough to offset the increase in public spending in 2015, which meant that the central administration closed the year with a deficit equivalent to 1.8% of GDP, compared to 1.1% in 2014. This exceeds the maximum of 1.5% established for 2015 under the Fiscal Responsibility Act.

Total revenues rose by 7.6%, largely as a result of an increase in non-tax revenues from energy sales through the binational entities, Itaipú and Yacyretá, and of proceeds from the sale of 4G licences (US\$ 90 million). Meanwhile, tax receipts were up by 3.4%, but accounted for 68% of government revenue. This extra tax revenue was raised mainly from the value added tax (VAT), as receipts from the personal income tax, introduced in 2012, are meagre because there is no limit on deductible expenses. The State Undersecretariat of Taxation (SET) is looking to introduce a ceiling on deductible amounts, but this initiative lacks sufficient political support. A proposal to charge VAT on transactions by cooperatives has encountered similar problems and has therefore been shelved since mid-2015. Lastly, revenue raised by import duties slumped owing to the lower volume of international trade. Total revenues as a percentage of GDP are currently around 17.1%, compared with the regional total of 21.7%, and the tax burden (total tax revenue as a percentage of GDP) is 12.5%.

Meanwhile, total committed expenditure was 10.5% higher than the previous year. The greater expenditure can be explained by a higher wage bill, resulting from an adjustment to the minimum wage for public sector workers; interest payments on national debt; and higher social spending, primarily through the “Older Adult” and “Tekoporã” programmes. Net acquisitions of non-financial assets, a proxy for capital expenditures, increased by 13.8% compared with the previous year.

The government used borrowing as a source of financing, so that 2015 closed with a total public debt of 19.7% of GDP, up from 17.7% in 2014 and 14.1% in 2013. Paraguay’s third ever sovereign bond issue was launched in early 2015, for US\$ 280 million, and its fourth, for US\$ 600 million, took place in March 2016, bringing total public debt to 23.4% of GDP in 2016.

According to the national budget bill for 2016, the central administration’s net debt should be brought down to 1.5% of GDP. The budget priorities are social policy, infrastructure and security and mitigating the negative impact of the global economic conditions.

(b) Monetary policy

Since May 2011, the Central Bank of Paraguay’s monetary policy has revolved around an inflation-targeting scheme, under which it commits to achieving a specific inflation rate within a given time frame. In 2015, this target, measured by year-on-year changes in the consumer price index (CPI), was 4.5%, with a tolerance band of 2 percentage points. The central bank’s main inflation-targeting tool is the monetary policy rate, which influences interest rates and market liquidity and, by extension, economic activity, which in turn affects inflation.

In response to deflationary pressures in late 2014, the central bank adopted an expansionary monetary policy for most of 2015, reducing the monetary policy interest rate by 25 basis points successively in March, April, June and July. This rate was thus cut from an annual 6.75% at the beginning of 2015 to 5.75% in July, where it remained for the rest of the year. In early 2016, inflation started to edge up, mainly because of the volatility of prices for some products in the basic food basket, so the central bank moved to adopt a less expansionary policy, increasing the monetary policy rate by 25 basis points. However, monetary policy continued to be accommodative; the annual rate was cut again to 5.75% in May 2016 and to 5.50% in July.

The upward trend in bank lending to the private non-financial sector, in both local and foreign currencies, continued in 2015, up by 22.9% year-on-year compared with 2014. In this connection, in August a law was passed on transparency and consumer protection in the use of credit and debit cards, which caps interest rates applicable to credit cards. Before this law, financial institutions were free to set their own interest rates.

(c) Exchange-rate policy

The guaraní depreciated by 25.3% in nominal terms against the dollar in 2015, in line with other currencies in the region whose dollar exchange rates have trended upwards. In this period, the nominal average exchange rate went from 4,630 guaraníes to 5,802 guaraníes per dollar. The main reasons for the local currency depreciation are the fall in prices for commodity exports, particularly soybeans, and the expected appreciation of the dollar globally.

With regard to other currencies, the guaraní appreciated against the Argentine peso (17.5%) and the Brazilian real (16.4%) and depreciated against the euro (9.8%).

The central bank sold a net amount of US\$ 295.6 million on the foreign-exchange market over the course of the year. International reserves stood at US\$ 6.2 billion by December 2015, 10% less than the same month in 2014. This level of reserves provides coverage for 7.5 months of imports and is equivalent to 1.5 times the external public debt.

(d) Other policies

In August 2015, the government announced a policy package to boost the economy and counteract external headwinds. The measures include fast-tracking public works, mainly highway construction and energy projects, and higher social spending through conditional cash transfers and poverty alleviation programmes. Given the budget constraints, current expenditure cuts were announced so that these policies could be pursued. The government also intends to boost tax revenue by imposing fines on tax evaders, raising property tax and excise tax on cigarettes, introducing VAT in the cooperative sector and modifying the maximum deductible for personal income tax. However, these measures have attracted little political backing.

In recent years, there has been greater acceptance of the need to strengthen government institutions and to combat inefficiency and corruption. Efforts include stronger oversight of accountability by public employees; the removal of officials charged with fraud; the adoption of a law that requires all public bodies to disseminate information on administrative and human resources; and the Judiciary Act, which provides for the establishment of a national commission to improve the administration of justice and set up anti-corruption mechanisms. Paraguay was ranked 130 out of 168 countries surveyed in Transparency International's 2015 Corruption Perceptions Index, and while this is by no means a good score, the country has moved up 20 places compared with 2014. It is hoped that these steps will help to improve the country's image and attract investment.

3. The main variables

(a) The external sector

In 2015, the current account posted a deficit of US\$ 493.2 million, equivalent to 1.8% of GDP, up significantly from 2014, when it was 0.4% of GDP.

Exports of goods totalled US\$ 8.356 billion, a year-on-year decline of 13.2%. The total value of exports of some products, such as soybean and its derivatives (soybean oils and flour), beef, electricity and re-exports, dropped compared with 2014, owing to both the fall in international prices of major exports and the lower volumes sold as a result of the economic crisis in Brazil, one of Paraguay's major trading partners. Beef exports fell in line with the drop in sales to the Russian Federation.

At the close of 2015, goods imports stood at US\$ 9.529 billion, a drop of 15.7% compared with 2014. This was attributable to the decline in both imports for domestic use (-10.8%) and goods for re-export (-38.5%), which are goods imported under a special regime and resold in border areas. The falls in international oil prices (fuel and lubricants) and in capital and consumer goods imports were also factors. Demand for agricultural equipment, such as fertilizers, tractors and harvesting and threshing machines, also shrank as agricultural exports fell. The recession in Brazil had a dampening effect on imports for re-export.

With regard to other components of the current account, the services trade balance and income balance posted deficits of US\$ 244.9 million and US\$ 1.541 billion, respectively. This was partly financed by foreign direct investment (FDI) in the amount of US\$ 282.7 million, which provided an important boost to the local economy. International reserves were also used, depleting them by 10% over the course of 2015. The balance of payments returned a deficit of US\$ 559.6 million, equivalent to 1.8% of GDP.

The current account deficit is expected to shrink to 1.4% of GDP in 2016; however, this improvement may be the result of a larger drop in imports than exports, rather than a real recovery in international trade. By April 2016, the value of exports and imports had fallen by 6.2% and 21%, respectively, compared with the first four months of 2015. Although efforts are being made to diversify into new markets in countries within the region and in the Middle East and Africa, Paraguay's economic performance will continue to depend on its trading partners' economic recovery.

(b) Economic activity

Paraguay's GDP grew by 3% in 2015, substantially less than had been projected at the beginning of the year. Agriculture remains the largest component of GDP, accounting for 20%, with cumulative growth of 6.3% in 2015, largely thanks to the high maize yield, together with higher volumes of other crops such as rice, sugar cane, tobacco, cassava and wheat, which offset the decline in soybean production. This good harvest led to growth in related industries, such as edible oil producers, grain mills and cargo transport services. By contrast, the livestock sector shrank by 1.3%, after having grown by 14.4% in 2014, as fewer cattle were slaughtered for export due to falling demand from the Russian Federation. Similarly, the 4.4% growth in the construction sector was well below that of 2014 (13.8%), following heavy rains brought on by the El Niño phenomenon and a slowdown in public sector investment in infrastructure. The wet weather in the second half of the year boosted the hydroelectric power production of the binational entities, with year-on-year growth of 1.3%.

On the expenditure side, public consumption was up in 2015 (6.2%), but gross fixed capital formation slowed to 1.5% growth, compared to 11% in 2014. This is reflected in the sharp (17%) fall in capital goods imports in 2015.

Economic activity is projected to expand by around 2.8% in 2016; however, this will largely be contingent on the recovery of Paraguay's trading partners, notably Brazil, an upturn in commodity prices and climate-related factors. The agricultural sector is expected to perform reasonably well, with higher soybean and maize yields. Within the secondary sector, electricity and water supply is expected to register positive growth, but manufacturing and services will contract. The low productivity of subsectors, such as beef production, beverages and tobacco and textiles and clothing, will adversely affect manufacturing, while the service sector will suffer the knock-on effects of the regional trade situation. Government infrastructure projects and private sector hotel and corporate ventures mean that the construction sector has a good outlook for growth in 2016. On the expenditure side, private consumption will continue to fuel growth by bolstering employment, access to credit, cash transfers and other social programmes. Meanwhile, public-private partnerships are expected to boost public consumption, although investment in machinery and equipment (capital goods) will be cut back. Law No. 5102 on promoting investment in public infrastructure, and the expansion and improvement of State-provided goods and services through public-private partnerships was adopted in 2013. In recent years, such partnerships have been encouraged to finance various projects, such as building roads and improving airport infrastructure. The Law was amended in December 2015 to give the executive branch more control over how projects are awarded.

This new regulation should accelerate the implementation of projects in 2016. Little improvement is expected in the external sector, given the more complicated global and regional picture.

(c) Prices, wages and employment

The annual inflation rate stood at 3.1% in 2015, close to the floor of the target range set by the central bank in December 2014. The downward trend in inflation is largely the result of cheaper prices for some foodstuffs, which offset price hikes for services and goods, mainly durable goods, caused by exchange-rate depreciation. In line with the decline in international oil prices, the prices of fuels derived from crude oil (liquefied gas, petrol and diesel) and of some services, such as public transport, have also remained lower than they were in 2014.

During the first quarter of 2016, the year-on-year inflation stood at 4.7%, chiefly as a result of higher prices for a few food products and some services, such as education and public transport. The guaraní also appreciated against the dollar in early months of the year, which brought down durable goods prices. In this context, inflation is expected to reach 5.2% by December 2016.

The annualized general wage and salary index was up by 2.9% by December 2015, with the strongest wage growth in the services sector, followed by the financial sector. The legal minimum wage has remained at 1,824,055 guaraníes (US\$ 350) since March 2014, which means that its purchasing power has been eroded. It is estimated that 30% of wage workers receive less than the minimum wage, while around 31% are paid minimum wage or 1.5 times that amount.

The economic growth in 2015 led to job creation exceeding the numbers entering the labour force, bringing down unemployment. According to data from the country's continuous employment survey, the average annual employment rate for 2015 was 60.4% and the average open unemployment rate came down to 6.8%, from 8.0% in 2014. The fall in unemployment was greater among women, but gender differences persist, with an unemployment rate of 8% for women compared to 5.9% for men.

Table 1
PARAGUAY: MAIN ECONOMIC INDICATORS

	2007	2008	2009	2010	2011	2012	2013	2014	2015 a/
	Annual growth rates b/								
Gross domestic product	5.4	6.4	-4.0	13.1	4.3	-1.2	14.0	4.7	3.0
Per capita gross domestic product	4.0	4.9	-5.2	11.6	2.9	-2.6	12.5	3.3	1.7
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	14.3	9.2	-17.3	34.2	3.7	-19.8	41.2	4.7	4.7
Mining and quarrying	3.5	5.0	3.0	3.2	5.3	1.5	8.9	9.5	3.4
Manufacturing	-1.2	2.0	-0.8	6.3	-1.6	4.6	7.9	9.5	1.9
Electricity, gas and water	-2.4	9.4	-3.8	0.0	7.3	5.1	1.2	-6.7	1.3
Construction	7.2	11.0	2.0	13.0	1.5	1.0	9.6	13.8	4.4
Wholesale and retail commerce, restaurants and hotels	5.1	4.2	-3.2	10.7	3.2	-2.2	10.3	5.9	0.4
Transport, storage and communications	10.7	5.2	-3.2	6.6	9.1	7.8	12.7	5.1	1.0
Financial institutions, insurance, real estate and business services	3.8	7.9	7.5	7.2	8.6	6.9	5.7	6.8	6.7
Community, social and personal services	3.0	3.9	11.5	9.1	6.2	15.9	6.0	6.1	4.8
Gross domestic product, by type of expenditure									
Final consumption expenditure	5.3	8.1	-1.4	13.4	5.5	4.8	4.5	3.8	2.8
Government consumption	3.0	3.5	13.7	12.0	5.3	21.0	3.5	4.2	6.2
Private consumption	5.6	8.6	-3.0	13.5	5.6	2.8	4.6	3.7	2.4
Gross capital formation	4.8	20.6	-12.5	22.7	10.8	-13.5	20.2	11.0	1.5
Exports (goods and services)	9.3	0.9	-8.2	19.9	6.2	-6.7	18.4	4.3	-3.2
Imports (goods and services)	9.7	7.0	-8.5	24.8	10.4	-3.5	6.8	5.3	-4.7
Investment and saving c/	Percentajes of GDP								
Gross capital formation	15.8	16.4	13.8	16.2	17.1	15.1	15.4	16.2	16.7
National saving	21.4	17.4	16.8	15.9	17.5	13.0	17.1	15.8	14.9
External saving	-5.6	-1.0	-3.0	0.3	-0.4	2.0	-1.6	0.4	1.8
Balance of payments	Millions of dollars								
Current account balance	779	183	482	-57	109	-501	477	-127	-493
Goods balance	1,504	1,050	1,124	882	854	571	1,662	1,026	610
Exports, f.o.b.	7,534	9,731	7,756	10,474	12,639	11,654	13,605	13,105	10,927
Imports, f.o.b.	6,030	8,681	6,632	9,593	11,784	11,083	11,942	12,079	10,317
Services trade balance	-104	-155	40	-84	-181	-170	-219	-222	-245
Income balance	-994	-1,126	-1,201	-1,412	-1,278	-1,661	-1,685	-1,537	-1,541
Net current transfers	373	414	519	557	714	759	720	606	682
Capital and financial balance d/	-56	212	434	377	673	477	558	1,265	-66
Net foreign direct investment	202	209	95	216	557	738	72	346	283
Other capital movements	-258	3	339	161	116	-260	487	919	-349
Overall balance	723	395	915	319	782	-24	1,036	1,138	-560
Variation in reserve assets e/	-727	-394	-915	-319	-784	25	-1,036	-1,131	560
Other financing	5	0	0	0	2	0	0	-7	0
Other external-sector indicators									
Real effective exchange rate (index: 2005=100) f/	82.1	73.8	81.6	80.1	71.7	73.0	68.5	66.4	67.4
Terms of trade for goods (index: 2010=100)	95.3	102.3	100.0	100.0	102.4	103.4	102.8	102.6	107.5
Net resource transfer (millions of dollars)	-1,046	-915	-767	-1,036	-603	-1,184	-1,127	-279	-1,607
Total gross external debt (millions of dollars)	2,731	3,124	3,044	3,621	3,864	4,471	4,600	5,978	6,317
Employment	Average annual rates								
Labour force participation rate g/	60.8	61.7	62.9	60.5	60.7	64.3	62.6	61.6	61.6
Open unemployment rate h/	7.2	7.4	8.2	7.2	7.1	8.1	8.1	8.0	6.8
Visible underemployment rate i/	5.8	6.6	8.2	7.3	6.3	5.4	5.1	4.9	4.8

Table 1 (concluded)

	2007	2008	2009	2010	2011	2012	2013	2014	2015 a/
Prices	Annual percentages								
Variation in consumer prices (December-December)	6.0	7.5	1.9	7.2	4.9	4.0	3.7	4.2	3.1
Variation in nominal exchange rate (annual average)	-10.8	-13.5	14.3	-4.4	-11.7	5.4	-2.6	3.6	16.6
Variation in average real wage	2.3	-0.7	4.5	0.6	2.8	0.7	2.2	1.3	0.5
Nominal deposit rate j/	5.9	6.2	3.4	2.0	4.2	5.5	9.2	6.2	7.4
Nominal lending rate k/	12.8	13.5	14.6	12.5	16.9	16.6	16.6	15.7	14.4
Central government	Percentajes of GDP								
Total revenue	15.6	15.8	17.5	17.1	18.0	19.0	17.1	17.9	18.4
Tax revenue	11.2	11.8	12.9	13.2	13.8	14.3	13.1	14.4	12.5
Total expenditure	14.6	13.5	17.4	15.8	17.0	20.6	18.8	19.0	20.2
Current expenditure	11.5	11.1	13.4	12.5	13.3	16.0	15.1	15.4	16.2
Interest	0.7	0.6	0.5	0.4	0.3	0.2	0.3	0.4	0.6
Capital expenditure	3.1	2.5	4.0	3.3	3.8	4.7	3.8	3.6	4.0
Primary balance	1.7	2.8	0.7	1.7	1.3	-1.4	-1.4	-0.7	-1.1
Overall balance	1.0	2.2	0.1	1.3	1.0	-1.7	-1.7	-1.1	-1.8
Central government public debt	14.7	13.4	13.9	12.1	9.8	11.3	13.0	15.8	17.3
Domestic	2.4	2.2	2.8	2.4	1.7	2.6	4.8	4.9	4.4
External	12.4	11.2	11.1	9.7	8.2	8.7	8.2	10.8	12.9
Money and credit	Percentages of GDP, end-of-year stocks								
Domestic credit	14.4	16.5	18.0	21.5	24.2	29.7	29.2	30.8	37.4
To the public sector	-2.5	-4.1	-6.5	-7.1	-8.1	-5.6	-8.5	-10.2	-9.7
To the private sector	17.3	20.9	25.2	29.2	33.0	35.9	38.7	42.5	49.0
Monetary base	5.3	5.2	5.8	5.8	6.5	7.3	7.0	5.9	6.3
Money (M1)	13.2	12.2	16.2	15.3	15.4	16.3	16.3	16.1	16.0
M2	17.1	17.5	23.0	22.1	23.4	25.5	26.1	25.6	25.8
Foreign-currency deposits	9.5	11.1	12.6	14.0	13.6	14.6	16.4	18.4	22.6

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

	2014				2015				2016	
	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/	3.7	3.0	5.1	6.9	6.5	2.6	2.4	1.1	1.5	...
Gross international reserves (millions of dollars)	5,837	6,304	6,884	6,981	6,733	7,081	6,727	6,261	6,164	6,848 c/
Real effective exchange rate (index: 2005=100) d/	67.2	66.8	65.1	66.3	63.9	67.7	67.4	70.4	66.9	69.0 c/
Consumer prices (12-month percentage variation)	6.1	6.4	4.1	4.2	2.6	2.5	3.7	3.1	4.7	3.5 c/
Average nominal exchange rate (guaraníes per dollar)	4,524	4,420	4,293	4,617	4,760	5,053	5,311	5,696	5,795	5,611
Nominal interest rates (average annualized percentages)										
Deposit rate e/	5.4	6.2	6.6	6.7	8.3	7.6	7.6	6.0	7.7	5.9 c/
Lending rate f/	17.6	15.8	14.9	14.4	14.3	14.6	13.6	15.0	16.4	16.2 c/
Interbank rate	...	5.9	...	5.8	...	6.1	...	6.1	7.0	6.5 c/
Monetary policy rates	6.7	6.8	6.8	6.8	6.7	6.2	5.8	5.8	6.0	5.8
International bond issues (millions of dollars)	-	-	1,000	-	-	280	-	-	600	-
Domestic credit (variation from same quarter of preceding year)	18.5	12.9	6.1	11.2	21.6	22.0	31.0	29.0	18.6	9.3 c/
Non-performing loans as a percentage of total credit	2.1	2.3	2.2	2.0	2.0	2.2	2.6	2.6	2.8	2.9 c/

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.