

Strong growth momentum, despite still-challenging external environment

General Information



GDP	USD27.4406bn (World ranking 96, World Bank 2016)
Population	6.73mn (World ranking 106, World Bank 2016)
Form of state	Constitutional Republic
Head of government	Horacio CARTES
Next elections	2018 (April), presidential and legislative



Strengths

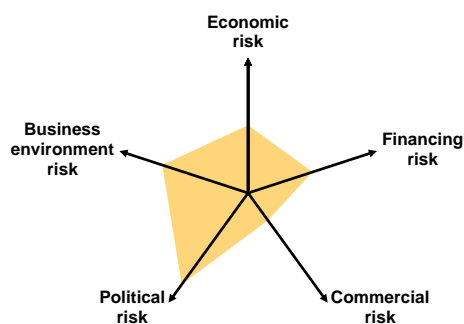
- A contained fiscal budget and public debt
- Low current account deficit
- Ample foreign exchange reserves
- The government pursues business-friendly policies

Weaknesses

- The economy is highly dependent on the agricultural sector and weather conditions
- One of the poorest countries in Latin America with high inequality and sub-standard infrastructure
- Wide informal economy
- Low diversification of the economy
- High level of corruption, criminality and poor rule of law

Country Rating

C2



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

Exports	Rank	Imports
Brazil	29% 1	27% China
Argentina	10% 2	24% Brazil
Russian Federation	9% 3	15% Argentina
Chile	7% 4	7% United States
Italy	4% 5	2% Japan

By product (% of total)

Exports	Rank	Imports
Oil seeds and oleaginous fruits	24% 1	12% Petroleum products
Electric current	21% 2	10% Telecommunications equipment
Meat and meat preparations	15% 3	9% Road vehicles
Feedstuff for animals	13% 4	5% Miscellaneous manufactured articles
Cereals and cereal preparations	7% 5	4% Electrical machinery and apparatus

Source: UNCTAD (2016)

Economic Overview

GDP growth above regional average

Paraguay is one of the poorest and most unequal economies of South America. 22.2% of the population lives below the national poverty line according to the World Bank. The World Economic Forum competitiveness index ranks it 118th out of 140 in terms of quality of infrastructure. Paraguay's structural vulnerabilities stem from a reliance on the agriculture sector. Hence it is exposed to commodity-price shocks and weather conditions.

Yet GDP growth has been dynamic and above regional average since 2013, driven by domestic demand in a still challenging external environment in 2015-16. Growth should stay robust, reaching +3.6% in 2017 after a good soy harvest, and +4.0% in 2018, with the recovery of Brazil and Argentina (accounting for 40% of trade with Paraguay)

Banks, while exposed to the agricultural sector, are well capitalized. But credit growth has tumbled from +5.2% in average in 2016 to -0.8% in June 2017 as commodity prices declined. Paraguay's business climate remains weak. According to the 2017 World Bank Doing Business Survey, the country ranks 106th out of 190 on ease of doing business. Particular shortcomings include "rule of law" and "control of corruption".

Appropriate policies amid external risk

The central bank's policy has gained credibility by taming inflation and anchoring expectations through inflation targeting (4% target since 2017). Moreover, since passing the Fiscal Responsibility Law in 2013, the government has showed restraint in public spending. The fiscal deficit should stay low and stable in 2017 (-1.2%) and 2018 (-1.1%) along with public debt-to-GDP ratio (25.9% in 2017). In addition, the implementation of the New Banking Law passed in December 2016 will be crucial for stronger risk-based supervision.

After president Cartes planned to amend the constitution to allow his own re-election, the country plunged into crisis. Although he eventually backed out in the face of popular protests, renewed political tensions could pose a risk to the pursuit of structural reforms by a new president.

Although the current account balance turned slightly negative, Paraguay should register only small deficits going forward. The deficit is financed by FDI (up to 82% in 2016) and external loans.

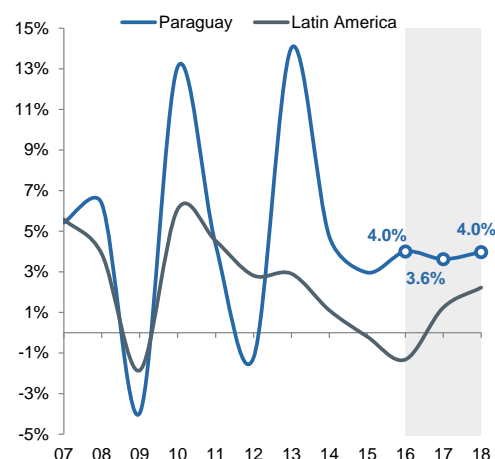
Yet export dependency on primary commodities remains very high (90.6%) and Paraguay's real effective exchange rate correlates to a large extent with commodity prices. Foreign currency reserves cover about 7 months of imports (up from around 5 in 2013), providing an external liquidity buffer.

Key economic forecasts

	2015	2016	2017f	2018f
GDP growth (% change)	3.0	4.0	3.6	4.0
Inflation (% end-year)	3.1	3.3	3.8	3.0
Fiscal balance (% of GDP)	-1.3	-1.0	-1.2	-1.1
Public debt (% of GDP)	24.0	24.7	25.9	26.5
Current account (% of GDP)	-1.1	0.6	-1.4	-0.5
External debt (% of GDP)	59.2	63.1	63.1	61.6

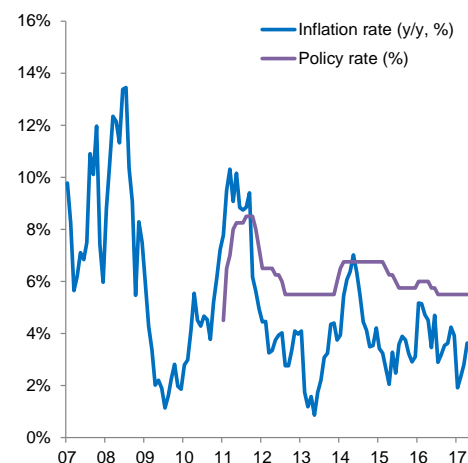
Sources: National statistics, IMF-WEO, Euler Hermes

GDP growth (%)



Sources: National statistics, Euler Hermes

Inflation rate and monetary policy rate



Sources: National statistics, Euler Hermes

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