



Decide with Confidence

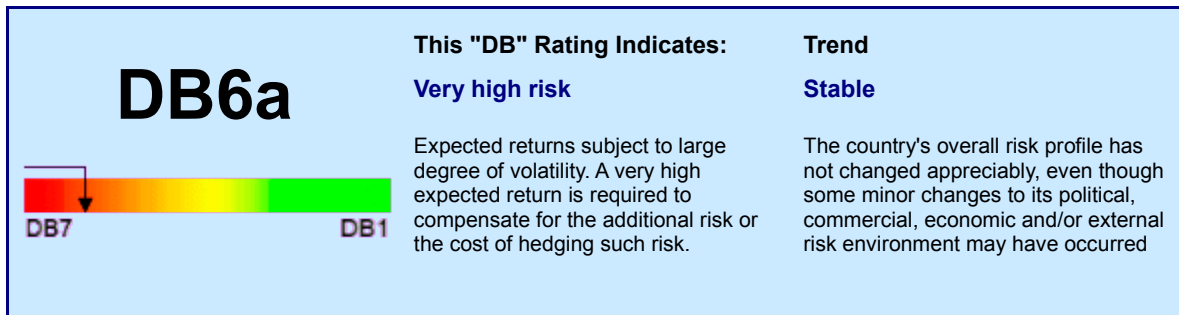
D&B Country RiskLine Report

PARAGUAY

Region : The Americas

Edition : October 2013

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:	6.6m
Surface area (sq km):	406,750
Capital:	Asuncion
Timezone:	GMT -03:00
Official languages:	Spanish, Guarani
Head of state:	Horacio CARTES
GDP (USD):	24.0bn
GDP per capita (USD):	3,654
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 is inauspicious and poses several challenges to businesses. In addition to the high levels of corruption, companies view the inadequately-educated workforce and inefficient government bureaucracy as the main obstacles for doing business in the country. The inadequate supply of infrastructure, especially the poor quality of air transport, also undermines business performance. Organised crime and violence has become a significant problem, increasing the security-related costs of doing business. Overall, firms in the country generally encounter 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 local counterparties.

Export Credit Agencies

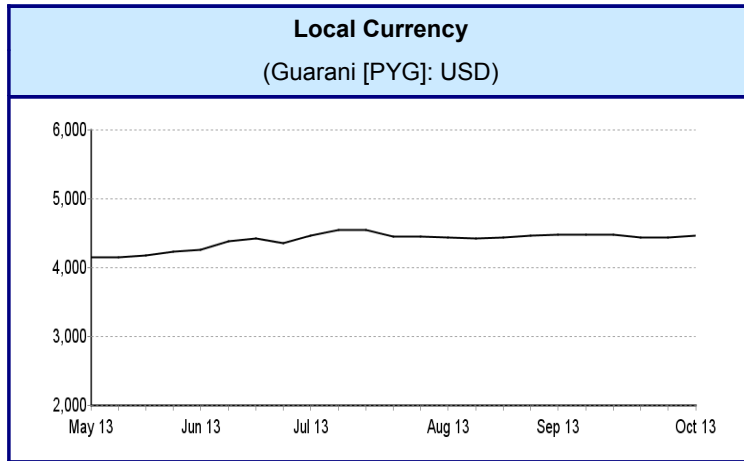
US Eximbank	Full cover available
Atradius	ST cover available, no discretionary limits
ECGD	ST cover subject to CLC, restricted MT cover
Euler Hermes UK	Full ST cover available

Economic Indicators

	2010	2011	2012	2013f	2014f
Real GDP growth, %	13.1	4.3	-0.9	10.5	4.6
Inflation, annual ave, %	4.7	8.3	3.7	3.2	4.6
Govt balance, % GDP	1.2	0.7	-1.0	-2.3	-1.6
Foreign debt, % GDP	21.4	18.0	19.3	19.7	18.8
C/A balance, % GDP	-0.3	1.2	0.4	0.5	-0.2

Currency Information

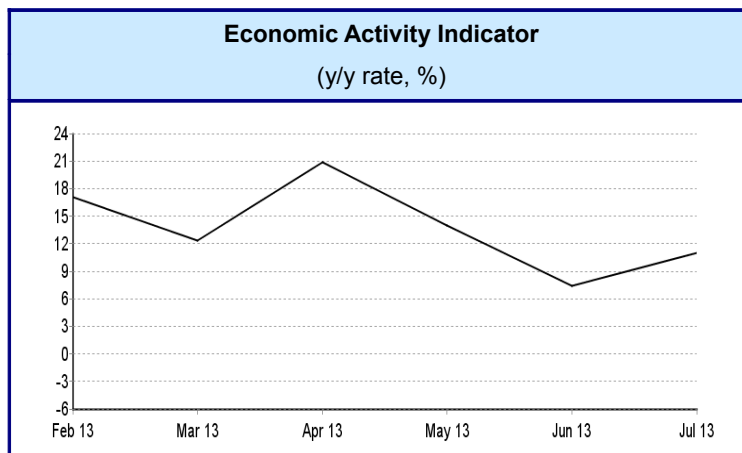
Exchange Rates	
(London, 09 Oct 13)	
EUR	6024.3
GBP	7100.45
JPY*	4585.63
USD	4457.0
*(x 100)	



Local Currency
(Guarani [PYG]: USD)

	May 13	Jun 13	Jul 13	Aug 13	Sep 13	Oct 13
Week 1	4150.000	4260.000	4452.500	4427.500	4467.500	4457.000
Week 2	4150.000	4370.000	4535.000	4423.000	4467.500	
Week 3	4172.500	4415.000	4535.000	4430.000	4467.500	
Week 4	4220.000	4347.500	4450.000	4452.500	4437.500	
Week 5			4450.000		4427.500	

Economic Activity Indicator



Data Table

Feb 13	Mar 13	Apr 13	May 13	Jun 13	Jul 13
17.1	12.3	20.9	14.0	7.4	11.0

Risk Factor

The pressing fiscal challenges that President Horacio Cartes faces, coupled with mounting problems within his right-of-centre Colorado Party (PC), threaten to undermine Paraguay's overall risk outlook. Lacking sufficient funds to pay salaries of the estimated quarter-of-a-million public sector workers, Cartes' government has announced plans to cut a further 15,000 jobs by December, after laying off 4,000 employees in September. The government has presented a restrictive budget for 2014 to reduce current expenditure, especially the wage bill that presently comprises over 89% of total revenue. Notably, fiscal stability, expenditure-containment efforts come amid rising demands for pay increases and higher welfare benefits, and are highly likely to trigger public-sector labour unrest and industrial action. Worryingly, protests and demonstrations by trade unions and civil-society groups, often involving roadblocks on major transit routes into the capital, Asuncion, have increased in the last couple of months and similar action is expected in the event of future public-sector strikes, potentially causing significant economic disruption.

Meanwhile, downsizing the civil service has further strained relations with the leading opposition Authentic Radical Liberal Party (with some of its members denouncing the lay-offs as politically targeted). Indeed, a potential escalation of tension could test the governability agreement: this pact (promoted by Cartes) is intended to provide political and institutional stability and, in turn, spur momentum for much-needed reform. However, the most-marked risk to the new president's reform efforts stems from his own party's reliance on patronage and clientelism. Indeed, Cartes was forced to appoint several PC members to government posts after being heavily criticised by the ruling party for appointing technocrats to his cabinet, while key pieces of legislation (such as the fiscal responsibility and the public-private partnership laws) also faced resistance from internal PC factions in the Senate. Although Cartes succeeded in pushing these initiatives through, differences within his party and his lack of political experience point to a bumpy road ahead for his ambitious agenda, which includes structural reform and increased investment in infrastructure.

The Cartes administration has outlined a challenging target of attracting investment in the infrastructure sector worth at least USD2bn annually, through public-private partnership schemes, to reduce the large infrastructure gap and attain annual economic growth of as much as 8% on a sustained basis. Encouragingly, investor interest in planned projects is high, while the recent agreement with Chile, which grants Paraguay access to the Pacific Ocean through the Chilean Port of Antofagasta, will also provide a boost to the economy by facilitating and lowering the cost of trade.

Glossary & Definitions

DEFINITIONS

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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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