



Borrowing for growth

Paraguay's infrastructure ambitions

Carlos Fernández Valdovinos, Central Bank of Paraguay

Paraguay last year issued sovereign bonds in the international markets to finance infrastructure projects. It has taken steps to make itself a more attractive investment destination. Important structural and legal reforms are moving ahead. Driven by the conviction that development cannot be exclusively financed by the public sector, the government is backing public-private partnerships.

Since independence in 1811, Paraguay has ranked as one of Latin America's most prosperous countries. Political, economic and cultural reforms implemented after independence resulted in the creation of many industries, a favourable trade balance and almost zero external debt.

Yet all the economic and social progress was shattered by the Triple Alliance War, an international military conflict in the late 19th century between Paraguay and the alliance of Argentina, Brazil and Uruguay. Despite devastation, Paraguay remained standing.

In 2013 Paraguay carried out another symbolic act of sovereignty. For the first time it issued sovereign bonds in the international markets to finance much-needed infrastructure projects. The bond offering was initially set at \$500m, yet demand was 11 times higher.

Investors are becoming much more interested in Paraguay for several reasons. First, the country has a strong macroeconomic stability record, in a region characterised until recently by acute economic volatility. The country has never experienced hyperinflation and its currency, the guarani, recently commemorated its 70th anniversary. To guarantee the tradition of monetary stability, the Central Bank of Paraguay started to implement an inflation targeting regime in 2011.

In fiscal matters, debt crises are unknown in Paraguay. While most countries in the region suffered severe economic and social costs due to the 1980s debt crises, conservative fiscal policies prevented sharp increases in Paraguay's debt burden.

More recently, the country achieved continued fiscal surpluses for eight consecutive years. As a result, its external debt was reduced from 45% of GDP in 2003 to a low of 9% in 2013. With international reserves standing at 20% of GDP, the country has a strong net international creditor position vis-à-vis the rest of the world. The recently passed Fiscal Responsibility Law will further strengthen the fiscal framework.

Paraguay is the world's largest organic sugar exporter and the second-largest producer and exporter of stevia (a composite herb whose leaves are the source of a non-caloric sweetener that is being increasingly used in the food industry). It also has important positions in soybean, charcoal and meat production. The country is the largest producer of electricity per capita and the No.1 electricity exporter in South America. Itaipu, a hydroelectric dam shared by Brazil and Paraguay, surpassed its own world record for electricity production in 2012.

To optimise domestic consumption, important infrastructure works were recently completed. The new 500 KW transmission line, crucial for industrial development, has increased the capacity for distribution and consumption of Paraguay's own source of clean and renewable energy.

The US Federal Reserve started the normalisation of monetary conditions in early 2014. The exit from unconventional monetary policy may be a bumpy ride for emerging markets. In fact, the Fed decision triggered in some countries large unfavourable movements in exchange rates, sovereign spreads, and stock markets. Those countries with strong domestic policies suffered less. Paraguay's currency depreciated only marginally. Its foreign assets continued to increase. Despite renewed market volatility, credit risk agencies recently upgraded Paraguay's government bond rating.

During recent years Paraguay has taken steps to make itself a more attractive investment destination. Important structural and legal reforms are moving ahead to instigate private sector-led growth. Driven by the conviction that development can not be exclusively financed by the public sector, the government has pushed through a public-private partnership law to increase further the country's investment attractiveness. ■

Those countries with strong domestic policies suffered less from the start of the Fed's monetary normalisation. Paraguay's currency depreciated only marginally.

Carlos Fernández Valdovinos is Governor of the Central Bank of Paraguay.