

PARAGUAY

Table 1 **2023**

Population, million ^a	6.6
GDP, current US\$ billion	43.0
GDP per capita, current US\$	6508.5
International poverty rate (\$2.15) ^b	1.3
Lower middle-income poverty rate (\$3.65) ^b	5.6
Upper middle-income poverty rate (\$6.85) ^b	19.9
Gini index ^b	45.1
School enrollment, primary (% gross) ^c	90.6
Life expectancy at birth, years ^c	70.5
Total GHG emissions (mtCO2e)	98.0

Source: WDI, Macro Poverty Outlook, and official data.
 a/ Does not reflect preliminary 2022 Census results.
 b/ Most recent value (2022), 2017 PPPs.
 c/ Most recent WDI value (2022).

Paraguay's economy is expected to grow by 3.9 percent in 2024, supported by a healthy soybean harvest. Growth would be faster if not for uneven rainfall, which has dampened hydropower production. Poverty is estimated to have decreased to 17.6 percent in 2023 and is expected to fall to 16.8 percent in 2024. Building resilience to climate shocks is essential as these remain the main risk to the forecast.

Key conditions and challenges

Real GDP growth averaged 3.6 percent annually between 2003 and 2023, faster than most countries in the region. This achievement reflects prudent macroeconomic management, favorable demographics, and a period of high commodity prices.

Growth has cut the poverty rate in half over the last two decades. In 2023, an estimated 17.6 percent of the population lived below the upper-middle income poverty line of US\$6.85/day per capita (2017 PPP). However, progress has slowed since 2013 partly due to external shocks such as droughts. The World Bank Poverty Assessment reports that 36 percent of Paraguayans remain vulnerable to poverty, underscoring the need for policies that build resilience to shocks. Inequality remains high, with a Gini coefficient of 45.1 points.

Accelerating social progress not only hinges on sustaining growth and stability but also on creating more good quality jobs. Attracting more private investment in labor-intensive industries could help Paraguay achieve this, but additional efforts are needed to forge linkages with local suppliers and improve the quality of education and skills. More efficient public spending on education, health, infrastructure, and social assistance can help reduce poverty and inequality more significantly. More spending in these areas will eventually be needed, which in turn requires mobilizing more domestic revenues.

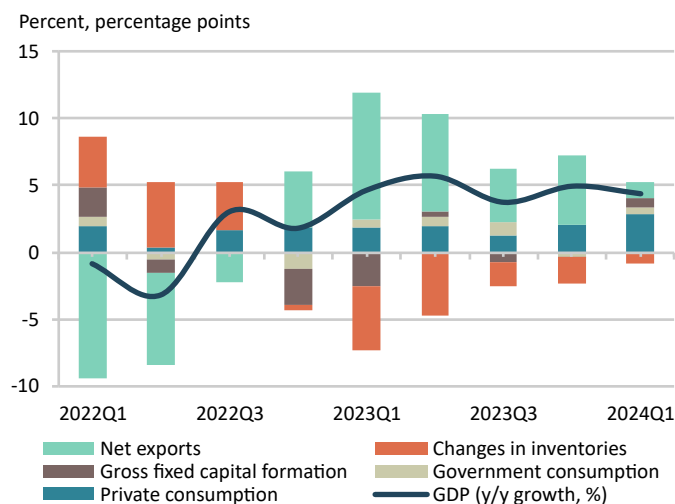
Recent developments

Real GDP expanded 4.3 percent y-o-y in Q1 2024, driven by the services and manufacturing sectors. Private consumption and exports contributed the most to growth. Fixed investment also began to pick up, although construction activity remained soft. The economic activity index showed momentum in Q2, rising 7 percent on average from the previous quarter on a seasonally adjusted, annualized basis. Growth would have been faster if not for low river levels of the Paraguay-Paraná waterway, which reduced hydropower generation by 18 percent y-o-y in H1 2024.

The national unemployment rate was 6.4 percent in Q2 2024, rising 0.6 percentage points from Q2 2023. Rural areas saw a 1.3 percentage point increase, with women facing higher increases (3.7 to 7.3 percent) than men. In contrast, the underemployment rate due to insufficient working hours decreased from 4.0 to 3.4 percent compared to Q2 2023. This reduction was primarily driven by a lower proportion of women reporting underemployment.

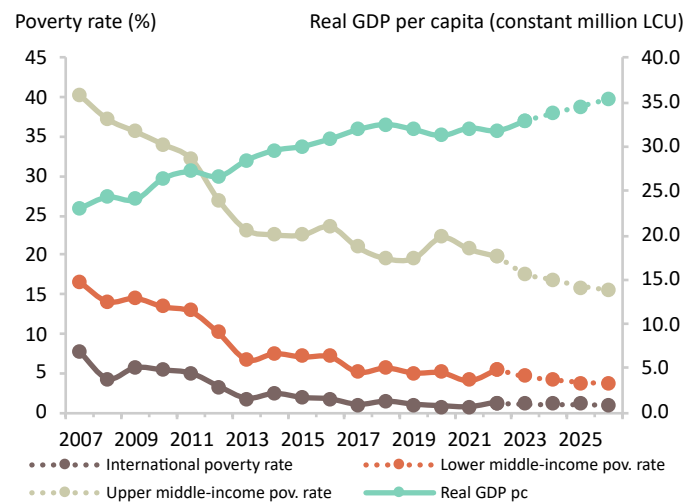
From January to August 2024, the goods trade balance recorded a surplus 64 percent smaller than that recorded over the same period last year. Growth of imports outpaced that of exports as fuel and capital goods imports increased, while hydropower export volumes halved. Soybean export volumes rose by

FIGURE 1 Paraguay / Real GDP growth and contributions to real GDP growth



Source: Central Bank of Paraguay.

FIGURE 2 Paraguay / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

40 percent, but average prices were 24 percent lower. The nominal exchange rate depreciated by 4.3 percent against the US dollar in this period. Net international reserves stood at 6.9 months of imports at end-August.

Headline inflation rose from 3.7 percent in December 2023 to 4.3 percent y-o-y in August 2024, driven by fresh fruit and vegetables. Core inflation fell from 4.7 to 4.2 percent y-o-y over the same period. The overnight policy rate has remained at 6 percent since March 2024.

The annualized fiscal deficit declined from 4.1 percent at end-2023 to an estimated 3.4 percent of 2024 GDP at end-August. Tax collections rose 17 percent y-o-y in real terms from January to August 2024, reflecting higher corporate profits from robust growth in 2023 and higher VAT receipts, reportedly due to fewer Paraguayans shopping in Argentina as price differentials narrowed. Merging the tax and customs authorities may also have yielded efficiency gains. Real spending rose by 7.2 percent y-o-y, driven by material expenses and interest payments. Public debt remained stable at 38.2 percent of GDP as of the end of July.

Outlook

Given the high statistical carryover from Q1 and robust activity data in Q2, growth is forecast at 3.9 percent in 2024 and at 3.6 percent in 2025-2026. Private fixed investment growth is expected to accelerate as financing conditions ease. Paraguay recently secured an investment grade rating (Baa3) from Moody's, which could reduce borrowing costs for the sovereign and for corporates.

Annual inflation is expected to remain at an average of 4 percent, the midpoint of the target range, from 2024 to 2026. With buoyant growth and inflation under control, poverty is expected to decline to 16.8 percent in 2024 and to 15.5 percent in 2026, driven by rising incomes in the services and agriculture sectors. Non-labor incomes are projected to see a modest increase in 2024.

The central government fiscal deficit is expected to continue to narrow towards the fiscal rule's target of 1.5 percent of GDP in 2026. Although Paraguay is expected to receive an estimated 0.6 percent

of GDP in additional annual revenues from higher negotiated prices of electricity exports from the Itaipú dam to Brazil over 2024-2026, the government has announced that these will be spent off-budget on social and infrastructure investments. Public debt is expected to stabilize at 40-41 percent of GDP.

The current account is expected to post a small deficit as import growth, particularly of machinery and capital goods, gradually accelerates as large private investments are implemented. Export growth is expected to remain buoyant, assuming normal weather conditions.

Climatic conditions remain a threat to the outlook. If abnormally low precipitation persists, soybean and hydropower production would decline, and overall trade would slow. Such challenges could aggravate inflationary pressures and reverse poverty reduction gains. Geopolitical tensions also pose risks through the trade and financial market channels (89 percent of Paraguay's debt is denominated in foreign currency). Faster progress on structural reforms could accelerate growth and poverty reduction.

TABLE 2 Paraguay / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2021	2022	2023	2024e	2025f	2026f
Real GDP growth, at constant market prices	4.0	0.2	4.7	3.9	3.6	3.6
Private consumption	6.1	2.3	2.7	3.9	3.6	3.6
Government consumption	2.6	-2.2	3.6	1.3	0.3	0.0
Gross fixed capital investment	18.2	-1.8	-3.5	3.3	3.9	5.6
Exports, goods and services	2.1	-1.1	36.7	2.5	4.0	4.0
Imports, goods and services	21.8	9.4	14.1	1.2	3.1	3.8
Real GDP growth, at constant factor prices	3.6	0.1	4.8	3.9	3.6	3.6
Agriculture	-11.6	-8.6	16.5	5.0	5.0	5.0
Industry	5.0	0.7	3.4	2.1	2.5	2.5
Services	6.5	1.5	3.6	4.9	4.0	4.0
Inflation (consumer price index)	4.8	9.8	4.6	4.0	4.0	4.0
Current account balance (% of GDP)	-0.9	-7.1	0.2	-0.6	-0.9	-1.2
Net foreign direct investment inflow (% of GDP)	0.2	1.7	0.8	1.7	1.7	1.7
Fiscal balance (% of GDP)	-3.6	-2.9	-4.1	-2.6	-1.9	-1.5
Revenues (% of GDP)	13.7	14.0	14.0	14.4	14.3	14.3
Debt (% of GDP)	34.1	35.9	38.6	41.0	40.7	40.2
Primary balance (% of GDP)	-2.5	-1.7	-2.4	-0.8	-0.1	0.2
International poverty rate (\$2.15 in 2017 PPP)^{a,b}	0.7	1.3	1.1	1.1	1.1	1.0
Lower middle-income poverty rate (\$3.65 in 2017 PPP)^{a,b}	4.1	5.6	4.6	4.2	3.8	3.7
Upper middle-income poverty rate (\$6.85 in 2017 PPP)^{a,b}	20.8	19.9	17.6	16.8	16.0	15.5
GHG emissions growth (mtCO₂e)	0.4	-0.7	1.0	1.4	1.4	1.3
Energy related GHG emissions (% of total)	9.2	9.4	9.8	10.1	10.5	11.0

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.

Notes: e = estimate, f = forecast.

a/ Calculations based on SEDLAC harmonization, using 2022-EPH. Actual data: 2022. Nowcast: 2023. Forecasts are from 2024 to 2026.

b/ Projections using microsimulation methodology.