

BEST'S COUNTRY RISK REPORT

Paraguay CRT-4

August 22, 2018

Region: Latin America

[Country Risk Criteria Procedures](#)

[Guide to Best's Country Risk Tiers](#)

- The Country Risk Tier (CRT) reflects A.M. Best's assessment of three categories of risk: Economic, Political, and Financial System Risk.
- Paraguay, a CRT-4 country, has high levels of economic, political, and financial system risk. Paraguay's growth projections are relatively strong, projected to reach 4.5% in 2018. The country is focusing on promoting inclusive economic growth, in an effort to reduce poverty and inequality.
- Inflation is expected to remain at approximately 4% over the next five years, according to International Monetary Fund forecasts.
- The map depicts the countries in Central America, South America and the Caribbean that A.M. Best evaluates. The majority of the countries are categorized as CRT-3, 4, or 5.



- Country Risk Tier 1 (CRT-1)** Very Low Level of Country Risk
- Country Risk Tier 2 (CRT-2)** Low Level of Country Risk
- Country Risk Tier 3 (CRT-3)** Moderate Level of Country Risk
- Country Risk Tier 4 (CRT-4)** High Level of Country Risk
- Country Risk Tier 5 (CRT-5)** Very High Level of Country Risk

Regional Summary: Latin America

- Growth in the region is likely to continue in 2018 due to expanding global growth, rebounding commodity prices, and strengthening domestic demand. However, risks are tilted to the downside owing to rising domestic political uncertainty, currency volatility, growing trade protectionism, rising fiscal deficits, and negative spillover effects from international financial markets.
- Conditions are largely positive, but several countries in the region are experiencing heightened risk. Years of unsustainable social programs, higher spending, and growing corruption have led to significant challenges for Venezuela, as well as Brazil and Argentina, albeit to a lesser extent.
- So far this year, there have been several presidential elections in Colombia, Mexico, and Venezuela; Brazil's is scheduled for later this year. The election environment is complex owing to mounting social conflicts, corruptions scandals, and policy uncertainty. According to the IMF's 2017 estimates, four countries are responsible for the largest proportion of the region's economic output: Brazil at USD2,055 billion, Mexico at USD1,149 billion, Colombia at USD309 billion, and Venezuela at USD210 billion.

Vital Statistics 2017

Nominal GDP	USD bn	29.62
Population	mil	7.0
GDP Per Capita	USD	4,260
Real GDP Growth	%	4.3
Inflation Rate	%	3.6

United Nations Estimates

Literacy Rate	%	95.1
Urbanization	%	60.2
Dependency Ratio	%	56.6
Life Expectancy	Years	77.4
Median Age	Years	28.2

Insurance Statistics

Insurance Regulator	Central Bank of Paraguay	
Premiums Written (Life)	USD mil	56
Premiums Written (Non-Life)	USD mil	345
Premiums Growth (2016 - 2017)	%	6.1

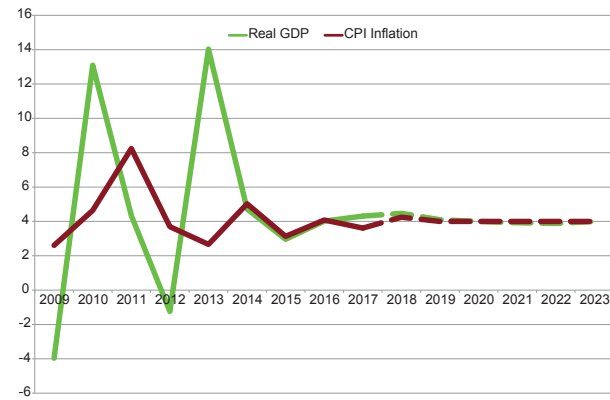
Regional Comparison

	Country Risk Tier
Paraguay	CRT-4
Bolivia	CRT-5
Argentina	CRT-5
Brazil	CRT-4
Colombia	CRT-4
Ecuador	CRT-5

Source: IMF, UN, Swiss Re, Axco and A.M. Best



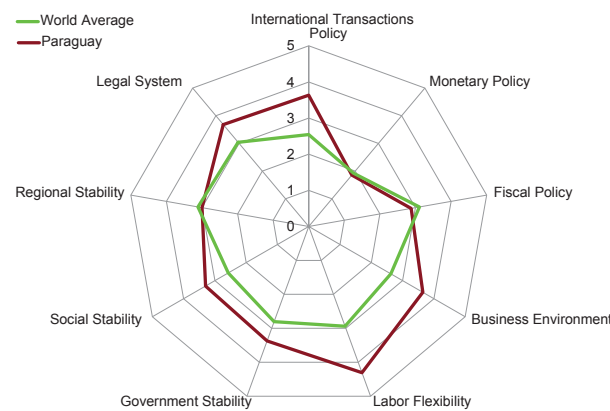
Economic Growth (%)



Source: IMF World Economic Outlook and A.M. Best

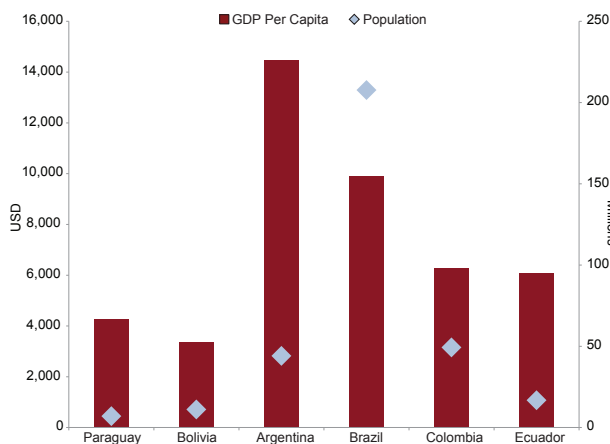
Political Risk Summary

Score 1 (best) to 5 (worst)



Source: A.M. Best

GDP Per Capita and Population



Source: IMF and A.M. Best

Economic Risk: High

- Paraguay's economy is small and open. Agriculture is the dominant export. The economy also depends on exports of natural resources and is vulnerable to external shocks in prices and shifts in global demands.
- Economic growth has been strong but variable over the past decade and has translated into a rising standard of living. Poverty and an unequal distribution of wealth have both declined significantly, although improvements are still needed.
- Further growth is expected owing to healthy demand and strong growth in Paraguay's main trading partners.
- Paraguay's Fiscal Responsibility Act dictates that the budget deficit not exceed 1.5% of GDP. Government spending has been curtailed to accommodate this rule.
- Economic and social reforms, including improved access to health care and education, are in place to sustain long-term growth and assist the vulnerable population.

Political Risk: High

- In April 2018, Mario Abdo Benítez, of the ruling conservative Colorado Party, was elected as the new president. His administration is likely to foster continuation of pro-business policies and openness to foreign investments.
- Political stability is undermined by frequent conflicts and protests over land ownership.
- Internal divisions in the Colorado Party can cause political conflict. The party does not hold a majority in the senate, undermining the government's ability to pass legislation.
- Corruption is high at different levels of public institutions as well as private businesses.
- The judiciary is heavily influenced by political activity and legal processes are largely inefficient. Judicial independence is ranked poorly by the World Economic Forum, at 133 out of 137 countries.

Financial System Risk: High

- The Central Bank of Paraguay is responsible for supervising the insurance and banking sectors. The bank also dictates monetary policy, following an inflation targeting regime, and has been able to keep inflation in line with the target.
- Monetary policy has been accommodative, but the IMF recommends the central bank focus on maintaining low inflation.
- Bank balance sheets need strengthening to accommodate the recent rapid credit growth. Banking profitability is high, but loan quality has diminished. Non-performing loans, however, remain stable.
- Paraguay has recently been allowed to enter the international capital market owing to an improvement in solvency.