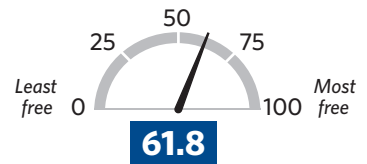


PARAGUAY

Economic Freedom Score



World Rank: **79** Regional Rank: **15**

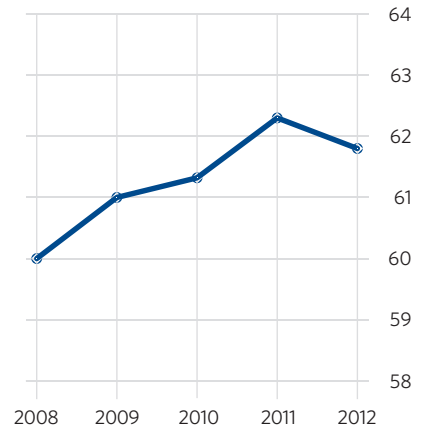
Paraguay's economic freedom score is 61.8, making its economy the 79th freest in the 2012 *Index*. Its score is 0.5 point worse than last year, reflecting modest declines in fiscal, business, and trade freedom and the control of government spending. Paraguay is ranked 15th out of 29 countries in the South and Central America/Caribbean region, and its overall score is above the world average.

The Paraguayan economy's progress toward greater economic freedom has been patchy, and the economy underperforms in many critical areas. The absence of an independent and fair judiciary weakens the rule of law and undermines prospects for long-term sustainable economic development. Corruption is pervasive, and the efficiency of government services is poor. Reform measures have been sporadic, and proposals for policy changes have often met with resistance from vested political interests.

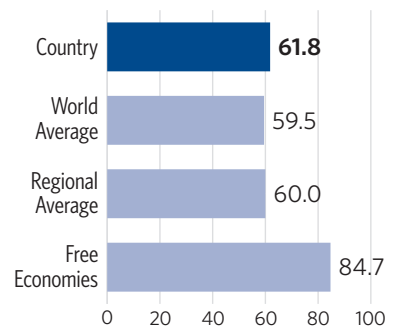
Open-market policies have been advanced only marginally, with layers of non-tariff barriers and lingering investment restrictions undercutting the growth of productivity. A lack of deeper commitment to enhanced regulatory efficiency further impedes the emergence of a more vibrant private sector and diversification of the economy.

BACKGROUND: Paraguayans have implemented democratic governance since General Alfredo Stroessner's 35-year rule ended in 1989. President Fernando Lugo, a former bishop supported by the leftist Patriotic Alliance for Change coalition, ended more than 50 years of domination by the conservative Colorado Party when he was elected to a five-year term in 2008. Lugo promised to support the indigenous population, redistribute land to the poor, and secure more revenue from the Itaipu Dam. Nearly half of all jobs are in agriculture, the major export earner. Formal-sector unemployment is high. More than one-third of Paraguayans live below the poverty line. The government has reduced smuggling and given closer scrutiny to suspected terrorist groups in the tri-border area with Brazil and Argentina.

Freedom Trend



Country Comparisons



Quick Facts

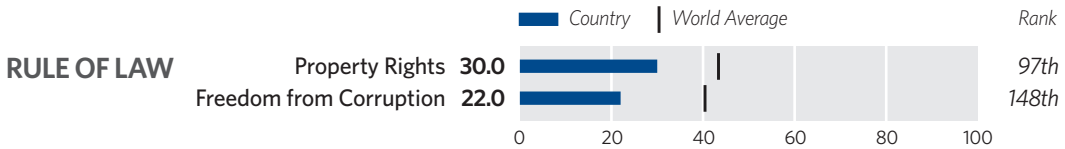
Population: 6.4 million
GDP (PPP): \$33.3 billion
 15.3% growth in 2010
 5-year compound annual growth 5.5%
 \$5,202 per capita
Unemployment: 5.7%
Inflation (CPI): 4.7%
FDI Inflow: \$418.7 million
Public Debt: 15.4% of GDP

How Do We Measure Economic Freedom?

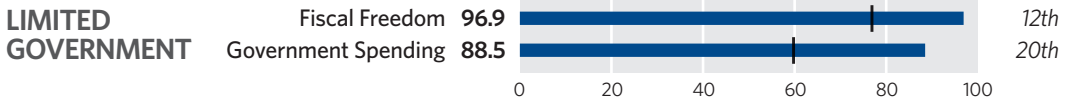
See page 455 for an explanation of the methodology or visit the *Index* Web site at heritage.org/index.

2010 data unless otherwise noted.
 Data compiled as of September 2011.

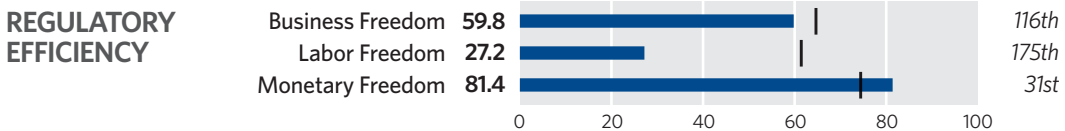
THE TEN ECONOMIC FREEDOMS



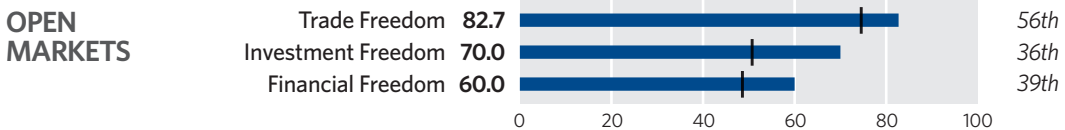
The judicial framework remains largely incapable of protecting property rights and maintaining the rule of law effectively. After decades of dictatorship, Paraguay has a legacy of institutional corruption. Contraband trade on the borders facilitates money laundering. Weak institutions impede anti-corruption efforts. Impunity and the slow pace of judicial reform continue to undermine the foundations of economic freedom.



There is no income tax, and the top corporate tax rate is 10 percent. Other taxes include a value-added tax (VAT) and a property tax, with the overall tax burden amounting to 14.5 percent of total domestic income. Government spending has reached a level equivalent to 19.6 percent of GDP, reducing the budget surplus recorded in earlier years. Public debt remains quite low at below 20 percent of GDP.



Despite some progress over the past few years, the overall regulatory framework remains cumbersome. There is no minimum capital requirement for starting a business, but the process still takes more than the world average of 30 days. The cost of completing licensing requirements remains over twice the average level of annual income. The labor market lacks flexibility, hurting job growth. Inflation has moderated.



The trade weighted average tariff rate is modest at 3.7 percent, but non-tariff barriers remain more serious impediments to the free flow of goods and services. Most sectors are open to private investment, and equal treatment of foreign investment is formally guaranteed. However, the investment regime lacks efficiency, mainly due to government bureaucracy. The level of financial intermediation has been improving gradually.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	-0.7	Business Freedom	-1.9	Trade Freedom	-0.3
Freedom from Corruption	+1.0	Government Spending	-4.9	Labor Freedom	+2.3	Investment Freedom	0
				Monetary Freedom	+0.5	Financial Freedom	0