

# Macro scenario - Paraguay



June 14, 2024

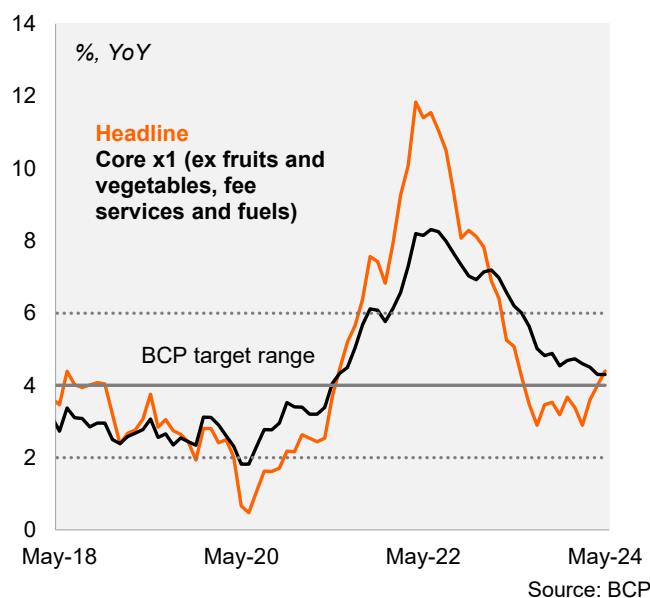
## No more cuts

- ▶ With inflation performing in line with our forecasts and printing slightly above the center of the central bank's target range (4.0% ± 2%), we have maintained our 4.0% call for YE24, with the risk tilted to the upside.
- ▶ Leading indicators suggest that activity started 2Q24 on the right foot, leading us to maintain our 3.5% GDP growth forecast for this year, with an upside bias.
- ▶ In this context, and with global economic uncertainty still elevated, we do not see room for additional rate cuts this year. We have revised our forecast for the YE24 monetary policy rate upward to 6.00% (from 5.75% in our previous scenario).

## Headline inflation rose again in May

**Monthly CPI rose by 0.4% MoM in May (from 0.0% a year ago), in line with our forecast yet below the market consensus estimate of 0.6% (according to the BCP survey).** The upside pressure came mainly from volatile prices, particularly for vegetables (9.5% mom; contribution of 0.3 pp) and durable goods, affected by the depreciation of the PYG against the USD. Core CPI x1 (which excludes fruits and vegetables, regulated service prices, and fuel) stood at 0.2% (from 0.2% a year ago). On an annual basis, headline inflation rose to 4.4% in May (from 4.0% in April), while core X1 CPI remained unchanged at 4.3%. We note that headline and core remain within the 4% inflation target's ±2% tolerance band. Even though annual inflation has increased over the past two months, inflation expectations remain anchored at 4% across all surveyed horizons.

## Annual inflation



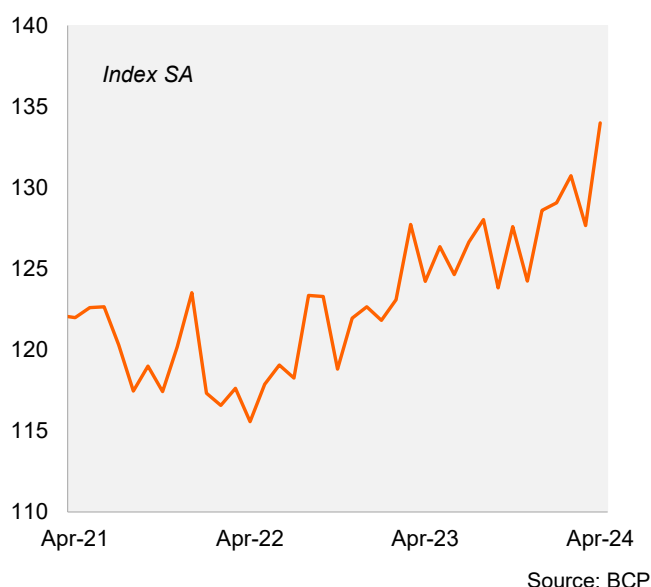
## On-hold

**In the May monthly monetary policy meeting, the monetary policy committee held the policy rate at 6%, as was widely expected.** The BCP paused its monetary policy cycle in April and, in our view, will leave the policy rate unchanged for the rest of the year. The BCP's statement reiterated that the current monetary policy rate is around the neutral range. In our view, the real rate remains contractionary at 2.00% (using expectations for the monetary policy horizon), compared with the BCP's neutral real-rate range of 0.4%-1.4%.

## Activity gains momentum at the beginning of 2Q24

**Activity rebounded sequentially in April.** Using the central bank’s seasonally adjusted series, the monthly GDP proxy (IMAEP) expanded by 5.0% mom/sa in April (from -2.3% mom/sa in March), bringing growth to a solid 2.7% qoq/sa (up from 1.8% qoq/sa in 1Q24). On an annual basis, the IMAEP increased by 7.8% yoy in April and 4.5% yoy in the quarter ending in that month (from 3.9% in 1Q24). The monthly GDP proxy excluding agriculture and binationals increased by 4.9% qoq/sa and 7.1% yoy in the quarter ending in April. Even though growth was seen across the board on the supply side, electric power generation contributed negatively in the month, precluding an even stronger print.

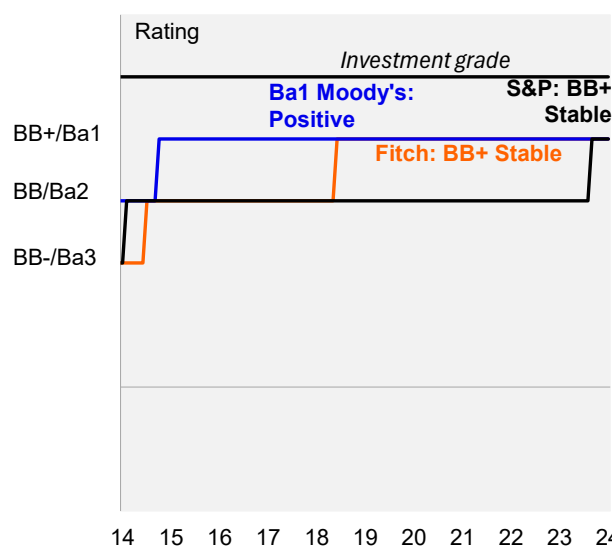
Monthly GDP proxy



## Credit agencies recognize the fiscal consolidation path

**Fitch (BB+ rating with a stable outlook), highlighted the fiscal consolidation plan and the recent agreement with Brazil on Itaipu.** In the meantime, the estimated 12-month cumulative fiscal deficit fell to 3.4% of GDP in April, from 3.6% in March 2024 and 4.1% in December 2023.

## A look at the ratings



## No more room for rate cuts this year

**We have left our GDP growth forecast for 2024 unchanged at 3.5%, with an upside bias.** Leading indicators, particularly the monthly GDP proxy (IMAEP), rose at a solid sequential clip in April.

**Our year-end inflation forecast remains unchanged at 4.0%, also with an upside bias.** We noted that the monthly upward pressure on inflation in May came mainly from vegetables and durable goods, which were affected by the recent depreciation of the PYG against the USD.

**No more cuts this year.** In our view, persistent global economic uncertainty and upside pressure on inflation will prompt the central bank to leave its policy rate unchanged for the rest of the year, as the central bank has signaled that the policy rate is near neutral. Thus, we have revised our projected terminal rate for the cycle upward slightly, to 6%, from 5.75% in our previous scenario.

**Our forecast for the 2024 fiscal deficit remains at 2.6% of GDP, down from 4.1% of GDP in 2023.**

Looking ahead, we expect a gradual fiscal consolidation to a nominal deficit of 1.5% of GDP in 2026, in line with the mandates in the Fiscal Responsibility Law.

**Andrés Pérez M.  
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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>3.5</b>	3.5	<b>4.0</b>	4.0
Nominal GDP - USD bn	38.8	36.1	40.3	42.1	44.7	<b>46.9</b>	46.9	<b>50.4</b>	50.4
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>	4.0	<b>4.0</b>	4.0
<b>Interest Rate</b>									
Reference rate - eop - %	4.00	0.75	5.25	8.50	6.75	<b>6.00</b>	5.75	<b>5.50</b>	5.50
<b>Balance of Payments</b>									
PYG / USD - eop	6465	6912	6877	7340	7275	<b>7500</b>	7500	<b>7600</b>	7600
Trade Balance - USD bn	0.5	1.5	1.0	-1.3	1.6	<b>1.2</b>	1.2	<b>0.9</b>	0.9
Current Account - % GDP	-0.6	1.9	-0.9	-7.1	0.7	<b>0.6</b>	0.6	<b>0.1</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,

## Macro Research – Itaú

### Mario Mesquita – Chief Economist

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