

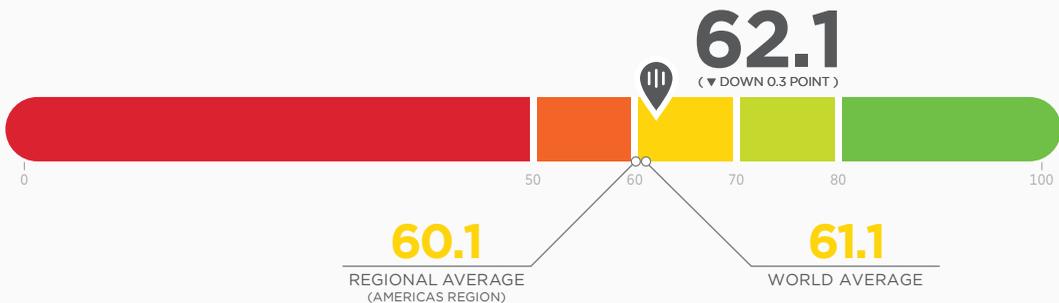
PARAGUAY

Paraguay's economic freedom score is 62.1, making its economy the 82nd freest in the 2018 *Index*. Its overall score has decreased by 0.3 point, with moderately lower scores for **monetary freedom** and **government integrity** outweighing improvements in **judicial effectiveness** and **fiscal health**. Paraguay is ranked 17th among 32 countries in the Americas region, and its overall score is above the regional and world averages.

The government of Paraguay plans to attract investment by improving infrastructure, reforming the inefficient public sector, and increasing private participation in state-run enterprises. Investment projects have faced resistance from unions, the leftist opposition, and some traditional elements of the Colorado Party. The agriculture, retail, and construction sectors continue to be driving forces for economic growth. One of the region's lowest tax burdens enhances competitiveness. However, the informal economy remains large, and private-sector growth is hindered by institutional weaknesses that undermine the rule of law.



ECONOMIC FREEDOM SCORE

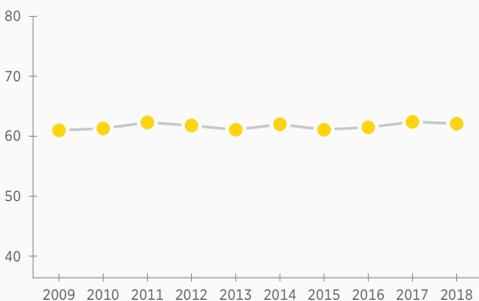


NOTABLE SUCCESSES:
Government Size, Trade Freedom, and Investment Freedom

CONCERNS:
Rule of Law and Labor Freedom

OVERALL SCORE CHANGE SINCE 2014:
+0.1

FREEDOM TREND



QUICK FACTS

POPULATION:
6.9 million

GDP (PPP):
\$64.4 billion
4.1% growth in 2016
5-year compound annual growth 4.9%
\$9,396 per capita

UNEMPLOYMENT:
5.4%

INFLATION (CPI):
4.1%

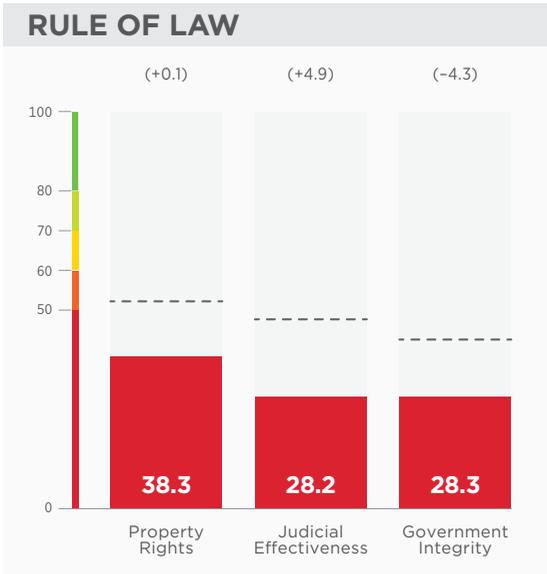
FDI INFLOW:
\$273.6 million

PUBLIC DEBT:
24.7% of GDP

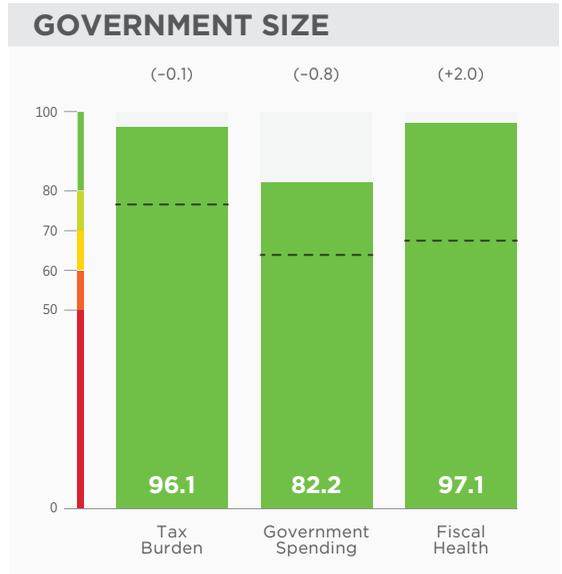
2016 data unless otherwise noted. Data compiled as of September 2017

BACKGROUND: Paraguay was established in the 19th century, along with Bolivia and Uruguay, as a buffer between regional powers Brazil and Argentina. It is one of the world's largest producers of hydroelectricity, one-quarter of which is generated by one of the world's largest dams, the Itaipú dam, jointly owned and operated by the Paraguayan and Brazilian governments. President Horacio Cartes of the historically dominant Colorado Party will complete his five-year term in 2018, an attempt to amend the constitution to permit him to run for reelection in 2018 having failed. Economic growth depends on exports of electricity and soybeans. Attempts to reduce smuggling and scrutinize suspected terrorist groups in the tri-border area with Brazil and Argentina have not been very successful.

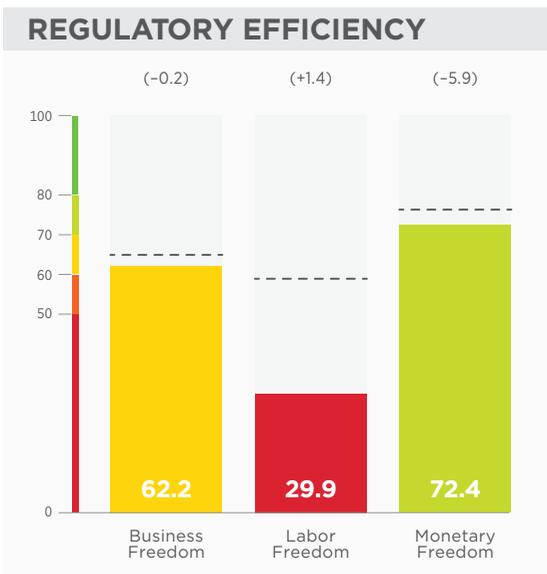
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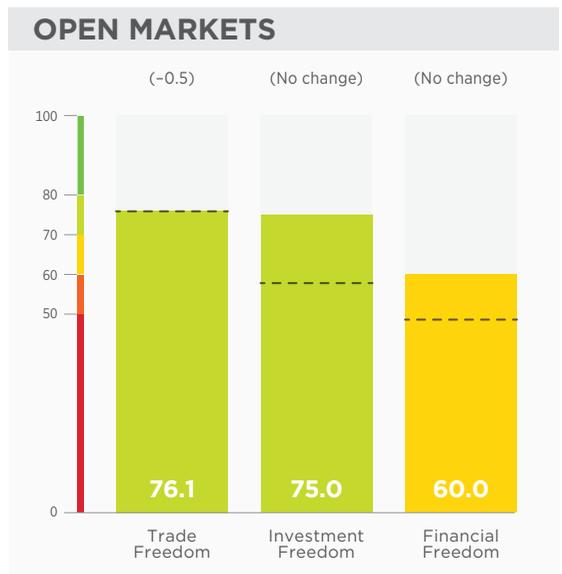
Historically, private property has been respected in Paraguay as a fundamental right, but a lack of consistent property surveys and registries often makes it difficult to acquire title documents for land. External influences often compromise the judiciary's nominal independence. Cases languish for years in the court system without resolution. Corruption remains widespread in all branches and at all levels of government.



The top personal income and corporate tax rates are 10 percent. Other taxes include value-added and property taxes. The overall tax burden equals 13.8 percent of total domestic income. Over the past three years, government spending has amounted to 24.4 percent of total output (GDP), and budget deficits have averaged 1.0 percent of GDP. Public debt is equivalent to 24.7 percent of GDP.



Business freedom in Paraguay compares favorably with business freedom in Brazil or Argentina, but the overall regulatory environment does little to inspire or facilitate entrepreneurial activity. Labor regulations are outmoded and restrictive. The government subsidizes a wide variety of large state-owned entities and controls electricity tariffs.



Trade is significant for Paraguay's economy; the combined value of exports and imports equals 82 percent of GDP. The average applied tariff rate is 4.4 percent. Nontariff barriers impede trade. In general, government policies do not significantly interfere with foreign investment. However, the investment regime lacks efficiency, mainly because of government bureaucracy. The level of financial intermediation has been improving gradually.