



Paraguay

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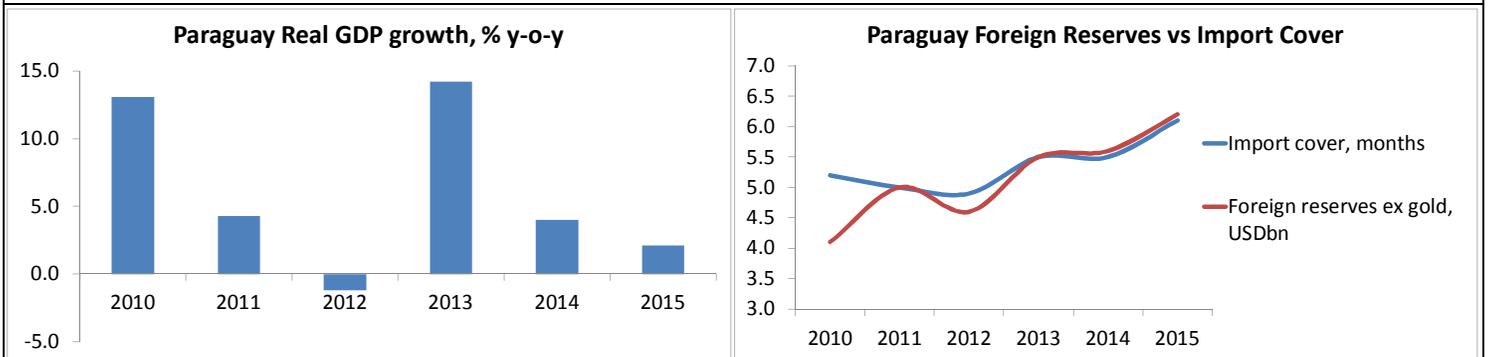
| COUNTRY | | CREDIT RATING | | | |
|--------------------------|----------|--------------------------|---------|----------------------|--|
| Real GDP growth (%) 2016 | 4.70% | S&P Foreign Currency | BB (S) | Major Trade Partners | Brazil 30%, Russia 10%, Argentina 9.3%, Chile 5.3% |
| Next General Election | 2018 | Fitch Foreign Currency | BB (S) | Major Exports | Soybeans, livestock feed, cotton, meat, edible oils |
| Exchange Rate | PYG 5622 | Moody's Foreign Currency | Ba1 (P) | GDP Composition | Agriculture: 19.9%, industry: 17.6%, services: 62.5% |
| Price of 1 USD in PYG | | | | | |

RECENT ECONOMIC DEVELOPMENTS

| | | |
|---|-----------------|---|
| ECONOMIC OUTLOOK | STABLE | <p>Growth in the second quarter of 2015 was reported at 2.2%, up from 4.2% in the first quarter. Droughts during the first half of 2015 will negatively affect growth as relates to electricity generation. Lower prices for soya and a decline in soya and beef exports also affected activity. The central bank has lowered its growth projection from 4.5% to 4.0% for 2015 (Sep 2015).</p> <p>Agriculture is significant in the economy of Paraguay, accounting for 20% of GDP and the majority of the population is involved in agriculture (48% 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.</p> <p>The dominance of agriculture related commodities in the economy means that Paraguay is particularly vulnerable to weather and disease related shocks. Drought hit in 2008, reducing agricultural exports and slowing the economy even before the onset of the global recession. The economy contracted by 4.0% in 2009, as lower world demand and commodity prices caused exports to contract. The economy rebounded in 2010 and 2011 but drought and an outbreak of foot and mouth disease resulted in a 1.2% contraction in 2012. Growth resumed the following year.</p> <p>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.</p> |
| LABOUR, INFLATION AND THE FINANCIAL SYSTEM | POSITIVE | <p>The rate of inflation measured 2.9% in November 2015. Weather shocks can affect food prices, namely that of soybeans and wheat. Inflation in 2014 measured 4.2% driven by higher food and regulated prices earlier in the year, below the central bank target of 4.50% (the target rate was reduced from 5.00% previously).</p> <p>In January 2016, the central bank increased the benchmark interest rate by 25 bps to 6% after holding at 5.75% since July 2015.</p> |
| EXTERNAL ACCOUNTS | POSITIVE | <p>Paraguay's trade balance has been in surplus for at least the last six years and was estimated at 2.9% of GDP for the January to August 2015 period. The country's current account has also been positive with only minor deficits in 2010 and 2012.</p> <p>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). International reserves have risen steadily over the past five years, reaching US\$7.1 billion at the end of May 2015 from US\$6.3 billion in May 2014, providing approximately 4.8 months of cover.</p> |
| FISCAL PROFILE | STABLE | <p>Paraguay's debt burden was estimated at 21.5% of GDP in 2014 – a steady increase from the 15.4% of GDP reported for 2010. However, indebtedness remains below the 'BB' credit rating median of 40% (Fitch).</p> <p>The central government deficit will widen to 2.3% of GDP in 2014-2015, following an average surplus of 1% in period 2004 to 2011. Paraguay has operated fiscal deficits since 2012, attributed primarily to public sector wage increases. The new Fiscal Responsibility Law (effective in the 2015 budget) stipulated a number of restrictions including a maximum central government deficit of 1.5% of GDP and growth in public sector current primary expenditure not exceeding 4% plus inflation. The budget for 2015 has forecast a central government deficit of 3.5% of GDP (therefore above the legal limit of 1.5%) and it is accepted that the government can deviate from the rule under certain conditions. The expansion in nominal GDP will mean that debt as a % of GDP will remain stable.</p> |
| CREDIT RATING | | <p>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:</p> <ol style="list-style-type: none"> 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. <p>Fitch upgraded Paraguay's rating in January 2015 from BB- to BB.</p> |

OUTLOOK

There is great potential in Paraguay. Despite its exposure to agricultural shocks and slippage from 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 Argentine (major trading partners) on Paraguay's economy should be closely monitored.



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