PARAGUAY:

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Central Bank of Paraguay

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Topics

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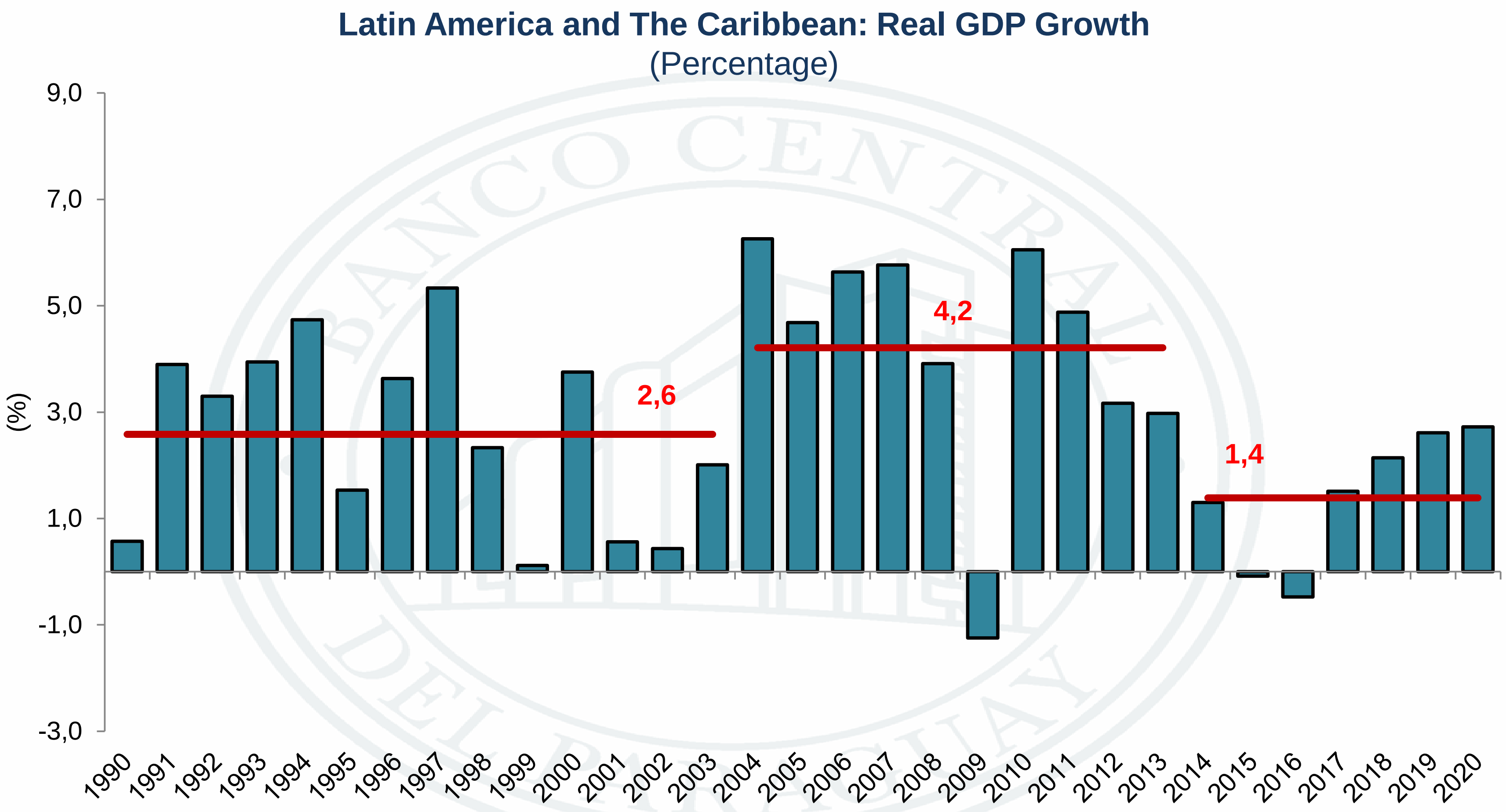
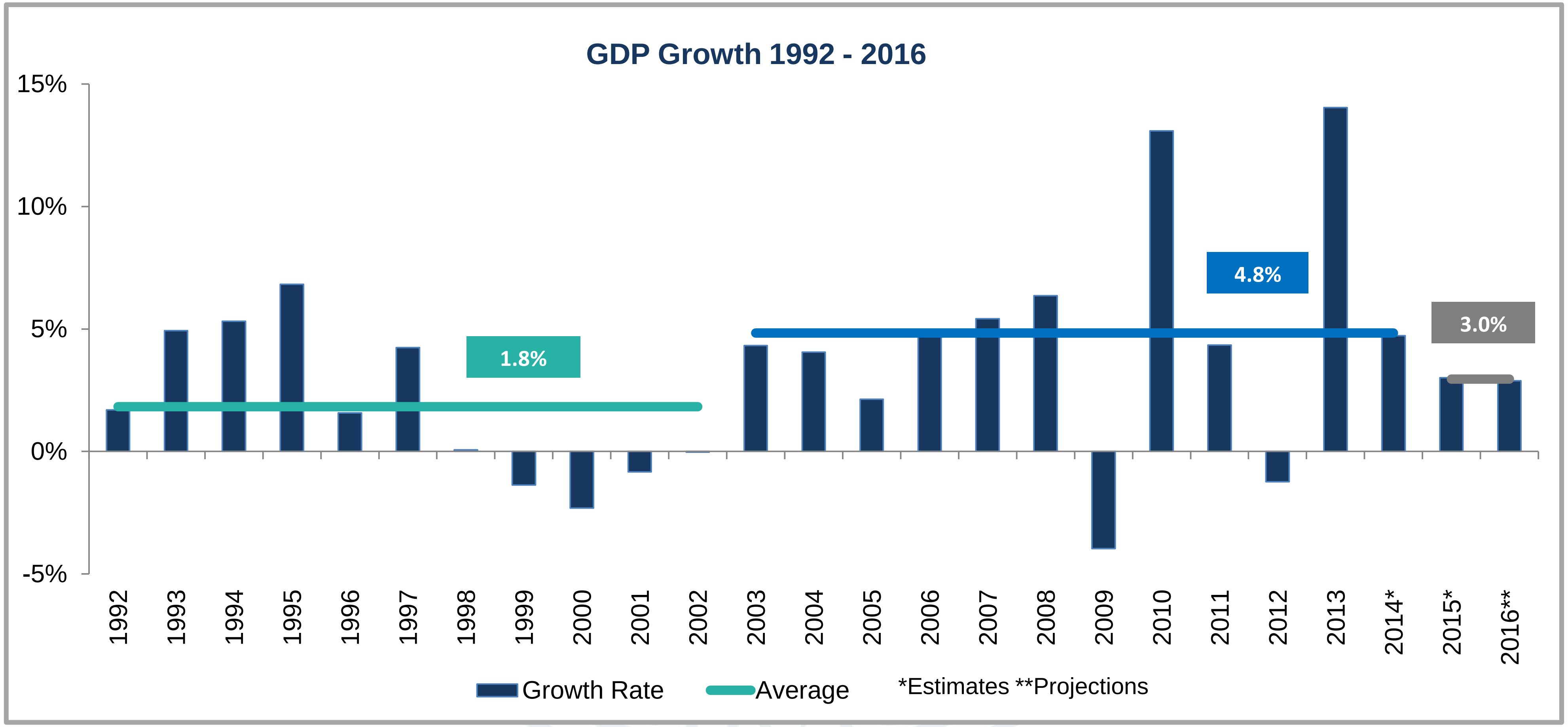
… even for the medium term.



Source IMF-WEO

PARAGUAY’S OUTLOOK

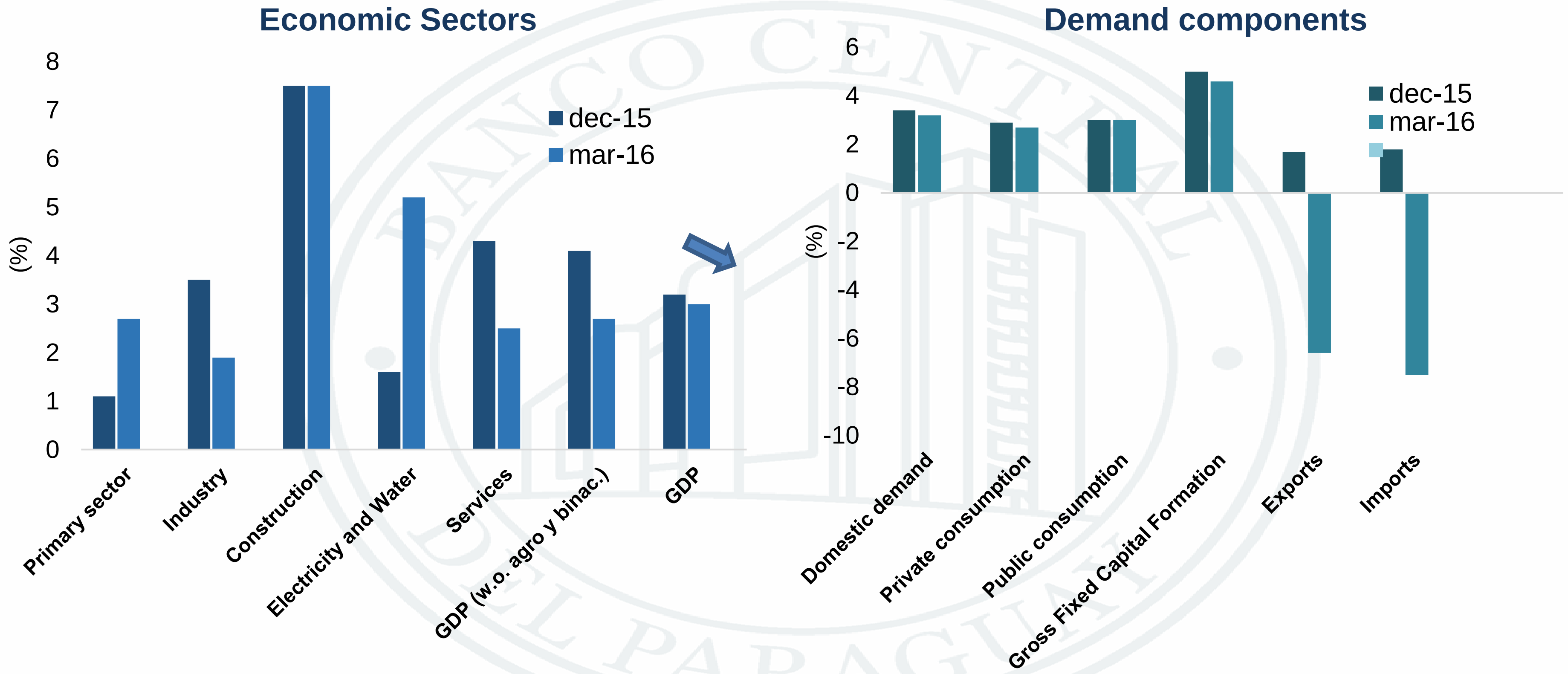
Strong growth performance for more than a decade



Source: BCP

Given the region performance, the growth outlook for this year have been reduced.

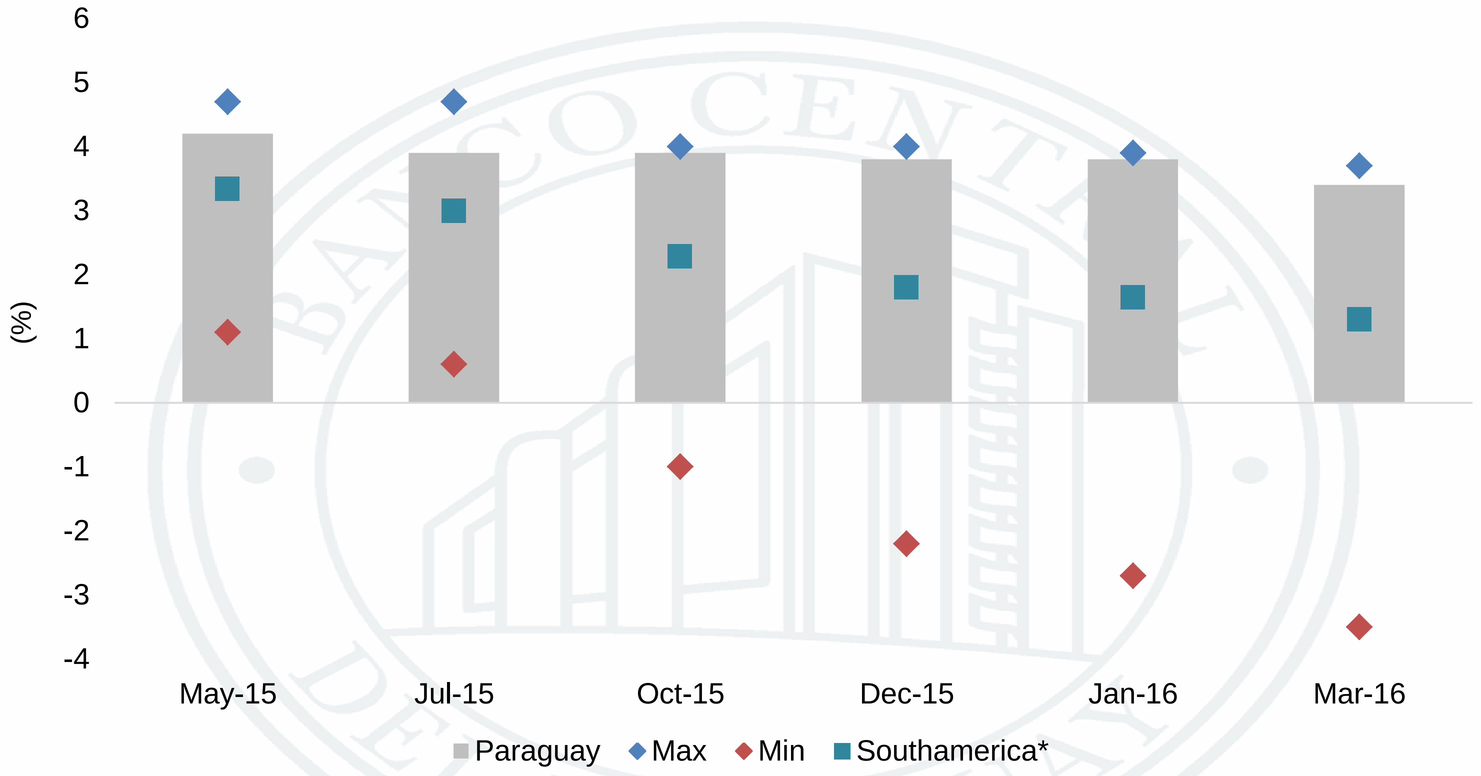
GDP growth – Estimates 2016



Source: BCP

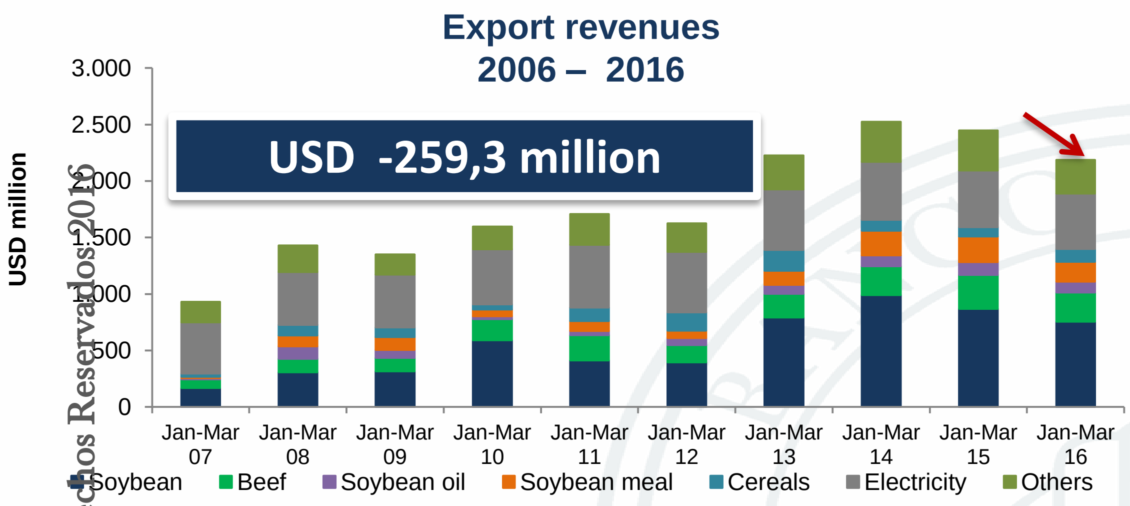
Although Paraguay has not been the only country that has adjusted downwards its growth projections.

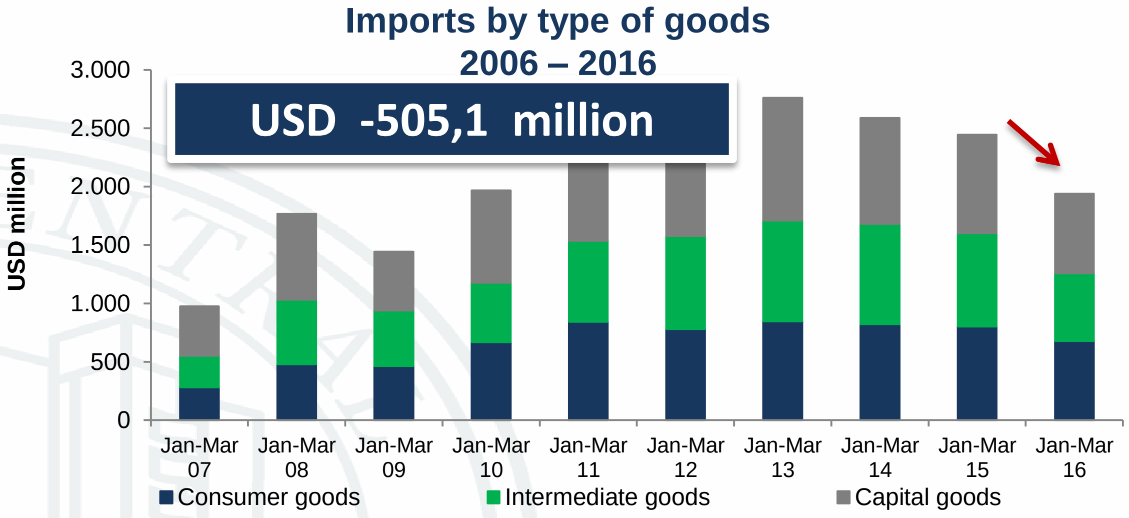
GDP growth estimates 2016



* Simple average of Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Paraguay, Peru and Uruguay.
Source: Consensus Forecast

In foreign trade the adverse shock is observed…

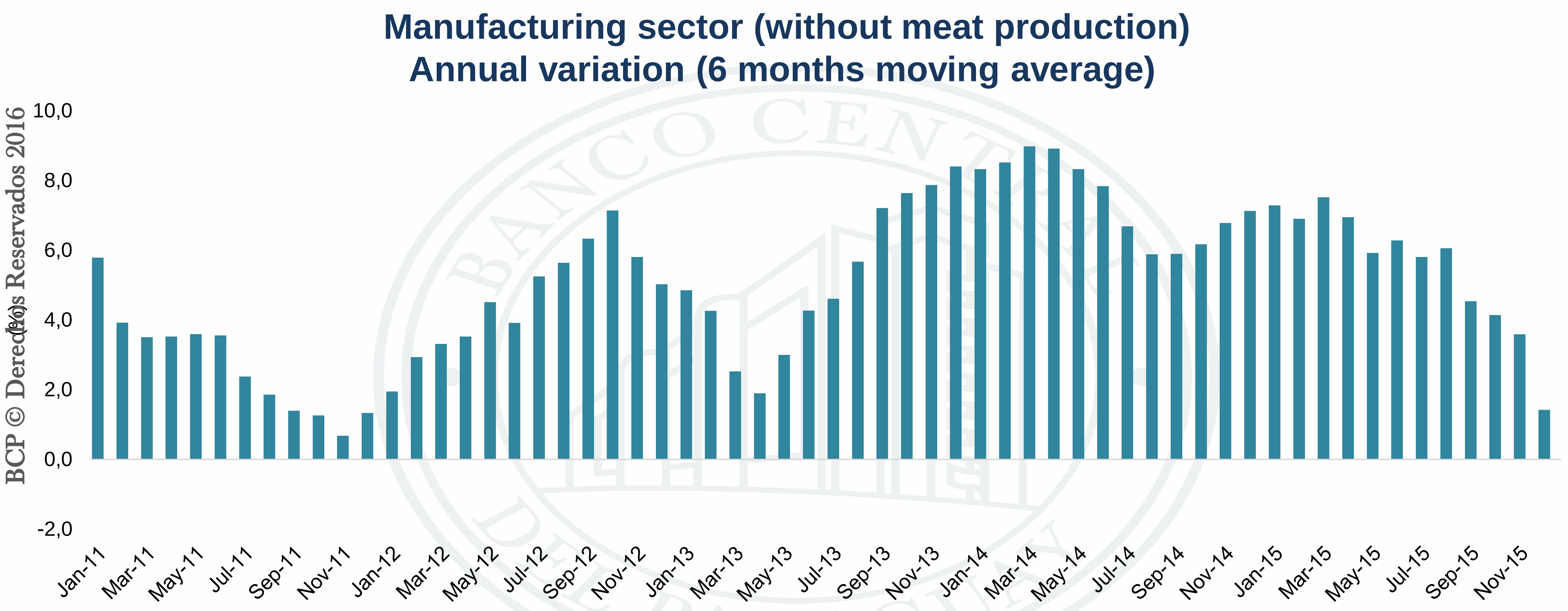




Products	YoY % Cumulative Variation	Participation in the YoY Cumulative Variation
	Jan-Mar 2016 / 2015	
Soybean	-13,0%	-4,6%
Soybean oil	-13,8%	-0,6%
Soybean meal	-23,4%	-2,2%
Cereals	38,7%	1,3%
Beef	-14,6%	-1,8%
Electricity	-2,2%	-0,5%
Others	-15,3%	-2,2%
Total	-10,6%	-10,6%

Type of goods	YoY % Cumulative Variation	Participation in the YoY Cumulative Variation
	Jan-Mar 2016 / 2015	
Consumer	-15,1%	-5,1%
Intermediate	-27,4%	-8,9%
Capital for internal use	-19,3%	-4,9%
Capital for re-export	-18,8%	-1,8%
Total	-20,7%	-20,7%

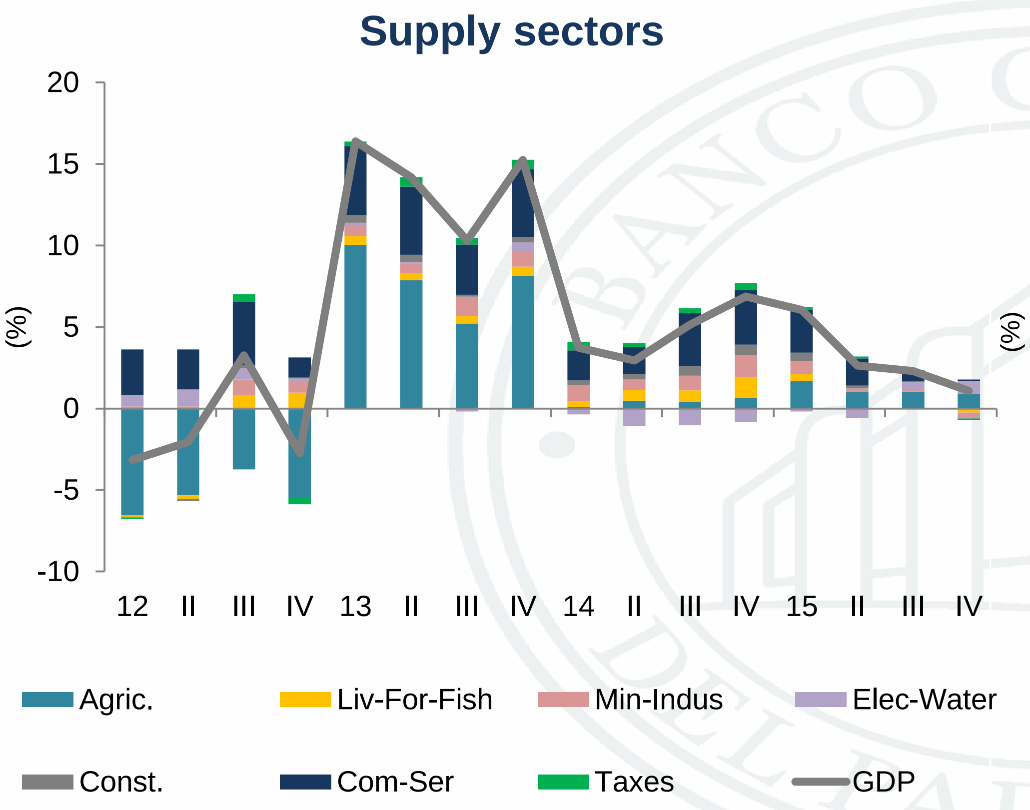
… as in the manufacturing sector

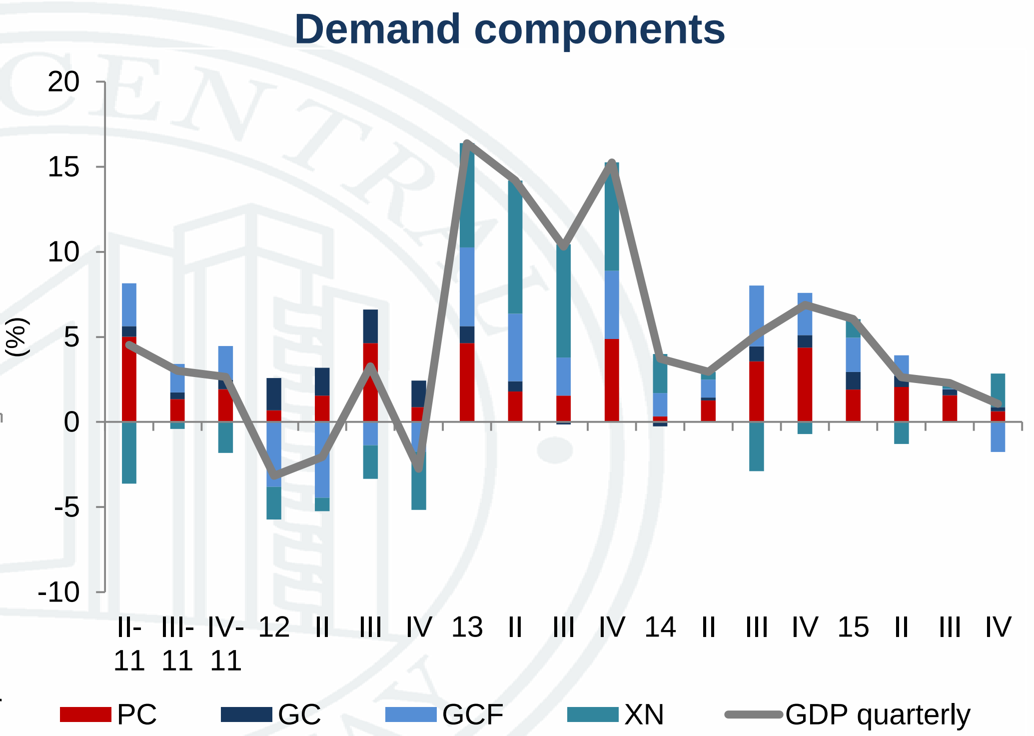


Source: BCP

Non-traditional sectors and domestic demand continue to explain growth.

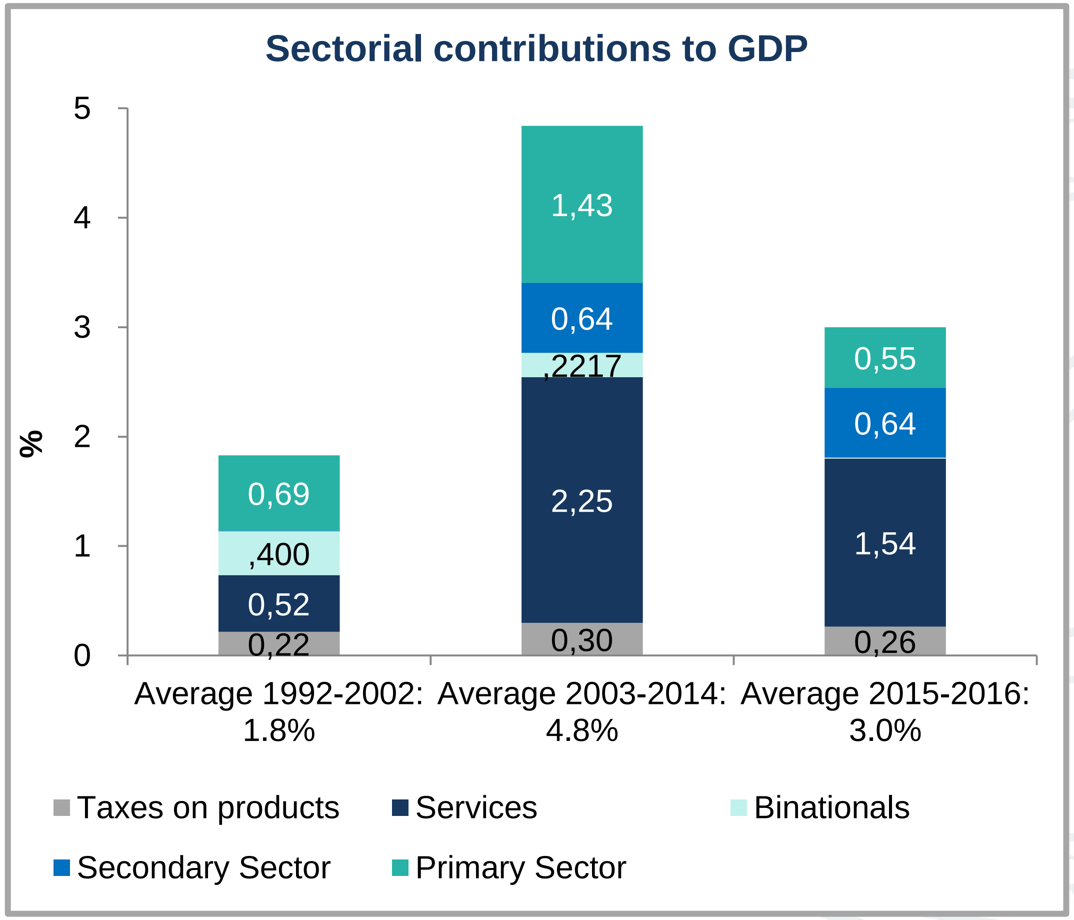
Gross Domestic Product

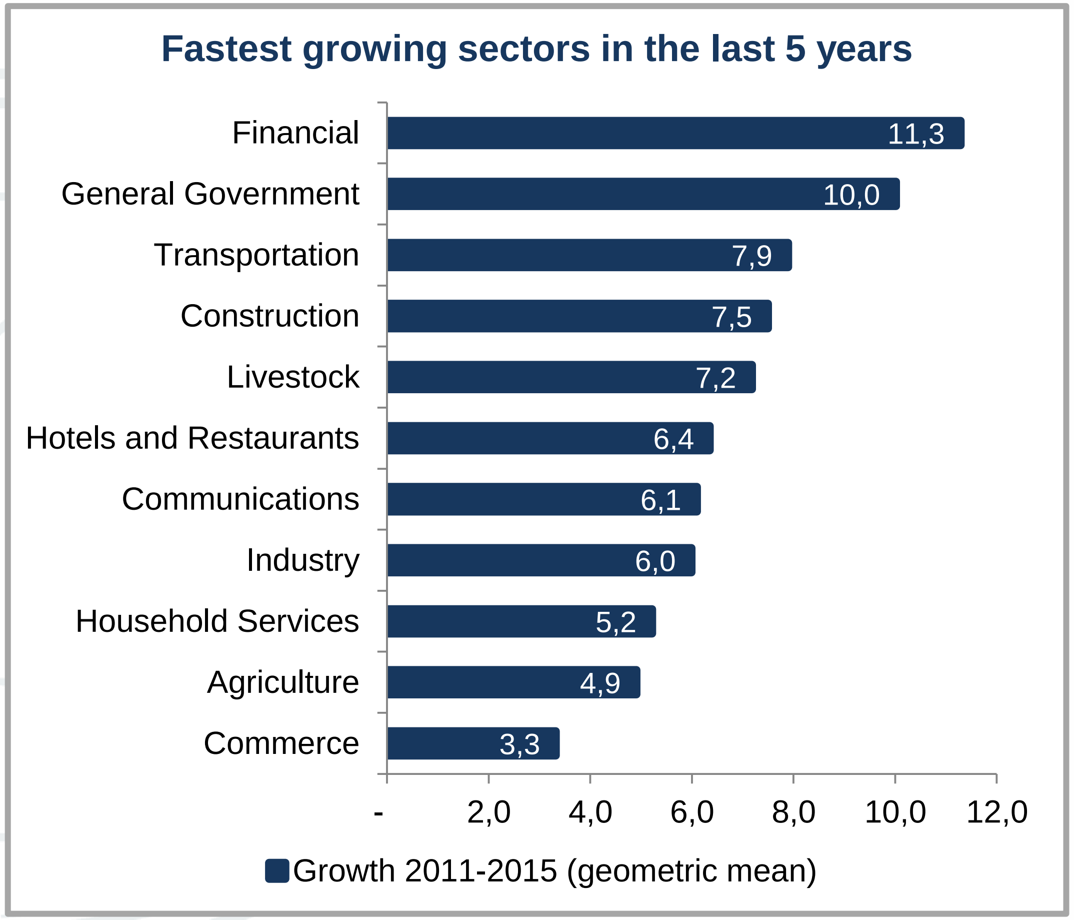




Source: BCP

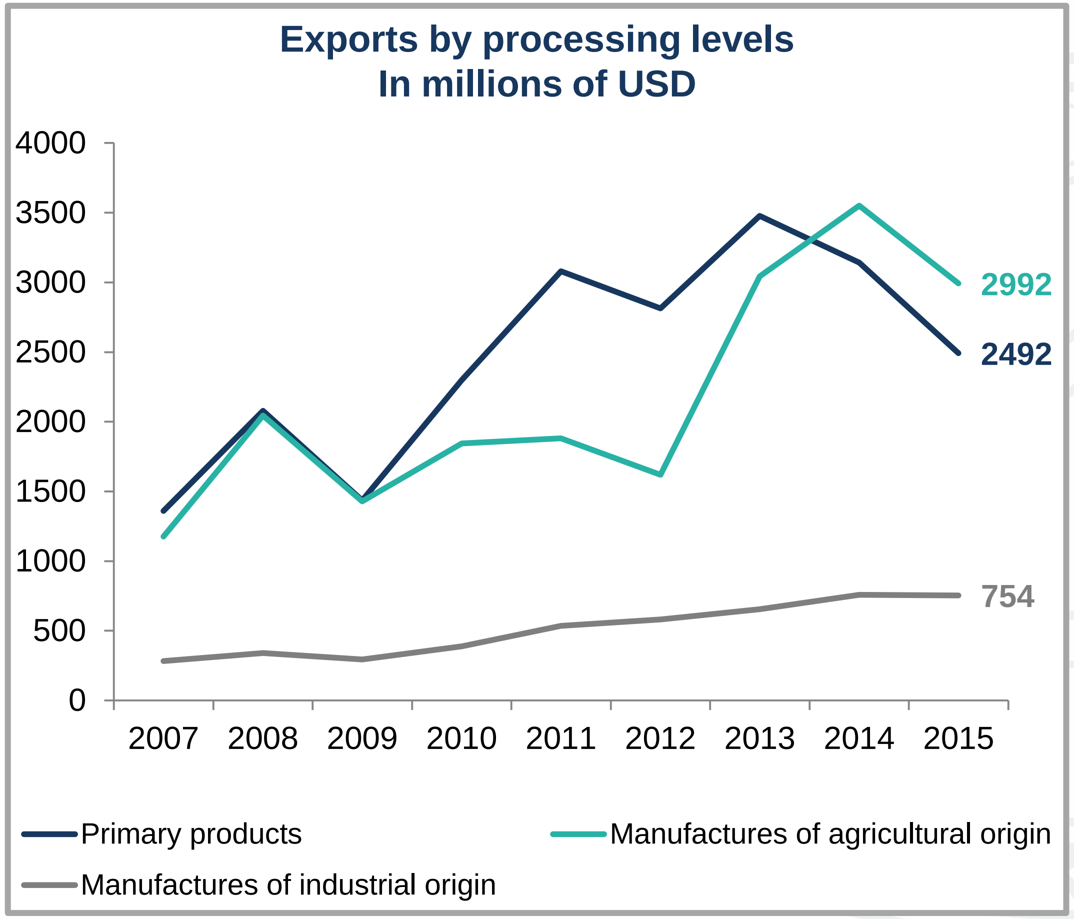
...on the back of a gradual diversification of the economy…

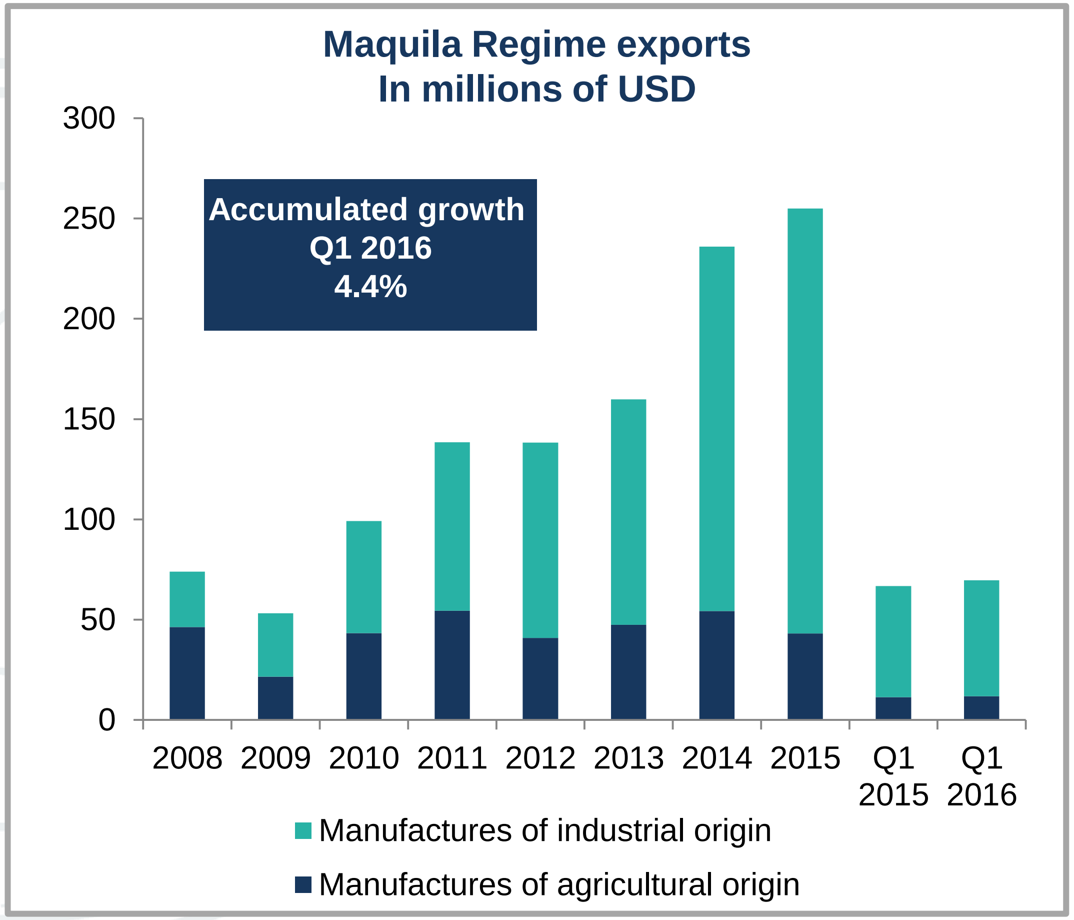




Source: BCP

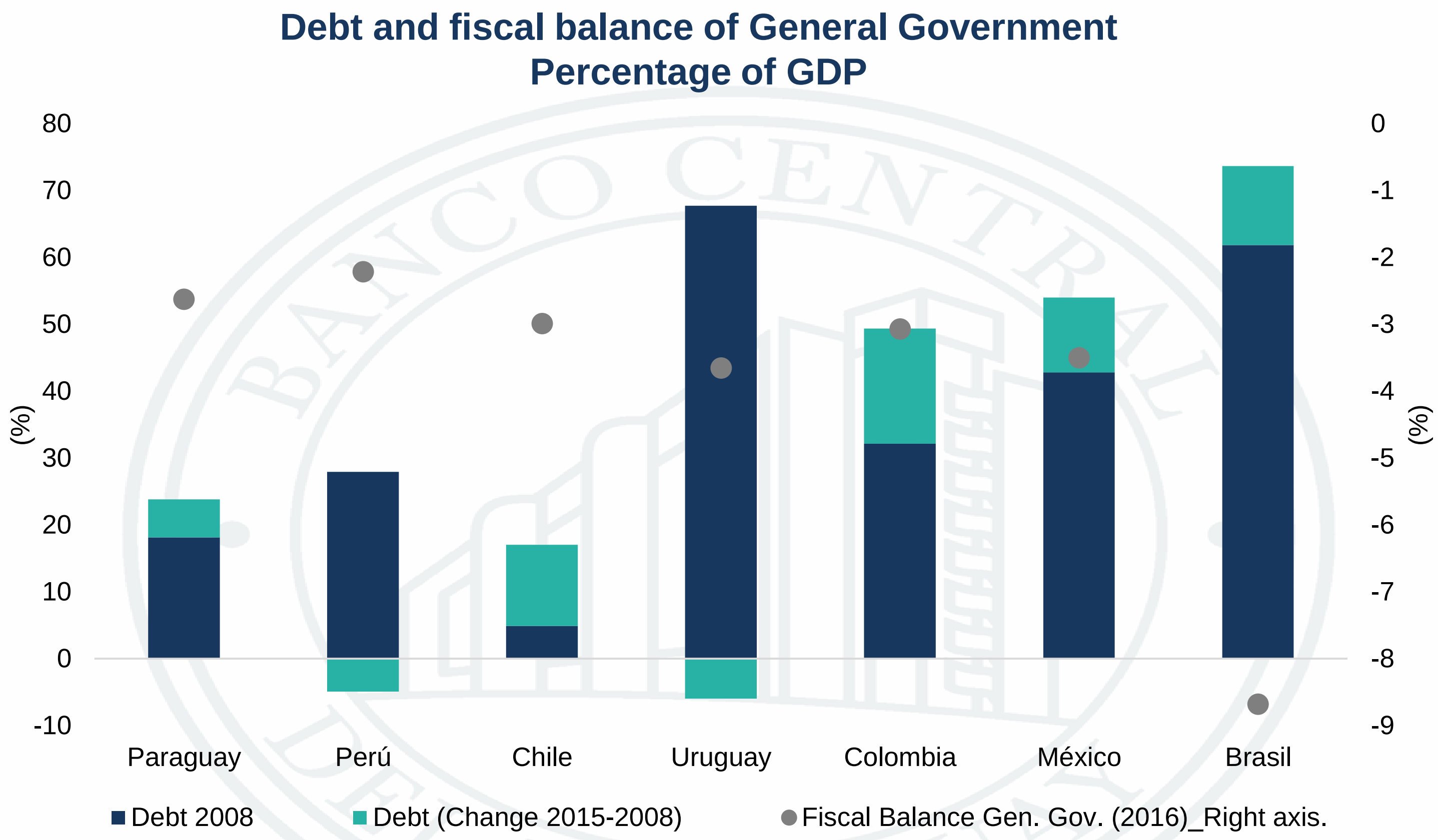
…and its exports.





Source: BCP

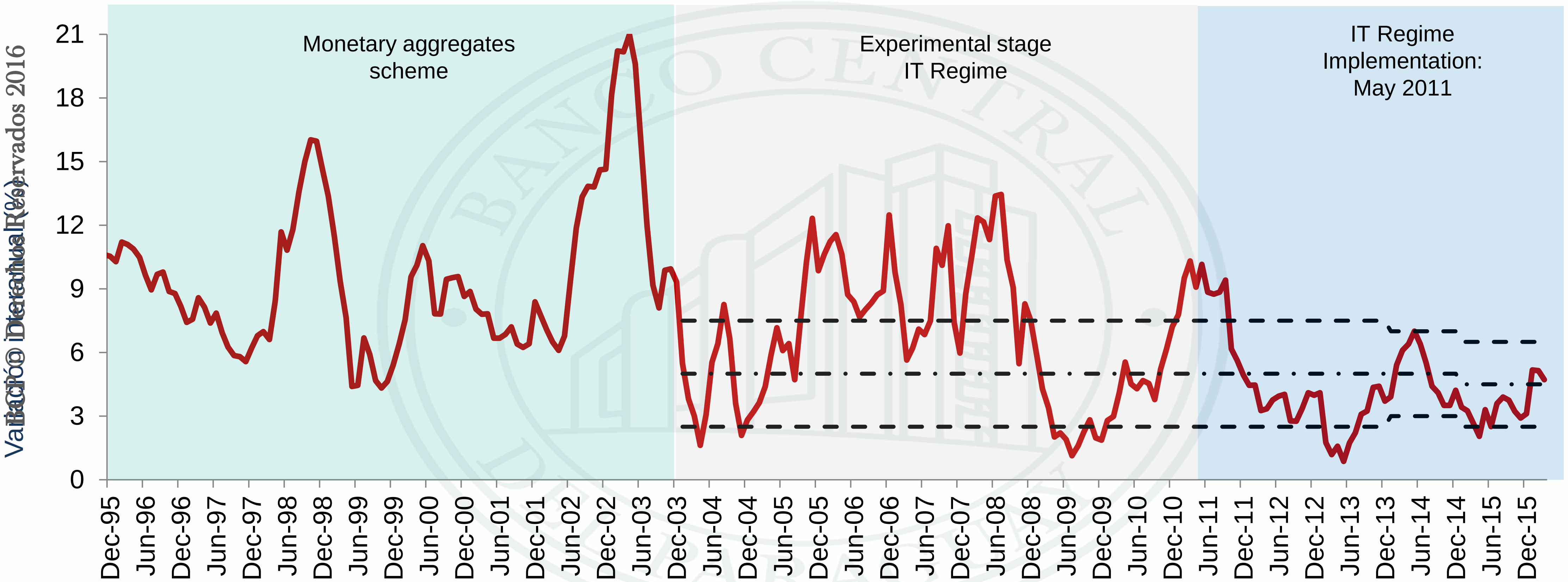
The fiscal stance is relatively strong.



Source: FMI-WEO

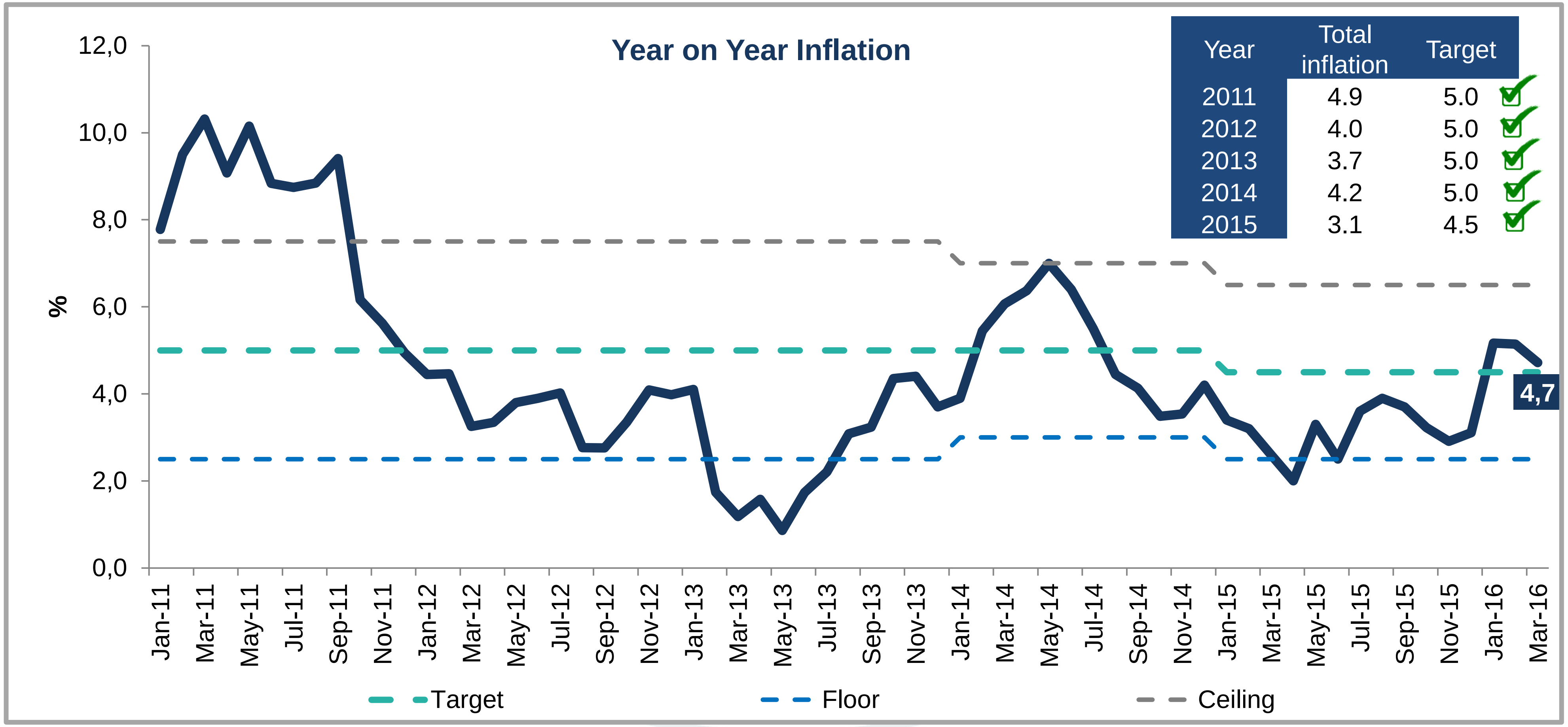
Inflation has shown a favorable transition…

Inflation evolution (%)



Source: BCP

…mainly with the Central Bank's adoption of a inflation targeting regime...

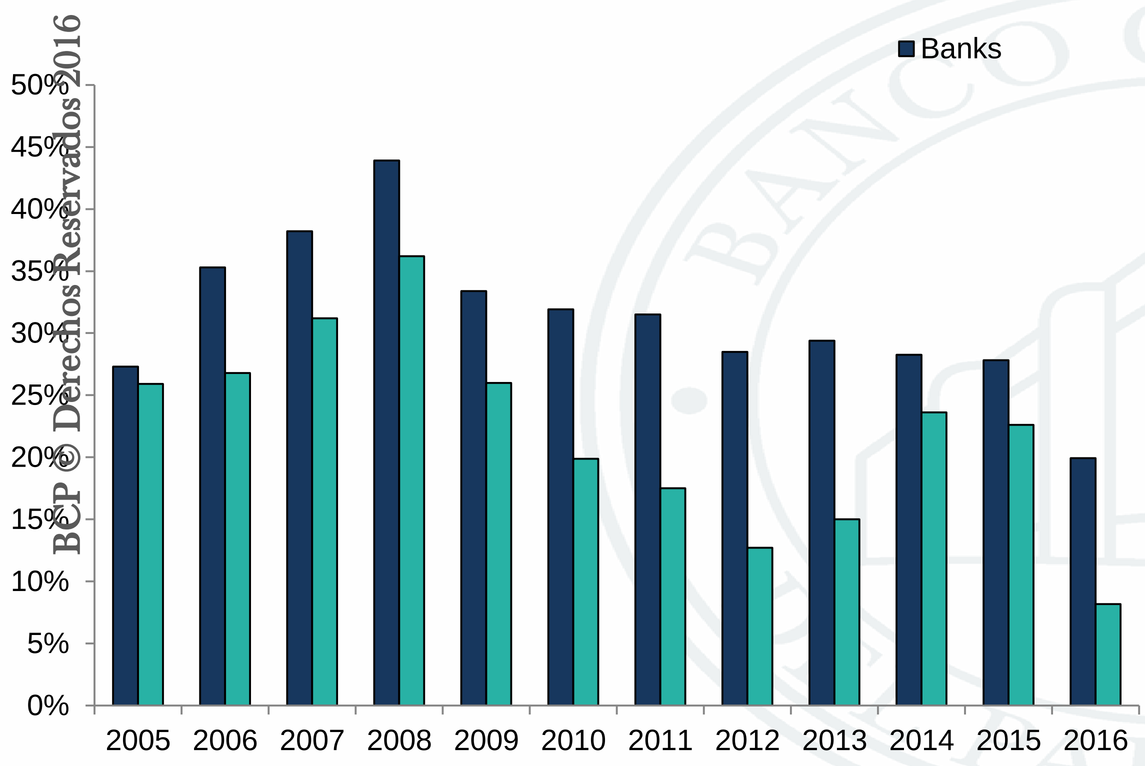


Year	Total inflation	Target
2011	4.9	5.0
2012	4.0	5.0
2013	3.7	5.0
2014	4.2	5.0
2015	3.1	4.5

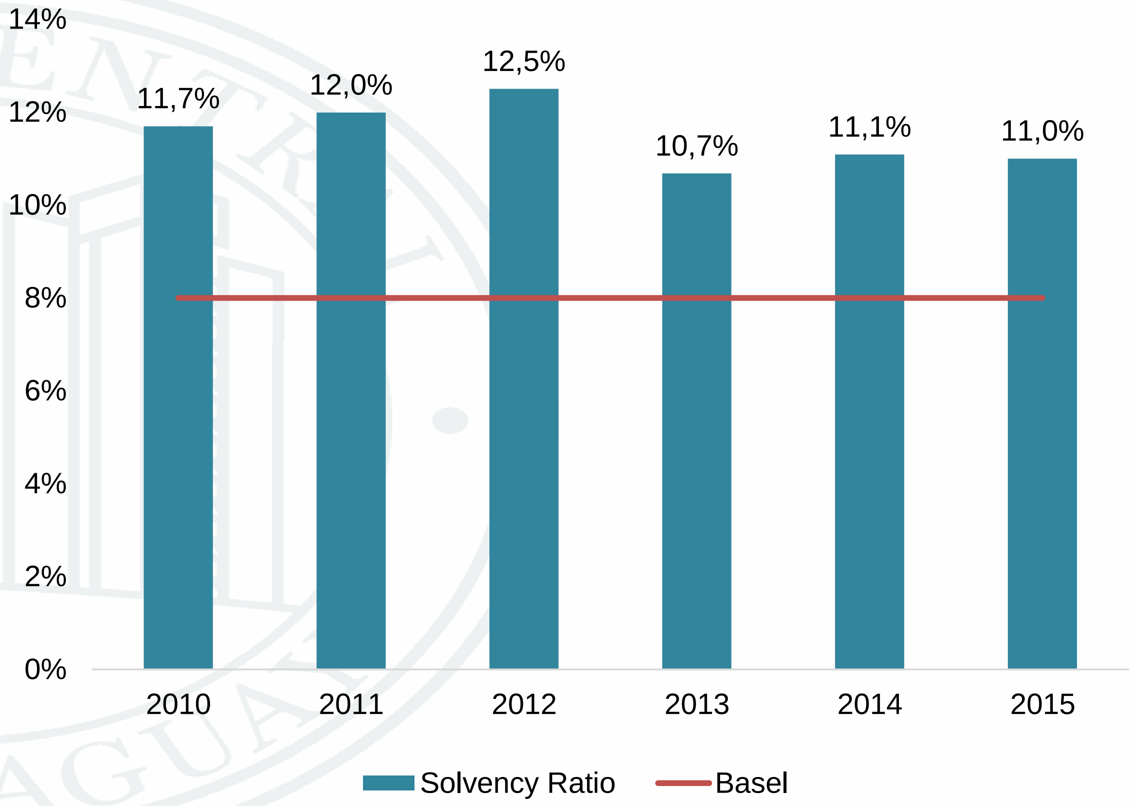
Source: BCP

…supporting a solid and well capitalized financial system.

Financial entities profitability (ROE)



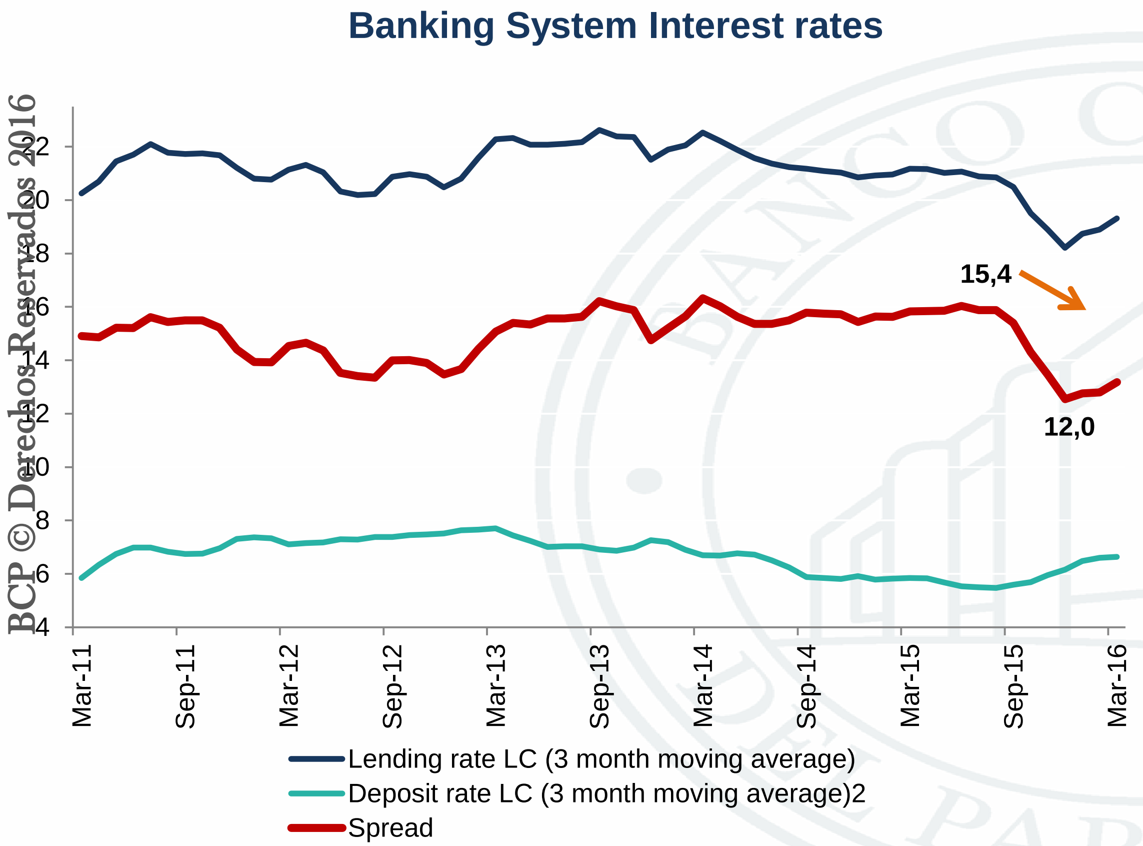
Solvency ratio of the Banking system*

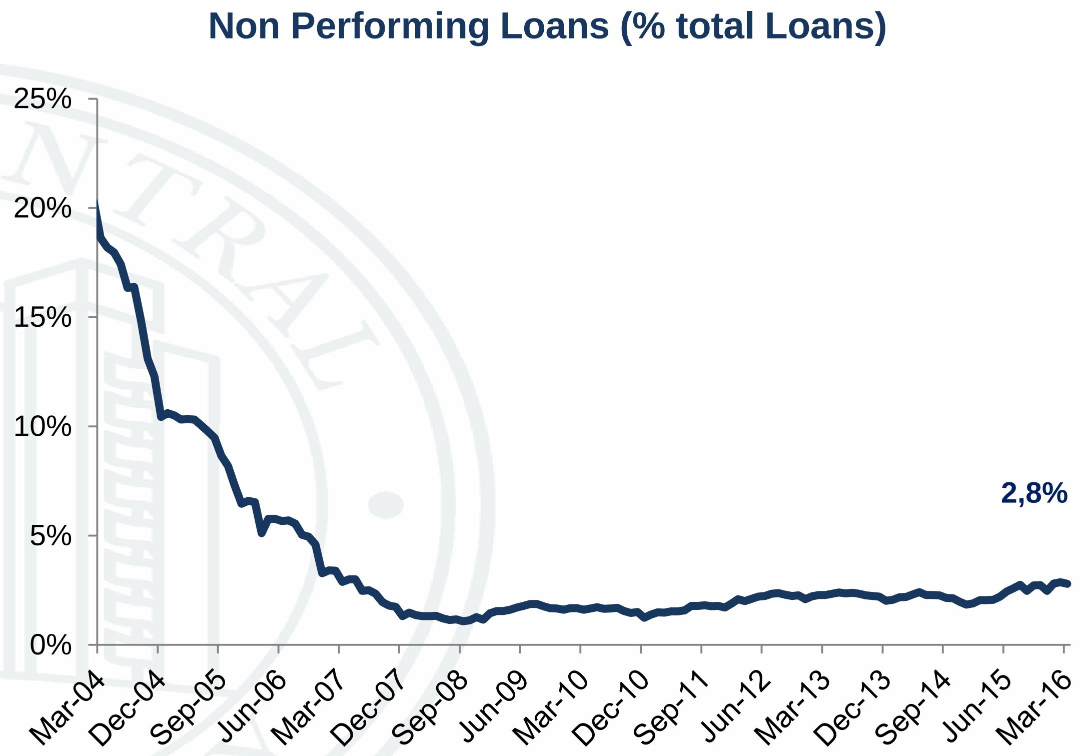


*Median

Source: BCP

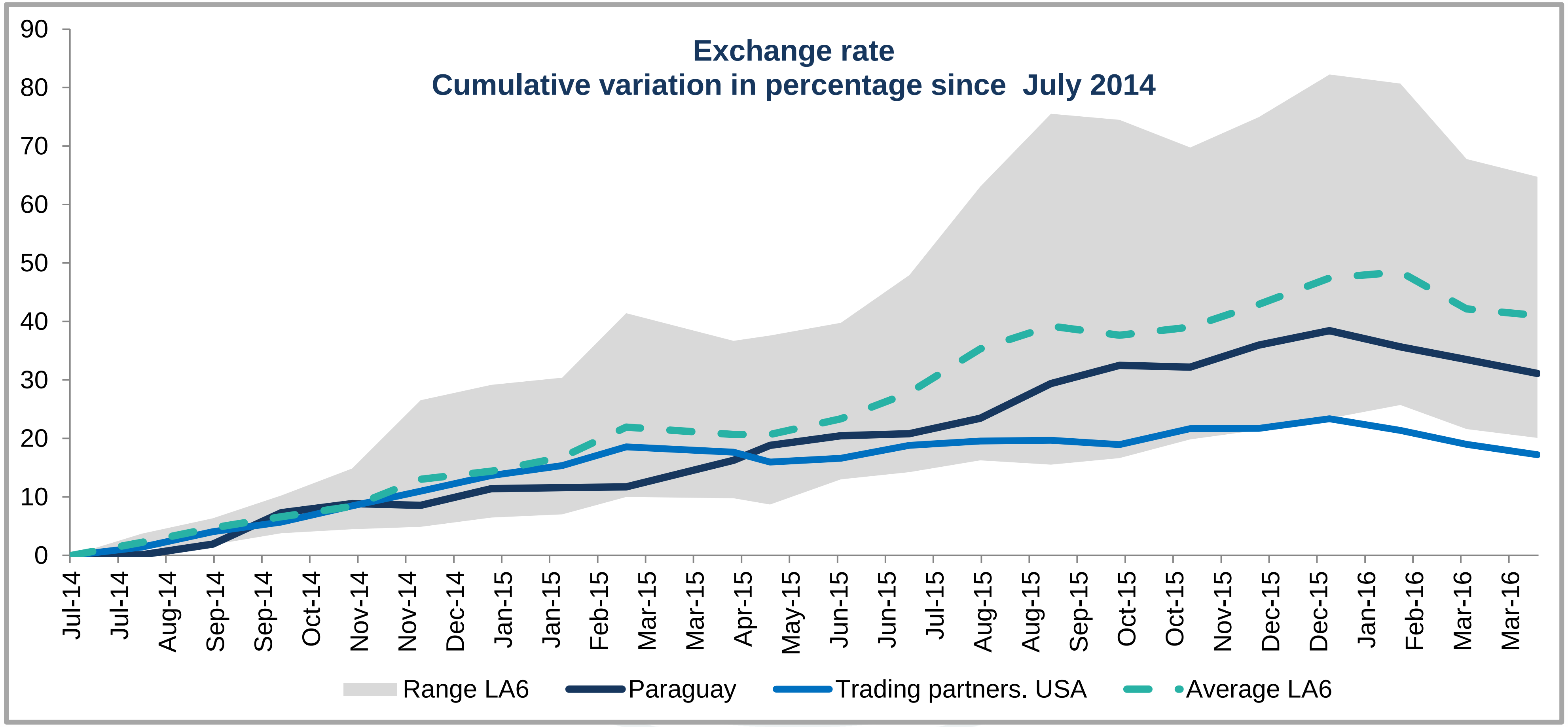
…with spread of the banking system decreasing in the last months…





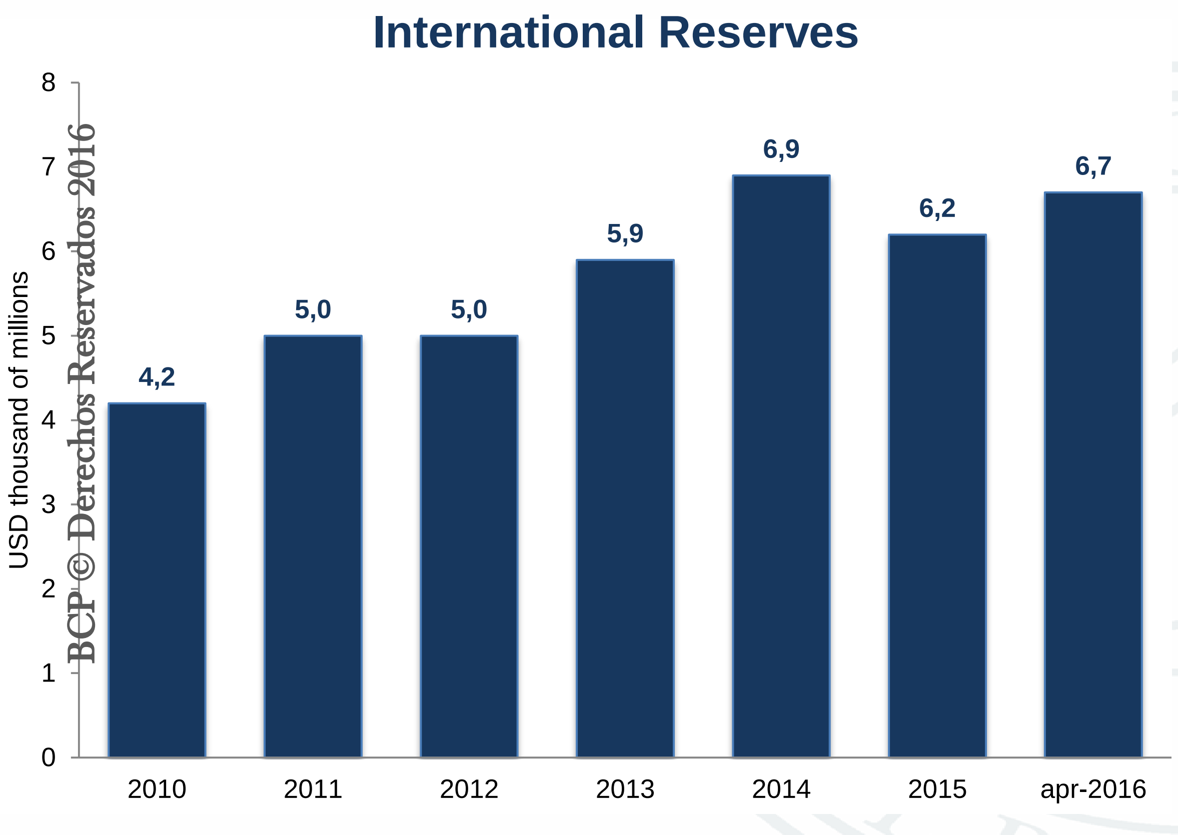
Source: BCP

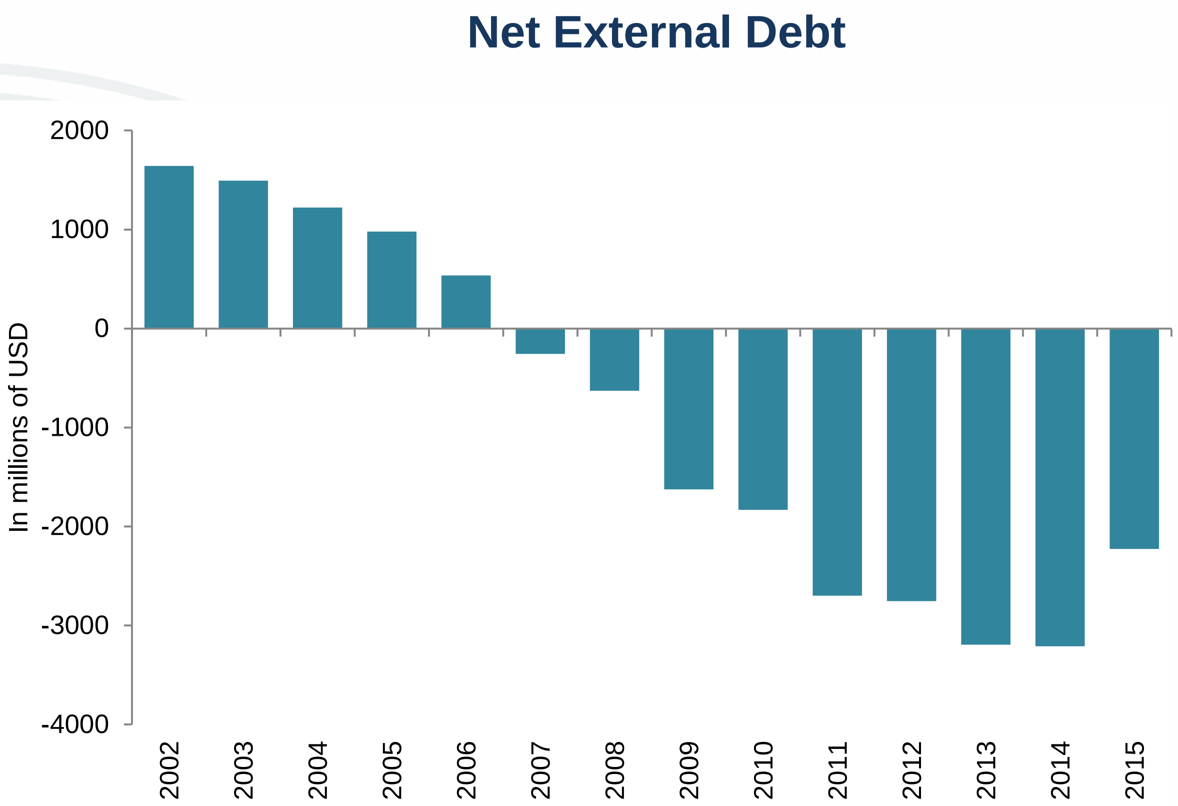
…coupled with a flexible exchange rate to facilitate adjustments to external shocks.



Source: Bloomberg

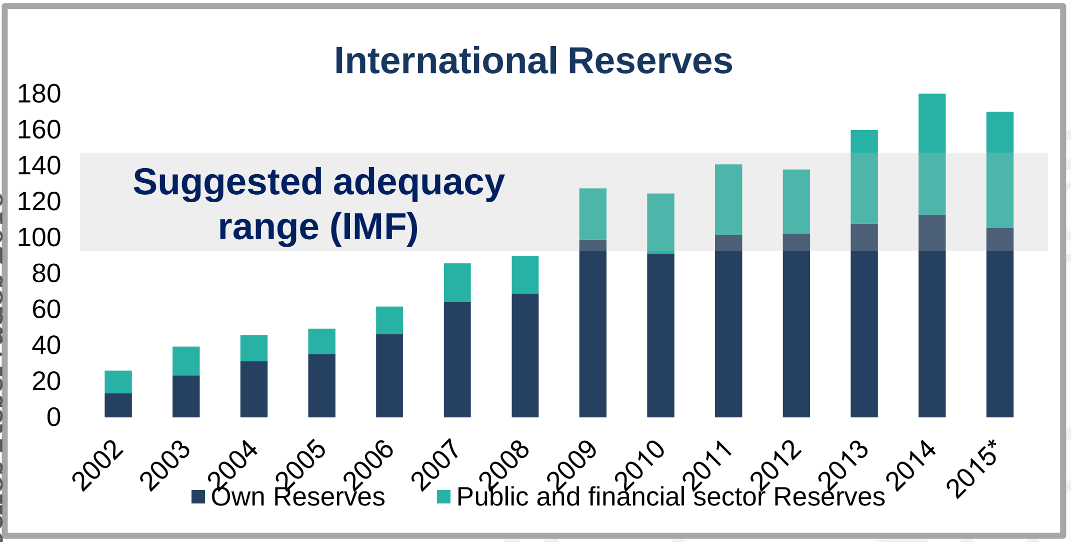
There is a significant level of reserves to cope with excessive volatilities.

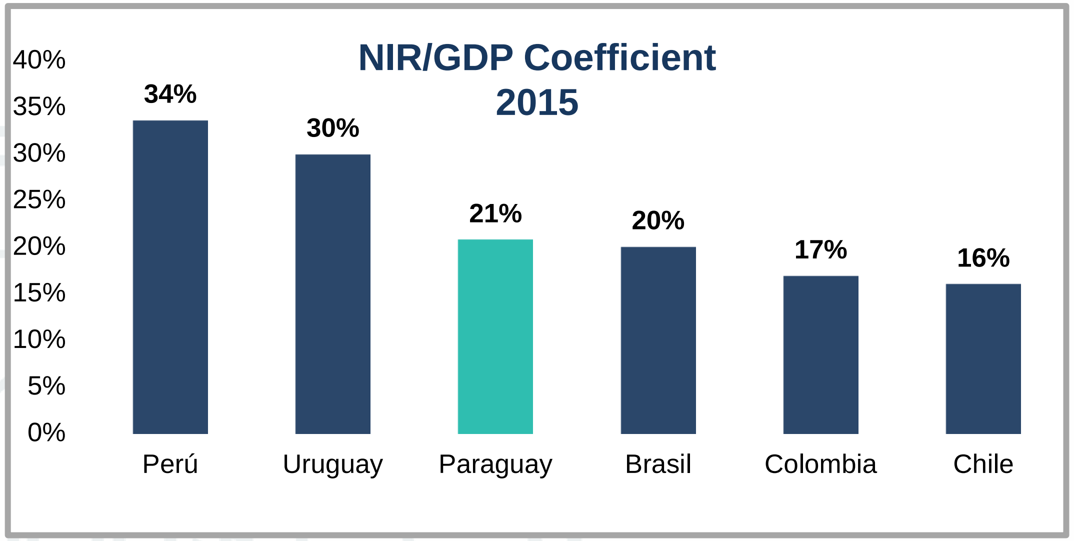


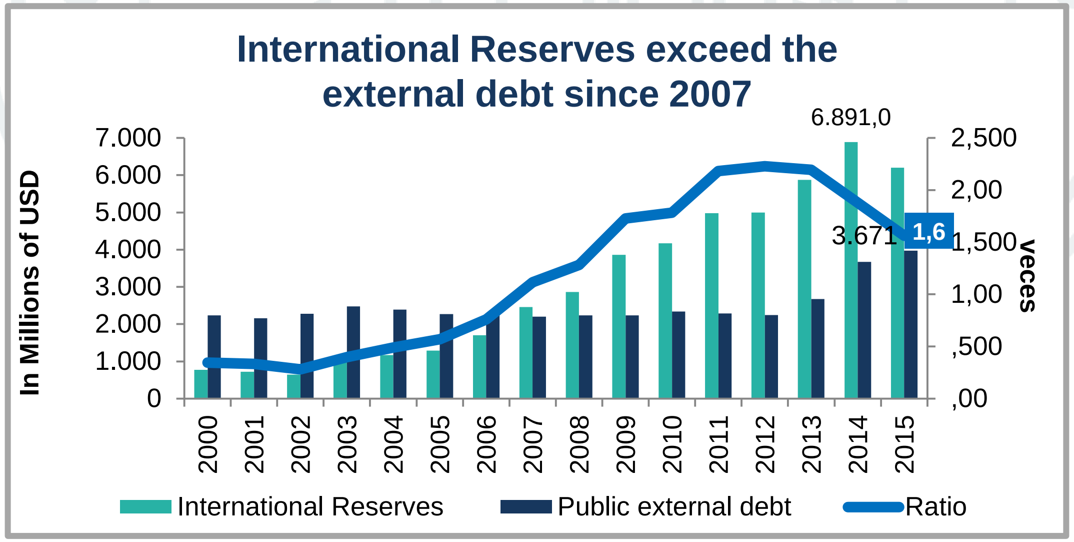


Source: BCP

Moreover, there is a significant "liquidity cushion" to tamper excess FX volatility...

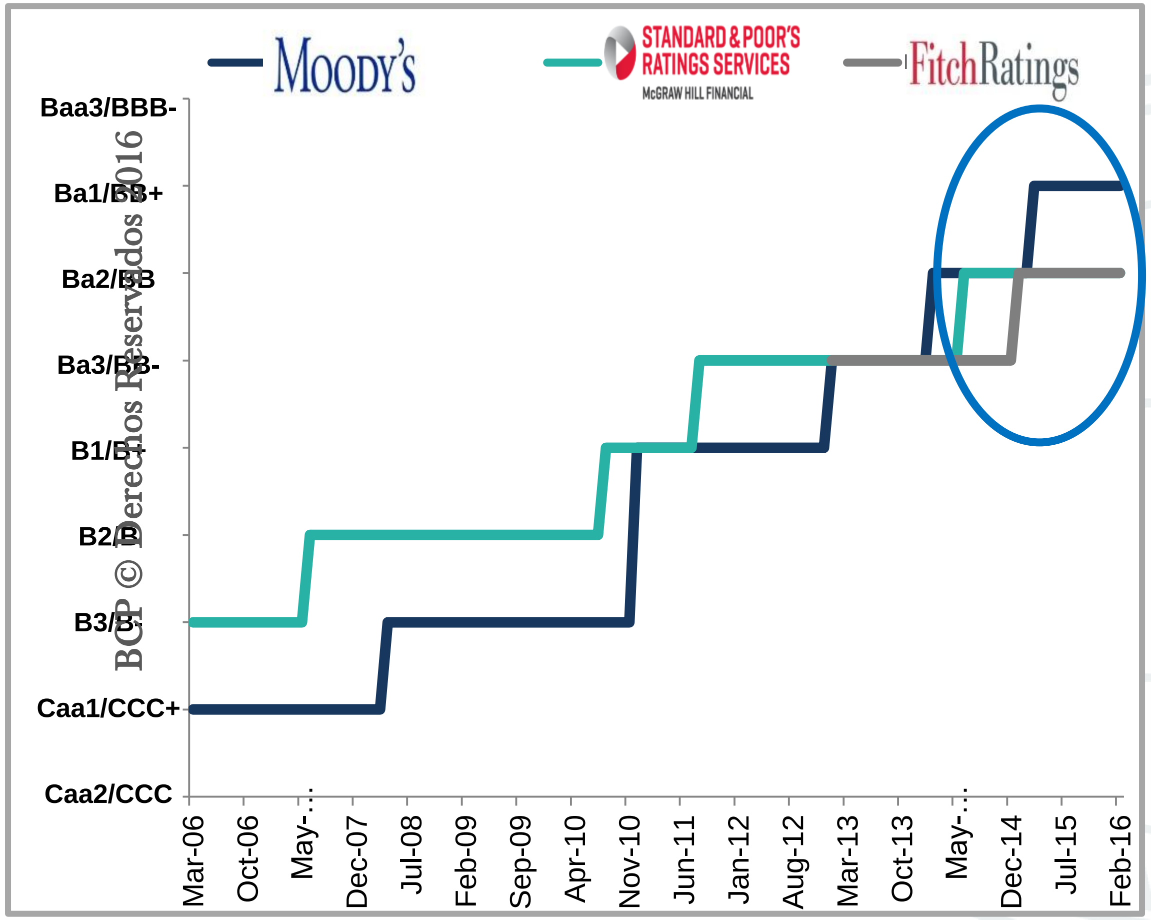






Source: BCP

The good performance was reflected in steady increases in sovereign credit ratings.



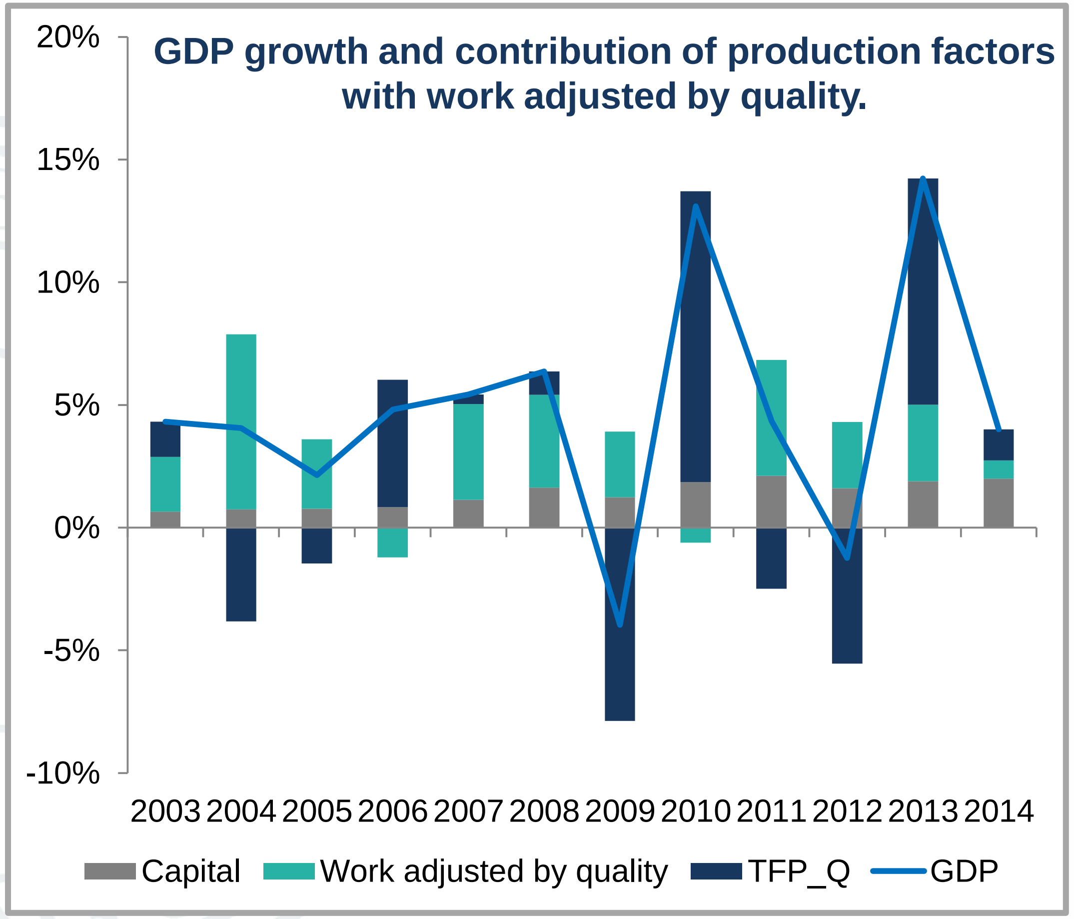
	Credit Rating variation in the region (MOODY'S)			Credit Rating variation in the region (S&P)			Credit Rating variation in the region (Fitch)		
	2014	2016	Review	2014	2016	Review	2014	2016	Review
Paraguay	Ba2	Ba1	↑	BB	BB	→	BB-	BB	↑
Brasil	Baa2	Ba2	↓	BBB-	BB	↓	BBB	BB+	↓
Argentina	Ca	Ca	→	SD	SD	→	RD	RD	→
Uruguay	Baa2	Baa2	→	BBB-	BBB	↑	BBB-	BBB-	→
Perú	A3	A3	→	BBB+	BBB+	→	BBB+	BBB+	→
Colombia	Baa2	Baa2	→	BBB	BBB	→	BBB	BBB	→
Ecuador	B3	B3	→	B+	B	↓	B	B	→
Venezuela	Caa1	Caa3	↓	CCC+	CCC	↓	CCC	CCC	→
Bolivia	Ba3	Ba3	→	BB	BB	→	BB	BB	→
Chile	Aa3	Aa3	→	AA-	AA-	→	A+	A+	→

Source: Bloomberg

CHALLENGE AHEAD:
Increase productivity

Productivity's contribution to growth remains relatively low

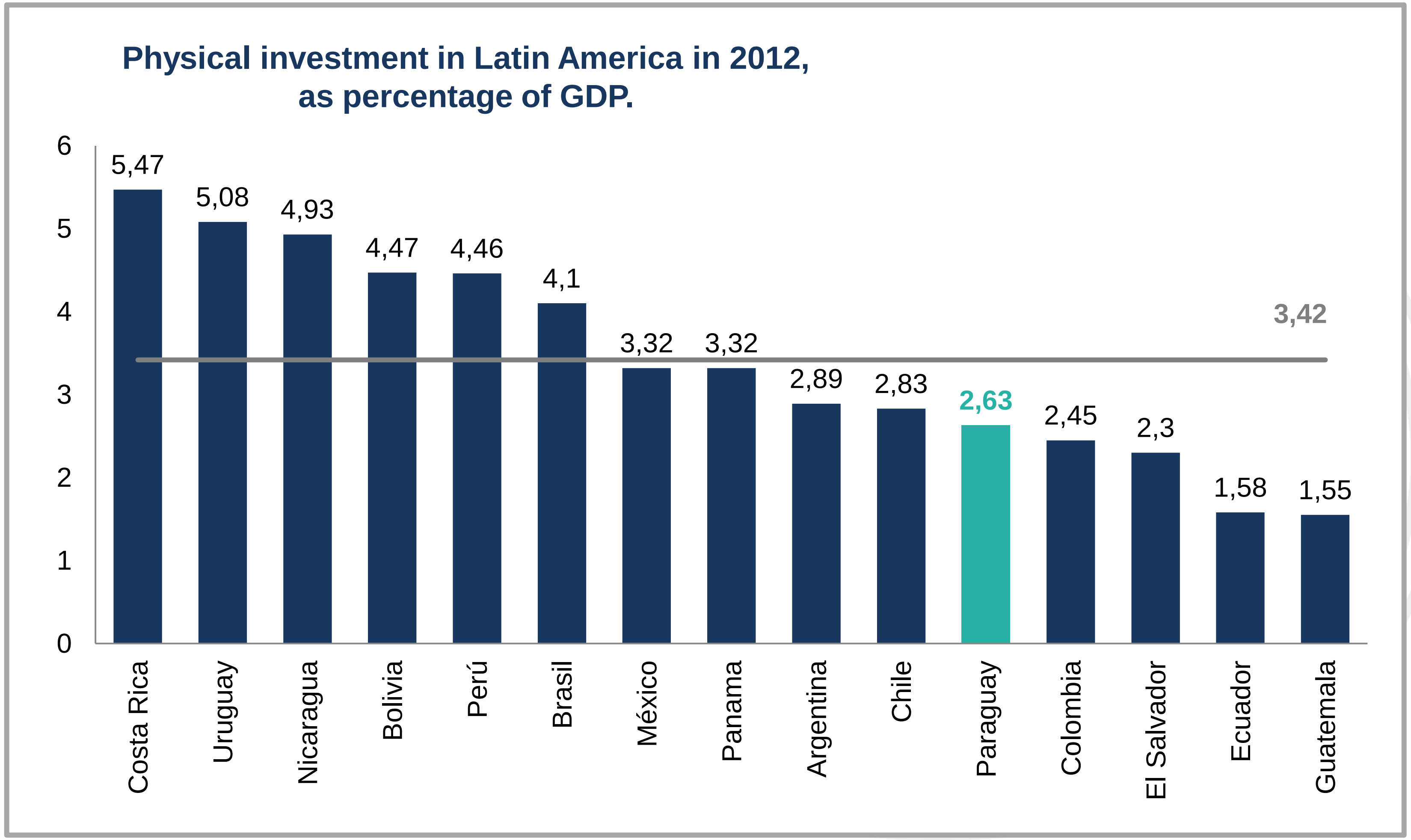
Period	GDP	Capital	Work (QA)*	TFP (QA)
1963-2014	4.9	2.4	2.2	0.3
1993-2014	3.5	1.4	2.2	-0.1
1993-2002	1.8	1.5	1.6	-1.3
2003-2014	4.8	1.4	2.7	0.8



Source: BCP & DGEEC

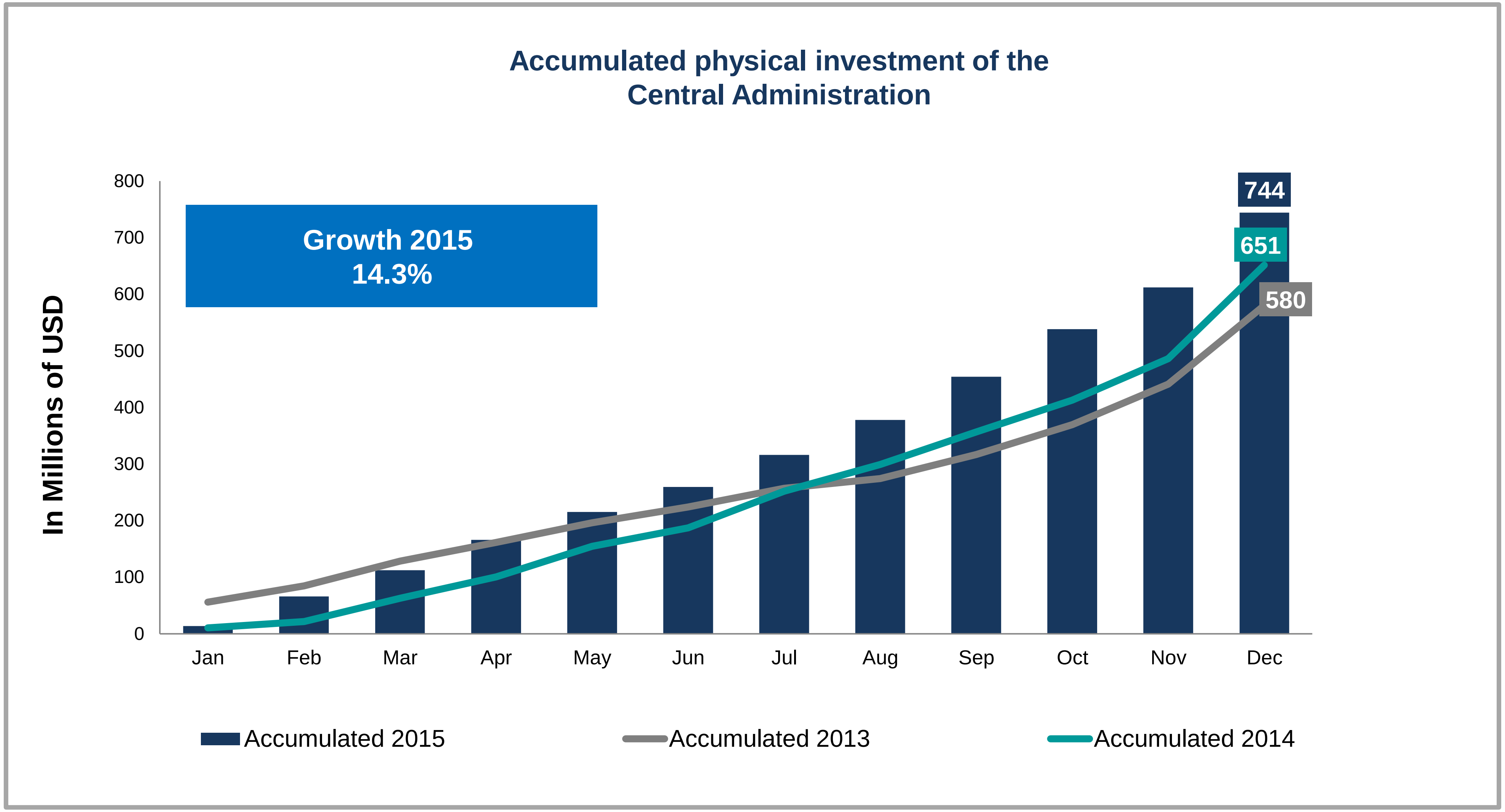
The TFP in Paraguay improved significantly in the last decade, but maintains a low contribution to annual GDP growth (around 16% on average when improvements in the quality of labor are taken into account). In addition, improved productivity is lagging behind other countries in the region or with respect to Asia´s emerging markets .

Infrastructure investment is among the lowest in Latin America, but…



Source: CEPAL ,BCP y WEF, Global Competitiveness Report, BM.

…the country is on the right track…



Source: Ministry of Finance,

Sovereign bonds

Cifras en Mill. de US$					
	Bonos 2023 1ra Emisión	Bonos 2044 2da Emisión	Bonos 2023 Reapertura	Bonos 2026 3ra Emisión	TOTAL
	Ley 4.848/13	Leyes 5.142/14 y 5.251/14	Ley 5.386/15	Ley 5.554/16	
Administración Nacional de Electricidad	198,8	100,0	0,0	0,0	0,3
Industria Nacional del Cemento	0,0	67,0	0,0	0,0	0,1
Ministerio del Interior	0,0	3,6	0,0	0,0	0,0
Ministerio de Hacienda[1]	0,0	262,8	233,8	28,6	0,5
Ministerio de Educación y Cultura	0,0	2,5	0,0	0,0	0,0
Ministerio de Salud Pública y Bienestar Social	0,0	0,7	0,1	0,0	0,0
Ministerio de Obras Públicas y Comunicaciones	297,4	412,8	21,3	0,0	0,7
MAG / Crédito Agrícola de Habilitación	0,0	34,2	0,0	0,0	0,0
Instituto Nacional de Desarrollo Rural y de la Tierra	0,0	10,5	16,9	0,0	0,0
Secretaría Nacional de la Vivienda y el Hábitat	0,0	19,8	4,7	0,0	0,0
Total transferido	496,2	913,9	276,8	28,6	1,7

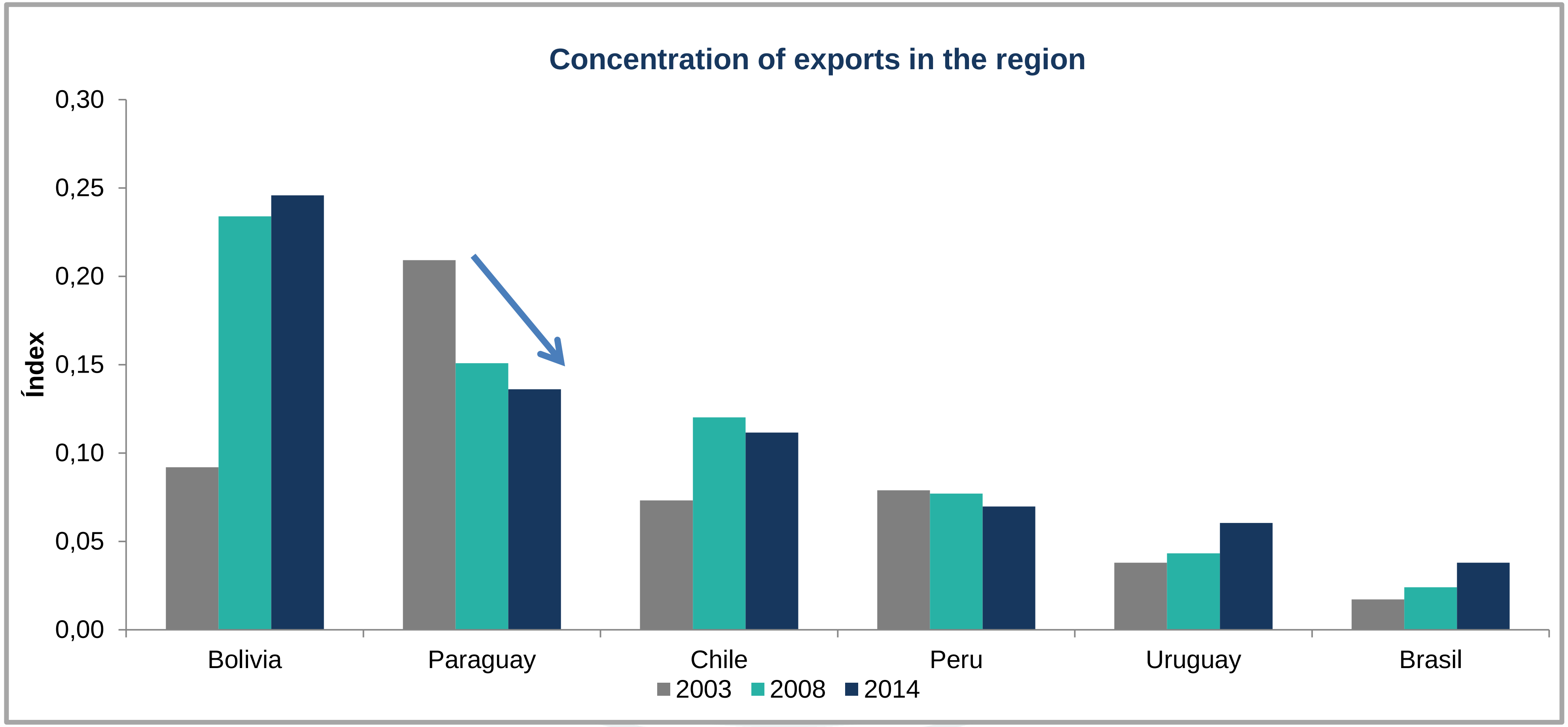
1 Bonos 2044, amortización de la deuda pública y aporte de capital a organismos internacionales (US$ 243,6 millones), transferencia a la Municipalidad de Asunción (US$ 19,2 millones). Bonos 2023 reapertura, amortización de la deuda pública (US$ 186 millones) y aporte de capital a organismos internacionales (US$ 47,8 millones). Bonos 2026, amortización de deuda pública por US$ 28,6 millones.

…and an ambitious public investment plan for the following years

Public projects	Estimated investment (In millions of USD).
In process	1.527,21
Tendered in 2015	2.156,32
To be tendered in 2016	1.981,45
Projects for 2017-2018	2.128,7
Total in public works	7.793,68

Source: Ministry of Finance,

Exports have been diversifying in recent years...

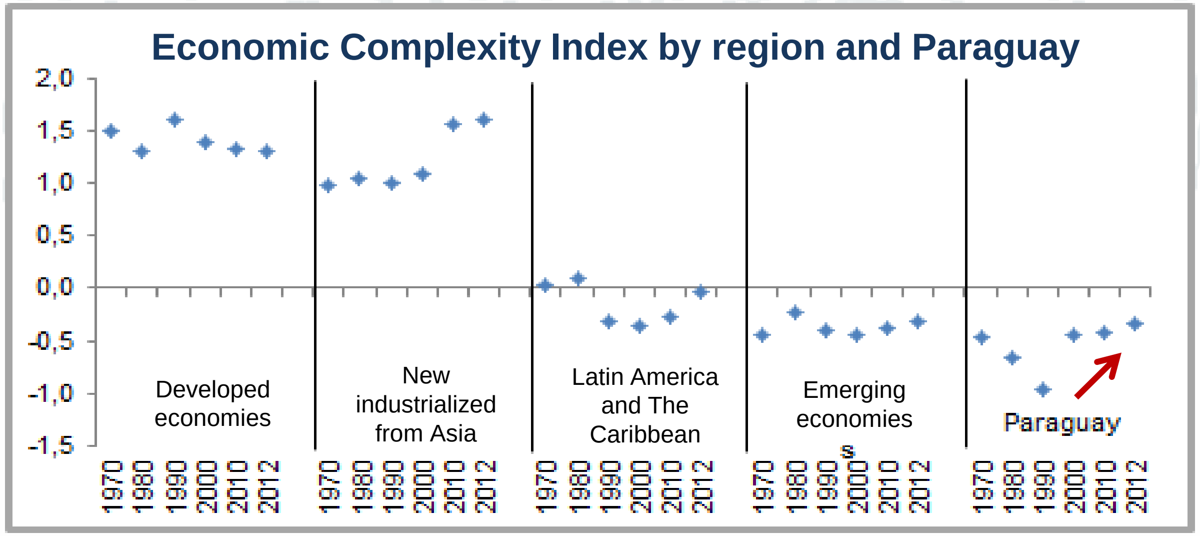


Source: UN Comtrade.

...while the economy is gradually producing more complex goods.

Number of products exported by production process.	2003	2008	2014
Primary goods	73	66	59
Manufactures based on natural resources	116	125	120
Low tech manufactures	184	202	186
Manufactures of high and medium technology	163	181	200
TOTAL	536	574	565

2003-13 Variation on world position	Country	2013 World ranking	ECI 2013
15	Paraguay	84	-0.65
13	El Salvador	54	-0.01
10	Costa Rica	53	0.01
10	Jamaica	68	-0.24
10	Cuba	70	-0.34
6	Dominican Republic	71	-0.35
4	Colombia	50	0.04



Source: BCP, Center for International Development, Harvard University. Hausmann et al.

CONCLUSIONS

Conclusions

- First, authorities must avoid overestimating their economies excess capacity. In the short term, counter-cyclical measures could be applied. However, this should be done prudently while preserving its macroeconomic stability.
- Second, given the drop in potential output, demand-side policies will be insufficient and measures should include structural reforms to eliminate supply "bottlenecks" and boost productivity growth. Thus, policymakers need to focus again on what historically has been the major source of steady economic growth: productivity.
- Naturally, the structural reforms needed to enhance productivity will depend on each country singularities. Even so, improving the quality of education, available infrastructure, institutions and the business environment are common needs for most economies.
- Accordingly, in Paraguay the creation of the Superintendence of Pensions will be an important Institutional improvement. The law allows pension funds to be invested in regulated instruments through financial markets.
- Structural reforms to boost productivity cannot be delayed. Unfortunately, it will be a while until countries could harvest the fruits of those policies. Moreover, it will take a considerable time until LAC countries achieve their long term objective: a high level of economic and social development .

Thank you