

# Paraguay Flash

## Paraguay returns to the international bonds market with a 10-year bond

After a long time, Paraguay issued USD 500 mill. (around 2% of GDP) in 10-year international bonds at a 4.625 percent, a yield that comes at the tight end of the pricing guidance of 4.625% to 4.75%. The demand of USD 5,573 mill. far surpassed the amount offered (over 10 times), a signal of the strong appetite for high-yield bonds at times when the global risk aversion has reduced after the measures announced by the ECB and the increasing liquidity coming from developed countries' central banks. Of the total offered, 97% of the bonds were bought by US investors, also an indicator of the good timing of the issuance.

This issuance comes just a few months after neighboring Bolivia did its own emission for the same amount at par to yield 4.875 percent, with an also robust demand of USD 4.217 mill. Paraguay is rated at BB- by both Fitch and Standard & Poor's, and Ba3 by Moody's, the same rating that Bolivia had at that time.

### Issuance seen as a crucial step towards creating a benchmark and attracting FDI

Even though the agreed yield will imply greater costs than undisbursed multilateral funds already committed to Paraguay, authorities and analysts felt an international bond would provide a needed reference rate that will make it easier for local companies to tap international investors.

So far, only three Paraguayan companies had recently issued bonds in the international market. As shown in Table 1, the bonds' yield has decreased progressively since BBVA did the first issuance in February 2011. Naturally, being the first to open a new market implies paying a greater cost, but the importance of the such greatly overrides it. The government of Paraguay paid almost half the price than the one offered by BBVA, and it is expected that future private issuances will take advantage of the new sovereign benchmark.

Chart 1

**International bond market issuers from Paraguay**

Issuer	Issuance Date	Amount	Maturity	Yield
BBVA Paraguay	Feb-11	USD 100 mill	5 years	9.75
Banco Continental SAECA	Oct-12	USD 200 mill	5 years	8.875
Tigo	Dec-12	USD 300 mill	10 years	6.75
Government of Paraguay	Jan-12	USD 500 mill	10 years	4.625

Source: BBVA Research

### Successful bond issue seen as a vote of confidence on Paraguay

Paraguay has been characterized by a prudent macroeconomic handling, maintaining a comparatively low external debt and sustainable levels of fiscal spending, a trend that has been adopted in the past years. Along with some advances regarding a tax reform, this successful issuance will be one of the main economic achievements of the recent times.

Currently, Paraguay is coming out of a recession in 2012 caused by a severe drought and the outbreak of food-and-mouth disease, which severely curtailed soybean and meat exports. GDP growth is expected to rebound to close to 10% in 2013, due to the recent re-opening of meat export markets and the expected normalization of soybean production.

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