

Macro scenario - Paraguay



October 15, 2025

GDP growth skyrocketed

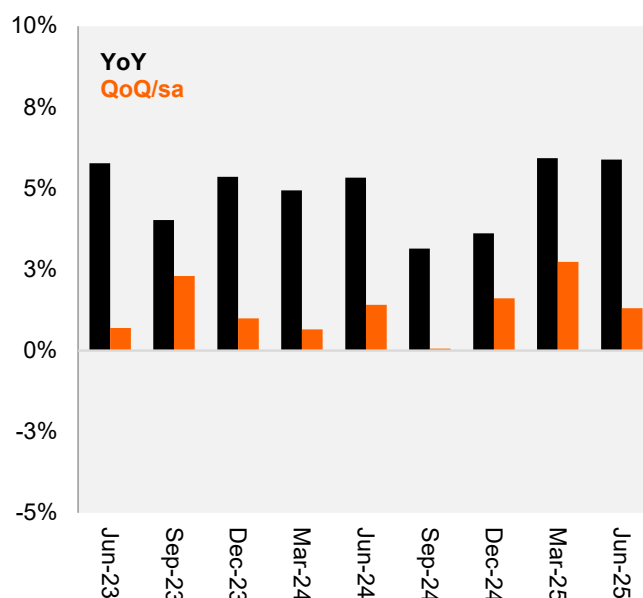
- ▶ Stronger-than-expected activity through 2Q25 led us to revise our 2025 GDP growth forecast to 5.0%, from 4.3% in our previous scenario. For 2026, we now estimate GDP growth at 4.0%, up from 3.5%. We maintained our 2025 inflation forecast at 4.2%. Our expectation of a stronger PYG should moderate pressure on tradable prices for the remainder of the year.
- ▶ We revised our exchange rate forecast to PYG/USD 7,150, down from PYG/USD 7,400, driven by a persistently weaker global USD and in line with other emerging market currencies.

GDP expanded at a solid pace in 2Q25

GDP expanded by 5.9% YoY in 2Q25, maintaining the annual pace from 1Q25. Looking at the breakdown on the supply side, the annual print was driven by the positive performances in services led by the commercial sector, manufacturing, construction and the electricity sector due to greater water flow in the Paraná River. Conversely, the agricultural sector fell 3.1% yoy affected by a lower soybean harvest due to a moderate drought. At the margin, using our seasonally adjusted series, GDP rose sequentially in 2Q25 (1.3% qoq/sa), leaving the statistical carryover for 2025 at 5.4%.

Solid activity momentum continues in 3Q25. The monthly GDP proxy (IMAEP) increased by 4.5% year-over-year in August and by 4.9% YoY in the quarter ending that month. All sectors expanded in this period, led by the secondary sector (up 6.3% YoY in the quarter ending in August), primarily construction and energy distribution. Manufacturing rose by 6.0% YoY in the period, while the primary sector rose by 4.7%. The services sector expanded by 4.1% YoY, driven by spillovers from Argentina in the commerce and tourism sectors.

GDP



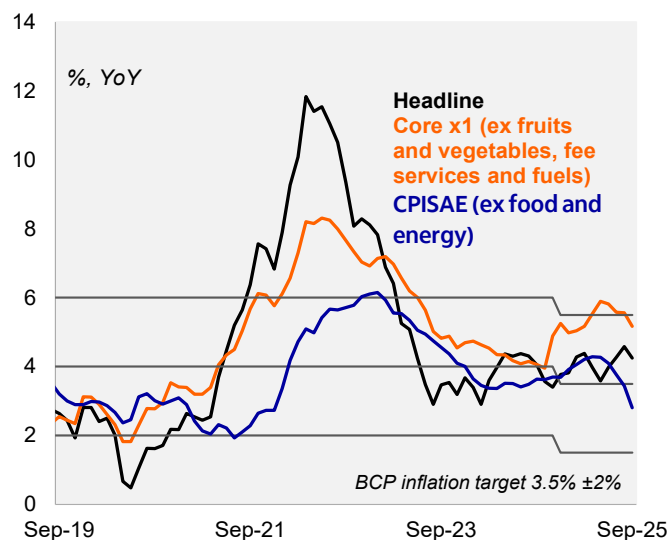
Source: BCP, Itaú

A welcome monthly deflation in September

CPI in September unexpectedly fell by 0.1% MoM, below our forecast and market consensus according to the BCP survey (both at +0.1%). Declines in fuel prices (-2.3% MoM) and in some imported durable goods amid the recent appreciation of the PYG were key in the monthly fall. However, the increases in food goods prices such as beef meat (1.7% MoM) and fruits and vegetables (3.3% MoM) partly offset reductions. The core CPI X1 (which excludes fruits and vegetables, regulated service prices and fuel) also fell by 0.1% MoM in September, down from 0.3% MoM a year ago. On an annual basis, headline inflation fell to 4.3% in September (down from 4.6% in August), while the core X1 CPI remained at 5.2%. Cumulative inflation in the

year reaches 3.3%. We note that both headline and core X1 inflation on an annual basis remain within the tolerance range of the BCP's inflation target (3.5% +/- 2%).

Annual inflation

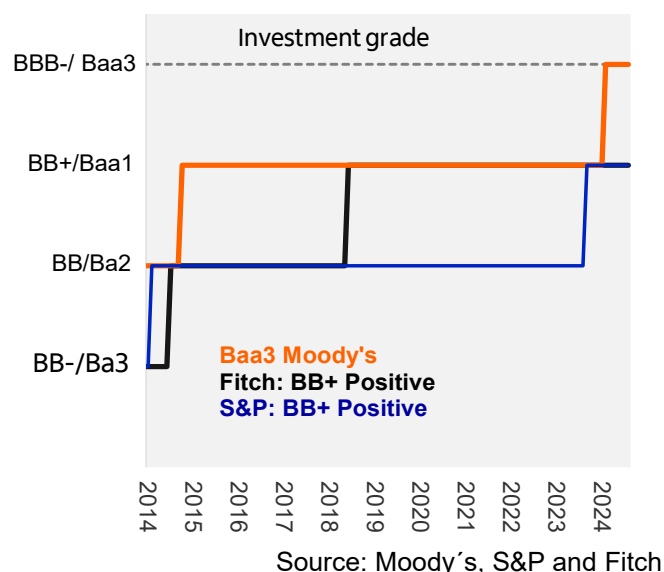


The BCP kept the monetary policy rate at 6.0% for the eighteenth consecutive month in September. Therefore, we estimate that the real ex-ante policy rate remains at 2.5% (using expectations for the monetary policy horizon), towards the upper bound of the BCP's neutral real interest rate range (1.3%-2.6%). Inflation expectations for the Monetary Policy Horizon (around 18 and 24 months) have remained stable at the 3.5% inflation target since January 2025, one month after the BCP reduced the target from 4.0% to 3.5% before. Median inflation expectations for YE25 stand at 4.0%, and at 3.7% for the next 12 months.

Marching to a second investment grade rating

Paraguay's credit rating was affirmed at 'BB+' by Fitch, and the rating outlook was revised to positive from stable. Fitch highlighted the robust growth, large investment pipeline, stable inflation and the fiscal framework, among other factors. Thus, both Fitch and S&P are now only one notch from investor grade and have a positive outlook. Meanwhile, Moody's placed Paraguay at Baa3 (Investment grade) in July 2024, recently affirmed in August 2025. Also important, the recent announcement of the inclusion of local currency government bonds in well-known emerging markets fixed income indices is a welcome development that should contribute to greater demand, and hence, lower borrowing costs over time.

Rating



Higher growth and stronger PYG

We revised our 2025 GDP growth forecast to 5.0% from 4.3% in our previous scenario in light of better-than-expected data through 2Q25. Solid activity momentum at the start of 3Q25 led us to identify upside risks to our forecast. We expect private consumption to continue supporting growth, amid spillovers from Argentina.

We maintained our inflation forecast at 4.2%, helped by a welcome monthly deflation in September. The appreciation of the PYG should ease pressure on tradable prices in the coming months.

Even though we revised growth higher, we maintained our yearend policy rate forecast at 6.0%.

The policy rate is already at the upper bound of the BCP's neutral range in real ex-ante terms. Although inflation expectations for the monetary policy horizon (18–24 months) are anchored, economic activity is growing well above its potential (3.5%) and local currency liquidity is at minimum levels. This introduces the risk of higher rates over time.

We also revised our exchange rate forecast from PYG/USD 7,400 to PYG/USD 7,150 amid a favorable external scenario, aligning with the weaker dollar trend.

Finally, we expect a fiscal deficit of 1.9% of GDP by 2025 and 1.5% by 2026, consistent with the fiscal responsibility law. Disciplined management of the fiscal accounts supports our forecast.

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Paraguay | Forecasts and Data

	2020	2021	2022	2023	2024	2025F		2026F	
						Current	Previous	Current	Previous
Economic Activity									
Real GDP growth - %	-0.8	4.0	0.2	5.0	4.2	5.0	4.3	4.0	3.5
Nominal GDP - USD bn	35.4	39.9	41.9	43.1	44.5	48.4	47.8	55.0	52.8
Unemployment Rate - year avg	7.7	7.5	6.8	5.9	5.8	5.8	5.8	5.8	5.8
Inflation									
CPI - %	2.2	6.8	8.1	3.7	3.8	4.2	4.2	3.5	3.5
Interest Rate									
Reference rate - eop - %	0.75	5.25	8.50	6.75	6.00	6.00	6.00	6.00	6.00
Balance of Payments									
PYG / USD - eop	6912	6877	7340	7275	7913	7150	7400	7200	7450
Trade Balance - USD bn	1.5	1.0	-1.3	1.6	-0.5	-1.5	-1.5	0.5	0.5
Current Account - % GDP	1.9	-1.1	-7.1	-0.4	-3.8	-4.0	-4.0	-1.8	-1.8
Net Foreign Direct Investment - % GD	0.4	0.5	1.7	0.8	0.8	1.5	1.5	2.0	2.0
International Reserves - USD bn	9.5	9.9	9.8	10.2	9.9	10.0	10.0	10.5	10.5
Public Finances									
NFPS Nominal Balance - % GDP	-6.1	-3.6	-3.0	-4.1	-2.6	-1.9	-1.9	-1.5	-1.5
Gross Public Debt - % GDP	33.8	33.8	35.8	38.2	40.5	42.2	42.2	41.5	41.5

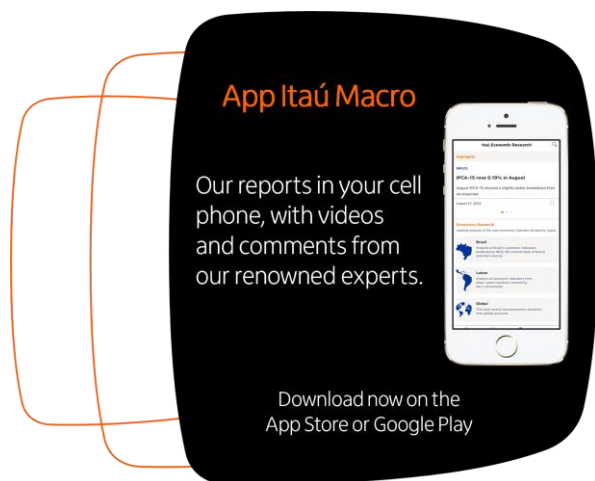
Source: FMI, Haver, Bloomberg, BCP, Itaú.

Macro Research – Itaú

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