

Macroeconomic Research

# **PARAGUAY: Top themes for 2025**

# Paraguay: Top themes for 2025

## 1. What is the balance of risks to GDP growth in 2025?

- We expect 3.5% GDP growth in 2025, still driven by consumption, but with downside risks due to a potential drought.

## 2. What is our inflation scenario?

- We foresee inflation at 3.5% by the end of the year, in line with the central bank's lower inflation target.

## 3. Will the central bank have room to cut rates again?

- A lower inflation target and our expectation that the Federal Reserve will not cut rates limit the scope for further easing in the near term.

## 4. What is the balance of risks for the currency?

- Unchanged interest rates and our call for a stronger BRL could reduce pressure on the exchange rate. On the other hand, a strong USD and a drought are the main risks.

## 5. Will fiscal consolidation continue?

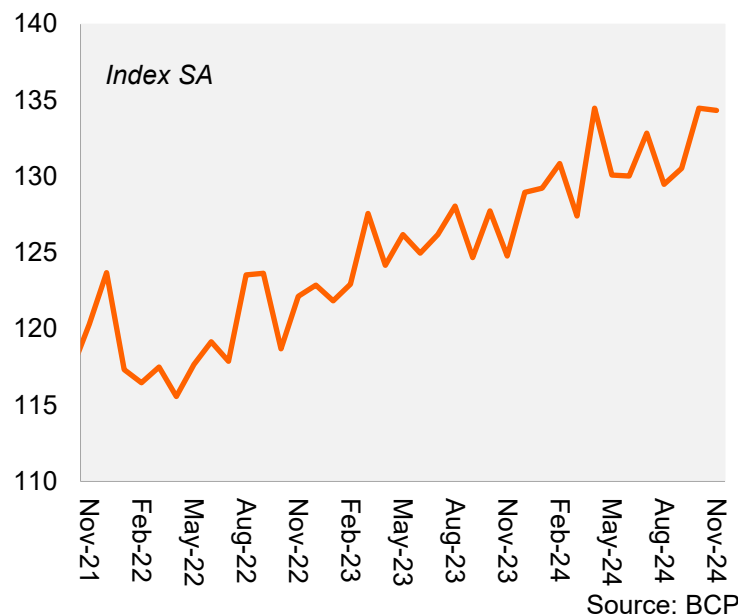
- We expect a fiscal deficit of 1.9% of GDP for 2025 and 1.5% of GDP in 2026, in line with the fiscal responsibility law.

# 1. What is the balance of risks to GDP growth in 2025?

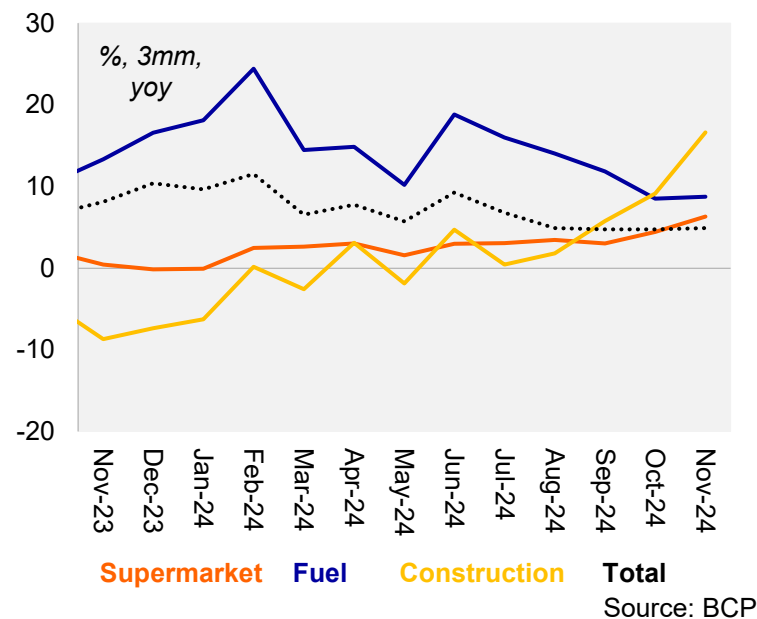
We expect 3.5% GDP growth in 2025, still driven by consumption, but with downside risks due to a potential drought.

- On the demand side, private consumption will continue to support growth, together with the spillovers from the macroeconomic adjustment in Argentina, which we expect will continue this year.
- On the supply side, services (including trade), manufacturing and construction are the main drivers. The agricultural sector will likely be affected by a drought that has yet be confirmed.

Monthly GDP proxy



Large business sales indicator

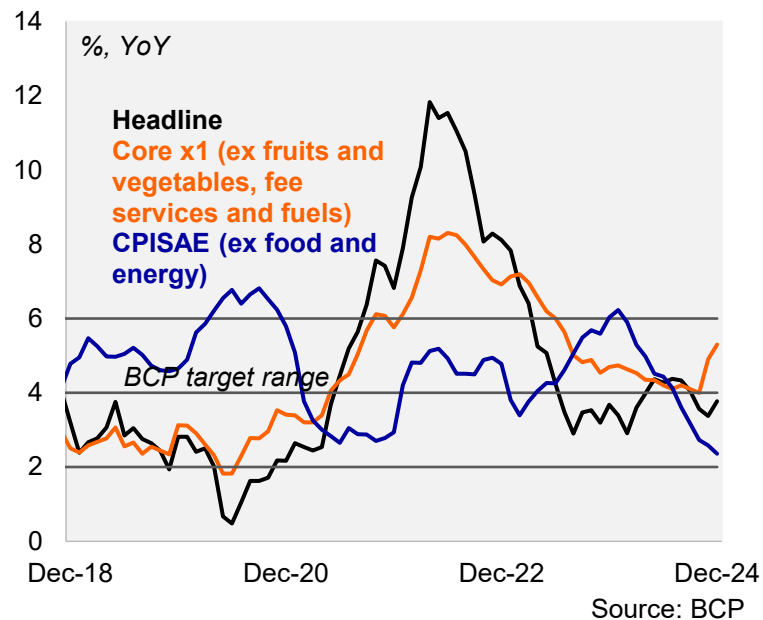


## 2. What is our inflation scenario?

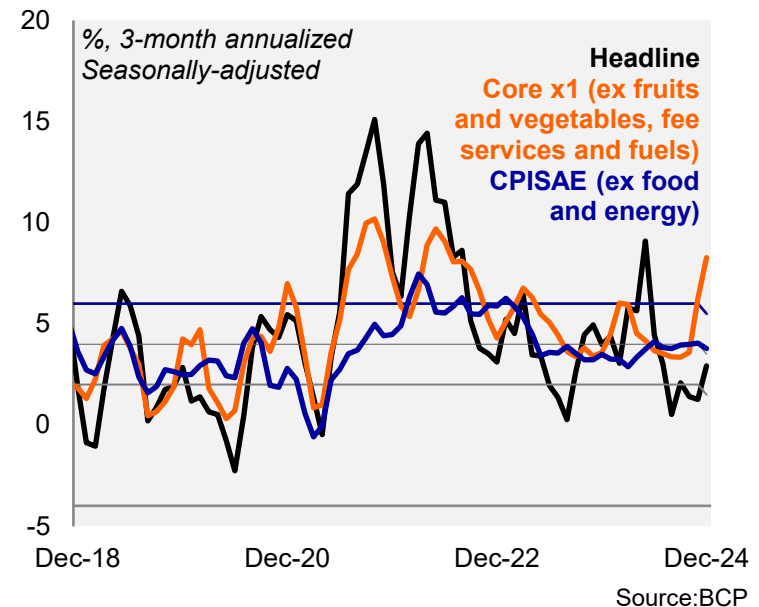
We foresee inflation at 3.5% in YE25, in line with the central bank's lower inflation target.

- The central bank reduced the inflation target from 4% +/- 2% , to 3.5% +/- 2%.
- The central bank's strong commitment due to the reduction in the middle of the target range, unchanged domestic interest rates and our expectation of a stable exchange rate in real terms should contribute to reduce inflation in 2025.

Annual inflation



Inflation at the margin

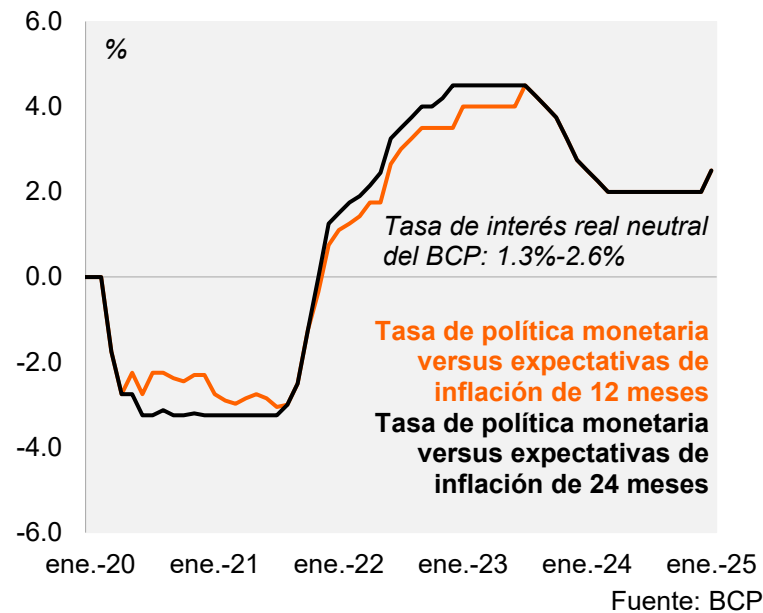


### 3. Will the central bank have room to cut rates again?

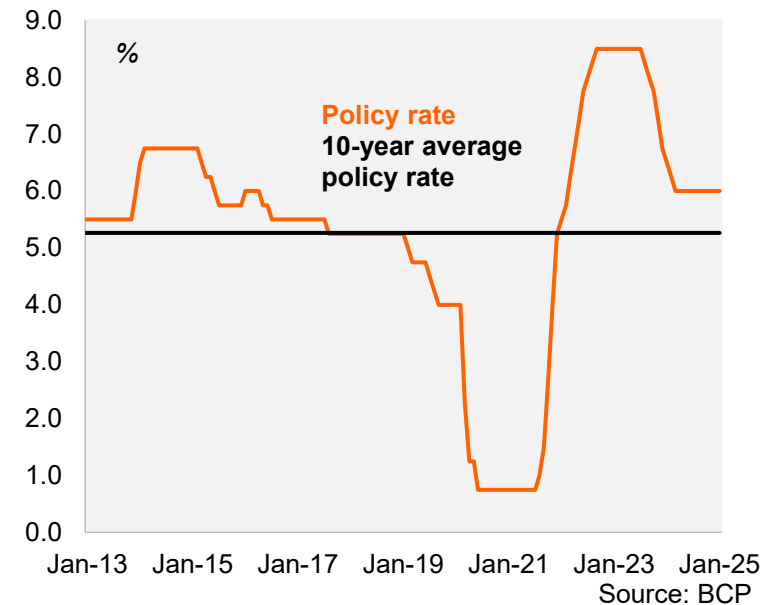
A lower inflation target and our expectation that the Federal Reserve will not cut rates limit the scope for further easing.

- The central bank's monetary policy committee maintained the policy rate at 6.00% in December for the ninth consecutive month.
- The upward revision of the neutral rate to a range between 1.3% and 2.6%, with a median of 1.7%, limits the room to resume rate cuts in the near term.

Tasa de interés real ex-ante



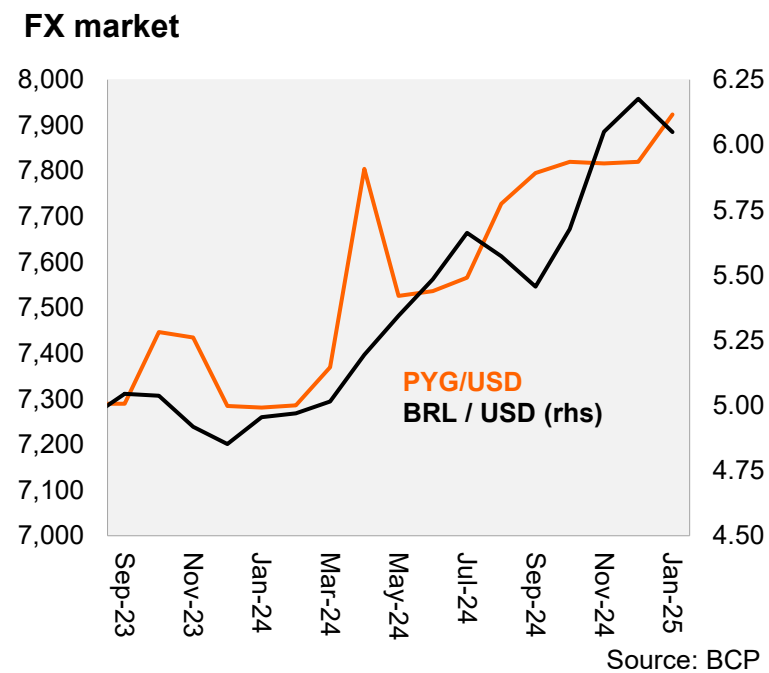
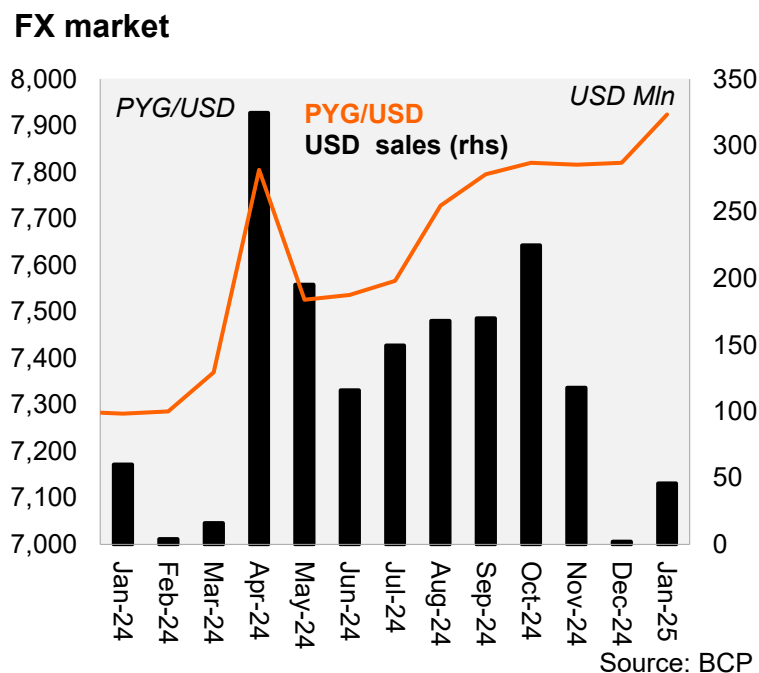
Policy rate



## 4. What is the balance of risks to the currency?

Unchanged interest rates and our expectation of stronger BRL would reduce pressure on the exchange rate. On the other hand, a strong USD and a drought are the main risks.

- In case of pressures, the central bank intervention will play a key rule to reduce volatility, as last year.

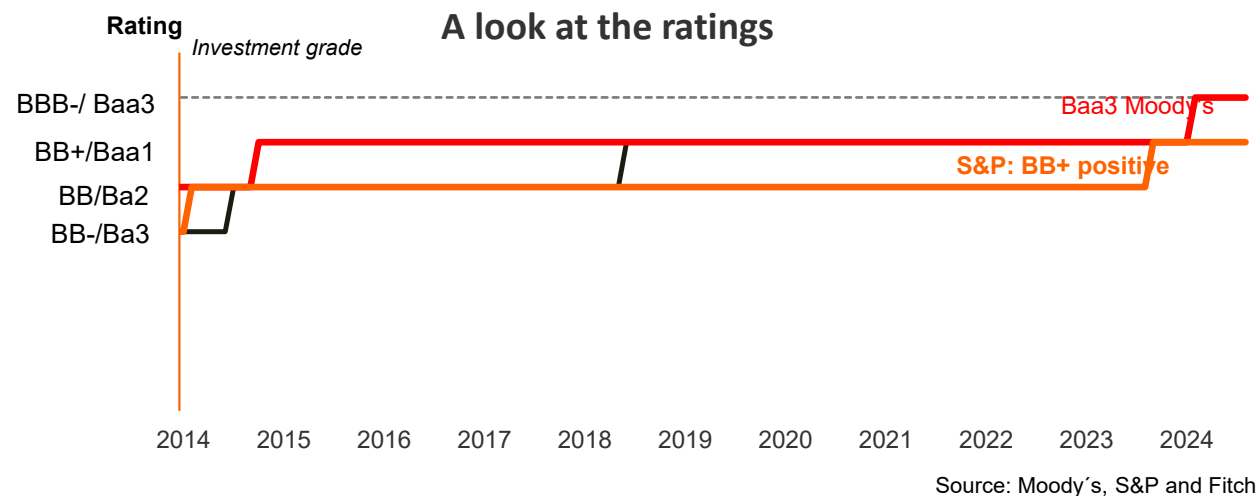
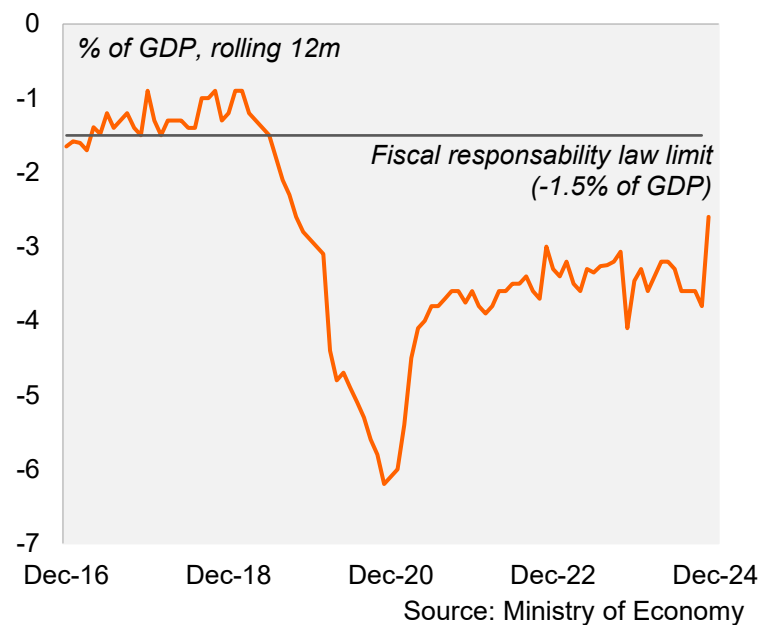


## 5. Will fiscal consolidation continue?

We expect a fiscal deficit of 1.9% of GDP for 2025 and 1.5% of GDP in 2026, in line with the fiscal responsibility law.

- The fiscal deficit reached 2.6% of GDP in 2024, in line with the Budget estimations.
- The government's disciplined fiscal management supports our call.
- Also of note, Standard & Poor's (S&P) maintained Paraguay's debt rating at BB+ but improved the outlook to positive from stable.

**Fiscal Balance**



# Paraguay | Proyecciones

	2019	2020	2021	2022	2023	2024F		2025F		2026F	
						Current	Previous	Current	Previous	Current	
<b>Economic Activity</b>											
Real GDP growth - %	-0.4	-0.8	4.0	0.2	4.7	<b>4.0</b>	4.0	<b>3.5</b>	3.5	<b>3.5</b>	3.5
Nominal GDP - USD bn	38.8	36.1	40.3	42.1	44.7	<b>44.5</b>	44.5	<b>45.7</b>	45.7	<b>48.5</b>	48.5
Unemployment Rate - year avg	6.6	7.7	7.5	6.8	5.9	<b>6.0</b>	6.0	<b>5.8</b>	5.8	<b>5.8</b>	5.8
<b>Inflation</b>											
CPI - %	2.8	2.2	6.8	8.1	3.7	<b>3.8</b>	-	<b>3.5</b>	4.0	<b>3.5</b>	4.0
<b>Interest Rate</b>											
Reference rate - eop - %	4.00	0.75	5.25	8.50	6.75	<b>6.00</b>	-	<b>6.00</b>	6.00	<b>5.50</b>	5.50
<b>Balance of Payments</b>											
PYG / USD - eop	6465	6912	6877	7340	7275	<b>7820</b>	-	<b>8000</b>	8000	<b>8125</b>	8125
Trade Balance - USD bn	0.5	1.5	1.0	-1.3	1.6	<b>-0.5</b>	-	<b>-1.0</b>	0.0	<b>0.5</b>	0.5
Current Account - % GDP	-0.6	1.9	-0.9	-7.1	0.2	<b>-3.0</b>	-2.0	<b>-3.5</b>	-2.0	<b>-1.8</b>	-1.8
Net Foreign Direct Investment - % GD	1.4	0.4	0.2	1.7	0.8	<b>1.0</b>	1.0	<b>1.5</b>	1.5	<b>2.0</b>	2.0
International Reserves - USD bn	7.7	9.5	9.9	9.8	10.2	<b>9.9</b>	-	<b>10.0</b>	10.0	<b>10.5</b>	10.5
<b>Public Finances</b>											
NFPS Nominal Balance - % GDP	-2.9	-6.1	-3.6	-3.0	-4.1	<b>-2.6</b>	-	<b>-1.9</b>	-1.9	<b>-1.5</b>	-1.5
NFPS Debt - % GDP	22.9	33.8	33.8	35.8	38.2	<b>40.5</b>	40.5	<b>42.2</b>	42.2	<b>41.5</b>	41.5

Source: FMI, Haver, Bloomberg, BCP,



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