



PARAGUAY

Strong Fundamentals to Face New Global Trends

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Roadmap

- Challenges in the new global context
- Sound macro-foundations to face headwinds
- Market perspective.
- Summary.



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Challenges in the new global context

- Almost six years after the beginning of the largest economic crisis in 80 years, some signs (green shots) suggest that the worst may be over.
- The “new” world:
 - Widespread recovery on economic growth in 2014.
 - Higher growth projections than in 2013.
- In December 2013, the Federal Reserve announced that it would start the normalization of monetary conditions in early 2014.



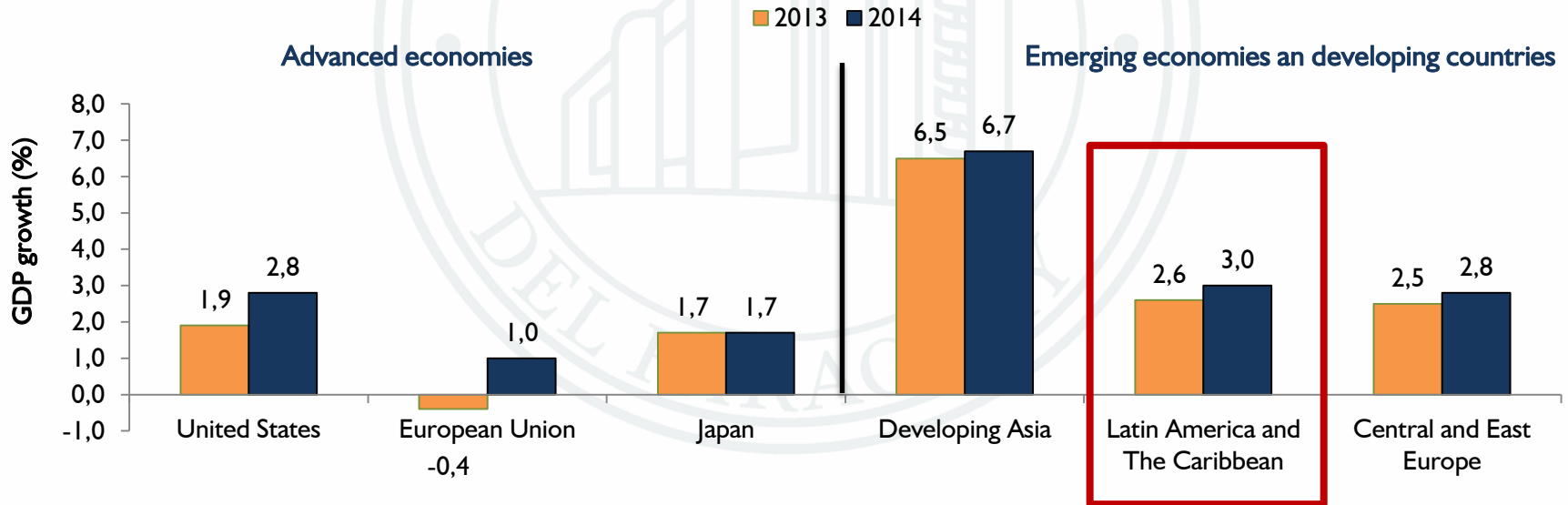
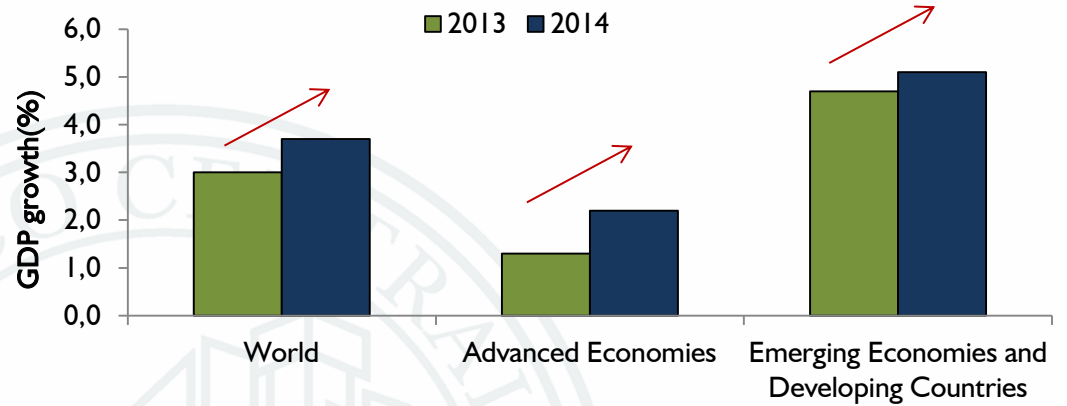
Challenges in the new global context

- This is a positive event, but increased financial market and capital flow volatility is now a concern for emerging markets.
- The rise in U.S. interest rates since May triggered large changes in exchange rates, sovereign spreads, stock markets, and gross portfolio inflows.
- Nevertheless, the impact was not homogenous across countries: *fundamentals matter*.



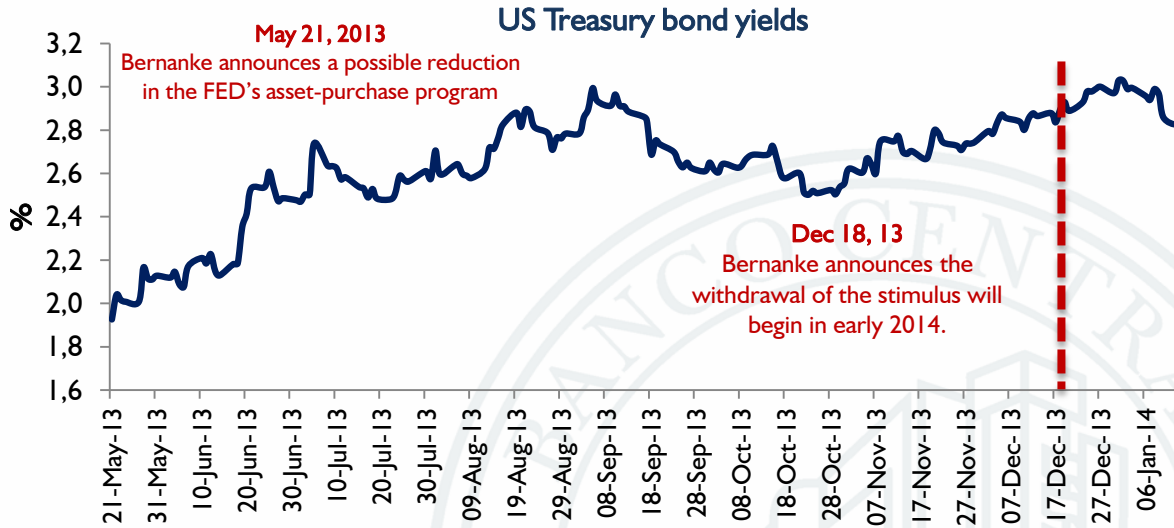
Recovery is underway...

Widespread recovery in economic growth... but with some regional differences.



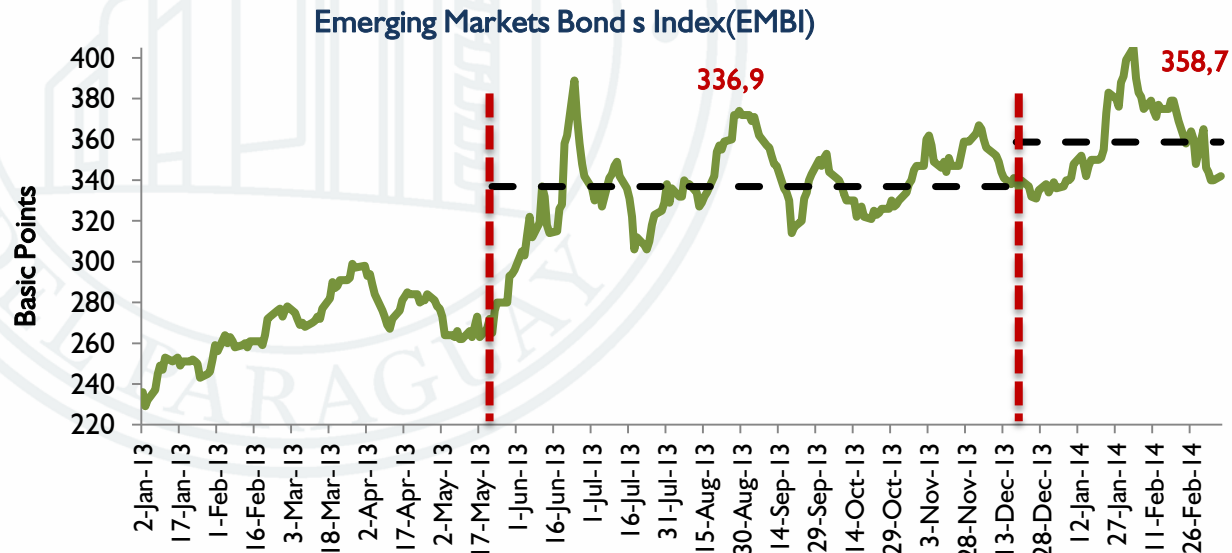


... but emerging markets face new challenges...



The FED normalization of monetary policy will remain a key issue in the short term, driving periods of high volatility in emerging markets.

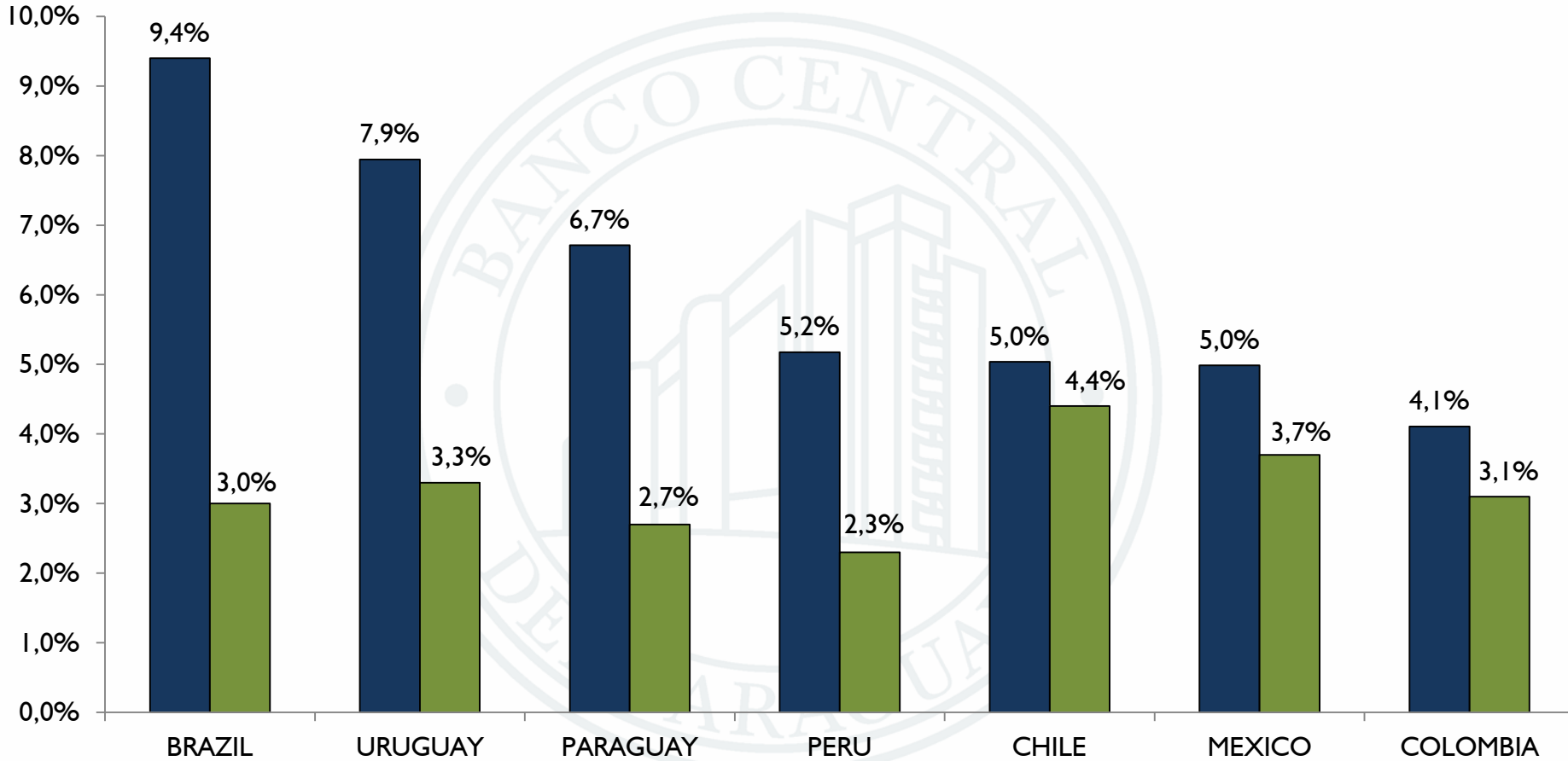
In spite of resilient capital flows, financial conditions have remained tighter after Bernanke's surprised announcement of an imminent tapering.





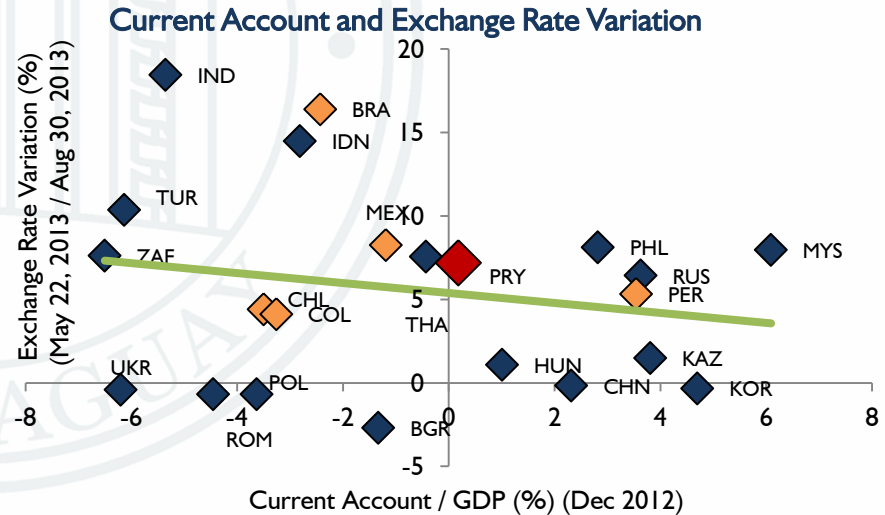
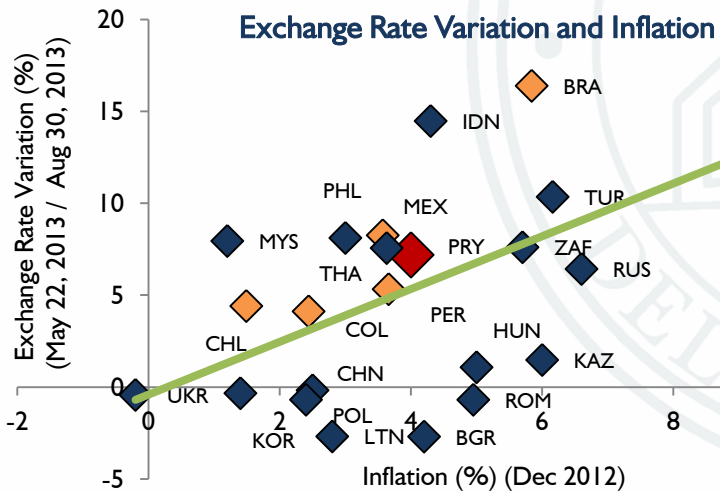
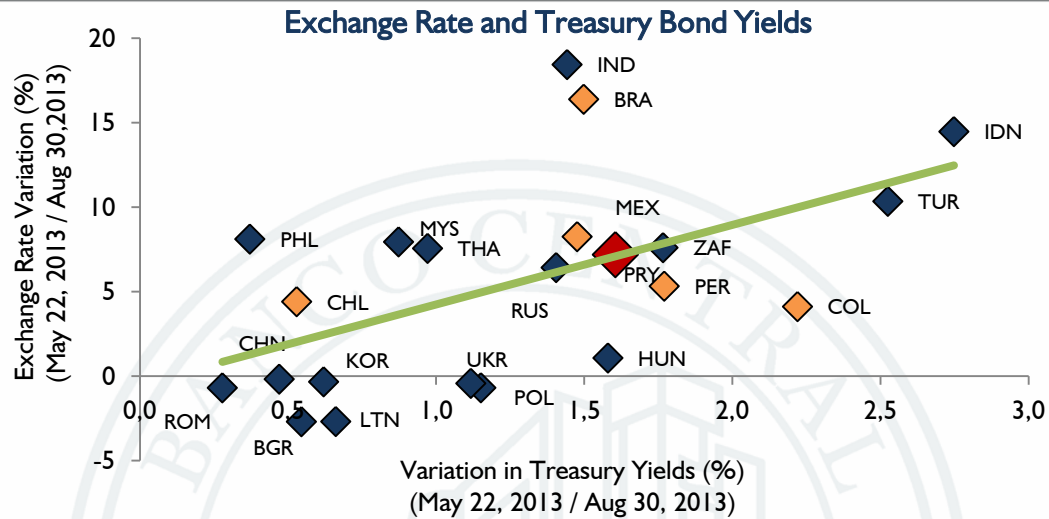
... including pressures in domestic currencies

■ 21-May-13 + 40 days ■ 18-Dec-13 + 40 days





Fundamentals mattered!





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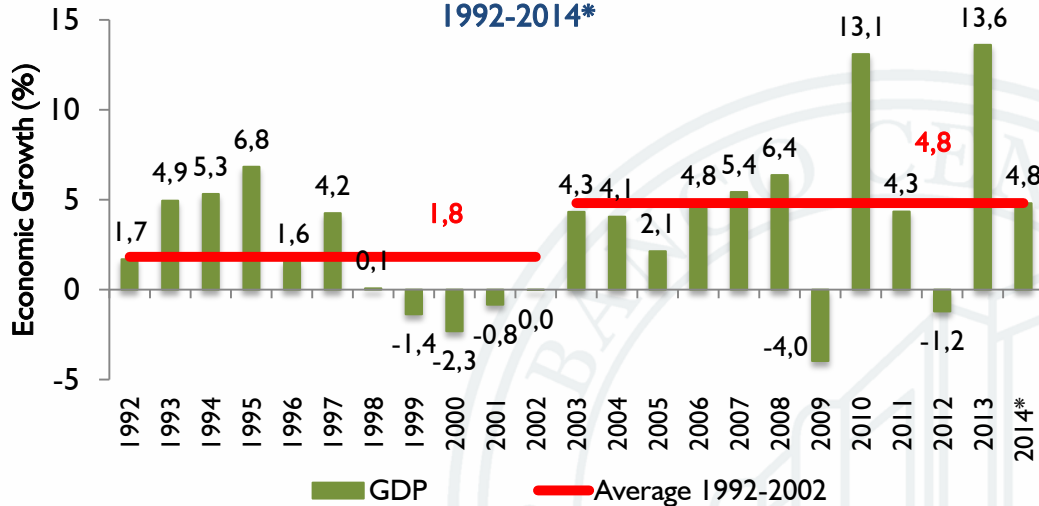
Sound macro-foundations to face headwinds

- Over the past decade, policy frameworks and economic fundamentals have been strengthened.
- **Macro-Policies:** government finances are sound, inflation low, banks are strong, buffers are large, and a flexible exchange rate regime which makes a huge difference.
- **Structural Reforms:** tax reforms in 1993 and 2013, passage of a fiscal responsibility law, approval of a PPP law.
- The Fed exit from unconventional monetary policy will be a bumpy ride, but Paraguay is well prepared.



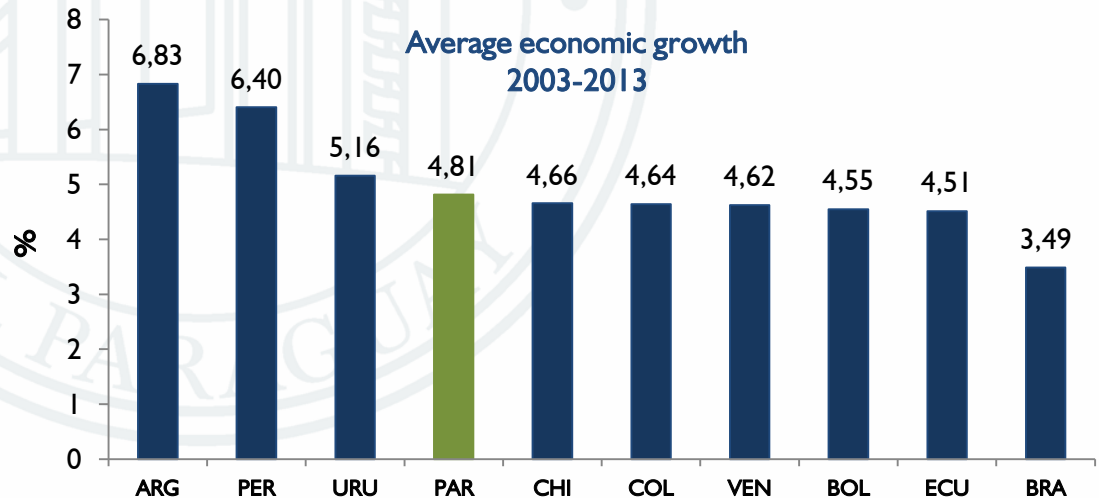
Strong economic growth for a decade..

Paraguay economic growth 1992-2014*



Paraguay experienced a solid growth in the last decade supported by production and export of raw materials. Still, on top of agriculture, construction and services were also key growth-drivers.

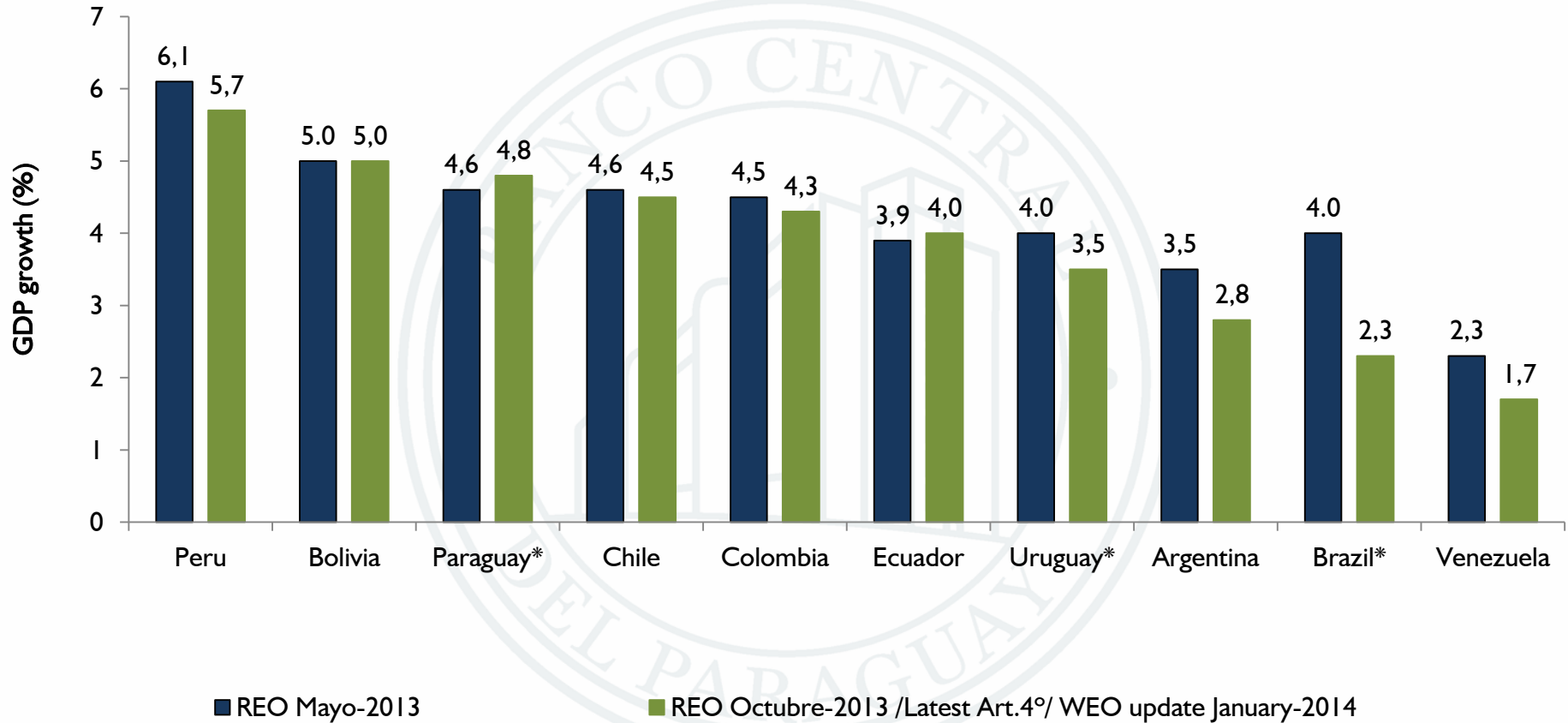
Sound policies and structural reforms increased potential growth rate. Paraguay average economic growth in the last decade is among the highest in the region.





...while expectations are improving in the short term

Year 2014

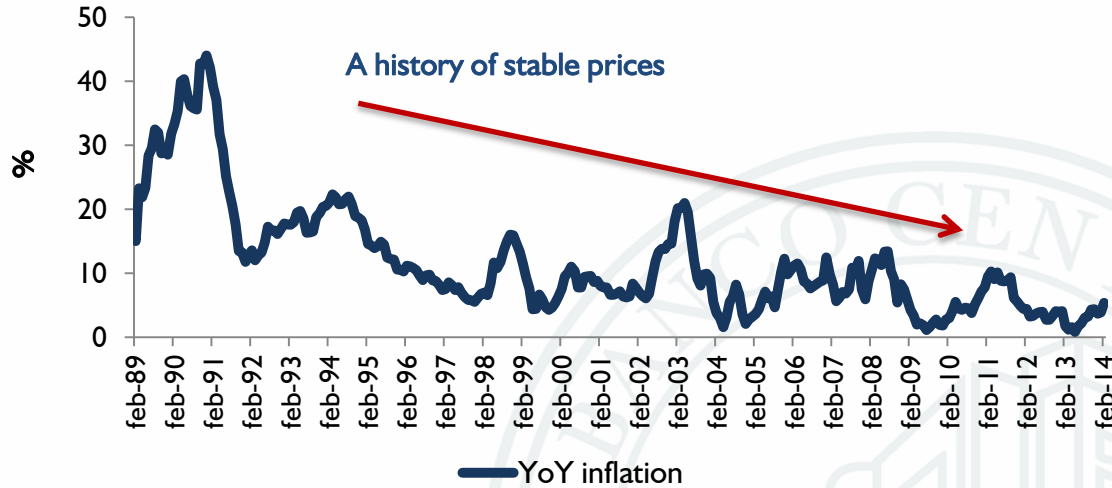


Source: RER Oct-2013.

(*) Latest Article 4° when available. For Brasil WEO Update – January 2014



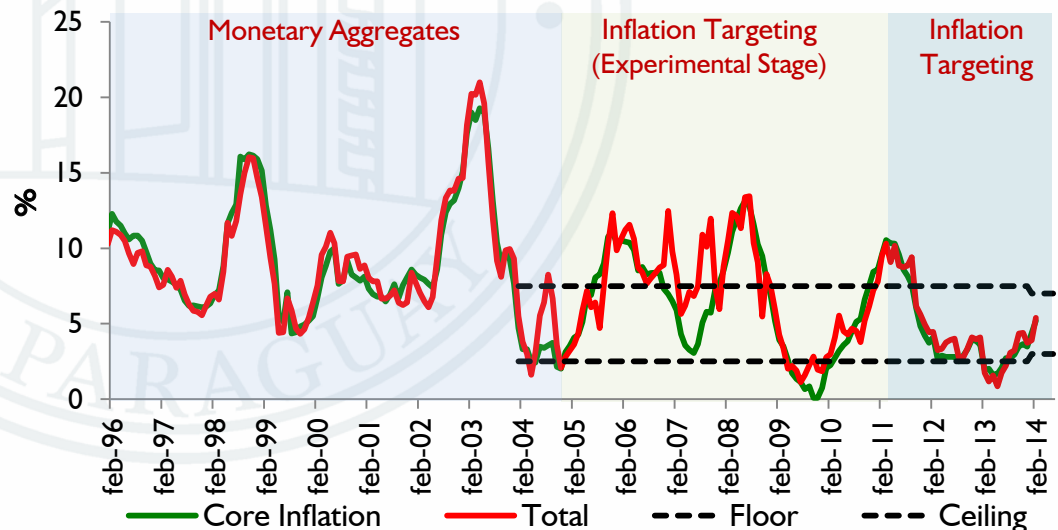
A central bank committed to low and stable inflation



Paraguay has never experienced high rates of inflation and its currency (the Guaraní) recently celebrated its seventieth anniversary.

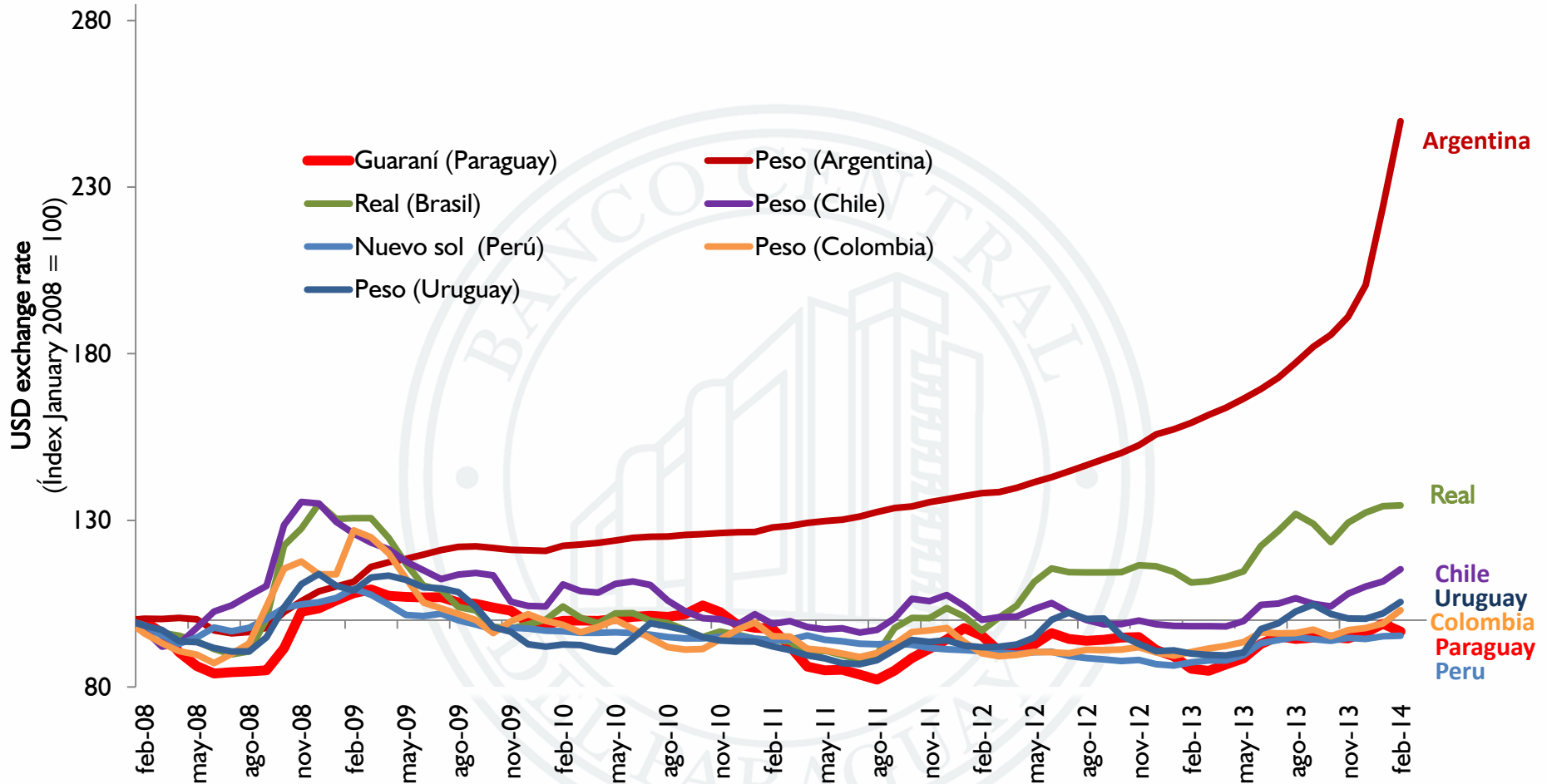
The CBP started the implementation of an IT regime in 2011. The explicit public commitment to control inflation as the primary objective is crucial for greater investor confidence and a more predictable business environment.

Monetary Regimes in Paraguay





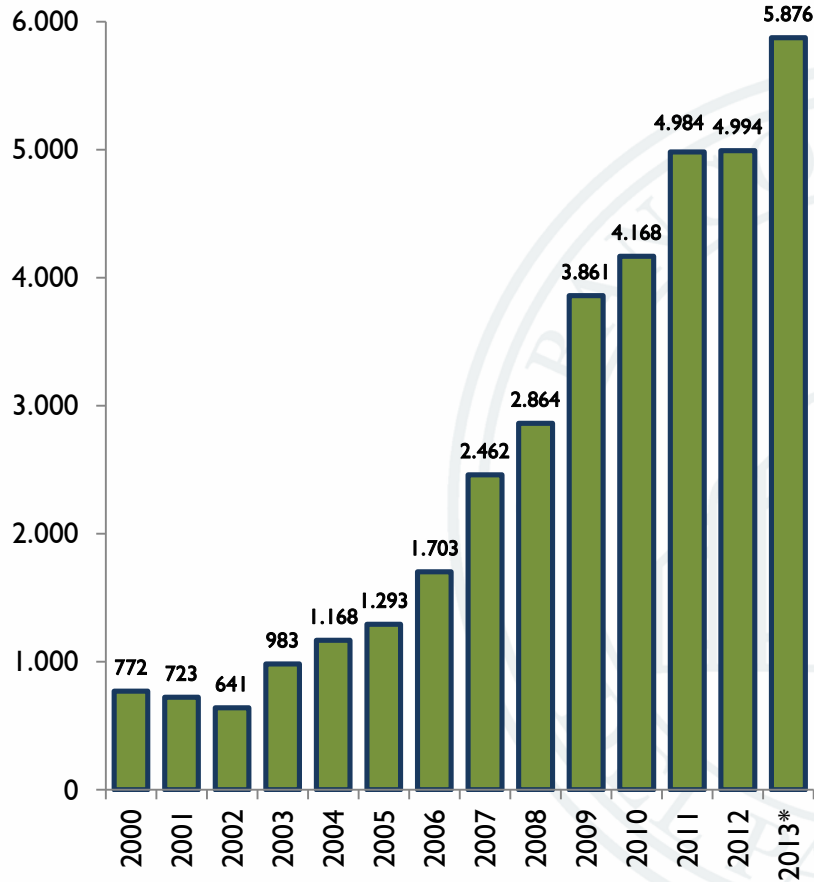
A floating exchange rate regime...



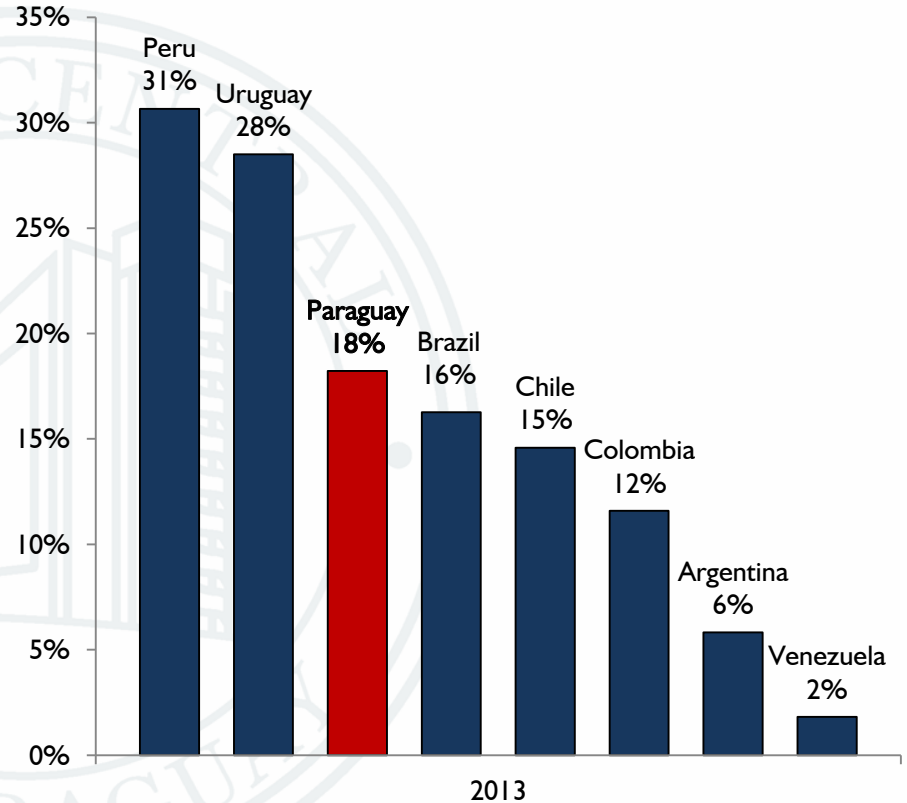


...with large buffers to dampen excessive volatility...

International Reserves



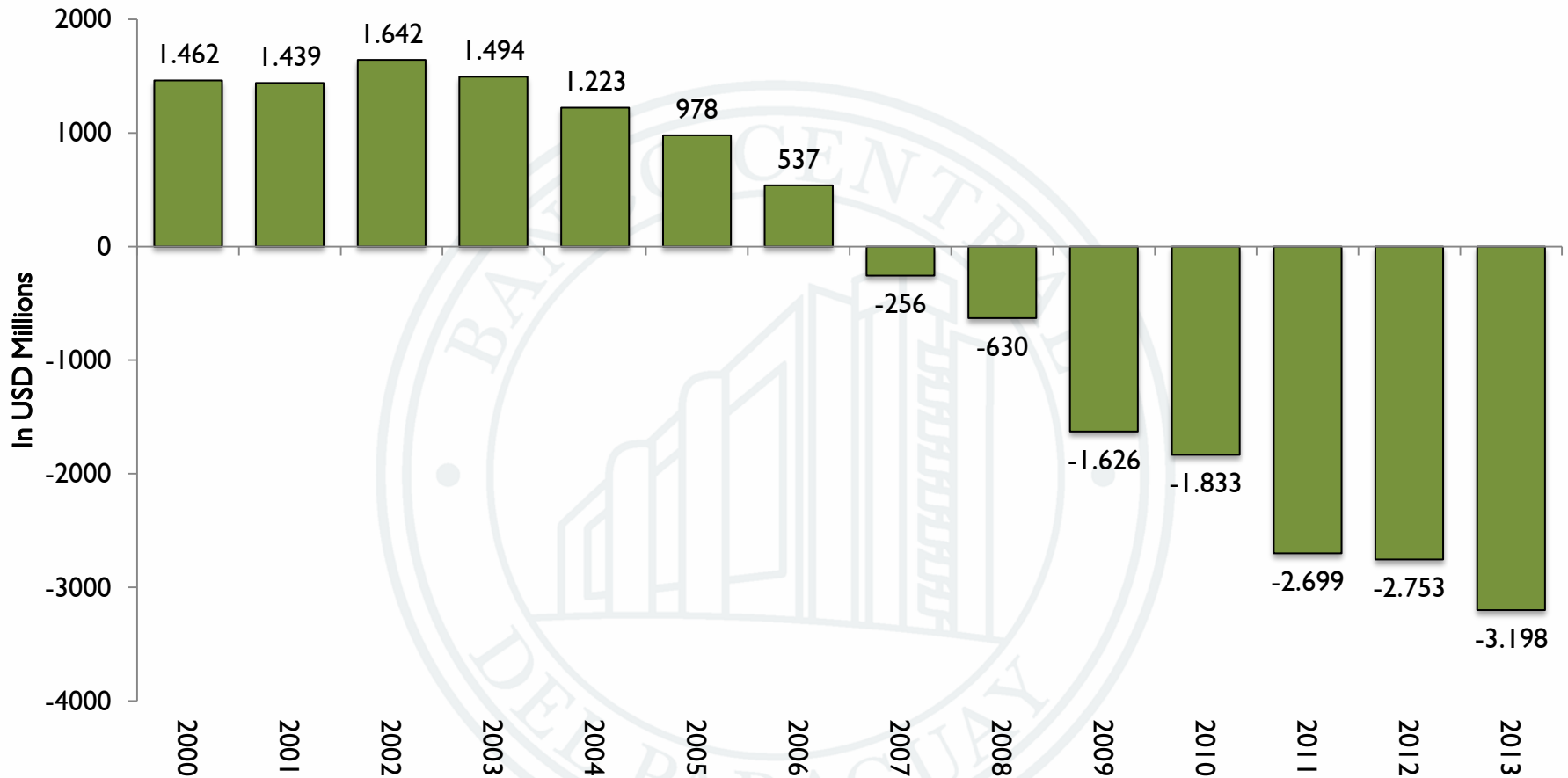
International Reserves (% of GDP)



Source: CBP and IMF-IFS. Year 2013, last data available.



...compounded by a net external creditor position

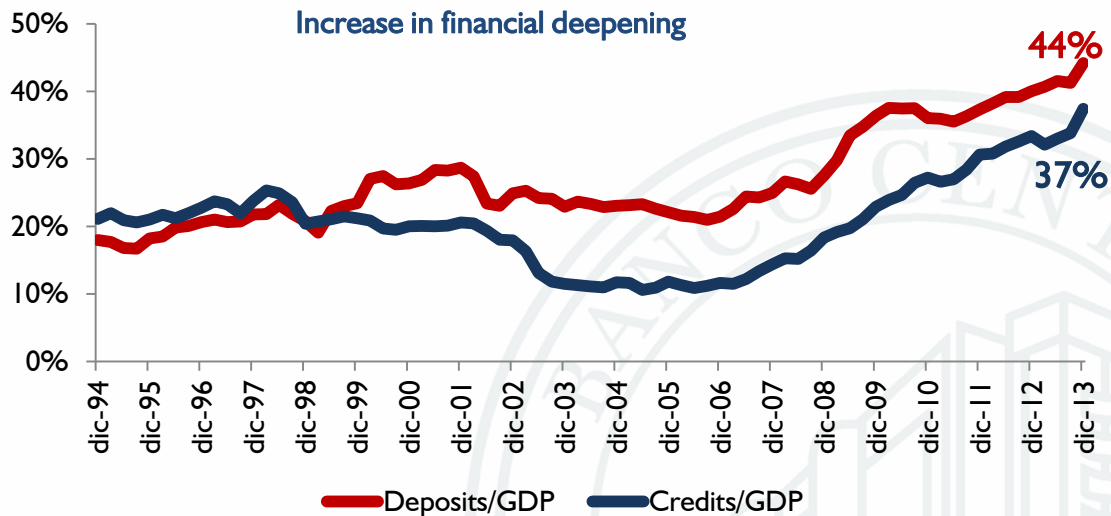


Note: Net Creditor Position: Public External Debt – Foreign Official Assets

Source: CBP

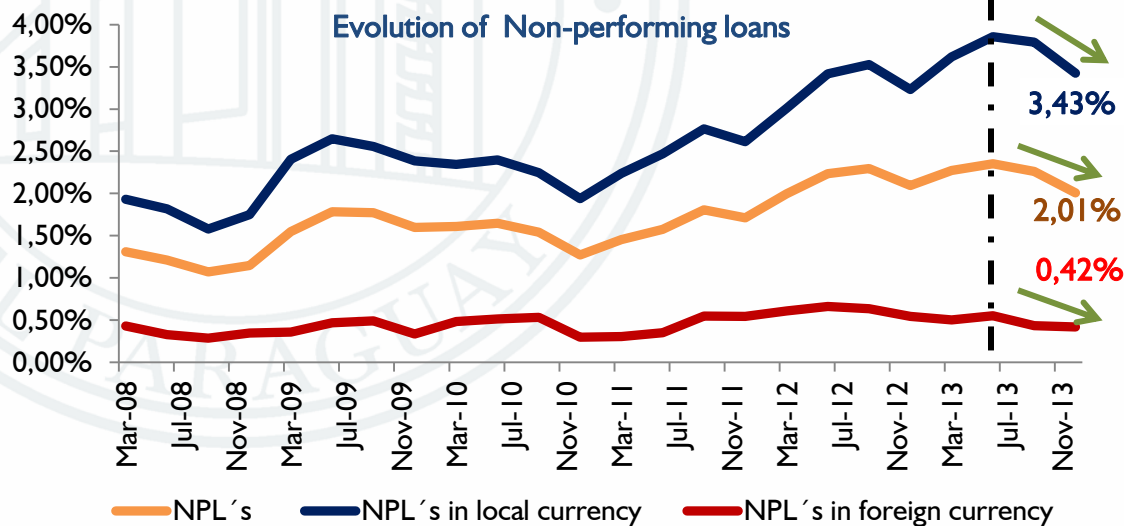


A sound financial sector to support growth..



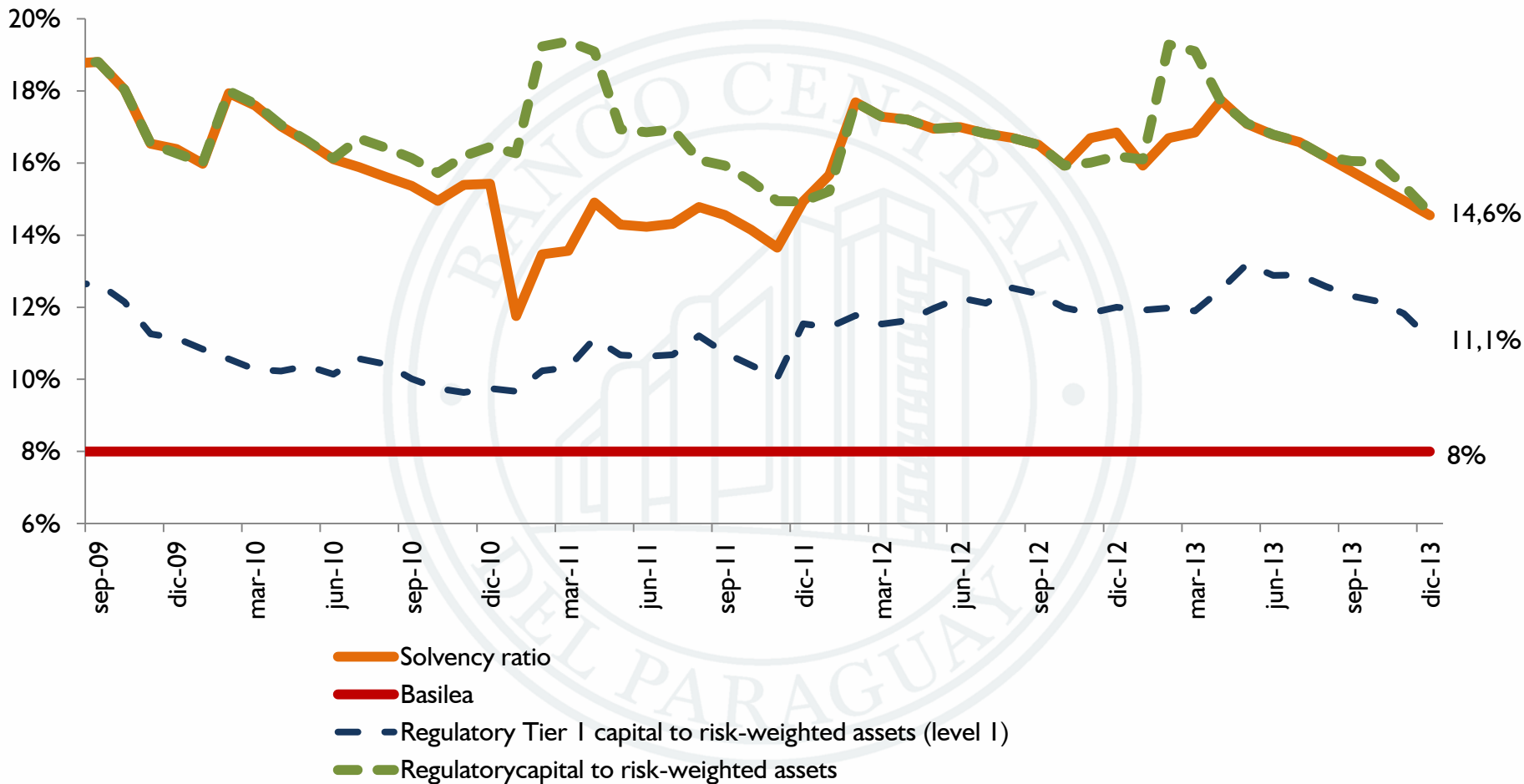
Paraguay has experienced a process of financial deepening, as expected given its recent good economic performance. Deposits had increased in line with loans, so banks did not rely heavily on external lending.

The quality of credit has not been affected by credit growth. In addition, credit has been mainly oriented to the productive sector. Currency matching was important for this result.





...while banks keep a sound capital position





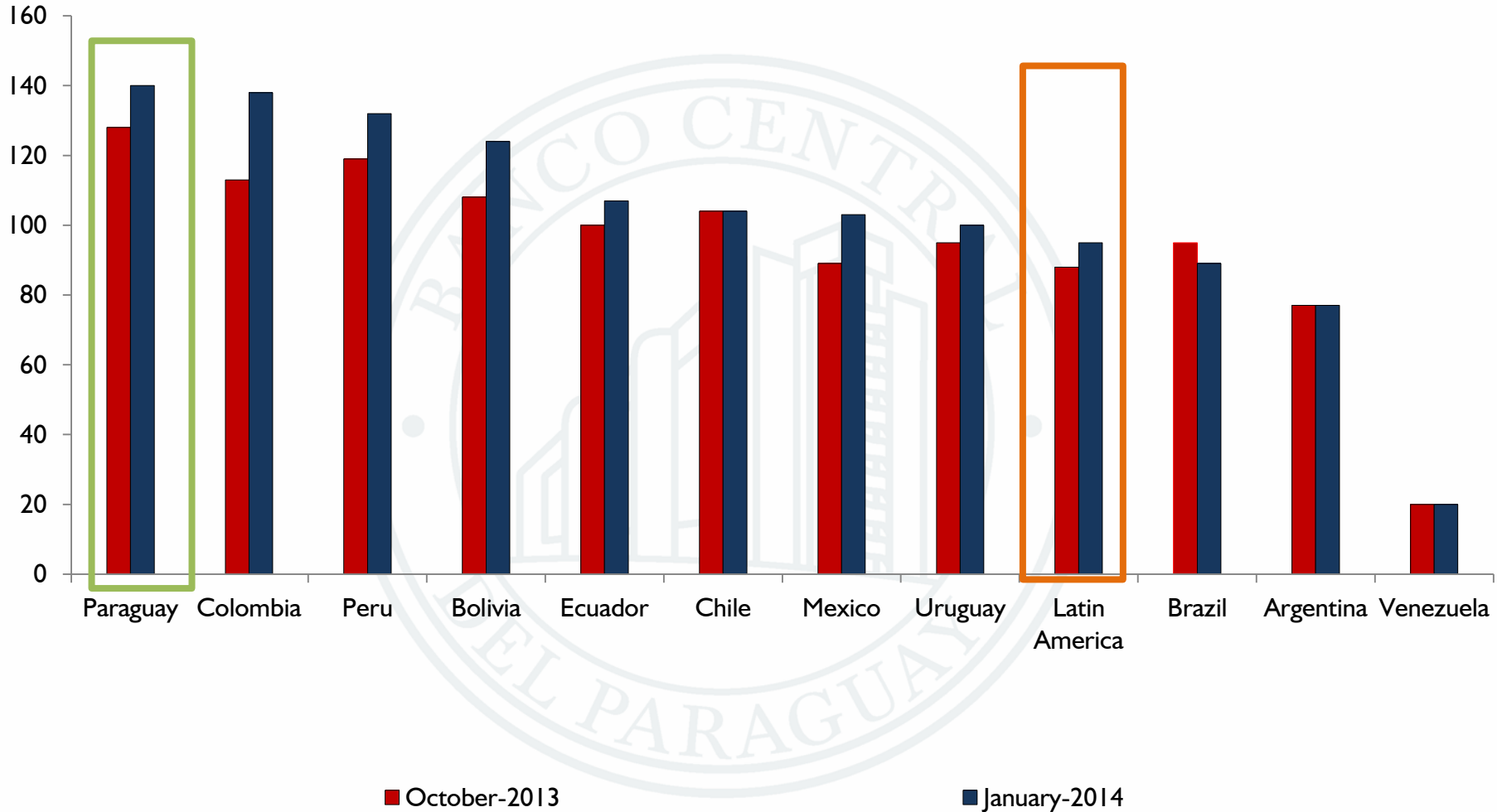
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A favorable business climate...

Economic Climate Index





A steady improvement in credit rating

MOODY'S

Rating	Credit Watch	Fecha
Ba2		Feb 2014
Ba3		Jan 2013
B1		Dec 2010
B3	+	Jun 2010
B3		Apr 2008
Caa1	+	Nov 2007
Caa1		Apr 2003
B2 (inicial)		Jul 1999

STANDARD & POOR'S RATINGS SERVICES

Rating	Credit Watch	Fecha
BB-		Dec 2013*
BB-		Aug 2012
BB-	-	Jun 2012
BB-		Aug 2011
B+		Aug 2010
B		Jun 2007
B-		Jul 2004
SD		Feb 2003
B-		Nov 2002
B		Jun 1999
B+		Feb 1999
BB- (inicial)		Oct 1995

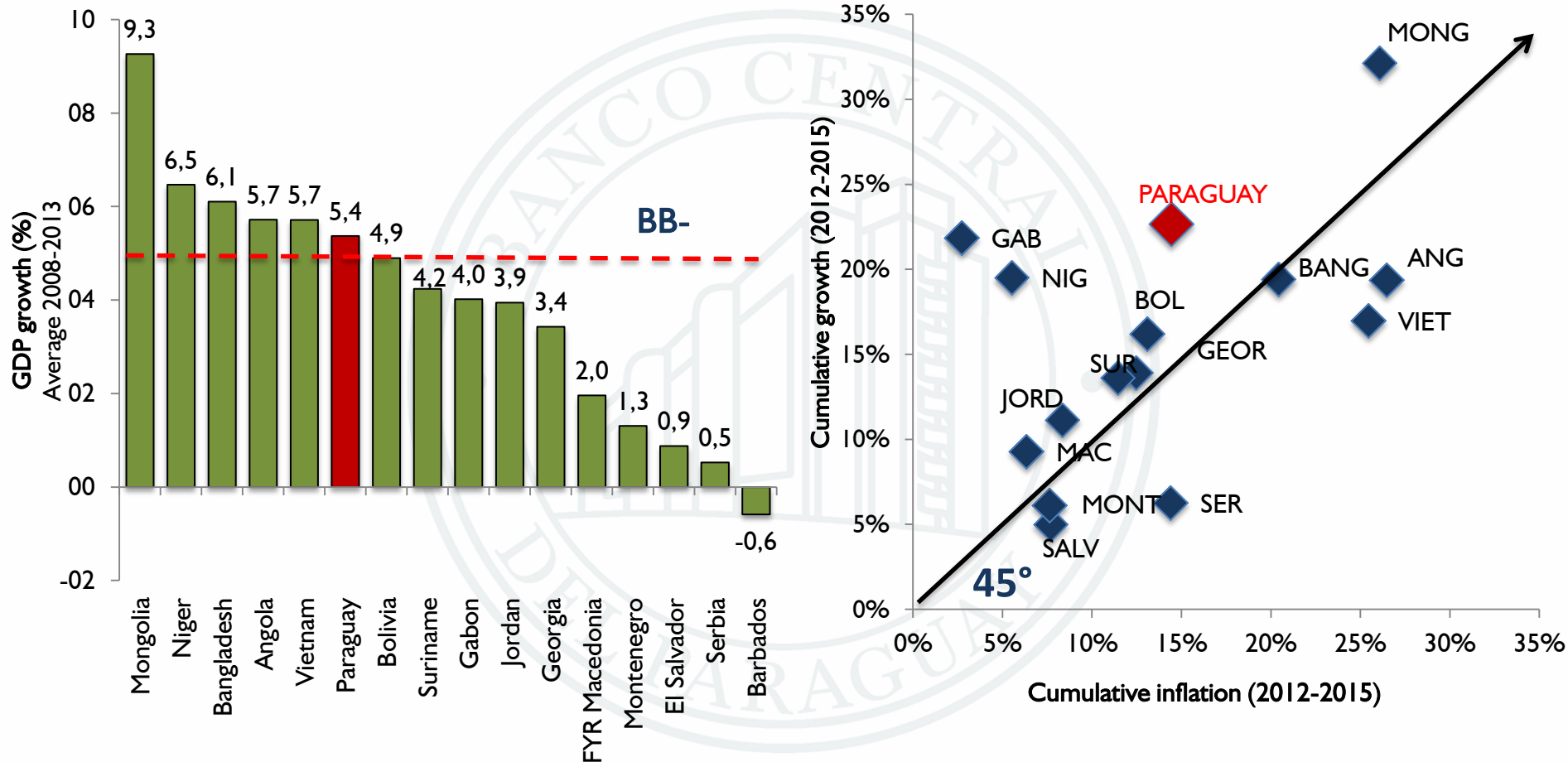
FitchRatings

Rating	Credit Watch	Fecha
BB-	+	Jan 2014
BB- (inicial)		Feb 2013





Favorable and more sustainable growth compared to peers...

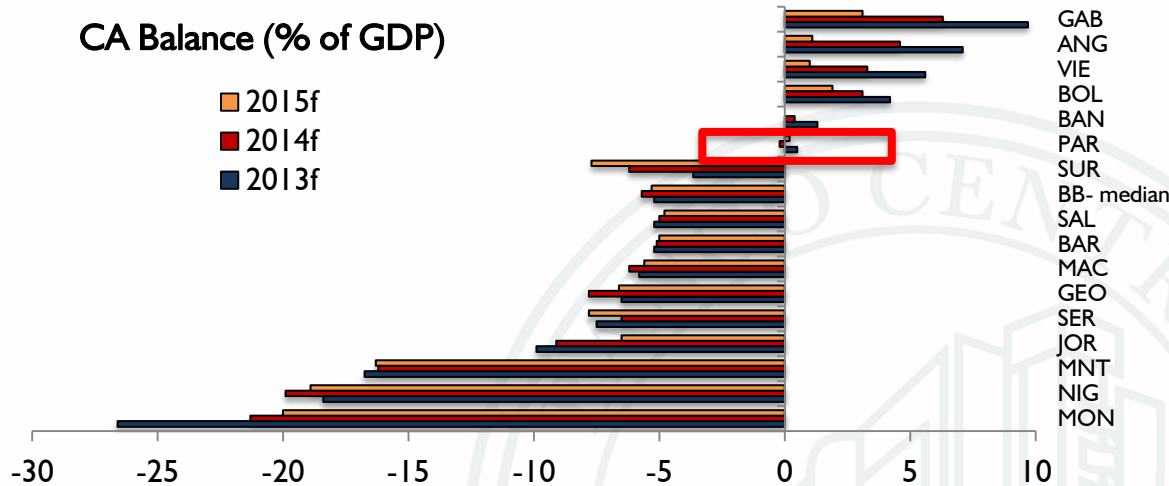


Source: IMF-WEO Oct-2013 and CBP.
 Countries with BB- credit rating by Standard and Poors.



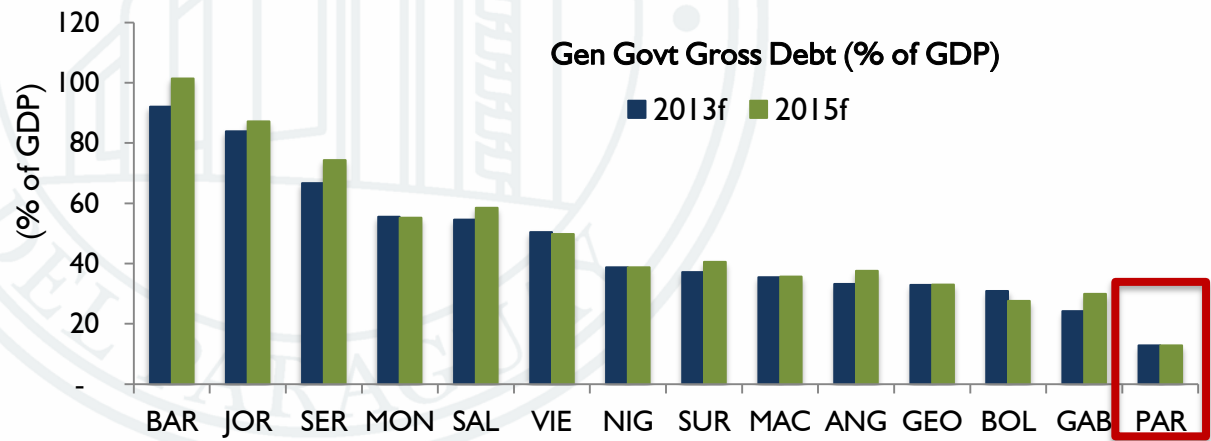
...supported by sound external and fiscal balances

CA Balance (% of GDP)



Despite strong growth expectations, Paraguay will maintain an even external balance. This is crucial given tightening external financing conditions.

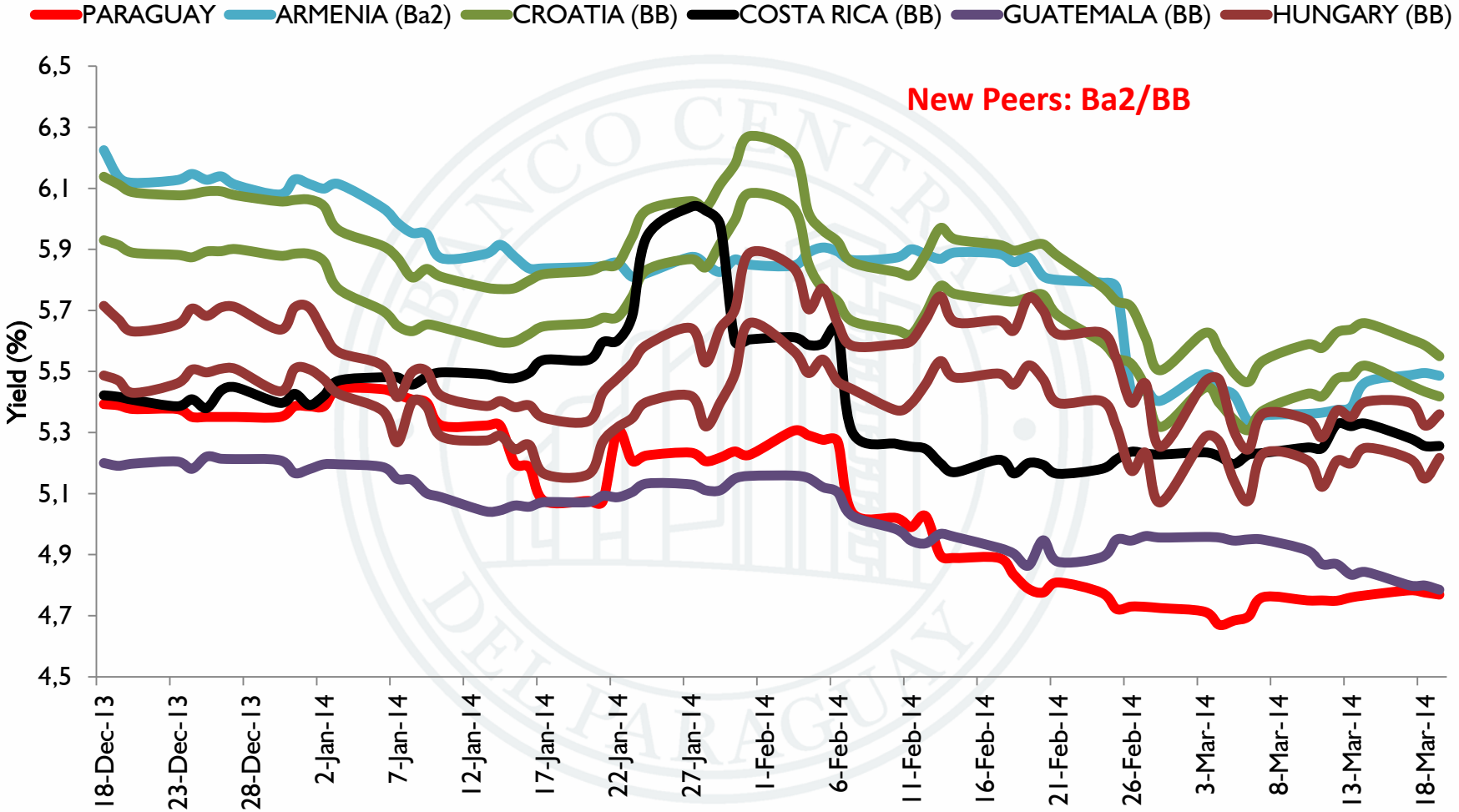
Paraguay experienced eight consecutive years of fiscal surpluses. This had allowed the country to decrease its public external debt from close to 60 percent of GDP to less than 10 percent, the lowest percentage among its peers.



Source: IMF-WEO Oct-2013 and CBP.
Countries with BB- credit rating by Standard and Poors.



All reflected in favorable prices for sovereign bonds



Source: Bloomberg. Countries have a BB rate by S&P and Ba2 by Moody's.



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Summary

- A normalization on monetary conditions in the US is not necessarily a negative event: economic and financial effects will depend on robustness of economic policies.
- In Paraguay, fundamentals have improved over the past decade and the economy is well prepared to face external shocks.
- In sum, the country offers to the private sector a stable macroeconomic framework for the medium and long term.



Summary

- This is crucial: it is a pre-requisite for individuals and companies to extend their planning horizon and, consequently, generate investments that will create employment, production and income.
- I am convinced that this seminar will be key to materialize those investments in the near future.
- Welcome to Paraguay!



THANK YOU