

# PARAGUAY

**Table 1**

	2023
Population, million <sup>a</sup>	6.8
GDP, current US\$ billion	43.0
GDP per capita, current US\$	6335.6
International poverty rate (\$2.15) <sup>b</sup>	1.3
Lower middle-income poverty rate (\$3.65) <sup>b</sup>	5.6
Upper middle-income poverty rate (\$6.85) <sup>b</sup>	19.9
Gini index <sup>b</sup>	45.1
School enrollment, primary (% gross) <sup>c</sup>	93.2
Life expectancy at birth, years <sup>c</sup>	70.3
Total GHG emissions (mtCO2e)	98.3

Source: WDI, Macro Poverty Outlook, and official data.  
 a/ Does not reflect preliminary 2022 Census results.  
 b/ Most recent value (2022), 2017 PPPs.  
 c/ WDI for School enrollment (2022); Life expectancy (2021).

*Paraguay's economy is expected to grow by 3.8 percent in 2024 assuming normal weather conditions, while poverty is projected to decline to 18.6 percent. Strengthening the business environment, boosting productivity, and building resilience to shocks would help accelerate growth and poverty reduction through more formal job creation. Improvements in governance, including of natural resources, and continued progress on human capital and infrastructure could attract more private capital to Paraguay.*

## Key conditions and challenges

Paraguay is a small, landlocked economy and a major exporter of agriculture, livestock, and hydropower. As 80 percent of direct exports and at least 17 percent of output rely on these sectors, it is vulnerable to fluctuations in commodity prices and weather conditions. Sound macroeconomic management has attenuated the impact of external shocks, but these have contributed to slower growth and poverty reduction over the past decade. An estimated 19 percent of Paraguayans lived below the international poverty line for upper middle-income countries (US\$6.85 per person per day in 2017 PPP) in 2023, only 5 percentage points lower than in 2013. Inequality remains high at 45 Gini points, reflecting disparities in human capital.

More durable and inclusive growth is possible if Paraguay engenders three transformations. One, enhancing the quality and level of public spending on infrastructure, human capital, and climate adaptation could accelerate structural transformation, create more formal jobs, and reduce Paraguay's vulnerability to climate change. Two, improving the regulatory environment for private investment and supporting the entry, growth, and exit of firms could help boost productivity, and ultimately formal employment and wage growth. Three, Paraguay could harness its abundance of hydropower to decarbonize its economy.

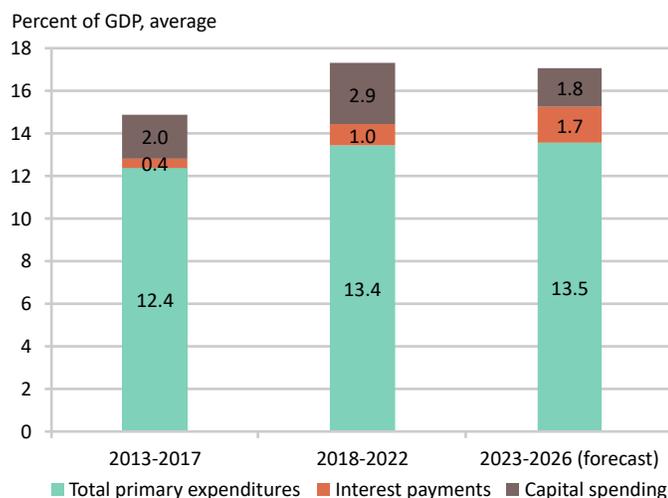
A capable state that enforces the rule of law and property rights, and that delivers good quality public services is crucial to drive these transformations. Paraguay has initiated several reforms to improve public sector efficiency and recently inched closer to investment grade. Advancing these reforms is not only important for investment, but to ensure that growth translates into meaningful increases in labor incomes, especially for the poorest 40 percent of the population.

## Recent developments

In the first nine months of 2023, favorable weather conditions boosted agriculture and hydropower production, leading to a 4.7 percent y-o-y increase in real GDP. Exports more than compensated for the negative effects of inventory destocking and subdued investment, which was affected by tighter monetary and fiscal policies. The recovery began to slow in Q4 2023. The monthly index of economic activity expanded by only 0.3 percent on a quarter-on-quarter basis, seasonally adjusted, and annualized basis.

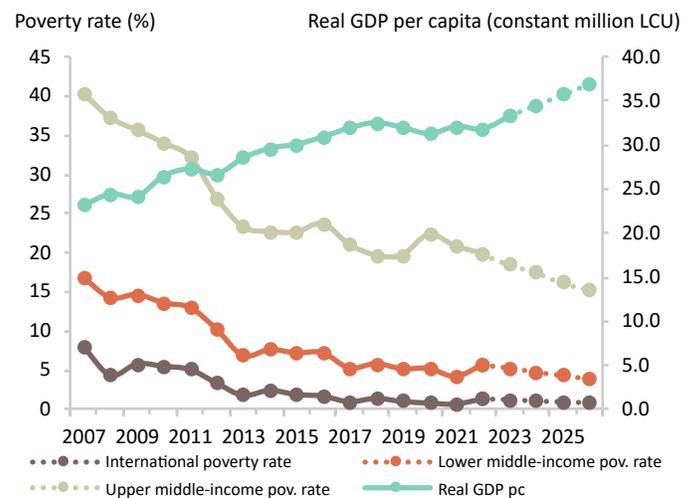
The goods trade balance recorded a surplus of US\$1.6 billion (an estimated 1.4 percent of GDP) in 2023 with exports increasing 24.7 percent y-o-y. Soybean exports' nominal value surged by 179 percent due to record volumes, despite lower prices. The value of hydropower exports decreased slightly by 6.5 percent year-on-year, reflecting reduced prices in energy exports. Import growth was

**FIGURE 1 Paraguay / Fiscal expenditures as a share of GDP**



Sources: Ministry of Economy and Finance and World Bank staff calculations.

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



Source: World Bank. Notes: see Table 2.

modest at 3.1 percent as fuel and construction imports fell, and as global fuel prices stabilized. The Guaraní depreciated marginally (-0.5 percent) against the US dollar in nominal terms. The financial sector remains sound and total reserves were at 9.9 months of goods and services imports at the end of February.

Headline inflation fell to 2.9 percent y-o-y in February from 3.4 percent in January, well within the target range of 2-6 percent. Core inflation fell from 4.7 to 4.6 percent but remained above the midpoint. The Central Bank continued to cut rates in January and February 2024 by a cumulative 50 basis points, bringing the policy rate to 6 percent.

The fiscal deficit for 2023 was 4.1 percent of GDP, 1.8 percentage points higher than the original target, primarily due to the settlement of government arrears of approximately US\$600 million (around 1.1 percent of GDP), higher-than-expected interest payments and social transfers, as well as lower corporate income tax receipts due to the 2022 drought. Public debt rose to an estimated 38.2 percent of GDP, mostly denominated in foreign currency. To reduce its FX exposure, Paraguay successfully issued US\$500 million in Guaraní-indexed

sovereign bonds for the first time in February 2024, along with US\$500 million in USD-denominated bonds.

Labor market conditions in rural areas improved, but the national unemployment rate remained at 6 percent as urban unemployment increased slightly. Poverty is estimated to have declined from 20 percent in 2022 to 19 percent in 2023, but 35 percent of the population remains vulnerable to poverty.

## Outlook

The economy is forecasted to grow by 3.8 percent in 2024, assuming no major weather disruptions. Fixed investment growth is anticipated to accelerate, driven by progress on greenfield private investments (estimated at around 10 percent of GDP) in pulp, biofuels, and green hydrogen as financing conditions improve. Private consumption growth is likely to accelerate as average inflation remains within the target range. Driven by growth, poverty is expected to decline to 18.6 percent in 2024. Faster progress is limited by the fact that only around three out of every ten workers

have formal jobs, a lower share than most countries in the region.

Growth is expected to moderate slightly to 3.6 percent in 2025-2026 as fiscal consolidation intensifies towards the legal limit of 1.5 percent of GDP in 2026. Official estimates suggest substantial cuts in personnel and capital spending to achieve this consolidation, which indicates slower government consumption and investment growth.

The current account is expected to shift into a small deficit over the forecast horizon as import growth, particularly of machinery and capital goods, accelerates along with the implementation of investment projects.

The outlook is subject to several downside risks. Heightened global uncertainty or unexpected inflation could lead to interest rates to remain higher for longer than projected, dampening private investment. Weaker than expected growth in trading partners could affect the demand for Paraguay's commodities. Weather shocks could affect agriculture and construction activity, potentially impacting poverty rates. On the other hand, faster progress on private investment projects and structural reforms could accelerate growth.

**TABLE 2** Paraguay / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2021	2022	2023e	2024f	2025f	2026f
<b>Real GDP growth, at constant market prices</b>	4.0	0.2	4.6	3.8	3.6	3.6
Private consumption	6.1	2.3	2.5	3.3	3.3	3.3
Government consumption	2.6	-2.2	3.2	1.0	0.2	0.2
Gross fixed capital investment	18.2	-1.8	-5.1	2.4	4.4	5.8
Exports, goods and services	2.1	-1.1	26.6	4.0	4.0	4.0
Imports, goods and services	21.8	9.4	7.5	1.2	2.5	3.3
<b>Real GDP growth, at constant factor prices</b>	3.6	0.1	4.8	3.8	3.6	3.6
Agriculture	-11.6	-8.6	19.8	5.0	5.0	5.0
Industry	5.0	0.7	2.0	2.5	2.5	2.5
Services	6.5	1.5	3.8	4.4	4.1	3.9
<b>Inflation (consumer price index)</b>	4.8	9.8	4.6	4.0	4.0	4.0
<b>Current account balance (% of GDP)</b>	-0.9	-7.1	0.3	0.2	-0.1	-0.4
<b>Net foreign direct investment inflow (% of GDP)</b>	0.2	1.7	1.5	1.7	1.7	1.7
<b>Fiscal balance (% of GDP)</b>	-3.6	-2.9	-4.1	-2.6	-1.9	-1.5
<b>Revenues (% of GDP)</b>	13.7	14.0	14.0	13.9	13.7	13.7
<b>Debt (% of GDP)</b>	34.1	35.9	38.2	38.8	37.6	36.8
<b>Primary balance (% of GDP)</b>	-2.5	-1.7	-2.5	-0.8	-0.1	0.1
<b>International poverty rate (\$2.15 in 2017 PPP)<sup>a,b</sup></b>	0.7	1.3	1.2	1.2	1.2	1.2
<b>Lower middle-income poverty rate (\$3.65 in 2017 PPP)<sup>a,b</sup></b>	4.1	5.6	5.4	5.2	5.0	5.1
<b>Upper middle-income poverty rate (\$6.85 in 2017 PPP)<sup>a,b</sup></b>	20.8	19.9	19.1	18.6	18.5	18.2
<b>GHG emissions growth (mtCO<sub>2</sub>e)</b>	0.7	-0.6	1.0	1.5	1.3	1.3
<b>Energy related GHG emissions (% of total)</b>	9.0	9.1	9.5	9.8	10.2	10.5

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.