
SUMMARY

1. Since the last review of Paraguay in 2011, the country's economy has performed robustly. Real gross domestic product (GDP) grew at an average annual rate of 4.7% between 2011 and 2016, underpinned by a stable macroeconomic environment which not only favoured growth and held down inflation expectations, but also made it easier for Paraguay to access international financing at a moderate cost. The most vigorous economic sectors during 2011-2016 were financial services, construction, general government and the agricultural sector, which is the main source of exports. The unemployment rate remained moderate during the review period, generally fluctuating between 5% and 6%.

2. Paraguay continued to strengthen its public finances during the review period by implementing prudent fiscal policies and improving its management of taxation. New legislation was introduced, establishing rules aimed at ensuring the stability and sustainability of public finances. The Fiscal Responsibility Law of 2013 sets annual percentage caps on increases in expenditure (year-on-year inflation rate plus 4%) as well as limits on the central government deficit, which must not exceed 1.5% of GDP. This policy of fiscal consolidation has led to an improvement in tax collection and an increase in the share of tax revenue in GDP. The central government posted an operating surplus every year during the 2011-2016 period, although with the exception of 2011, the overall balance continued to show small deficits.

3. Since 2013, Paraguay has been issuing public debt bonds on the international market with a maturity of 10 to 30 years. Up to May 2017, Paraguay had made four issuances of sovereign bonds. Total central government debt increased as a proportion of GDP from 10.9% in 2011 to 23.1%, or a total of US\$6,294.3 million, in December 2016, although the levels remain moderate. Some 76.5% of the total public debt in 2016 was held externally.

4. Since May 2011, the Central Bank of Paraguay (BCP) has been implementing an inflation-targeting framework under which inflation, measured by the year-on-year variation in the Consumer Price Index (CPI), must not exceed a certain limit. That limit was set at 4% in 2017, with a tolerance range of +/- 2 percentage points. The BCP uses the monetary policy rate (MPR) as the instrument for implementing this framework. The MPR acts on interest rates and market liquidity. The level of the MPR was 5.5% annually in April 2017. Since the formal implementation of the inflation-targeting framework, the BCP has managed to reduce inflation levels and volatility. During the period under review, the year-on-year movement of the CPI has been kept within, or slightly below, the target range: average inflation from May 2011 to December 2016 stood at around 4.2% annually. In 2016, inflation stood at 3.9%.

5. During the review period, Paraguay's balance of payments current account has been in surplus every year with the exception of 2012 and 2015, reflecting the large surpluses on the goods trade balance recorded during the period owing to strong soya bean and meat exports. The services balance was continually in deficit. Through most of the review period Paraguay added substantially to its stock of international reserves. At the end of 2016, the net balance of international reserves amounted to US\$7,144 million, or the equivalent of 26% of GDP.

6. Exports and imports of goods and non-factor services amounted to the equivalent of 83.7% of GDP in 2016. That year, recorded merchandise exports reached US\$8,494 million (excluding re-exports), while recorded imports totalled US\$9,753 million. The structure of Paraguay's merchandise exports remained stable during 2011-2016. Agriculture and food products accounted for over 60% of these exports in 2016. Soya beans and soya products (seed cake and oil) were the main export product, followed by beef and cereals. The export share of manufactures was below 10%; the main export items were chemical products, leather articles, and textiles and clothing. The main imports were machinery and transport equipment, chemical products and mineral products. Paraguay's exports to its MERCOSUR partners accounted for more than 45% of the total in 2016, compared to a little over 40% in 2011. Brazil was the leading destination market for Paraguayan exports in 2016, with 35.4% of the total, followed by Argentina (10.7%) and Chile (6.1%). In that same year, imports mainly originated from China, Brazil and Argentina.

7. Paraguay is a founding Member of the WTO and plays an active part in the work of the Organization, especially in negotiating groups such as the Cairns Group and the G-20 in the realm

of agriculture. During the negotiation of the Trade Facilitation Agreement, Paraguay coordinated the Group of Landlocked Developing Countries. It has bound 100% of its tariffs and accords at least MFN treatment to all of its trading partners. Paraguay has never been involved in WTO dispute settlement as a complainant or as a respondent, but it has participated as a third party in six disputes. During the period under review, Paraguay submitted a number of notifications to the various WTO committees. Some notifications are nonetheless still outstanding in fields such as domestic support in agriculture, import licensing procedures, customs valuation, subsidies, and state trading enterprises.

8. Paraguay is a member of the Southern Common Market (MERCOSUR). In September 2014, it ratified the MERCOSUR Protocol of Montevideo on Trade in Services. Through its participation in MERCOSUR, Paraguay currently has free trade agreements with the Plurinational State of Bolivia, Chile, Cuba, Colombia, Ecuador and the Bolivarian Republic of Venezuela, India, Israel, Mexico, Peru and the Southern African Customs Union (SACU). Paraguay is a member of the Latin American Integration Association (LAIA), within which it has several partial scope agreements with Argentina, Brazil, Chile, Colombia, Ecuador, the Plurinational State of Bolivia, Mexico, the Bolivarian Republic of Venezuela, and Uruguay, among other countries.

9. Paraguay has an investment regime that is open to foreign direct investment. The law guarantees national treatment of foreign investors, the only exception being land ownership in border areas. Paraguayan laws offer tax rebates to investors and permit the full repatriation of capital and profits. During the period under review, Paraguay passed new laws to enhance the investment climate: the Law on public-private partnership of 2013, the Law on public works of 2013 involving financing or turnkey contracts, and the Investment Protection Law of 2015. The Investment Protection Law protects the repatriation of capital and profits, provides guarantees against administrative and judicial practices that may be deemed discriminatory, and provides for fiscal incentives for up to 20 years.

10. Paraguay ratified the WTO Agreement on Trade Facilitation on 1 March 2016. During the review period, it continued its reform process with a view to making customs administration more efficient and transparent and facilitating trade. These reforms include the adoption of a computerized risk management system, the implementation of an approved economic operator programme, the introduction of the express consignment procedure, electronic transmission of air manifests, and the digitalization of customs documents. But in spite of these achievements, there is still room to improve and simplify the procedures for registration of importers and their products and to revise and streamline the import licensing regime. Since its last review, Paraguay has introduced new registration and prior licensing requirements for the importation of products such as footwear, salt, articles of iron and steel, cement and mobile telephones, chiefly for reasons of quality and security and, in certain cases, for statistical monitoring purposes.

11. Paraguay's applied tariff in 2017 (HS 2017) comprises 10,226 eight-digit lines and 24 tariff levels ranging from 0% to 30%. Paraguay applies only *ad valorem* rates based on the c.i.f. value of the import. The simple average of the applied MFN tariff in 2017 was 8.4%. The average MFN tariff applied to agricultural products (WTO definition) was 9.9%, and to non-agricultural products, 8.2%. The weighted average of applied import duties was 3.2% in 2017. The groups of products subject to the highest average tariffs were arms and ammunition (20%), footwear (18.6%), and textiles and made-up articles (16.8%). Although Paraguay has applied the MERCOSUR common external tariff (CET) since 1995, it also has a large number of exceptions. These correspond to around 26% of tariff lines, and are usually subject to rates lower than the CET, so that Paraguay's average tariff was some three percentage points lower than the CET in 2017. The exceptions to the CET, listed in the National List of Exceptions (LNE) and in the lists of capital goods (BK) and informatics and telecommunications goods (BIT) are authorized until 31 December 2023.

12. Paraguay has bound all its tariff lines at rates that range from 10% to 35%. Its national tariff has some 80 lines for which the applied rate exceeds the bound rate and 27 lines corresponding to chemicals, bound at two levels (15% and 10%) depending on use, for which the applied level exceeds the lower of these levels. However, in the context of this review, the Paraguayan authorities have indicated that in all these cases the WTO bound rate is applied. As a MERCOSUR member, Paraguay gives duty-free access to the majority of imports from Argentina, Brazil and Uruguay. It also grants preferences through agreements concluded in the framework of the LAIA to the Plurinational State of Bolivia, Chile, Cuba and Peru, as well as Colombia, Ecuador

and the Bolivarian Republic of Venezuela. Finally, it grants preferences to Mexico, Israel, India and the SACU countries.

13. In addition to tariffs, imports are subject to the payment of various charges generally applied to the taxable value. These include: a valuation tax for the supply of customs services; a consular fee for endorsing documents; a tax to finance the Paraguayan Indigenous Institute; a tax for the use of the Customs computer system; a variable tax on imports entering by air; and a tax on magnetic and optical media. The value added tax, which applies to both domestic and imported goods, is generally 10%, though there are a few exceptions. A selective consumption tax is levied on certain products (tobacco, cigars, alcohol, petroleum-based fuels, etc.), whether imported or produced locally, at rates ranging from 1% to 38%.

14. Although Paraguay has a comprehensive legal framework for anti-dumping, countervailing and safeguard measures, it did not apply any such measures during the review period.

15. There are bans or restrictions on the exportation of certain products, generally for environmental or public health reasons, or to comply with international agreements. For certain products (for example Petit Grain essential oil and articles of iron and steel), the purpose of the restrictions is to increase the domestic value added or to ensure the supply of raw materials for the domestic industry.

16. For the purpose of promoting exports, Paraguay maintains special customs regimes such as the free zones and the maquila. Companies established in the free zones engaged solely in export to third countries pay a flat rate tax (IZF) of 0.5% on gross income earned from their exports. These companies may sell finished goods and services in Paraguayan customs territory up to a maximum of 10% of their gross sales revenue, without paying any additional tax. Imports into the customs territory from companies established in the free zones are subject to the tariffs and other taxes applied to imports. Companies under the maquila regime pay a single tax of 1% of national value added or the value of the invoice, whichever is higher. While the maquila companies must export the goods and services resulting from their activities, they can sell up to 10% of the volume exported the preceding year on the domestic market subject to prior authorization, to the payment of domestic taxes on inputs and goods for production imported on a temporary basis, and to payment of the income tax on the percentage sold on the domestic market.

17. Paraguay has a number of different types of incentives that it accords to both Paraguayan and foreign investors in order to promote domestic production, including those granted under Law No. 60/90 and amendments thereto. The benefits provided under this Law include exemption from the payment of VAT on the purchase of imported and Paraguayan capital goods, and exemption from payment of duty on imports of capital goods, raw materials and inputs for use in investment projects for the manufacture of capital goods. The manufacturing sector is the main beneficiary of Law No. 60/90, accounting for 59% of investments in 2015, followed by the services sector (18%), agriculture (16%), and mining and quarrying (7%). There is also a special regime that allows the application of a 0% tariff on imports of raw materials and inputs to be used by agricultural and industrial enterprises in their own production processes. The Law establishing the National Automotive Policy (2012) provides for tax incentives to encourage the manufacture and/or assembly of vehicles, auto parts and spare parts. In 2012, incentives were also introduced for the production, development and/or assembly of high-technology goods in the form of an exemption from the payment of duty and a reduction in the VAT on the importation of raw materials, components, assemblies, parts and spare parts. 2013 saw the adoption of the Law on industrial parks, providing specific incentives in addition to those determined in Law No. 60/90.

18. Although Paraguay does not have any centralized agency responsible for drafting technical regulations, there are certain general guidelines that all institutions must follow. The procedure for drafting a technical regulation usually begins with the identification of Paraguay's need to protect a legitimate objective. Technical regulations are generally based on international standards. Draft regulations must be notified, and a period of 60 to 90 days is given in which to receive comments. All technical regulations are published in the Official Journal and on the website of the National Information and Notification System (SNIN). Over the period from 2011 to May 2017, Paraguay submitted 73 notifications to the WTO Committee on Technical Barriers to Trade.

19. The period under review saw the adoption of a number of laws and standards relating, *inter alia*, to sanitary and phytosanitary activities, plant health, dairy products, biodiversity, and traceability. Paraguay has notified the WTO that the National Plant and Seed Quality Health Service (SENAVE), the National Animal Quality and Health Service (SENACSA) and the Ministry of Agriculture and Livestock (MAG) are the national enquiry points for sanitary and phytosanitary matters. Between 2011 and 2017, Paraguay notified only five sanitary and phytosanitary measures to the WTO.

20. Among the important developments during the review period was the enactment of the Law on the protection of competition (Law No. 4.956/13) and its implementing Regulations in 2013, and the establishment of the National Competition Commission (CONACOM). Law No. 4.956/13 regulates practices and agreements which restrict competition, abuse of a dominant position, and concentrations. Its scope includes the private sector, central government agencies and the decentralized agencies. It incorporates the rule of reason in examining anti-competitive behaviour and establishes control regime for mergers and acquisitions as well as procedures for the application of penalties. Since its creation, CONACOM has analysed a number of merges and concluded other investigations. In the government procurement area, Paraguay has continued to modernize its legislative framework in order to make the corresponding procedures more flexible and transparent, although it continues to use government procurement as an instrument to support domestic production and employment. Paraguay has not signed the WTO Plurilateral Agreement on Government Procurement (GPA), nor is it an observer in the GPA Committee. At the regional level, Paraguay is party to the MERCOSUR Protocol on Government Procurement, under which it has made commitments on transparency. Paraguay maintains a margin of preference of 20% for products and services of domestic origin in national government procurement procedures.

21. Paraguay's intellectual property legislation underwent a number of changes during the review period involving the decrees implementing the laws governing patents, copyright and related rights, and trademarks. The National Intellectual Property Directorate (DINAPI) was also created, partly for the purpose of improving the enforcement of intellectual property rights – identified as a problem in Paraguay – through its Directorate-General for Enforcement. This Directorate takes preventive and investigative action to punish piracy and counterfeiting, and may intervene *ex officio* at Customs as well as in commercial premises or warehouses. Another change consisted in the adoption, in 2013, of the Law on geographical indications and designations of origin, which provides a term of protection of ten years as from registration, indefinitely renewable for further ten year periods.

22. Agriculture and livestock are important activities for Paraguay, which is the world's sixth largest producer and its fourth largest exporter of soya beans and soya by-products. In addition, it is an important producer and exporter of bovine meat. The average MFN tariff applied by Paraguay to agricultural products (WTO definition) was 9.9% in 2016. The product categories with the highest tariffs are sugar and confectionary (18.8%); alcoholic beverages and tobacco (16.5%); and dairy products (14.9%). Spending on domestic support reached its peak in 2012, decreasing thereafter. In 2015, domestic support notified to the WTO totalled US\$79.7 million, equivalent to barely 0.3% of GDP. All the domestic support notified either fell within the green box or was a measure exempt from reduction commitments. Paraguay also provides government support to farmers by granting tax concessions, by offering advantageous government procurement procedures and by authorizing lines of credit.

23. Paraguay is one of the world's leading producers and exporters of hydro-electric energy, generated chiefly by the Itaipú and Yacyreta hydro-electric power stations, which Paraguay co-owns with Brazil and Argentina. In 2015, 74% of Paraguay's total energy production was exported, largely to Argentina and Brazil under the bilateral agreements. The State continues to play a preponderant role in the management of the energy sector through two State-owned enterprises, the National Electricity Authority (ANDE) and Petr leos Paraguayos (PETROPAR).

24. To engage in activities in Paraguay, banks, finance companies and other credit institutions must obtain express authorization from the Central Bank, and must be set up as public limited companies. There are no limits on participation of foreign capital or nationality requirements for the members of the board of directors or the shareholders, nor are there any restrictions on the number of banks that can operate in the country. Branches of foreign banks may transact the same business as other banks. There is no law on financial conglomerates at consolidated level. Foreign-owned banks have a significant presence in Paraguay: in February 2017, they held 55.5%

of bank assets and 52.2% of deposits. For a company to be able to obtain authorization to provide insurance services, it must be legally established in Paraguay as a public limited company and exclusively devoted to providing insurance. There are no restrictions on the participation of foreign capital, the number of companies or subsidiaries, or the type of insurance services that the foreign insurance companies established in the country may offer.

25. In the telecommunications sector a number of new rules have been approved since the last review in connection with the procedure for obtaining licences and authorizations for the supply of Internet access and data transmission services, satellite transmission of occasional signals and cable service. The requirements for obtaining licences and authorizations are the same for domestic and foreign companies. However, to provide or operate a telecommunications service, foreign companies must establish domicile in Paraguay or appoint a legal representative in the country. Only natural persons of Paraguayan nationality or legal persons established and domiciled in Paraguay may hold a radio or television broadcasting licence. Moreover, certain telecommunications services continue to be reserved for the State.

26. River transport plays an important role in Paraguay's economy. The river transport network consists of 3,100 km of navigable waterways, mainly along the Paraná and Paraguay rivers. Some 80% by volume of Paraguay's import and export trade is transported via the Paraguay-Paraná Waterway. National river transport cabotage is reserved for Paraguayan flag vessels. To provide services in waters under Paraguayan jurisdiction, foreign vessels must obtain a special government permit and use the services of a pilot of Paraguayan nationality when entering or leaving port.

27. For an airline to be certified and designated by Paraguay, it must be established and have its principle place of business in the country. Airlines may be up to 100% foreign-owned. To be registered under the Paraguayan flag, aircraft must be owned by natural or legal persons of Paraguayan nationality or foreigners domiciled in Paraguay, or have been leased by them.