

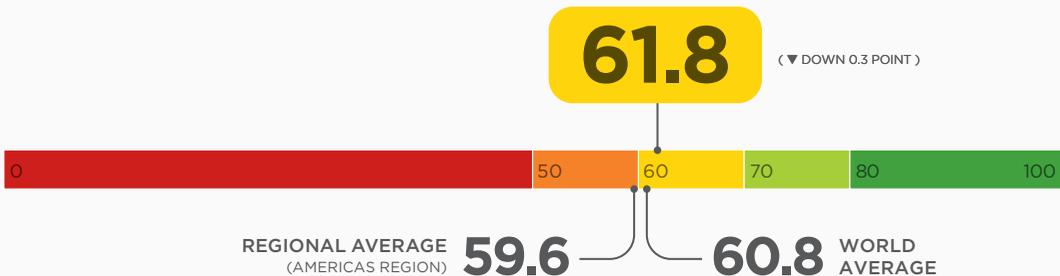
PARAGUAY

Paraguay's economic freedom score is 61.8, making its economy the 85th freest in the 2019 *Index*. Its overall score has decreased by 0.3 point, with lower scores for **government spending** and **government integrity** outweighing improvements in **judicial effectiveness** and **property rights**. Paraguay is ranked 18th among 32 countries in the Americas region, and its overall score is above the regional and world averages.

The new government is expected to maintain orthodox macroeconomic policies, but further attempts at reform of the inefficient public sector or greater private participation in state-run enterprises are unlikely because of 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

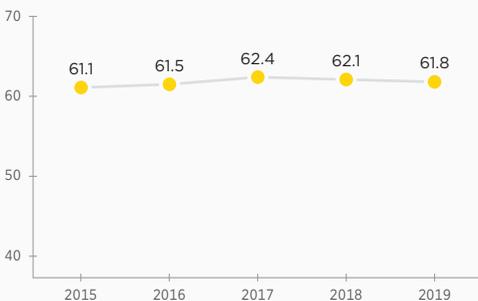


RELATIVE STRENGTHS:
Fiscal Health and Tax Burden

HISTORICAL INDEX SCORE CHANGE (SINCE 1995):
-4.1

CONCERNS:
Government Integrity and Labor Freedom

FREEDOM TREND



QUICK FACTS

POPULATION:
7.0 million

GDP (PPP):
\$68.3 billion
4.3% growth in 2017
5-year compound annual growth 6.0%
\$9,826 per capita

UNEMPLOYMENT:
4.6%

INFLATION (CPI):
3.6%

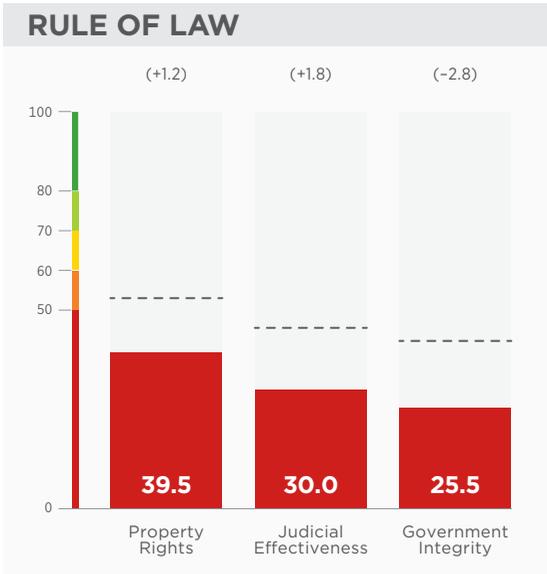
FDI INFLOW:
\$355.8 million

PUBLIC DEBT:
25.6% of GDP

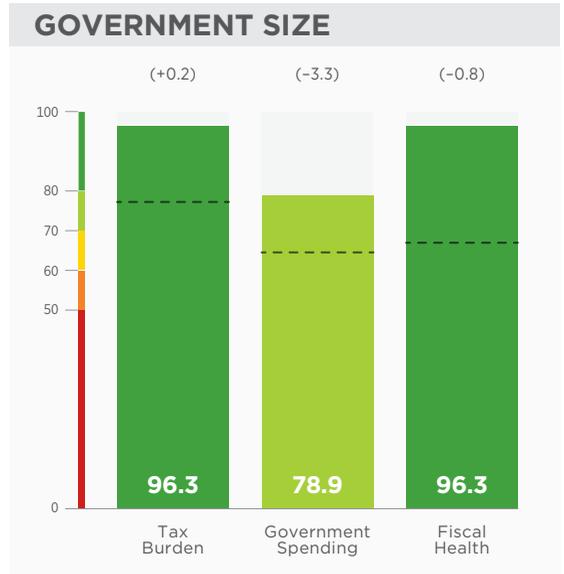
2017 data unless otherwise noted. Data compiled as of September 2018

BACKGROUND: Paraguay was established in the 19th century, along with Bolivia and Uruguay, as a buffer state between regional powers Brazil and Argentina. It is a global leader in hydroelectricity production, one-quarter of which is generated by the state-owned Itaipú dam, one of the world's largest and co-owned by Brazil. In the April 2018 elections, Mario Abdo of the Colorado Party (PC) was elected to succeed former President Horacio Cartes and retain PC control of the presidency. Abdo's effectiveness will hinge on whether the PC is able to form a durable legislative coalition. Economic growth depends on exports of electricity and such agricultural goods as soybeans, beef, and rice, as well as attractiveness to foreign direct investment.

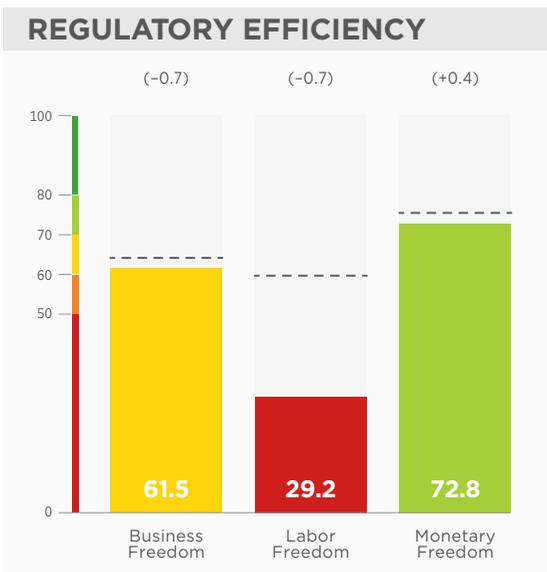
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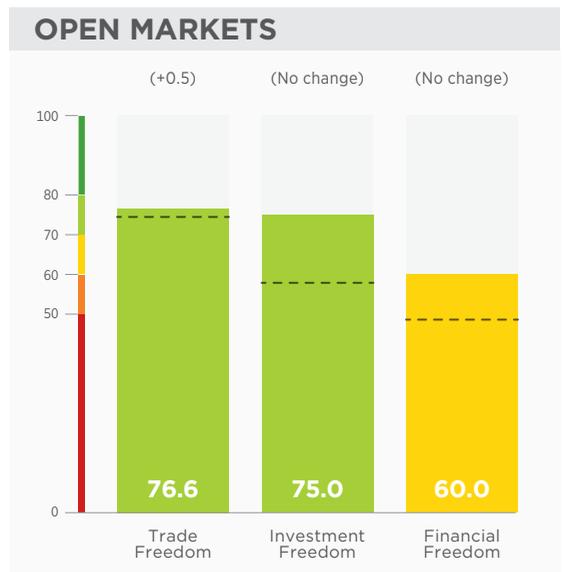
A lack of consistent property surveys and registries often makes it difficult to acquire title documents for land, leaving property rights and contracts insecure. The judiciary is slow, and offenses often go unpunished because of political influence. Corruption is widespread at all levels of government, but steps such as the creation of an Internet-based government procurement system have improved transparency.



The top personal income and corporate tax rates are 10 percent. Other taxes include value-added and property taxes. The overall tax burden equals 13.0 percent of total domestic income. Over the past three years, government spending has amounted to 26.5 percent of the country's output (GDP), and budget deficits have averaged 1.2 percent of GDP. Public debt is equivalent to 25.6 percent of GDP.



The overall regulatory framework is only weakly supportive of dynamic entrepreneurial activity. Labor regulations are outmoded. The difficulty of dismissing long-term full-time employees encourages the hiring of more "temporary" workers with periodically renewed contracts. The government sets electricity rates and subsidizes major state-owned entities, from public transport utilities to fuel distribution and telecommunications.



The combined value of exports and imports is equal to 84.6 percent of GDP. The average applied tariff rate is 4.2 percent. As of June 30, 2018, according to the WTO, Paraguay had 16 nontariff measures in force. Foreign investment is not subject to screening, and foreign entities may own property. About 55 percent of adult Paraguayans have access to an account with a formal banking institution.