

## 7 The balance of risks on our growth projections for 2016-2017 has a negative bias

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Different patterns to those assumed in our baseline scenario for different key variables can cause deviations in our growth estimates. On this occasion, we believe the main downside risks are lower global growth (especially in Brazil and China) and greater delays in executing infrastructure projects.

### A more intense and prolonged recession in Brazil would significantly affect growth in Paraguay

The main downside risk on the projection of GDP is a greater-than-anticipated deterioration of the Brazilian economy. Brazil is the main market for Paraguayan exports with about 30% of recorded exports (this share is substantially increased if re-exports are included). According to our estimates, a decrease of one percentage point of GDP growth in Brazil due to idiosyncratic elements (after controlling for global factors) causes a decrease of between four and five tenths of a percentage point in GDP growth.

### Slower growth in China is another downside risk factor

Our baseline scenario assumes that the moderation in China's growth towards sustainable levels, and the reshaping of its demand-side growth drivers (less investment and more consumption), will be gradual and orderly. However, if the monetary, fiscal and credit stimuli being applied turn out to be excessive, then financial weaknesses which are apparent in China could be accentuated, and hamper its growth. In this context, lower growth in China would have a negative impact on the Paraguayan economy directly, as a result of more pronounced and persistent decreases in the prices of the raw materials it exports (mainly soya beans), and indirectly, due to weaker external demand in Brazil, which is strongly exposed to shocks in China.

### On the domestic side, further delays in infrastructure projects would adversely affect the economic growth forecast

A slower execution of the infrastructure projects that are in the pipeline are among the domestic factors that would make growth factors deviate downwards.. This would be reflected, on the sectoral side, in slower growth in construction, and on the expenditure side, in a more marked slowdown in investment.

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