



Decide with Confidence

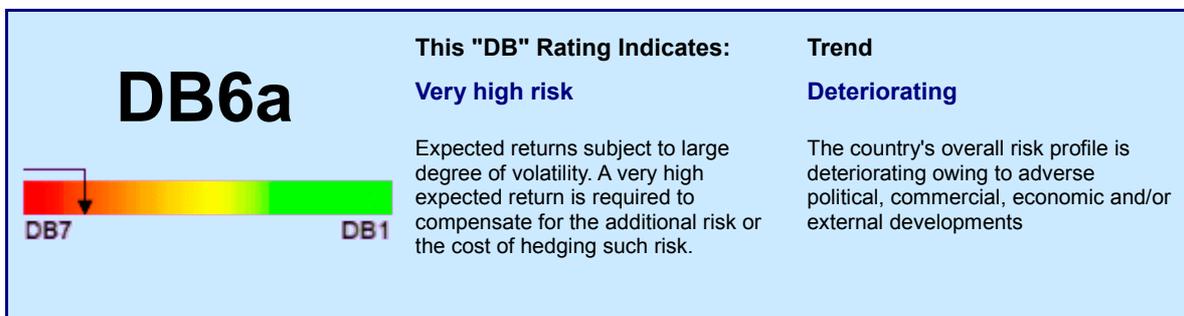
D&B Country RiskLine Report

PARAGUAY

Region : The Americas

Edition : August 2012

D&B Country Risk Indicator



The 'DB' risk indicator provides a comparative, cross-border assessment of the risk of doing business in a country and encapsulates the risk that country-wide factors pose to the predictability of export payments and investment returns over a two year time horizon. The 'DB' risk indicator is a composite index of four over-arching country risk categories:

Political risk - internal and external security situation, policy competency and consistency, and other such factors that determine whether a country fosters an enabling business environment;

Commercial risk - the sanctity of contract, judicial competence, regulatory transparency, degree of systemic corruption, and other such factors that determine whether the business environment facilitates the conduct of commercial transactions;

External risk - the current account balance, capital flows, FX reserves, size of external debt and all such factors that determine whether a country can generate enough FX to meet its trade and foreign investment liabilities;

Macroeconomic risk - the inflation rate, government balance, money supply growth and all such macroeconomic factors that determine whether a country is able to deliver sustainable economic growth to provide further expansion in business opportunities.

The DB risk indicator is divided into seven bands, ranging from DB1 through DB7. Each band is subdivided into quartiles (a-d), with an 'a' designation representing slightly less risk than a 'b' designation and so on. Only the DB7 indicator is not divided into quartiles.

Key Facts

Population:	6.5m
Surface area (sq km):	406,750
Capital:	Asuncion
Timezone:	GMT -03:00
Official languages:	Spanish, Guarani
Head of state:	Fernando Armindo LUGO Mendez
GDP (USD):	15.9bn
GDP per capita (USD):	2,467
Life expectancy (years):	71
Literacy (% of adult pop.):	86.7

Country Overview:

Paraguay is located in South America between Argentina, Bolivia and Brazil.

The economy has a large informal sector based on re-exporting imported consumer goods to neighbouring countries. The economy's other major sector is agriculture, which is dominated by a small number of large-scale agribusinesses. The country's chief exports include soya, cotton, grain, beef, timber and sugar, with the vast majority of exports destined for Argentina and Brazil. The concentration of exports in terms of both destination and products leaves economic growth highly dependent on the performance of the neighbouring economies and the weather.

For decades the political environment was dominated by the Colorado Party, which maintained power for over six decades until early 2008 when Fernando Lugo was elected president. However, the Colorado Party continues to dominate the legislature and the political party system is highly factional; infighting within parties is the norm, hindering legislative efficiency. Perceived levels of corruption are among the highest in Latin America.

Trade & Commercial Environment

Trade Terms

Minimum Terms:	CLC
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The minimum form of documentation or trading method that D&B advises its customers to consider when pursuing export trade with the stated country.

Recommended Terms:	CLC
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D&B's recommended means of payment. The use of recommended terms, which are generally more stringent than minimum terms, is appropriate when a customer's payment performance cannot be easily assessed or when an exporter may wish to limit the risk associated with a transaction made on minimum terms.

Usual Terms:	60-90 days
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Normal period of credit associated with transactions with companies in the stated country.

Transfer Situation

Local Delays:	0-2 months
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The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

FX/Bank Delays:	0-2 months
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The average time between the placement of payment by the importer in the local banking system and the receipt of funds by the exporter. Such delays may be dependent on FX controls, FX availability and the efficiency of the local banking system.

Trade & Commercial Environment

Paraguay's commercial environment remains poor, despite government efforts to implement a series of structural reforms to improve the business environment. According to Transparency International's latest *Corruption Perceptions Index*, corruption levels are high (and rising), while the legal and regulatory environment is weak and infrastructure inadequate. Organised crime and violence has become a significant problem, increasing the security-related costs of doing business in the country. Overall, firms in the country generally face considerable barriers to their operations. In view of the payments performance of companies operating in Paraguay, D&B recommends the use of CLC terms when trading with counterparties in the country.

Export Credit Agencies

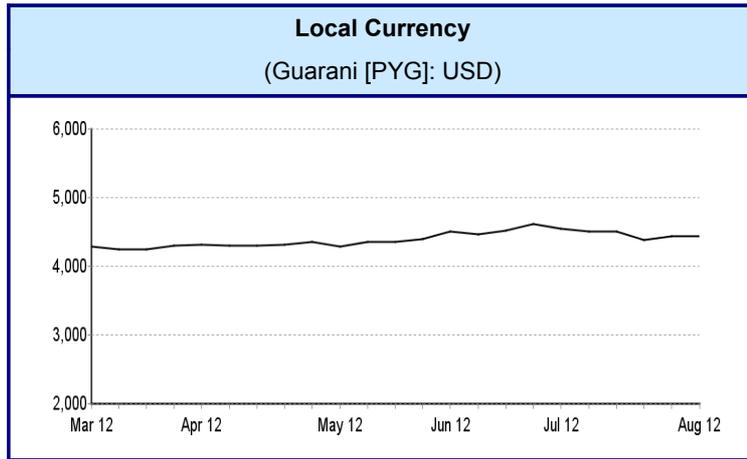
US Eximbank	Full cover available
Atradius	ST cover available, no discretionary limits
ECGD	ST cover subject to CLC, restricted MT cover
Euler Hermes UK	Full ST cover available

Economic Indicators

	2009	2010	2011	2012f	2013f
Real GDP growth, %	-3.8	15.0	3.8	-1.5	4.5
Inflation, annual ave, %	2.6	4.6	8.3	5.0	6.0
Govt balance, % GDP	0.5	0.9	0.3	-2.4	-2.1
Foreign debt, % GDP	27.3	24.7	19.6	24.4	23.9
C/A balance, % GDP	-1.0	-3.6	-1.1	-5.7	-4.1

Currency Information

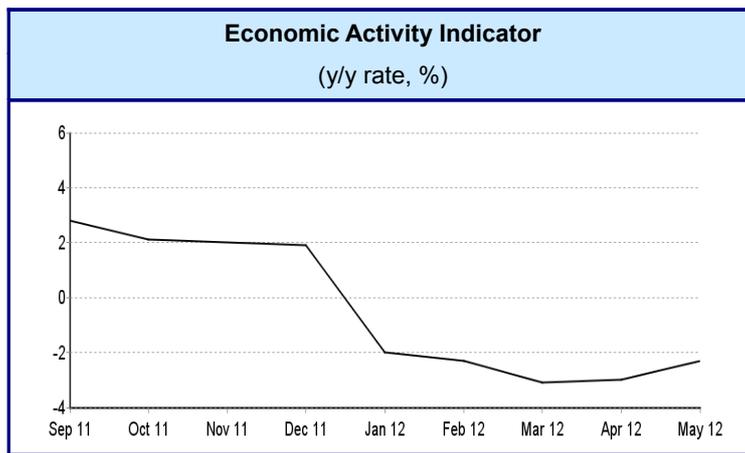
Exchange Rates	
(London, 06 Aug 12)	
EUR	5472.8
GBP	6918.39
JPY*	5642.85
USD	4435.0
*(x 100)	



Local Currency
(Guarani [PYG]: USD)

	Mar 12	Apr 12	May 12	Jun 12	Jul 12	Aug 12
Week 1	4280.000	4310.000	4280.000	4495.000	4540.000	4435.000
Week 2	4245.000	4300.000	4345.000	4460.000	4495.000	
Week 3	4245.000	4295.000	4355.000	4515.000	4495.000	
Week 4	4295.000	4315.000	4385.000	4610.000	4375.000	
Week 5		4350.000			4435.000	

Economic Activity Indicator



Data Table

Nov 11	Dec 11	Jan 12	Feb 12	Mar 12	Apr 12
	1.9	-2.0	-2.3	-3.1	-3.0

Risk Factor

Country risk in Paraguay has increased significantly on the back of negative developments in the political environment. Specifically, the impeachment of former President Fernando Lugo less than a year before the end of his term for allegedly mishandling a violent land conflict that turned deadly has increased political tensions and polarisation, and led to the country's diplomatic isolation. The situation remains fragile as political frictions are ongoing and likely to be further amplified by Lugo's intention to challenge his impeachment at an international court and potentially seek re-election in the April 2013 elections, claiming that the constitutional ban no longer applies to him. Moreover, there is a high potential for violent clashes between the authorities and the various political supporters that could lead to bouts of civil unrest as sympathisers of the former president (including some labour unions and civil sectors) have announced plans to mobilise for his restitution. As a result, risks to political stability will remain elevated in the short term, while escalating tensions ahead of the elections will also undermine policymaking.

Indeed, benefiting from the support of legislators who voted almost unanimously to remove Lugo, the interim president, Federico Franco, has proven successful in promoting key pieces of legislation in his first couple of months in office. In particular, Franco pushed through the Senate a 10% personal income tax for Paraguayans earning more than USD4,000 per month, which diversifies the country's revenue base and will raise the annual tax take by around 1.0% of GDP. In addition, he received approval for a USD125m loan from the Inter-American Development Bank to build a trolley system in the capital, Asuncion, while he touted the titling of swathes of land to poor farmers, an important part of an advancing agrarian reform. However, fading support in the opposition-dominated Congress in the run-up to the elections will most likely thwart the implementation of an important part of his ambitious agenda, which critically includes the revival of a stalled USD3.5bn aluminium production project that would create more than 1,300 jobs.

Meanwhile, although Paraguay's suspension from regional trade groups has come without economic sanctions, the new government's strained relations with major trade partners, particularly Argentina, will adversely affect trade and the continuation of joint development projects. Moreover, we cannot entirely discount the possibility of an imposition of economic sanctions on Paraguay should political conditions in the country deteriorate or relations with its trade partners sour further: Venezuela has already cancelled a bilateral deal to supply the country with diesel oil. Such a move would damage the already shrinking economy, hit by drought and a foot-and-mouth disease outbreak. Against this backdrop, we have revised downwards our 2012 growth forecast.

Glossary & Definitions

DEFINITIONS

Minimum Terms:

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Recommended Terms:

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Usual Terms:

Normal period of credit associated with transactions with companies in the stated country.

Local Delays:

The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

F/X Bank Delays:

The average time between the placement of payment by the importer in the local banking system and the receipt of funds by the exporter. Such delays may be dependent on FX controls, FX availability and the efficiency of the local banking system.

C/A (current account) balance, % GDP:

Part of the balance of payments that records a nation's exports and imports of goods and services, and income and transfer payments.

DSR (debt service ratio), %:

Annual interest and principal payments on a country's external debts as a percentage of exports of goods and services.

Govt balance, % GDP:

The balance of government expenditure and receipts.

Real GDP growth, %:

GDP adjusted for inflation.

Inflation, %:

The increase in prices over a given period.

GLOSSARY

CiA	Cash in Advance
CLC	Confirmed Letter of Credit
CWP	Claims Waiting Period
FX	Foreign Exchange
LC	Letter of Credit
LT	Long term
MT	Medium term
OA	Open Account
SD	Sight Draft
ST	Short term

Customer Service & Support

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