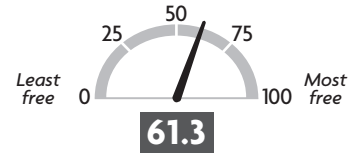


PARAGUAY

Economic Freedom Score



World Rank: **81** Regional Rank: **16**

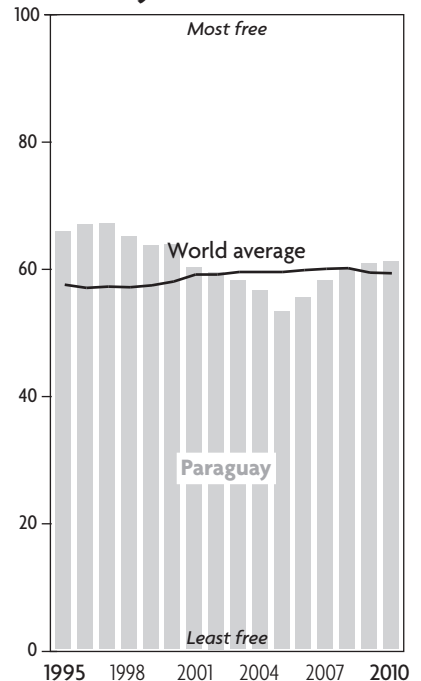
Paraguay's economic freedom score is 61.3, making its economy the 81st freest in the 2010 *Index*. Its score has increased by 0.3 point from last year, reflecting a modest improvement in investment freedom. Paraguay is ranked 16th out of 29 countries in the South and Central America/Caribbean region, and its overall score is slightly above the world and regional averages.

Paraguay scores above the world average in six of the 10 economic freedoms. The average tariff barrier has been gradually lowered, but non-tariff barriers still limit overall trade freedom. Income and corporate tax rates are competitively low. The government has pursued a series of structural reforms to improve the entrepreneurial environment, but Paraguay still lags behind other countries in the region in terms of reform progress.

Overall economic freedom remains challenged by two significant institutional weaknesses that are critically in need of reform. Property rights are not strongly protected, and the judicial system remains weak and inefficient. Widespread corruption also poses a serious impediment to economic development.

BACKGROUND: Since the end of General Alfredo Stroessner's 35-year rule in 1989, Paraguayans have been working to implement durable democratic rule. Former Bishop Fernando Lugo, supported by the leftist Patriotic Alliance for Change coalition, was elected president in April 2008, ending more than 50 years of domination by the conservative Colorado Party. Lugo promised to support the indigenous population, redistribute land to the poor, and secure more revenue from the Itaipu Dam, a joint hydroelectric project with Brazil. Nearly half of all jobs are in agriculture, the major export earner. Unemployment is high, and more than one-third of Paraguayans live below the poverty line. Improved cooperation with neighboring countries and the United States has led to reduced smuggling and closer scrutiny of suspected Middle Eastern terrorist-supported groups in the tri-border area with Brazil and Argentina.

Country's Score Over Time



Quick Facts

Population: 6.2 million
GDP (PPP): \$29.3 billion
 5.8% growth in 2008
 4.9% 5-year compound annual growth
 \$4,709 per capita

Unemployment: 5.4%

Inflation (CPI): 10.2%

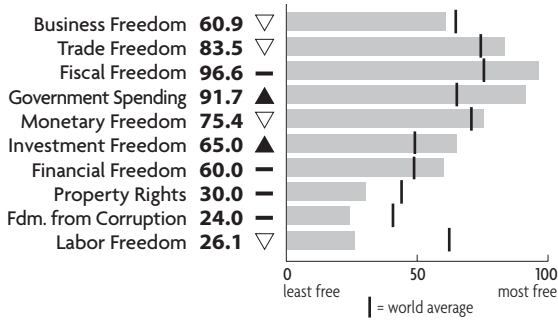
FDI Inflow: \$320 million

2008 data unless otherwise noted
 Data compiled as of September 2009

How Do We Measure Economic Freedom?

See page 457 for an explanation of the methodology or visit the *Index* Web site at heritage.org/index.

PARAGUAY'S TEN ECONOMIC FREEDOMS



BUSINESS FREEDOM — 60.9

The overall freedom to start, operate, and close a business is limited under Paraguay's regulatory environment. Starting a business takes an average of 35 days, which is consistent with the world average. Obtaining a business license takes more than the world average of 218 days. Closing a business can be a lengthy and difficult process.

TRADE FREEDOM — 83.5

Paraguay's weighted average tariff rate was 3.3 percent in 2008. Some import bans and restrictions, import taxes and fees, burdensome labeling requirements, weak enforcement of intellectual property rights, and cumbersome and non-transparent customs procedures add to the cost of trade. Ten points were deducted from Paraguay's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM — 96.6

Paraguay has low tax rates. Both the top income tax rate and the top corporate tax rate are 10 percent. Other taxes include a value-added tax (VAT) and a property tax. In the most recent year, overall tax revenue as a percentage of GDP was 11.7 percent. Tax administration is improving.

GOVERNMENT SPENDING — 91.7

Total government expenditures, including consumption and transfer payments, are low. In the most recent year, government spending equaled 16.6 percent of GDP. Structural reforms are needed to strengthen the budgetary framework and improve the quality of public expenditures.

MONETARY FREEDOM — 75.4

Inflation has been high, averaging 9.6 percent between 2006 and 2008. Most prices are set in the market, but the government controls the price of fuel and influences prices through state-owned enterprises and utilities, including electricity, telecommunications, transportation, and water. Five points were deducted from Paraguay's monetary freedom score to account for policies that distort domestic prices.

INVESTMENT FREEDOM — 65

Paraguay guarantees equal treatment of foreign investors, and most sectors are open to private investment. The

government maintains monopolies in oil and gas, cement, electricity, water, and basic and long-distance land-line telephone services. Deterrents to investment include an arbitrary and non-transparent judicial process, weak enforcement of contracts, corruption, and inadequate infrastructure. Residents and non-residents may hold foreign exchange accounts. Most payments, capital transactions, and transfers are permitted and subject to minimal restrictions or reporting requirements. Foreign investors may not purchase land within 50 kilometers of the borders.

FINANCIAL FREEDOM — 60

Paraguay's financial sector has undergone restructuring and modernization following a period of instability that resulted in several domestic financial crises from 1995 to early 2000. Credit to the private sector has grown, and non-performing loans have gradually declined to less than 2 percent of total loans from over 10 percent in 2004. An inefficient legal framework remains a considerable impediment to the creation of a more dynamic financial sector. The adverse impact of the global financial turmoil on the financial system has been relatively minor. The banking sector consists of 13 banks, 14 savings and loan companies, and 24 foreign-exchange companies. The two largest banks are foreign-owned, and foreign banks account for around 30 percent of assets. Capital markets remain underdeveloped.

PROPERTY RIGHTS — 30

Protection of property rights is extremely weak. Commercial and civil codes cover bankruptcy and give priority for claims first to employees, then to the state, and finally to private creditors. Acquiring title documents for land can take two years or more. Paraguay has increased the seizure and destruction of counterfeit and pirated goods. The government does not have a framework for safeguarding confidential data associated with regulatory approvals. As a result, some companies have decided not to market certain products, such as the latest pharmaceuticals, in Paraguay.

FREEDOM FROM CORRUPTION — 24

Corruption is perceived as widespread. Paraguay ranks 138th out of 179 countries in Transparency International's Corruption Perceptions Index for 2008. Paraguay has a legacy of institutional corruption after decades of dictatorship. The multibillion-dollar contraband trade that occurs on the borders with Argentina and Brazil also facilitates money laundering. Weak institutions impede anti-corruption efforts. The slow pace of judicial reform and continued impunity are barriers to development.

LABOR FREEDOM — 26.1

Paraguay's labor regulations are restrictive. The non-salary cost of employing a worker is moderate, but laying off an employee is difficult. Regulations on the number of work hours remain rigid.