

# Macro scenario - Paraguay



September 18, 2024

## Penciling in another cut

- ▶ We have lowered our YE24 inflation forecast to 4.0% from 4.3% following three consecutive lower-than-expected prints. Our YE25 forecast remains at 4.0%, in line with the BCP's target.
- ▶ Persistent downside inflation surprises, anchored inflation expectations, and the imminent start of the Fed's easing cycle may open the door for additional easing by the BCP. Thus we expect the policy rate to be cut at least once more this year, to 5.75%, with additional cuts being a possibility. For YE25 we now forecast a policy rate of 5.00%, down from 5.50% in our previous scenario, supported by our scenario of more Fed cuts in 2025.

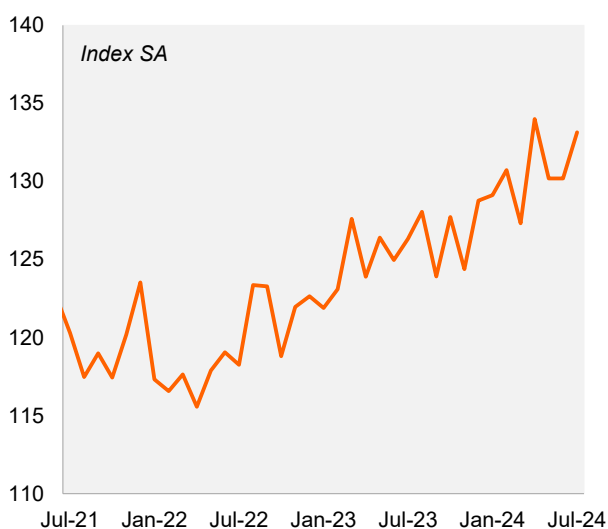
## GDP grew at the beginning of 3Q24

**The monthly GDP proxy rose sequentially in July.** Using the central bank's seasonally adjusted series, the monthly GDP proxy (IMAEP) rose by 2.3% MoM/SA in July (from 0% in June), taking growth in the rolling quarter to a weak 0.4% QoQ/SA (1.9% in 2Q24). On an annual basis, the IMAEP increased by 5.3% YoY in July and by 4.1% YoY in the quarter ended in that month (from 5.1% in 2Q24). The monthly GDP proxy excluding agriculture and binationals increased by 0.2% QoQ/SA and 6.0% YoY in the quarter ended in July. According to the statement, the year-over-year growth was attributable to the favorable performance of services, manufacturing, construction, livestock, and agriculture. On the negative side, there was a decline in electricity generation.

## Lower-than-expected inflation in August

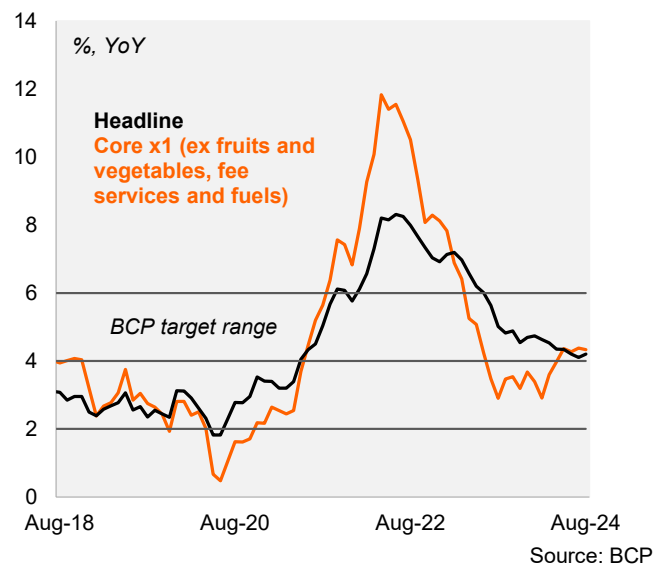
**The CPI declined by 0.2% MoM in August (from -0.2% a year ago), coming in below the market consensus forecast according to the BCP survey (+0.2%).** The downside pressure came mainly from volatile prices, in particular prices of fruits and vegetables (-8.5% MoM; contribution of -0.4 pp). Core CPI x1 (which excludes fruits and vegetables, regulated service prices and fuel) stood at 0.2% (from 0.3% a year ago). On an annual basis, headline inflation decreased slightly in August, to 4.3% (from 4.4% in July), while core x1 CPI rose to 4.2% (from 4.1%). We note that both headline and core inflation are still within the tolerance band around the BCP's inflation target ( $4\% \pm 2\%$ ).

### Monthly GDP proxy



Source: BCP

### Stable inflation



Source: BCP

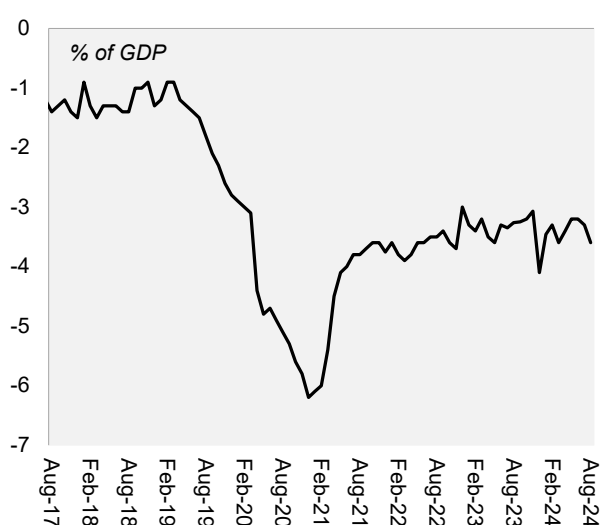
## Waiting for the BCP's next meeting

**The Central Bank's Monetary Policy Committee decided to keep the policy rate at 6.00% for the fifth consecutive month in August.** The committee reiterated that inflation has shown a partial reversal of price increases in some price-volatile items, which is expected to continue in the coming months. Moreover, inflation expectations remain anchored in the middle of the target range. External risks have diminished since the last meeting. Regarding the monetary policy stance, we estimate that the level of the policy rate remains contractionary, at 2.00% (based on expectations for the monetary policy horizon), compared with the BCP's neutral real rate range of 0.4%-1.4%. The next monetary policy meeting is scheduled for September 20.

## Fiscal consolidation remains on track

**The cumulative fiscal deficit rose at the margin in August. The estimated 12-month cumulative fiscal deficit was 3.6% of GDP in August, slightly above the July level but an improvement from the 4.1% deficit in December 2023.** Tax revenues rose by 9.4% YoY in real terms in the quarter ended in August (22.6% in 2Q24), in line with the strong activity and likely supported by lower expenditures abroad due to the appreciation of the parallel exchange rate in Argentina. On the other hand, primary expenditures increased by 15.3% YoY in real terms in the quarter ended in August (6.8% YoY in 2Q24), led by the increased in expenditure on goods and services (58.4% in the period).

**Fiscal Balance**



Source: Ministry of Treasury

## Trade surplus narrows

**The 12-month rolling trade balance fell to a surplus of USD 0.8 billion in August, from a USD 1.0 billion surplus in the previous month.** Total exports decreased by 0.5% YoY in the quarter ended in August, after a 2.0% YoY gain in 2Q24. Total imports increased by 2.2% YoY in the quarter ended in August, after an increase of 14.6% YoY in 2Q24.

## At least one more rate cut by YE24

**We are revising our forecast for year-end inflation to 4.0% from 4.3%.** Our revision is mainly driven by the effects of three consecutive lower-than-expected prints, despite the recent depreciation of the PYG.

**We have revised our forecast for the YE24 policy rate to 5.75% (with a risk of steeper cuts) from 6.0% in our previous scenario, now that the start of a Fed easing cycle is imminent.** For YE25 we now project the policy rate at 5.00%, down from 5.50% in our previous scenario, in line with our new scenario for the Fed.

**We have left our 2024 GDP growth forecast unchanged at 4.0%.** Solid domestic consumption and lower domestic rates support our call.

**In light of the drop in soybean prices, we have lowered our projections for the trade surplus – and, accordingly, the current account balance – in 2024 and 2025.** We now estimate a trade surplus of USD 500 million for 2024 (down from USD 900 million in our previous scenario). We therefore now foresee a current account deficit of 0.5% of GDP, up from 0% in our previous scenario. Our 2025 forecasts have been adjusted to USD 0 million and -1.0% of GDP, respectively.

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### Paraguay | Forecasts and Data

	2019	2020	2021	2022	2023	2024F		2025F	
						Current	Previous	Current	Previous
<b>Economic Activity</b>									
Real GDP growth - %	-0.4	-0.8	4.0	0.2	4.7	<b>4.0</b>	4.0	<b>4.0</b>	4.0
Nominal GDP - USD bn	38.8	36.1	40.3	42.1	44.7	<b>47.0</b>	47.1	<b>49.7</b>	49.8
Unemployment Rate - year avg	6.6	7.7	7.5	6.8	5.9	<b>6.0</b>	6.0	<b>6.0</b>	6.0
<b>Inflation</b>									
CPI - %	2.8	2.2	6.8	8.1	3.7	<b>4.0</b>	4.3	<b>4.0</b>	4.0
<b>Interest Rate</b>									
Reference rate - eop - %	4.00	0.75	5.25	8.50	6.75	<b>5.75</b>	6.00	<b>5.00</b>	5.50
<b>Balance of Payments</b>									
PYG / USD - eop	6465	6912	6877	7340	7275	<b>7600</b>	7600	<b>7700</b>	7700
Trade Balance - USD bn	0.5	1.5	1.0	-1.3	1.6	<b>0.5</b>	0.9	<b>0.0</b>	0.9
Current Account - % GDP	-0.6	1.9	-0.9	-7.1	0.7	<b>-0.5</b>	0.0	<b>-1.0</b>	0.1
Net Foreign Direct Investment - % GD	1.4	0.4	0.2	1.7	1.0	<b>2.0</b>	2.0	<b>2.0</b>	2.0
International Reserves - USD bn	7.7	9.5	9.9	9.8	10.2	<b>11.0</b>	11.0	<b>11.0</b>	11.0
<b>Public Finances</b>									
NFPS Nominal Balance - % GDP	-2.9	-6.1	-3.6	-3.0	-4.1	<b>-2.6</b>	-2.6	<b>-1.9</b>	-1.9
NFPS Debt - % GDP	22.9	33.8	33.8	35.8	38.2	<b>40.0</b>	40.0	<b>38.1</b>	38.1

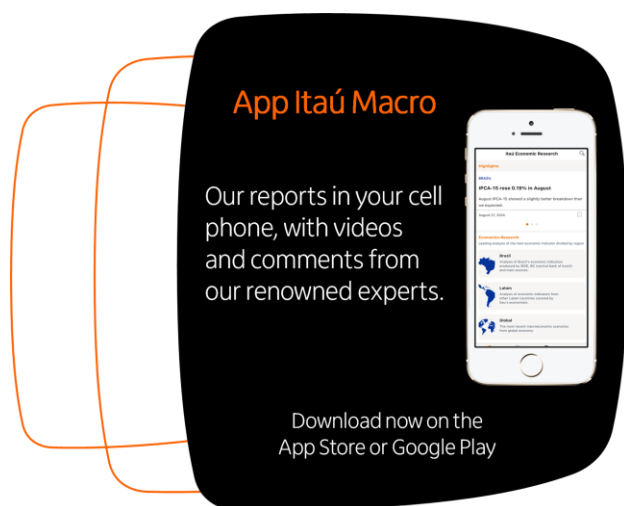
Source: FMI, Haver, Bloomberg, BCP,

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