



ECONOMÍA S.A.



INFORME ECONÓMICO



ECONOMÍA S.A.

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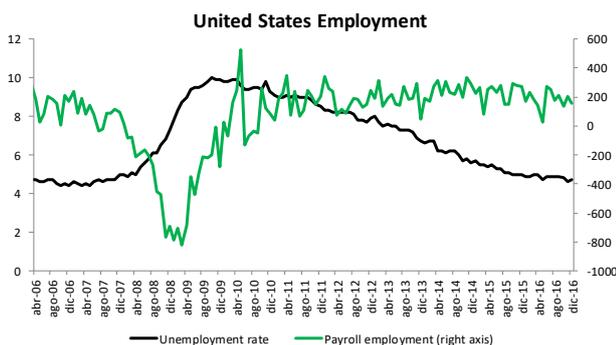
WORLD OUTLOOK

UNITED STATES

In the third quarter of 2016 the US economy grew 2.9%, the fastest it has grown in the past two years. This reaffirms the recovery of the US economy, which in turn has a series of consequences for emerging market economies.

With regards to the labor market, the situation is favorable. The unemployment rate has been reduced significantly; a total of 1.9 million new jobs have been created as of December of 2016. Both unemployment rate and employment creation are returning to the pre-crisis levels.

On average, 180 thousand jobs were created monthly in 2016. Even though this is less than the average monthly creation of 2015, it still reflects a dynamic job markets that keeps demand constant.



Source: MF Economía with BLS data

In response to the recovering economy, the Federal Reserve finally decided to raise interest rates to a range of 0,5% and 0,75%. To make this decision, the Fed takes into account economic growth, inflation and the health of the job market. With regards to the job market, job creation is given more weight than the unemployment rate, since the unemployment rate can be deceiving, or not fully accurate when making an affirmation about the job market. The FED stated that it could increase rates three times in 2017.

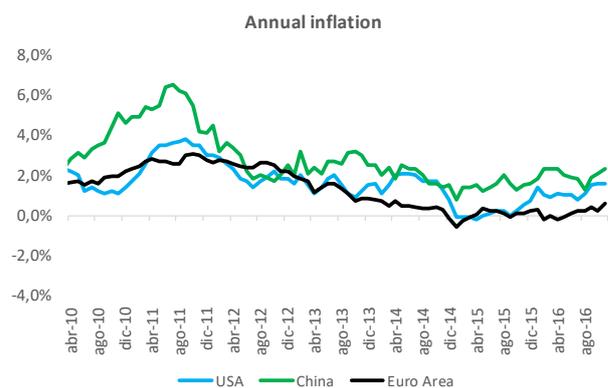
The monetary adjustment took place in the first meeting of the Fed following Donald Trump's victory in the presidential elections, an event that will determine the US economy and in turn the global economy. Some of the policies Trump has revealed for his first 100 days are: lower taxes for both households and businesses, increased spending in infrastructure, restructuring of the health care system, cancel payments to United Nations aid programs, and deport illegal immigrants.

EUROPE

The European Union grew 0.4% in the third quarter of 2016 in relation to the previous quarter; this is due primarily to the weak performance of the German economy. Quarter on quarter GDP growth in the Eurozone was a little slower, 0.3%. Year on year GDP growth in the EU was 1.9% and 1.7% in the Eurozone. Improvements in business profitability and favorable financing conditions promoted the recovery of investment. The labor market has also given positive signals, which has consequently spurred private consumption. For all the reasons mentioned above, we can observe a moderate recovery of the European economy. Nevertheless, the implementation of the structural reforms intended to insure a greater fiscal discipline could cause a deceleration in the recovery.

Brexit has led to a series of contradicting scenarios: there is a possibility that Britain will refrain from abandoning the EU given the big consequences Brexit has brought on the British economy even before being implemented. Some of the most notable consequences are the devaluation of the pound and the loss of AAA credit rating. The pound has fallen to a 30 year low since the Brexit, and the loss of AAA credit rating implies higher financing costs in international markets due to a greater degree of uncertainty with regards to the future of the economy.

In the third quarter, the British economy grew 0.5% fueled by the service sector. This performance was better than expected; nevertheless it was less than growth in the second quarter which reached 0.7%. Inflation went from 0.5% in June to 1.2% in November; this rate being the highest since October of 2014. The Bank of England has adjusted its growth projections to 1.4% for 2017 and 1.5% to 2018.



Source: MF Economía with BEA, BLS, Eurostat data

CHINA

After years of growing at a rate of two-digit figures, this cycle has come to an end and this fast passed growth does not seem attainable in the short run. In the third quarter China grew 6.7% primarily due to consumption spending. Measures implemented



at the beginning of the year to stimulate demand were effective. Some of these measures were tax cuts, increased public spending, and monetary injections by the Chinese Central Bank to increase liquidity.

China is currently going through a structural change based on three pillars: increasing the contribution of the service sector, decreasing public investment in order for private consumption to assume a more important role, and reducing the dependency of growth on credit. According to the IMF, China has a very low independence of growth with respect to credit; at the end of 2015 the Chinese debt was 254.8% of GDP, which is manageable but it should be addressed.

Chinese reserves in the month of October have seen a fall of US\$ 45.700 million, reaching its lowest levels since 2011. One of the reasons for this reduction was the selling operations implemented by the central bank in order to halt the devaluation of the yuan.

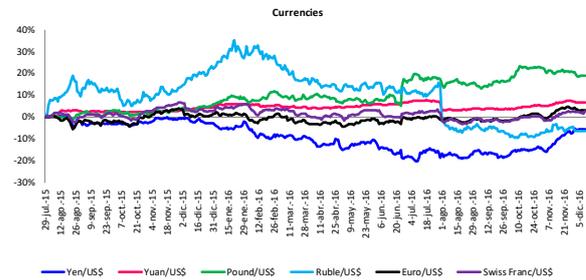
CURRENCY AND COMMODITIES

The dollar continues to appreciate with regards to the main currencies since 2015 given the good indicators of the American economy, and more so with the last decision taken by the Fed to increase interest rates. The dollar euro exchange rate started the year 2016 at 1.08 US\$/€ and closed the year at 1,04 US\$/€, which implies an appreciation of the dollar with respect to the euro of 3.7%. Given that the FED has manifested the possibility of further increases in the interest rate in the coming year, we could see dollar/euro parity.

With regards to the impact of Brexit on the EUR/GBP, we observe that before the referendum the relation was 1.30 EUR/GBP, when currently the relation is 1.17 EUR/GBP; this represents 10% devaluation in the pound with respect to the euro. Furthermore, after the election of Donald Trump and his statements about trade negotiations with Great Britain, many have chosen to abandon the pound and seek refuge in another currency such as the euro.

On the other hand, the European Central bank has announced a capital injection close to half a trillion euros with the program of asset buying; this implies the buying of public and private debt at least until the end of 2017. The public announcements of these programs by the President of the European Central Bank caused a greater depreciation in the euro as well as pressures for inflation.

Throughout the year, the dollar appreciated 19% in relation to the pound, 3.2% in relation to the euro, 6.9% in relation to the yuan, 23% and 18% in relation to the Argentinian and Mexican peso respectively. On the contrary, it depreciated 5.5% with regards to the Russian ruble, 16% with regards to the Brazilian real and 6% with regards to the Chilean peso.



Source: MF Economia with Bloomberg data

With regards agricultural commodities, the price of soybean, corn and wheat remain stable, without much variation in the course of the year. The harvest in the northern hemisphere culminated with historically high yields. Currently we await the harvest of the southern hemisphere; since the sowing went without difficulties, good results are expected for the harvest. Prices are expected to remain similar to current prices given that demand did not follow the increase in production and stocks are higher than usual.

In the 2016/17 season, soy bean and corn grow at approximately 7.9% and 8.2% respectively relative to the previous season.

On a global scale, soy bean production is expected to reach 338 million tons, which is equal to 24.7 million tons more than the previous season. Production in the US, Brazil and Paraguay have experienced positive variations. That being said, final stock is around 82.8 million tons, which represents an increase of 5.6 million tons.

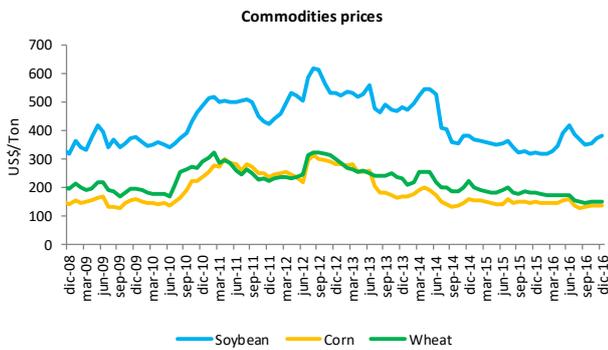
World corn production reached record levels: 1,039.7 million de tons were produced, representing an 8.2% increase relative to the 2015/16 season. Final stock increased to 222.3 million tons, signifying a 6.4% growth regarding the previous season. Taking into account the main producers, Brazil's increase in production stands out: it increased production by 41.3 million tons as a result of better yields. In relative terms, this represents a 29% surge in volume relative to the 2015/16 season.

Wheat production for the 2016/17 season will approximate 751.3 million tons, meaning a 2.1% increase in reference to the previous season. Final stocks are expected to increase by 11.4 million tons, which means they will close at 252.1 million tons. Production increased 12% in the US and 18% in Russia compared to the previous season; good yields in Russia caused them to produce a total of 72 million tons. On the other hand, production in the EU decreased 10% as a result of abundant rainfall which did not favor the crop.

In Argentina, historically high average yields of approximately 3.2 tons/ha. are expected, with production close to the 14.7 million tons explained by the rains in the central region which aided the crops. In Brazil, regardless of the reduction in the seeded area, production is expected to increase relative to the previous season; projected production is 6.7 million tons.



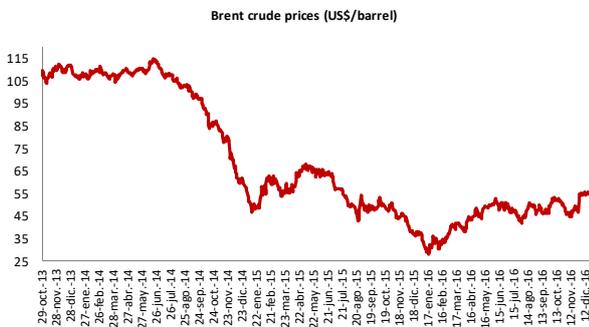
Rice production is expected to grow 3.2% compared to the 2015/16 season; this results in a total production of 481.5 million tons for the 2016/17 season, and final stocks of around 120.2 million tons.



Source: MF Economia with CBOT data

Oil managed to recover after OPEC reached an agreement to reduce production in order to keep prices up the 29th of November of 2016. Immediately after the OPEC meeting, the price of Brent increased 12% to 51.84 US\$/barrel. After this meeting in which members agreed to reduce production by 1.2 million barrels, non-member countries also agreed to reduce production by 600 thousand barrels a day, of which 300 thousand will be assumed by Russians. The price of crude is expected to increase gradually until it reaches 55.72 US\$/barrel. From the time of the announcement until the end of 2016 the price increased 19%.

On the other hand, the energy policies announced by Donald Trump, which pretend to soften the restrictions on drilling and reduce the control of emissions, are intended to increase production of oil and its byproducts. This may in turn attenuate the effect of the measures set forth by OPEC to increase oil prices.



Source: MF Economia with Bloomberg data

GLOBAL GROWTH

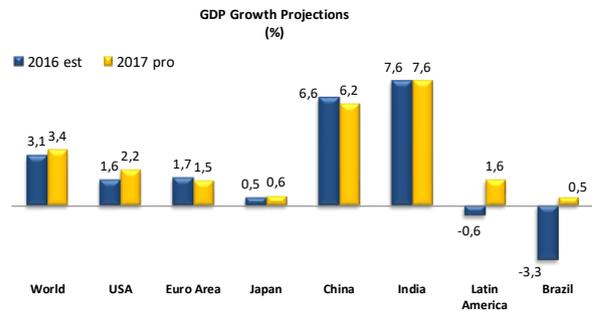
The global economy is lagging behind in terms of growth as a result of diverse factors that affected growth expectations. One of the factors we can cite is Brexit, which has generated some economic disturbances; even though these were not of great magnitude, they had an impact in some sectors of the economy. Another factor we can cite is weaker growth in the United States. Both factors have heightened the downward pressure on global interest rates.

Growth expectations differ according to the country and region. Regarding emerging economies, India is expected to grow 7.6%, more than China, while in other emerging markets the fall of commodity prices pushed them to strive for diversification as an economic policy. In advanced economies, the main factor is uncertainty, funded mainly in political reasons; for these economies growth rates are expected to approximate 1.6%. Considering the different obstacles economic growth is facing, it is important to find policies that can stimulate and protect the economy from exogenous shocks, or on the other hand find ways to mitigate the vulnerabilities to which it is exposed.

The International Monetary Fund (IMF) maintained the growth projects it had done in January, April, June and October for 2016 and 2017. The world growth projection for 2016 was stable at 3.1%, and the expectations for the US, the Euro Zone and Japan are 1.6%, 1.7% and 0.5% respectively.

The growth expectation for emerging economies is 4.2%; within this group China's projections are 6.6%, Brazil's -3.3%, India's 7.6%, and Russia's -0.8%. The projection for Latin America was maintained at a -0.6%.

With regards to 2017, projections are positive. The world is expected to grow 3.4%, the Eurozone 1.5%, Latin America 1.6%, Brazil 0.5% and the US 2.2%.



Source: MF Economia with FMI data



REGIONAL OUTLOOK

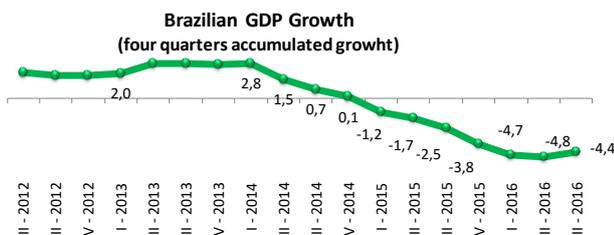
The Brazilian economy contracted 2.9% in the third quarter of 2016 with respect to the same period in 2015. The accumulated contraction for 2016 up until the third quarter was 4.0% with regards to the same period in 2015 according to the Brazilian Institute for Geography and Statistics (IBGE).

Regardless that the accumulated nine months contraction fell below the first semester (-4.5%), and the first quarter (-5.4%), this is the worst result for the January to September period since this indicator began in 1196. Brazil's GDP CONTRACTED 3.8% in 2015, the worst result in 25 years. Furthermore, it can fall 3.4% more according to current projections.

The -2.9% contraction in the third quarter of 2016 was the tenth consecutive year-on-year decrease. Nevertheless, this decline was less than the three previous quarters: the economy contracted 3.6% in the second quarter of 2016, 5.4% in the first quarter, and 5.8% in the last quarter of 2015.

Agricultural production contracted 6.9% in the first three quarters of 2016 in relation to the same period in 2015, industry contracted 4.3%, and services 2.8%.

Economic activity in Brazil contracted 0.79% in the third quarter of 2016 in relation to the previous quarter. According to the estimates of the Brazilian Government, the Central Bank and the majority of international organizations, the Brazilian economy will pick up growth this year, even if this means a sluggish 1% growth.



Source: MF Economia with IBGE data

Analyzing growth by economic sectors, agriculture contracted 0.6% due primarily to corn and rice, and services reduced 2.2% mainly because of the fall in transportation (-7.4%) and commerce (-4.4%). The industrial sector fell 2.9% YoY as a result of a 3.5% contraction in the manufacturing sector, more so because of the bad performance of the automotive and other equipment for transportation.

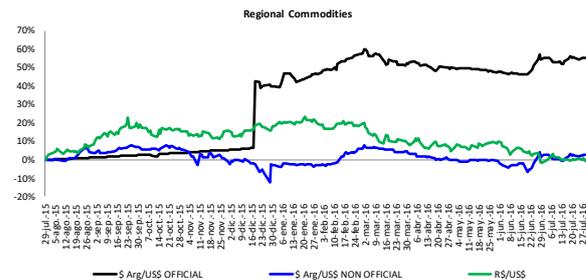
For the sixths consecutive quarter, all the components of demand were negative in comparison to the same period in previous year. Household consumptions spending fell 3.4%. This result is explained by the behavior of the indicators of inflation, interest rates, credit, employment and income during this period.

Capital formation suffered a contraction of 8.4% in the third quarter of 2016, the 10th consecutive year. This reduction is

explained because of the reduction in imports and the production of national capital goods. Government consumption spending was down 0.8% in relation to the third quarter of 2015.

The economy is still weak; the Central Bank reduced the SELIC interest rate to 13.75%. After the dollar soared during Dilma's impeachment process, the corruption episodes, the recession, the inflation and the unemployment, the real recovered in 2016 with respect to the dollar in response to the naming of Meirelles in the Finance Ministry and the establishment of the law of fiscal responsibility that installed a new order in public spending and inflation; this allowed for the progressive increased confidence in the currency, and additionally this also helped raw materials.

On top of all this the Brazilian congress approved the polemic law proposed by Michel Temer's government that will limit the increase in public spending during the next 20 years. The constitutional amendment approved states that the annual increase in public spending will be limited during the next twenty years by the inflation rate of the previous year and that this limitation will be revised only after one decade has passed.



Source: MF Economia with Bloomberg data

ARGENTINA

In Argentina the economic situation is still complicated; one year Mauricio Macri assumed the Presidency the results of the measures applied are still to be observed. Argentina ends the year with an external and fiscal deficit, an inflation of more than 40%, and a loss in wage purchasing power, which led to a fall in consumption of basic goods such as milk.

The National Institute of Statistics (INDEC) informs about the evolution of GDP in the third quarter of 2016. The quarterly variation of GDP was -0.2%, which means GDP remained for the most part unaltered from the second to the third quarter of 2016; this implies stagnation and represents a fall in economic activity. Analyst expect the last quarter of the year to exemplify a similar dynamic. The economy experienced a 2.4% contraction in accumulated growth after the adjustments applied by Macri to cope with the fiscal deficit and attract investment.

The IMF was in favor of the reforms and estimates a 2.7% growth in 2017. The Argentinian government is more optimistic and projects 3.5% growth in GDP. Most sectors of the economy experienced losses in 2016 except for financial institutions, agricultural exporters and mining companies.



Finally, the most relevant information in Argentina at the end of 2016 was the resignation of the Minister of Finance, Alfonso Prat-Gay. This was accompanied by a reform in the institution: it was divided into the Ministry of Finance and Economy Ministry.

LOCAL OUTLOOK

REAL SECTOR

In the third quarter of 2016 GDP grew 5% YoY, a mild deceleration with respect to the 6.2% growth in the second quarter. Nevertheless, this represents an improvement compared to the first quarter of the year where growth was 1.5%. The accumulated growth of the first three quarters of 2016 was 4.2%.

Analyzing growth by sectors, the best performing sector was, once again, construction with a 23% growth in the second quarter and a 33% growth in the third quarter of 2016, the greatest YoY growth seen in the last ten years. This is explained by works in both the private and public sector, and the low levels of rainfall in the second quarter of the year. The binational dams also obtained good performance levels, reaching 13.2% growth after attaining record levels of energy production in September. The optimal performance of the dams results mainly because of climatological factors which increase the flow of water ways.

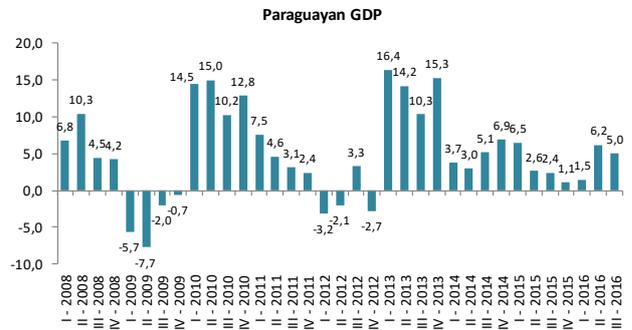
Cattle ranching managed to recover growth after a contraction in the first quarter of 2016: it grew 14.4% in the second quarter and 5.6% in the third quarter of 2016. This was fostered by the increased cattle production due to greater demand in the Russian market.

Industry grew 7.1% in the third quarter, driven largely by the meat industry and slowed by the textile industry. The agriculture sector maintained a 2.4% growth, the same as in the second quarter, propelled by good performance in the main crops. Lastly, the services sector suffered a positive variation of 1.4% due to a pickup in imports.

A large percentage of GDP (71%) is dependent entirely on the weather to obtain good results; these sectors are agriculture, cattle, binational dams, and construction, this last not as dependent as the previous ones, though it has demonstrated to loose vitality in periods of heavy rain.

Observing GDP by the demand side we see private consumption grew 1%, while public consumption fell 5.4% explained by the cut in current expenditure encouraged by the government.

In October the Central Bank revised its last estimation: it expect a 4% growth in GDP for 2016.



Source: MF Economia with BCP data

AGRICULTURE

The 2015/16 soybean season ended with a sown area equal to that of the 2014/16 season according to data published by the Paraguayan Chamber of Exporters and Sellers of Cereals and Oilseeds (CAPECO) and the Institute of Agricultural Biotechnology (INBIO). Nevertheless, production increased as a result of a 10.4% improvement in average yields. For the 2016/17 season the perspectives are just as good: a 3% increase in sown area is expected, which entails an increase of approximately 9 million tons, also conditional on yields.

More specifically, with a sown area of 3.350.000 and a yield of 2.700 kg/ha, production will increase 1% in relation to the 2015/16 season. Depending on climate, conditional on normal rains and humidity, yields superior to the average are expected, with which harvest will be widely superior this year's harvest.

Corn and wheat production closed the season with positive numbers. In the case of corn, favorable climate in addition to increased sown area resulted in a record production of 5.5 million tons; this represents a 9.5% increase in relation to the previous season. However, corn yields were not as good as in 2015, therefore the increase in production was specifically due to the 20.3% increase in sown area. On the other hand, wheat production increased regardless of a decrease in sown area of 4.9%. Since wheat is in most cases a complimentary crop for soybean, low margins obtained in soybean, low wheat prices and unstable weather lead many farmers to reduce the sowing area or to abstain from planting altogether to prevent worsening their financial situation.

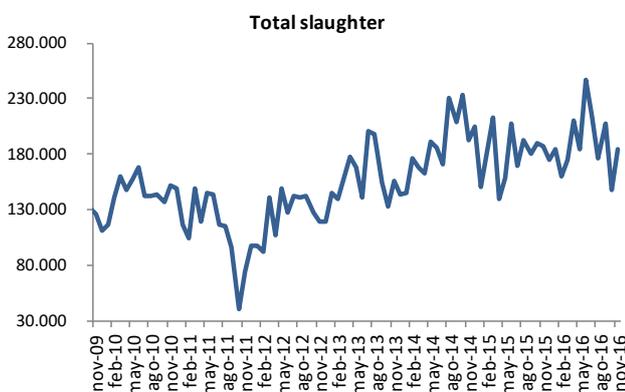
Finally, with regards to rice, although towards the end of the harvest there were complications with germination because of the cold, the production estimates are good: average yields of 8.000 kg/ha dry are expected once the temperatures increase for flowering period.

Climate conditions are key in the harvesting period. La Niña was expected to appear towards the end of 2016, but it failed to materialize. Nevertheless, a lot of climatological variation is expected with extreme temperatures at some points and severe precipitation, including hail and rain storms in some areas.



LIVESTOCK

The slaughter in November was 184.2 thousand heads, a 25% increase in relation to the preceding month. Of these, 89% were slaughtered in beef plants and the remaining 11% in kill floors. Of these 184.2 thousand head slaughter in November, 160.4 thousand were for export, which represents a 26% increase in relation to the slaughter for export in October. The accumulated slaughter up until November of 2016 was 1.8 million heads, representing a rise in the number of heads slaughtered of 119.8 thousand heads in relation to the same period in 2015.



Source: MF Economia with SENACSA data

Observing the evolution of the slaughter we can appreciate that the current levels of production are similar to those of 2014 and 2015. The volatility in monthly slaughter though can be explained by the peaks in demand or excess supply as a result of flooding: some steer had been slaughtered even below their ideal weight as a result of the floods.

The slaughter of male animals decreased 12% in relation to November of 2015, while the slaughter of females increased 17%. More female than male animals have been slaughtered in order to meet the sustained demand of beef plants that in turn were trying to meet the external demand.

OTHER SECTORS

In relation to investments, gross fixed capital formation grew 6.6% relative to the same quarter of 2015, and gross fixed capital grew 9.7%. These investments are found mainly in the real estate sector which goes hand in hand with growth in the construction sector. In addition, the third quarter of 2016 also saw important rises in public investment.

FISCAL SECTOR

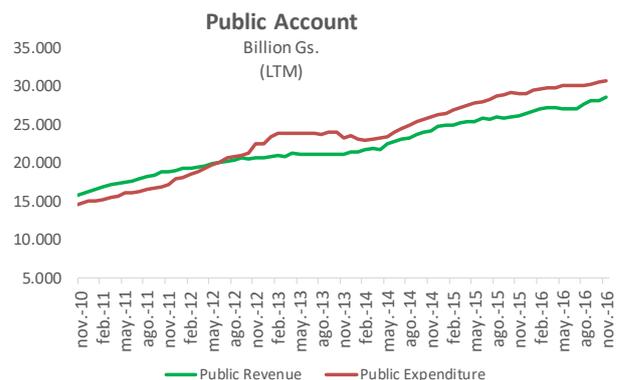
The discussion regarding the Nation's General Budget (PGN) for 2017 had many twists and turns, but finally the President decided to veto it leaving the 2016's budget to apply for the 2017 budget. The first draft bill for the 2017 budget proposed by the Minister

of Finance to congress had a 1.5% deficit (coherent with the Law of Fiscal Responsibility). This first draft was modified many times in both the House of Senate and the House of Representatives. The three of the most questioned adjustments were made in the House of Senate. The first was a cut back in the emission of bonds that had the objective of repaying debt which came to maturity in 2017. The second controversial adjustment was a cap on the budget assigned for monetary policy; with this the Central Bank would have limited resources to meet its objectives. The third adjustment was the limit in the law N°5.074: projects under this law could not exceed 1% of GDP.

In reference to the income tax, two main regulations were modified: first, investments could no longer be fully deducted, and second, if third party rights assumed before being a contributor to this tax were payed once this person becomes a contributor, this transaction will be taxed.

A brief count of fiscals accounts in the month of November indicate that the total income of the Central Administration reached Gs. 25.5 trillion, which represents a 6.8% year-on-year increase. Tax income represents 70% of the total income of the Central Administration. Revenue of the National Customs Directory in November increased 13.7% YoY. The total revenue of this institution in 2016 reached Gs. 8 trillion, somewhat more than the amount collected in 2015.

The total spending of the General Administration up until the second to last month of the year totaled Gs. 22.7 trillion, a 3.7% YoY increase. There was a small decrease in salary expenses (0.2%), a total of Gs. 18 billion. On the other hand, expenses in non-personal services grew 25.3%; this expense represents Gs. 1.1 trillion.

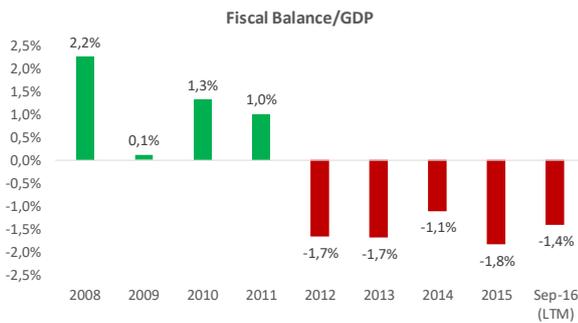


Source: MF Economia with MH data

By the end of November, the deficit was equal to Gs. 811 billion. When the values are annualized the deficit represents 1.4% of GDP, a number very close to the cap established by the Law of Fiscal Responsibility (Ley de Responsabilidad Fiscal), but within the permitted limits.



With regard to the public debt, at the close of November the balance was of US\$ 6.092 million, approximately 22% of GDP. The public debt is composed of loans and bonds, with a participation of 36.3% and 63.7% respectively.



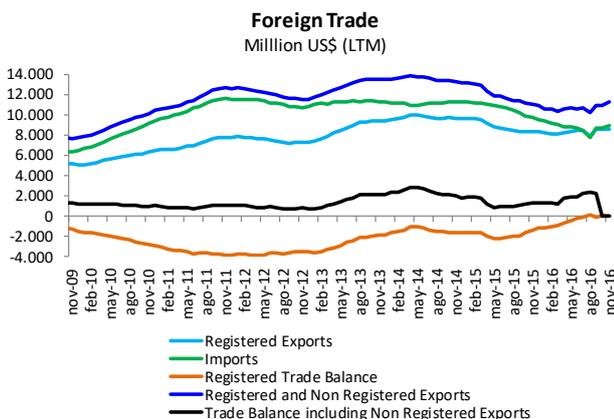
Source: MF Economía with MH data

FOREIGN EXCHANGE

TRADE BALANCE

The reduction in the foreign demand and the fall in the price of commodities gave Latin American countries problems in with their trade balance and it will be difficult for them to revert this situation.

Exports reached US\$ 8.009 million as of November of 2016, and imports reached a total of US\$ 8.104 million. That being said, there was a deficit in the trade balance of US\$ 95 million as of November 2016, indicating the year would most probably close on a deficit, given the lower availability of good for export.

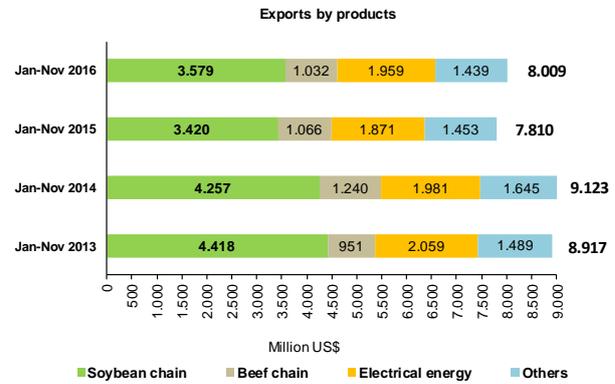


Source: MF Economía with BCP data

EXPORTS

In the last period of 2016, exports showed a reduction which corresponds to the seasonality: October and November reached

the lowest levels of the year. The value of exports for November of 2016 was US\$ 578 million, which signifies a 4% YoY reduction.



Source: MF Economía with BCP data

Analyzing the period from January to November of 2016, a total of 11.2 million tons of soybean and its byproducts (grain, flour, oil) were exported for a value of US\$ 3.579 million. In terms of volume there was a slight reduction of 0.7% in relation to the preceding year, and in monetary value there was a positive variation of 4.6%.

In 2015, close to 45% of soybean production was processed, making use of more than 80% the installed capacity. Very recently though, Argentina fully rehabilitated the regime of temporary admission, which means they can import soy grains from Paraguay and Bolivia to process and transform into flower, oil and biodiesel without paying for tariffs. With this, the Argentinian industry, with great crushing capacity, becomes again an important competitor of the local industry.

By the end of November, wheat exports had fallen 0.8% in tons but had increased 3.1% in value with respect to the same period in 2015. Throughout the year this was the grain with best performance, presenting at one point an 86% increase in volume exported. The low quality of the crop in Brazil, as well as the lower prices, has helped the good performance of wheat. The large volume though was a result of bulging stocks since mills expected to close better prices for exports.

The beef chain registered exports for US\$ 1.032 million, which corresponds to 278 thousand tons, as of November of 2016. This signifies an increase of 2.3% in volume exported and a fall of 3.2% in dollars, explained by the fall in average export price.

By meat type, exports of chilled meat had a year-on-year increase of 23.3% in volume exported, reaching 84 thousand tons. The average price of chilled meat though suffered an 11.7% decrease: the average price of chilled meat was 4.520 US\$/Ton. It is important to mention that regardless of the fall in price, the Andean market continues to be the main destiny for chilled meat



with 67% of all chilled meat exported to Chile at an average price of 4.429 US\$/Ton.

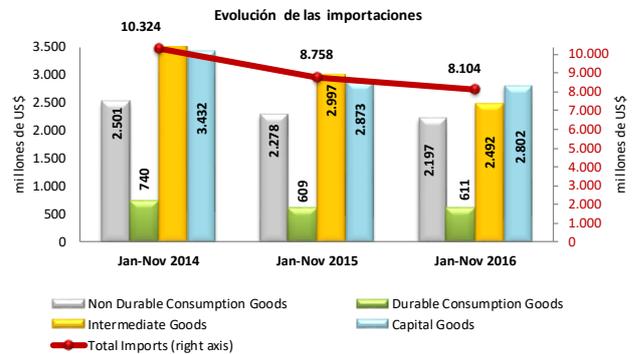
On the other hand, exports of frozen meat have shown a poor performance in relation to 2015. In volume, 151 thousand tons of froen meat were exported for a total sum of US\$ 525 million; this represents a YoY decrease of 6,7% and 11.8% respectively. The main buyer of frozen meat is Russia; Russia decreased its demand causing a significant impact on exports. More so, prices decreased 5.5%: the average export price was 3.471 US\$/Tons. On the contrary, chilled meat had better results than in 2015 exporting 19% more in tons, some 16 thousand tons, and 9.6% more in monetary terms, or some US\$ 40 million more. The increase in demand in Chile was an important factor in the positive results for chilled meat obtained in November. Lastly, the offal exports have increased 3.4%, though this represents a 10.6% of decrease in dollars as a result of the 13.5% drop in the average price of export: list price was approximately 1.614 US\$/ton.

Non-traditional exports, in other words those products that were not normally exported some years ago, show an improvement. In the period from January to November, these exports totals US\$ 1.080 million, which represents an increase of US\$ 13 million in relation to the same period in 2015. Some of the main products of this category are cables, seeds, plastic recipients, and medicine.

An important part of non-traditional exports are manufactured under the maquila regime which has been growing significantly in the past years, multiplying itself for more than twelve years. Even though the maquila industry has been struck by the contraction in the Brazilian economy, it continues to have a good performance.

IMPORTS

In the period from January to November of 2016, imports have fallen 7.5%, or US\$ 653 million with respect to 2015. Imports of durable goods though have seen a slight increase of 0.4%, stimulated by electronics. On the other hand, non-durable goods have contracted 3.5%; this represents some US\$ 80 million. Imports of intermediate goods suffered the greatest fall: there was a 16.9% decrease in intermediate goods. Within this group, the decrease in fuels and lubricators stands out. Lastly, imports of capital goods declined by 2.5% in relation to the same period in 2015; a reduction in equipment and machinery for agriculture is noted.



Source: MF Economía with BCP data

EXCHANGE RATE

The exchange rate started the year 2016 at 5.820 Gs./US\$. In the month of January, the dollar reached a peak at 5.950 Gs./US\$. The upward pressures in January are a result of the deceleration in exports and a greater demand for the dollar for tourism purposes, in addition to the first increase in interest rates by the FED. Three months after the dollar stabilized to an average of 5.600 Gs./US\$; there were even downward pressures.

After the first semester, the dollar maintained a new stability at an average of 5.640 Gs./US\$; this was due to an influx of dollars in the concept of agricultural products. In July, the exchange rate started at 5.580 and closed at 5.520 Gs./US\$. In August, the dollar was very stable; it started at 5.520 Gs./US\$ and closed at 5.500 Gs./US\$. This month the dollar reached its lowest levels at 5.480 Gs./US\$. In September and October, the average price as 5.550 Gs./US\$, reaching 5.710 Gs./US\$ in the second semester. Towards the end of October and in November the dollar began to increase slowly; this is characteristic of this time of the year when companies begin to pay their suppliers and increase the demand for the dollar, reaching levels close to 5.740 Gs./US\$. In December, the dollar started at 5.840 Gs./US\$, but then began to decrease reaching 5.740 Gs./US\$. Recall the FED increased the interest rate in the last month of the year. Even though this variable has an impact on the exchange rate, it did not have an important effect on the exchange rate at a local level.

In the period from January to November, the Central Bank sold notes for a total of US\$ 399.6 million in the financial market in order to mitigate the peaks, both high and low, of the exchange rate. As of November, the interventions reached US\$ 124.4 million, explained by the factors already mentioned.

MONETARY AND FINANCIAL SECTOR

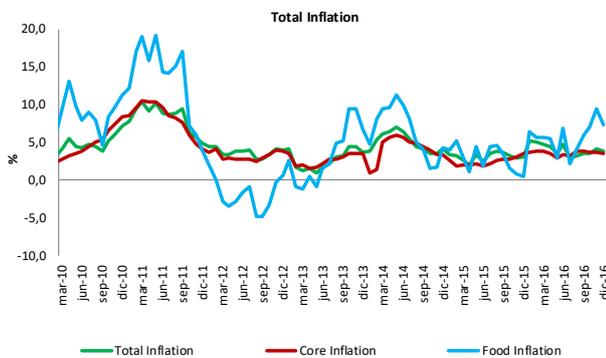
MONETARY SECTOR

In December, inflation was 0.6%, with which accumulated inflation for 2016 closed at 3.9%, higher than the 3.1% obtained in 2015, but in turn lower than the inflation target for the year (4.5%). Inflation in December was due predominantly to the rise



in the price of durable goods and food. The price of meat increased in the last months of 2016, explained by the deceleration in the pace of slaughter, the low levels of stock, and the greatest rate of cattle extraction in the year. In addition, prices of cloths and services were also up; the rise in the price of services is directly related to tourism, which is characteristic of the season. Furthermore, there were increases in the price of durable goods, specifically imported goods, as a result of the increase in the exchange rate.

Taking into account the twelve months of 2016, the main price increases were in food (meat, dairy products, and flower) and durable goods (vehicles and household appliances) in line with the volatility that the dollar showed in some periods.



Source: MF Economía with BCP data

The Central Bank of Paraguay (BCP) increased its reference rate from 5.75 to 6% in January of 2016. This was maintained until May of this same year, when the BCP decided to reduce the reference rate from 6 to 5.75%, and then to 5.5% in July. As of December of 2016, the BCP decided to keep the reference rate set in July unaltered. The BCP states that this decision was based on the uncertainty of the prospects for the regional economy.

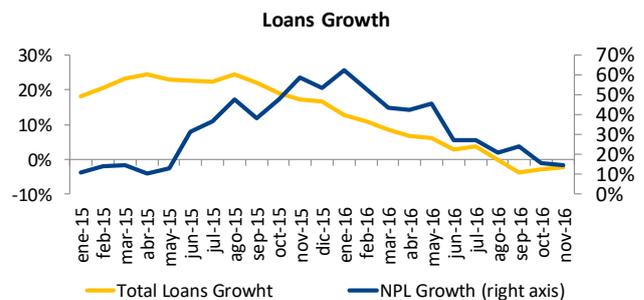
Analyzing the demand for currency, as of November the balance of M1 (cash currency and coins in circulation, and deposits) was of Gs. 22.8 trillion, equivalent to an expansion of 8% in relation to November of 2015. In the last months of the year, demand tends to increase as a result of the dynamism of several sectors of the economy; economic agents demand more money to pay their debts on time.

With regards to the Letters of Monetary Regulation (*Letras de Regulación Monetaria*), instrument used by the Central Bank to control inflation, it has closed this month with a balance of Gs. 7.3 trillion. Comparing the year 2015 and 2016, there was an important increase in the use of this instrument. In the period from January to November of 2015, the BCP (Central Bank of Paraguay) placed Gs. 6.0 trillion letters in the market. In the same period of 2016, the BCP placed Gs. 11.5 trillion; which represents a 92% increase from 2015. This can be explained by the decrease

in the demand for credits: financial institutions placed their funds in the letters of the BCP at an inferior rate than the market rate because of the lower demand for credit.

FINANCIAL SECTOR

As of November of 2016, the deposits in local and foreign currency had grown 9% in nominal terms, and 5% in real terms in relation to the same period in 2015; this represents Gs. 81.9 trillion (US\$ 14.287 million). Nevertheless, credit accounts reached a Gs. 73.7 trillion balance (US\$ 14.287 million), which represents a 2% increase in relation to the amount registered in same period in 2015, but a 2.4% decrease in real terms. About this decrease, banks and financial institutions have become more cautious and stringent at the time of granting credits, increasing the requirements for a person get credit because of the uncertainty in the market.



Source: MF Economía with BCP data

Analyzing default in the financial system, the Nonperforming Loan (NPL) ratio maintained an average of 3.4% in the last semester of 2016. As of November of 2016, the NPL for banks was 3.2%, and 6.1% for financial houses; both types of institutions suffered increases in NPL in relation to November of 2015. NPL represents a 3% of the total loans portfolio. The loan loss provisions in November were at 3.5%, a slight increase in provision in relation to the November of 2015.

Concerning liquidity, the high levels observed in the past have now varied greatly throughout the years as a result of what was already mentioned previously regarding the low demand for credit in the market. The ratio of Cash and Marketable Securities over Deposits closed at 41.8% in November and the ratio of Cash and Marketable Securities over Liabilities at 33.8%. The profitability ratios in November of 2016 were slightly lower than those of December of 2015, and substantially lower than the results of previous years. The Return on Investment (ROA) closed in 2.18% and the Return on Equity (ROE) closed at 23.9% in November of 2016.

The average loan interest rate for local currency operations as of October of 2016 was 17.7%, a small rise in reference to October of 2015, nevertheless a reduction when compared to the average

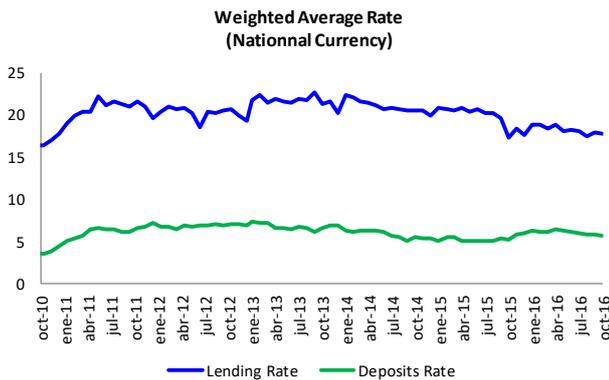


registered in September. The average deposits rate in this period was 12.1%, and the Certificate of Deposit average rate was 9.2%.

The average loan rates in foreign currency closed at 9% in October, a moderate year-on-year but a 25 points increase when compared to September of 2016. The average deposits rate in foreign currency were 2,5%, suffering a small negative variation in reference to the month of October of 2015.

MF Projections	2014	2015	2016 (estimated)	2017 (projection)
GDP Growth	4,7%	3,0%	3,7% ± 1%	3,1% ± 1%
Annual Inflation	4,2%	3,1%	4,3% ± 1%	4,5% ± 1%
Exchange Rate - End of the year	4.720	5.820	5.775 ± 100	6.258 ± 200

Note: Projected data are based on a macroeconomic estimation model. The projections are made based on a base scenario that implies the absence of supply and / or demand shocks or structural reforms within the economy.



Source: MF Economía with BCP data

OUTLOOK

- Good agricultural production is expected for 2017 but with low margins and an important amount of debt.
- A reduction in the livestock:
 - The reduction in the number of calf will have an impact in the following years.
 - A slight increase in price is expected given the low levels of livestock.
- Consumption is expected to maintain levels similar to those seen today.
 - Household debt levels will continue to be high.
- Construction will grow even more than projected.
- Neighboring economies will continue to affect commerce
 - Impacts related to the fall in economic activity in Brazil and the fluctuation in the real.
 - Decisions that the Argentinian government makes
- The exchange rate will be somewhat higher and evolution of the Brazilian currency will be crucial.
- There may be some upward pressure on prices.
- The execution of infrastructure projects announced by the Government will be of vital importance to propel the economy; nevertheless politics may have a negative influence on execution. That being said, 2017 is a year of a lot of uncertainty pertaining to the State.
 - It is also important to take into account that 2017 is an electoral year.



ECONOMÍA S.A.