



# Paraguay

Prepared by: Yuri Seedial  
yuri.seedial@firstcitizenstt.com  
Last Updated: April 2016

COUNTRY		CREDIT RATING		GDP Composition	
Real GDP growth (%) 2016	3.10%	S&P Foreign Currency	BB (P)	Major Trade Partners	Brazil 31%, Russia 9.2%, Argentina 8.3%, Chile 6.8%
Next General Election	2018	Fitch Foreign Currency	BB (S)	Major Exports	Soybeans, livestock feed, cotton, meat, edible oils
Exchange Rate	PYG 5539.90	Moody's Foreign Currency	Ba1 (S)	GDP Composition	Agriculture: 18.9%, industry: 18.5%, services: 62.6%
Price of 1 USD in PYG					

## RECENT ECONOMIC DEVELOPMENTS

### ECONOMIC OUTLOOK

**STABLE**

Economic activity indicators continue to reflect moderate dynamism and as a result Paraguayan real GDP growth will slightly accelerate in 2016 as private consumption ticks higher. Nonetheless, the economy will face significant headwinds from poor economic dynamics in its key trade and investment partners, keeping headline growth well below recent highs. In January 2016, the Monthly Indicator of Economic Activity of Paraguay (IMAEP) registered an annual variation of 1.8%, largely explained by the positive results of electrical energy output at the bi-national hydroelectric dams, livestock production, and the construction sector. Manufacturing registered a slight increase, driven principally by meat production, while other activities relevant to this sector registered decreases (textiles, beverages and tobacco, non-metallic minerals). In regards to the services sector, the main categories (commerce and governmental services) registered weak performance, which was partially offset by the favorable results of services extended to both businesses and private households, and the good performance observed in transportation and communication services. In aggregate, real GDP growth is estimated at 3.1% in 2016, a slight increase from the 3% registered in 2015. Agriculture is significant in the economy of Paraguay, accounting for 19% of GDP and the majority of the population is involved in agriculture (26% of employment). Products include cotton, sugarcane, soybeans, corn and wheat. The country is the 2nd largest producer of stevia, 6th largest exporter of corn, 10th largest exporter of wheat and 8th largest exporter of beef. They are also the 4th largest exporter of soybeans and are a major supplier to China of soy-based animal feeds. Beef is the largest non-agricultural export product and Russia is a key customer. The manufacturing and mining sector is also economically important at 11% of GDP and entails the production of cement, clay, iron ore and natural gas.

### LABOUR, INFLATION AND THE FINANCIAL SYSTEM

**STABLE**

Total inflation measured 5.1% in March 2016, a marginal decline from the 5.2% observed in January. This result is largely explained by price increases of certain food items and educational services. These increases were offset by the price reductions of products derived from crude oil (liquefied petroleum gas, gasoline and diesel fuel), urban bus fares, and durable goods. In March 2016 core inflation stood at 4.4% above the 4% registered in February, driven by the y-o-y depreciation of the domestic currency which affected imported commodities.

In March 2016, the central bank maintained the benchmark interest rate by at 6% after a 25bps increase in January. A worsening external scenario, especially at the regional level as well as the recent reversal in the prices of volatile products basket and the slowdown, at the margin, of the different inflation trend measures contributed to the decision.

### EXTERNAL ACCOUNTS

**STABLE**

Paraguay's trade balance has been in surplus for at least the last six years and was estimated at 2.2% of GDP in 2015. In February 2016 the trade balance of goods registered a surplus of USD359.4 million, which is 39.4% above the surplus registered in February 2015 (USD257.9 million). In February 2016 total exports reached slightly under USD1.73 billion, a reduction of 13.9% with respect to the USD2 billion registered in February 2015. The reduction in the total value of exports were observed in soybeans and soy derivatives, meat products, and electrical energy. During the same period, imports declined by 21.8% as the price of petroleum products declined.

The country's export receipts are generated primarily by three industries: soy, beef and electricity. Cereals, soy and meat account for 66% of Paraguayan exports. The country's main imports include machinery, appliances and motors (27%), fuels and lubricants (13%) and cargo vehicles and accessories (8%). Paraguay's main trading partners are Brazil (14% of exports and 27% of imports) and Argentina (18% of exports and 14% of imports). As of March 21, 2016, net international reserves stood at USD5.97 billion, representing a 1.6% increase with respect to the USD5.88 billion observed at the previous Committee meeting. Import cover is expected to reach 8.9 months in 2016, up from 7.2 months in 2015.

### FISCAL PROFILE

**STABLE**

Paraguay's debt burden was estimated at 20% of GDP in 2015 – a steady increase from the 15.4% of GDP reported for 2010. Paraguay's budget deficit will narrow only gradually in the coming years. The country maintains a Fiscal Responsibility Law, enacted in 2014, which establishes a budget deficit ceiling of 1.5% of GDP. However, the law lacks enforcement mechanisms and applies only to budget plans, not their execution, and as such acts only as a guideline. Current forecasts suggest an annual average deficit of 2.8% of GDP between 2016 and 2020 and do not forecast a deficit under 1.5% of GDP until 2022. That said, Paraguay's relatively limited public external debt, 14.4% of GDP in 2015, will allow it to increase its debt load modestly in the coming years without significantly eroding its sovereign credentials. Indebtedness remains below the 'BB' credit rating median of 40% (Fitch). Additionally, the expansion in nominal GDP will mean that debt as a % of GDP will remain stable.

### CREDIT RATING

Moody's upgraded Paraguay's credit rating by one notch to Ba1 from Ba2 in March 2015, and changed the outlook to stable from positive. The upgrade was driven by the following factors:

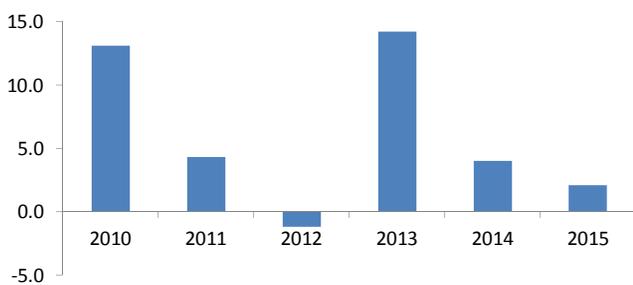
1. Implementation of reforms approved in 2013 to strengthen the fiscal framework and boost infrastructure investment.
2. Efforts to diversify the economy are producing positive results.
3. Improved governance and institutional strength.

Fitch upgraded Paraguay's rating in January 2015 from BB- to BB.

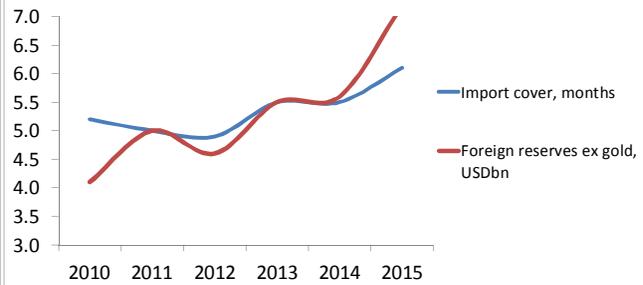
### OUTLOOK

There is notable potential in Paraguay. Despite its exposure to agricultural shocks and slippage in fiscal policy, the country has demonstrated a willingness to develop the country and implement the changes that need to be made. Paraguay's main trade partners are Brazil, Russia and Argentina; all of these countries are expected to face challenging economic condition in 2016. The economy is highly dependent on exports to these countries as well as investment into its agricultural and hydropower industries, its main exports. Investments are expected to face headwinds as Argentina becomes a more attractive prospect due to the removal of agricultural export taxes in the Argentine farming sector and cheaper costs due to Argentina's devaluation in December 2015. The effects of the decline of Brazil and Argentina (major trading partners) on Paraguay's economy should be closely monitored.

Paraguay Real GDP growth, % y-o-y



Paraguay Foreign Reserves vs Import Cover



### DISCLAIMER

This report has been prepared by First Citizens Investment Services Limited, a subsidiary of First Citizens Bank Limited. It is provided for informational purposes only and without any obligation, whether contractual or otherwise. All information contained herein has been obtained from sources that First Citizens Investment Services believes to be accurate and reliable. All opinions and estimates constitute the author's judgment as at the date of the report. First Citizens Investment Services does not warrant the accuracy, timeliness, completeness of the information given or the assessments made. Opinions expressed may change without notice. This report does not constitute an offer or solicitation to buy or sell any securities discussed herein. The securities discussed in this report may not be suitable to all investors, therefore Investors wishing to purchase any of the securities mentioned should consult an investment adviser.

### DISCLOSURE

We, First Citizens Investment Services Limited hereby state that (1) the views expressed in this Research report reflects our personal view about any or all of the subject securities or issuers referred to in this Research report, (2) we are a beneficial owner of securities of the issuer (3) no part of our compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this Research report (4) we have acted as underwriter in the distribution of securities referred to in this Research report in the three years immediately preceding and (5) we do have a direct or indirect financial or other interest in the subject securities or issuers referred to in this Research report.