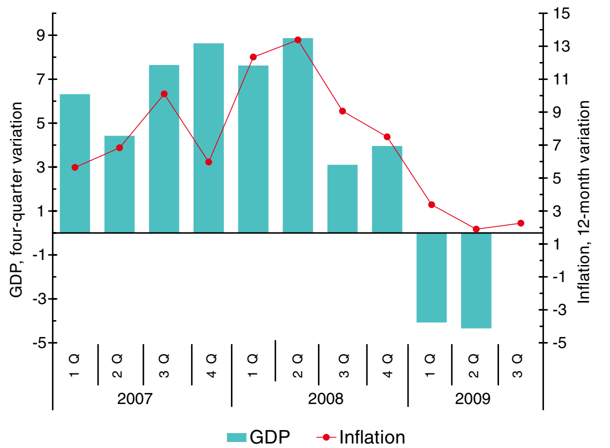
Paraguay

The GDP of Paraguay is estimated to have fallen by 3.5% in 2009 as the country experienced one of the sharpest economic slowdowns in Latin America. This contraction was mainly the result of the severe drought that caused major losses in agriculture, the country's most important economic sector. In response to this situation and in order to mitigate the effects of the international financial crisis, the government increased public spending over the course of the year, and the country is consequently expected to record a small fiscal deficit of between 0.7% and 1.2% of GDP. Inflation was lower than in 2008, and, up to November 2009, the 12-month variation in the consumer price index (CPI) was 2.0%. However, with prices for agricultural products rising, the CPI is expected to be slightly higher by year-end. In the external sector, the trade deficit is projected to narrow, and the current account deficit should therefore also diminish. A recovery has been forecast for both the agricultural and the external sectors in 2010, and the economy is expected to grow again at around 3.0%.

For the first time since 2003, the fiscal balance will be negative in 2009, posting an estimated deficit of between 0.7% and 1.2% of GDP. In order to tackle the international financial crisis and the drought, the government adopted an expansionary fiscal policy with investments in road infrastructure works and other labour-intensive projects. Despite the unfavourable economic situation, total tax receipts up to October showed a 6.9% increase over the figure for the same period in 2008. This increase was due mainly to the government's effort to boost non-tax revenues (which rose by 20.3%) in view of the negative expectations regarding income from taxes on goods and services and foreign trade in particular, which in fact declined by 3.7% and 10.4%, respectively. From January to October 2009, total compulsory expenditure rose by 24% as a result of the higher budget execution. Capital expenditure, which accounts for 20% of total expenditure, soared by 65.2%, with investment in physical infrastructure expanding by 71.9%. Public treasury bond auctions were held in May and October 2009, and bids were accepted for 185 billion guaraníes and 389 billion guaraníes, respectively. In addition, the government managed to secure US$ 300 million in financing from multilateral organizations for its economic recovery programme. In October, the external public debt had risen by 6.0% to stand at US$ 2.256 billion or 15.3% of GDP.

With inflation expected to trend downwards, the central bank lowered the interest rates on monetary regulation instruments in 2009 to encourage their net redemption. The amount of outstanding instruments

PARAGUAY: GDP AND INFLATION



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

in the market thus diminished by 35.5% year-on-year, while the weighted average of their yield up to October 2009 was 2.1%, down from 6.1% in the same period of 2008. This process was interrupted, however, in August and September in response to a spike in inflation. The central bank also applied other measures to inject liquidity into the economy and counteract the negative impacts of the international financial crisis; it reduced national- and foreign-currency legal reserve requirements, and in March it established a line of credit to provide liquidity to local financial institutions. The guaraní continued to lose value against the United States dollar, largely as a result of the poor performance of the external sector and the overall positive movement in the dollar since the start of the crisis. By October, the average nominal exchange rate had fallen by 16.2%. However, the guaraní proved to be more stable in relation to the Argentine peso and the Brazilian real, appreciating by 1.6% against the former and depreciating by only 1.8% against the latter. As a result, the real effective exchange rate reflected a depreciation of 9.9%. The volume of central-bank intervention in the exchange-rate market was significant in 2008, but diminished in 2009. By October 2009, such transactions amounted to a net purchase of US$ 101.6 million. Net international reserves meanwhile totalled US$ 3.594 billion in October, or 24.4% of GDP, compared with 16.2% of GDP for 2008, strengthening the country's position to withstand possible external financial upsets.

Following six years of continuous growth, GDP is expected to contract by 3.5% in 2009. Per capita GDP fell by 5.2% in comparison with 2008, when it increased to a record US$ 1,556. In the second quarter of 2009, agriculture —the mainstay of the Paraguayan economy— recorded the sharpest decline (21.8% year-on-year). This was due in part to weaker external demand, but mostly to the severe drought that ravaged the country. According to estimates of the Ministry of Agriculture and Livestock, cotton production slumped by 61%, soya by 39% and sesame by 23%. Excluding the agricultural sector, the decline in GDP would be barely 0.1%. Other sectors which have also sustained losses were manufacturing and mining (down 7.8%) and construction (down 6.4%). The electricity and water sector and the services sector were the most resilient, recording growth of 4.9% and 2.7%, respectively. In terms of expenditure, much of the fall in GDP was attributable to the decline in domestic demand. Gross fixed capital formation shrank by 17.0%, but was partly offset by the 8.5% growth in government consumption. The year-on-year variation in the consumer price index in November was 2.0%, well below the rate of 8.8% recorded in the previous year. Core inflation, an indicator which excludes the most volatile products in the basket (fruits and vegetables), showed a 0.1% variation year-on-year, while core inflation X1, which excludes regulated services and fuels as well as fruits and vegetables, rose by 0.9%. Fruit and vegetable prices started to shoot up in May 2009 and by October had soared by 39.6%, as a result of the drought and the losses sustained by the agricultural sector.

The external sector performed poorly in 2009. The volume of agricultural exports shrank as a result of the drought. Export values also decreased owing to the fall in commodity prices in 2008. By September 2009, the terms of trade had worsened by 19.4% year-on-year. External demand contracted, since demand was down also in Paraguay's main trading partners (MERCOSUR countries). Up to October, earnings from merchandise exports declined by 29.9% compared with the same period in 2009. This was counterbalanced, however, by a 29.7% drop in imports, and the trade deficit therefore narrowed by 29.5%. The international financial crisis also had an impact on remittances. Foreign exchange inflows under this heading increased by just 0.4% (in cumulative terms up to September), compared with a 6.6% rise from January to September 2008. A small current account deficit of close to 1.4% of GDP is predicted for the end of the year, compared with 2.8% in 2008.

PARAGUAY: MAIN ECONOMIC INDICATORS

	2007	2008	2009 [a]
	Annual percentage growth rates		
Gross domestic product	6.8	5.8	-3.5
Per capita gross domestic product	4.8	3.9	-5.2
Consumer prices	6.0	7.5	2.8 [b]
Average real wage	2.4	-0.7	4.3 [c]
Money (M1)	46.1	7.5	7.5 [d]
Real effective exchange rate [e]	-10.4	-12.3	9.9 [f]
Terms of trade	4.8	7.3	-4.4
	Annual average percentages		
Urban unemployment rate	7.2	7.4	...
Central administration overall balance/GDP	1.0	2.6	-0.7
Nominal deposit rate	5.9	6.2	3.3 [g]
Nominal lending rate	14.6	14.6	16.2 [g]
	Millions of dollars		
Exports of goods and services	6 542	8 893	6 473
Imports of goods and services	6 554	9 543	6 853
Current account balance	200	-471	-205
Capital and financial account balance [h]	523	850	1,035
Overall balance	723	379	830

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary estimates.
[b] Twelve-month variation to October 2009.
[c] Figure for June.
[d] Twelve-month variation to September 2009.
[e] A negative rate indicates an appreciation of the currency in real terms.
[f] Year-on-year average variation, January to October.
[g] Average from January to September, annualized.
[h] Includes errors and omissions.