

COUNTRY PROFILE:**REPUBLIC OF PARAGUAY**

IES/02: ATTACHMENT A

DATED:**OCTOBER 2007****CREDIT GUARANTEE:**

	<i>Country Rating</i>	<i>U/W Method</i>
<i>Short-term</i>	3C	No Restrictions

Recent Political Highlights

- ❑ Chief of state since August 2003 is President Nicanor Duarte Frutos;
- ❑ Observers viewed the inauguration of President Frutos as the beginning of political and economic stability. The Government has introduced significant reforms in the areas of budget, taxation, customs, etc, but reforms in the fields of finance, public companies and public administration are lagging behind;
- ❑ The last election was held in April 2003 and the next election is scheduled for April 2008.

Recent Economic Highlights

- With a population of 7m (that is expected to grow at a rate of 2.4% in 2007), Paraguay is one of South America's least densely populated countries;
- It is characterised by widespread corruption and is the centre of smuggling, money laundering and organised crime;
- Paraguay is a landlocked market economy that is dominated by its informal sector which includes the re-export of imported consumer goods and the activities of thousands of microenterprises and urban street vendors;
- Agricultural production makes up 27% of GDP and 84% of exports and its external debt is 40% of GDP;
- Paraguay's poor economic performance can largely be attributed to political uncertainty, corruption, lack of progress on structural reform, substantial internal and external debt and a deficient infrastructure;
- The economy rebounded between 2003 and 2006 on the back of a firmer exchange rate to post modest growth each year;
- The IMF completed the fourth review of Paraguay's economic performance under a 27-month stand-by agreement originally approved for \$101m. It also approved the country's request for a reduction and rephrasing of access under the stand-by agreement in light of Paraguay's stronger than expected external position. It noted that Paraguay had made significant progress towards entrenching macroeconomic stability and thereby setting the basis for accelerated sustainable growth and poverty reduction. Fiscal performance remains strong and the outlook for public finances is good despite a difficult policy environment;
- On the back of strong agricultural recovery, GDP growth is expected to accelerate from 4.3% in 2006 to 5% in 2007. The fiscal position remains strong and reserves at end-June 2007 rose to \$2bn. The IMF expects GDP growth of 4% in 2008 with inflation falling from 7.6% in 2007 to 3.9% in 2008;
- The European Community has devised a strategy to provide €117m over the period 2007-2013 towards education and economic integration at national, sub-regional and international levels.

Latest Trade Developments

- ❑ Major exports: soybeans, feed, cotton, meat, edible oils, electricity, wood and leather;
- ❑ Major imports: road vehicles, consumer goods, tobacco, petroleum products, electrical machinery;
- ❑ Main trading partners: Uruguay, Brazil, Russia, Argentina, Chile, Japan and US;
- ❑ Main agricultural products: cotton, sugarcane, soybeans, corn, wheat, tobacco, cassava, fruits, vegetables, beef, pork, eggs, milk and timber;
- ❑ Main industries: sugar, cement, textiles, beverages, wood products, steel, metallurgic and electrical power;
- ❑ SA exports to Paraguay totaled R12.6m in 2006 from R10.8m in 2005 and R6.9m in the year to July 2007.

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