

Macroeconomic Research

**Macro Scenario – Paraguay**  
**December 2024**

# Paraguay: Lower inflation ahead

## 1. Activity expanded at a solid pace in 2024, with a moderate deceleration in 2025

- We expect 4.0% GDP growth in 2024, boosted by consumption, as the economy gradually decelerates in 2025

## 2. A lower inflation target

- The central bank reduced the center of the target range to 3.5%, from 4.0%, after inflation points to end 2024 below 4% for a second consecutive year.

## 3. No rate cuts in sight

- A lower inflation target and our expectation of fewer cuts by the Federal Reserve limit the room for further easing.

## 4. Exchange rate market

- BCP's intervention has reduced pressure on the exchange rate.

## 5. Fiscal consolidation on track

- The fiscal deficit in the year through November reached 1.8% of GDP.

## 6. Scenario

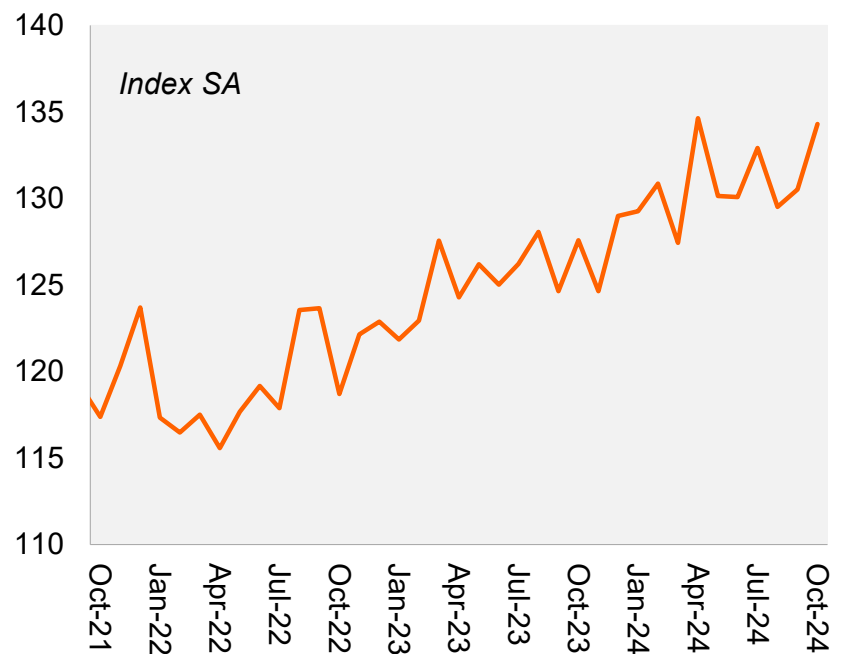
- We now foresee inflation in line with the new center of the target range (3.5%). Well-behaved inflation in the last two years, our expectation of a stable PYG in real terms and an unchanged monetary policy support our call.

# 1. Activity expanded at solid pace in 2024

We expect 4.0% GDP growth by 2024, boosted by consumption.

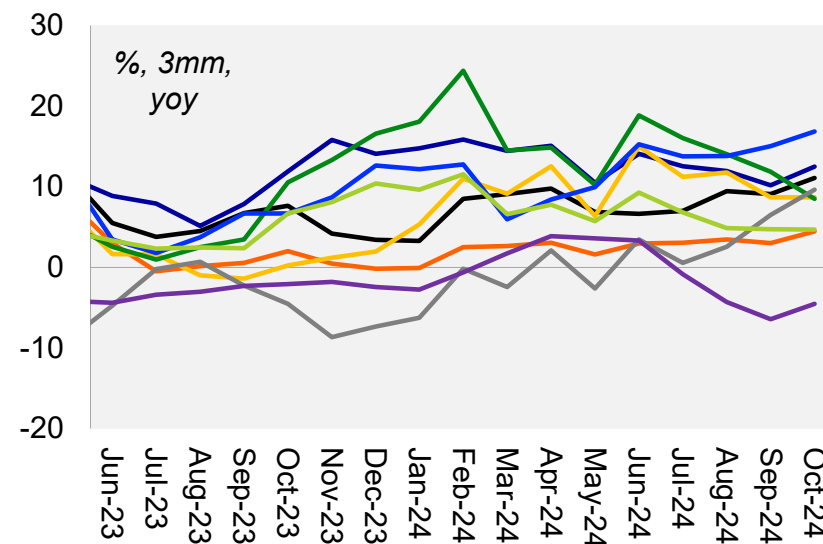
- On the demand side, private consumption is supporting growth, along with spillovers from the macro adjustment in Argentina.
- On the supply side, services (including trade), manufacturing and construction are the main drivers.

### Monthly GDP proxy



Source: BCP

### Large business sales indicator



Supermarket  
Automotive  
Construction  
Total  
Textile  
Fuel  
Communication  
Household appliances  
Pharmaceutical

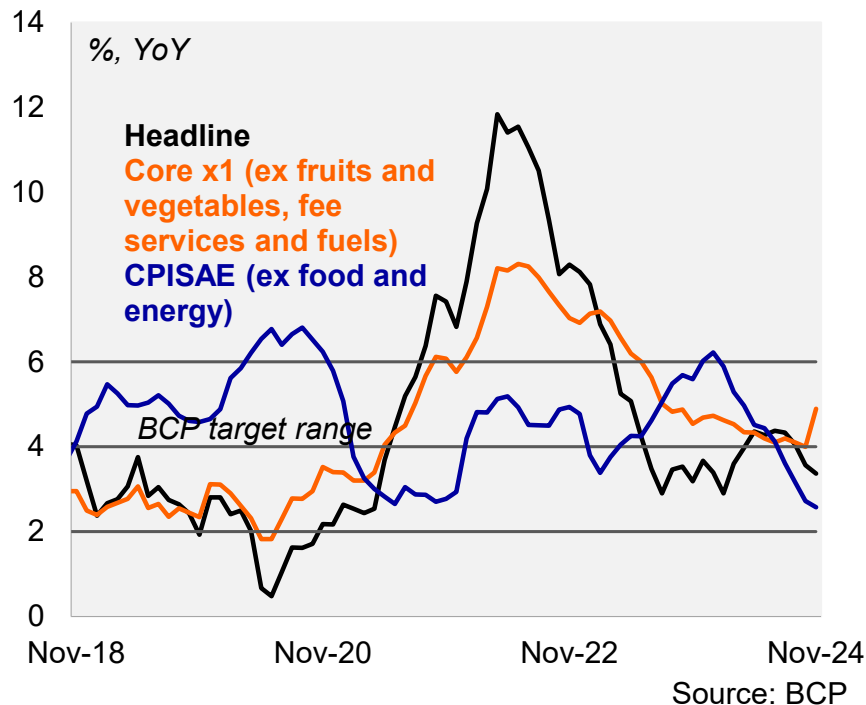
Source: BCP

## 2. A lower inflation target

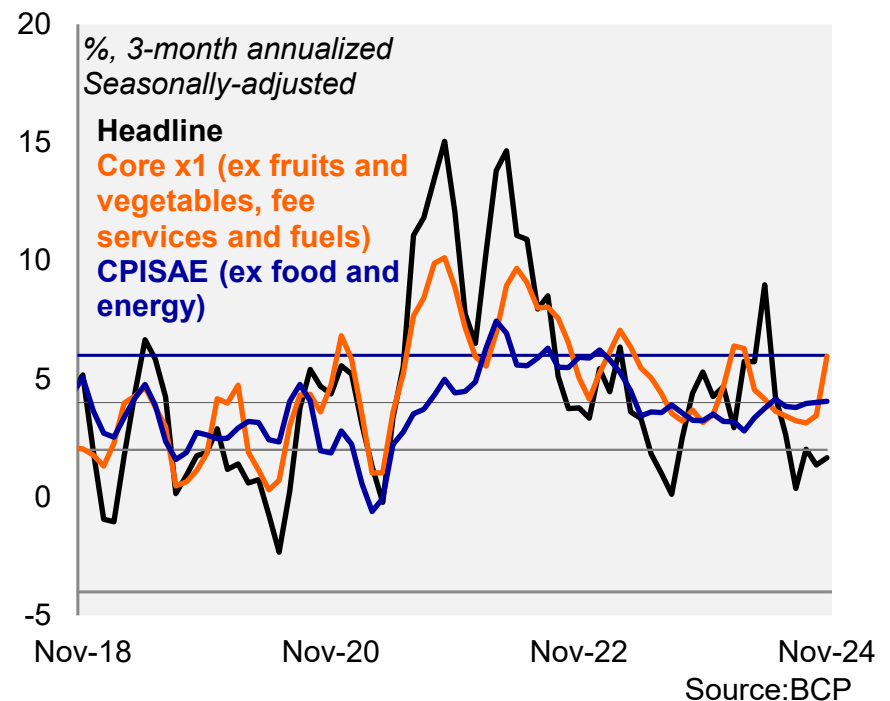
### Inflation to end 2024 below 4% for the second consecutive year.

- Headline inflation declined to 3.4% yoy in November (from 3.6% in October), while the core X1 CPI increased to 4.9% from 4.0%.
- Using our own seasonally adjusted data, the three-month annualized headline inflation reading rose to 1.7% in November (from 1.4% in October), while core inflation hit 6.0% (from 3.4% in the previous month).
- The central bank reduced the inflation target from 4% +/- 2% , to 3.5% +/- 2%, to be achieved by 2026.
  - We note that over the past 10 years, inflation has been within the target range in 84% of the months and below 4% in 59% of the months.

Annual inflation



Inflation at the margin

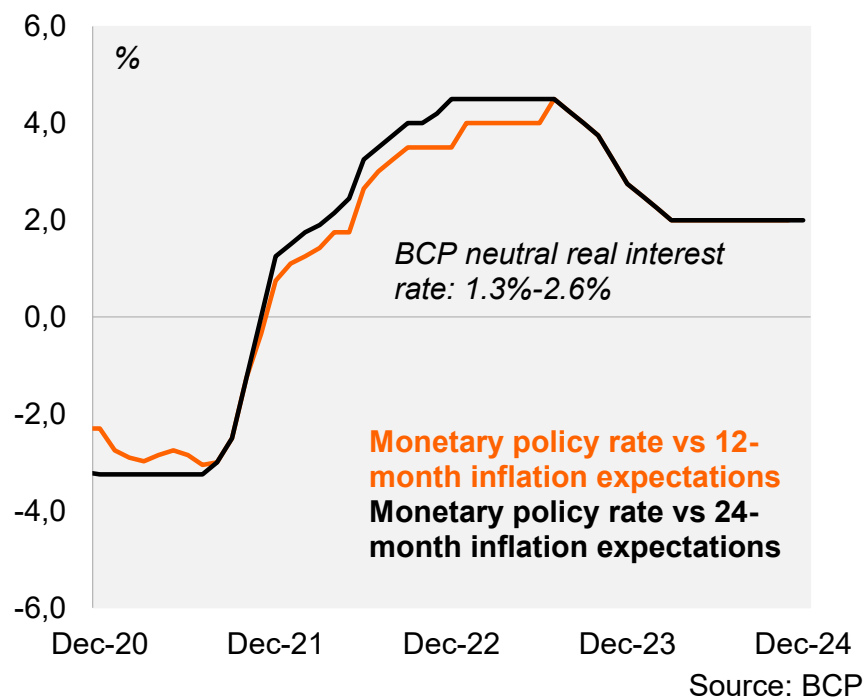


### 3. No rate cuts in sight

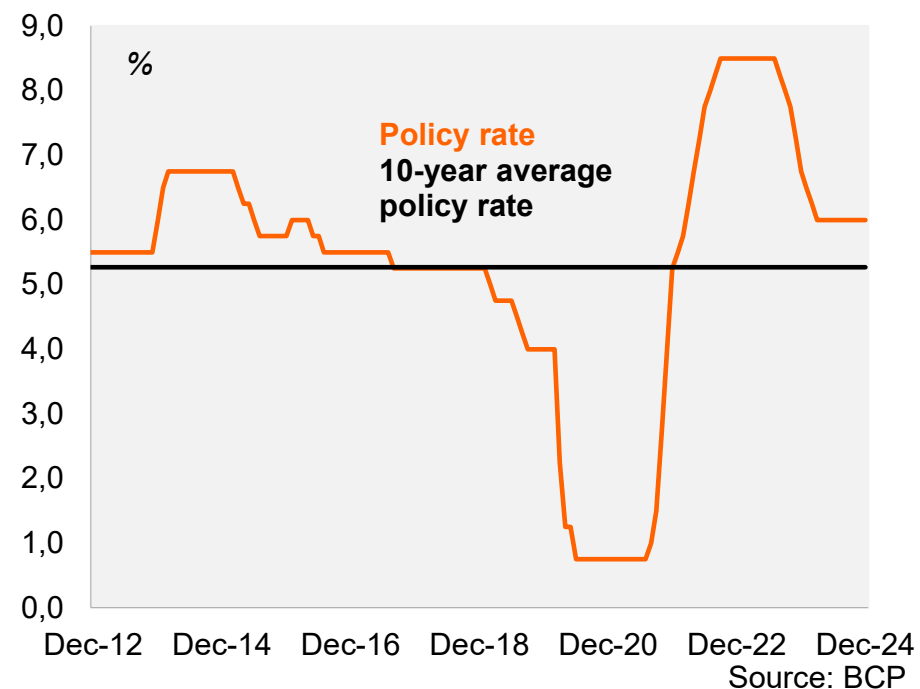
A lower inflation target and our expectation of fewer cuts by the Federal Reserve limit the room for further easing.

- The central bank's monetary policy committee maintained the policy rate at 6.00% in December for the ninth consecutive month (2% real ex-ante).
- 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.

Ex-ante real interest rate



Policy rate around neutral levels

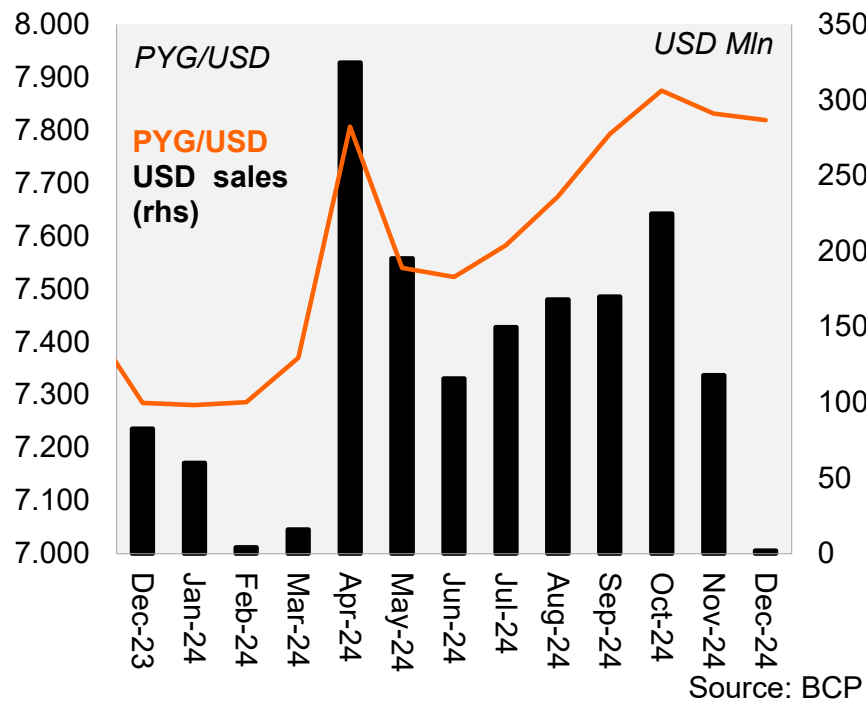


## 4. Exchange rate market

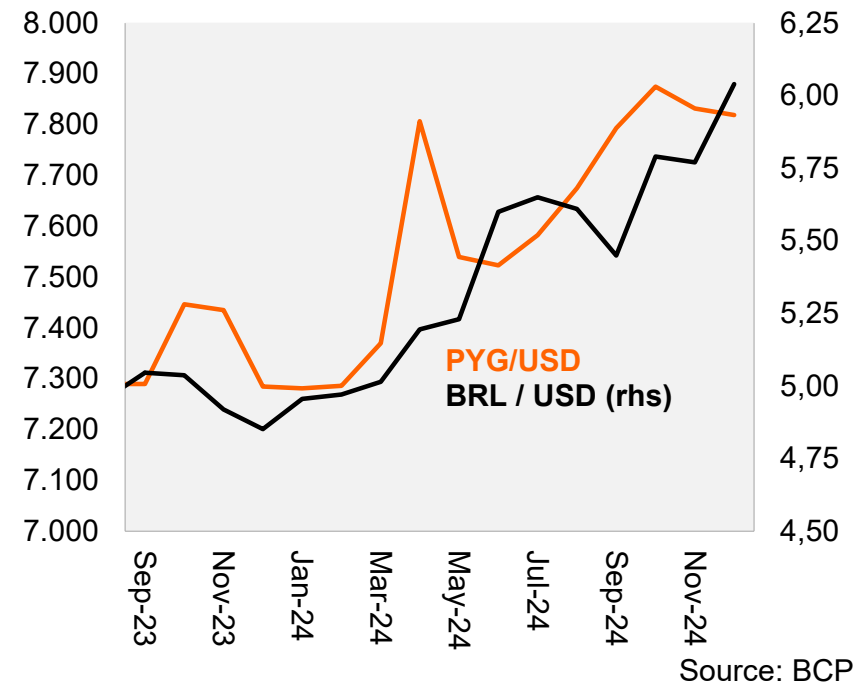
BCP's intervention has reduced pressure on the exchange rate.

- Stronger global USD, solid import growth and weaker BRL pressured the PYG this year.

FX market



FX market

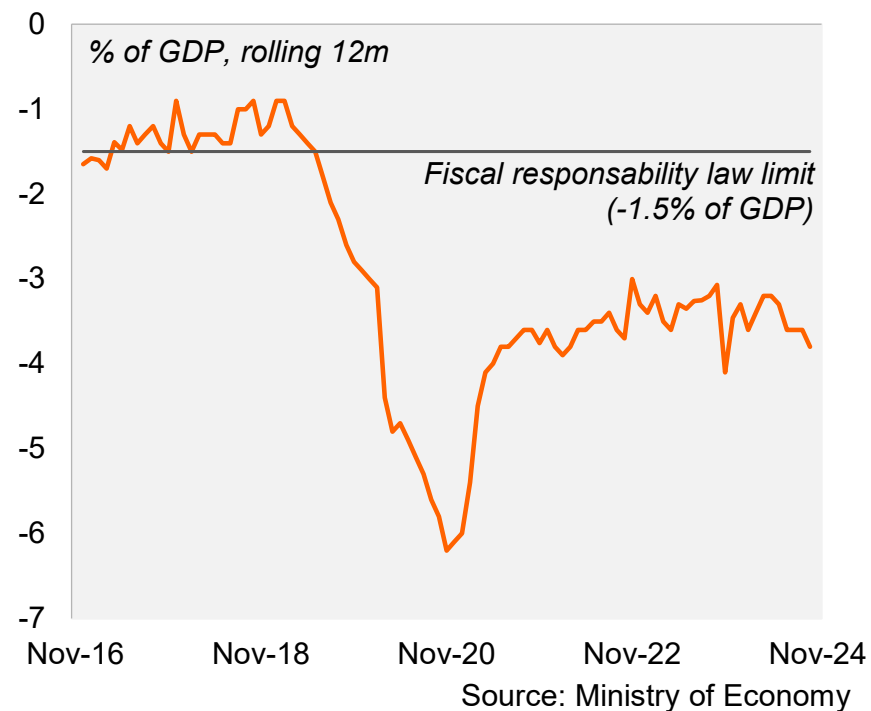


## 5. Fiscal consolidation on track

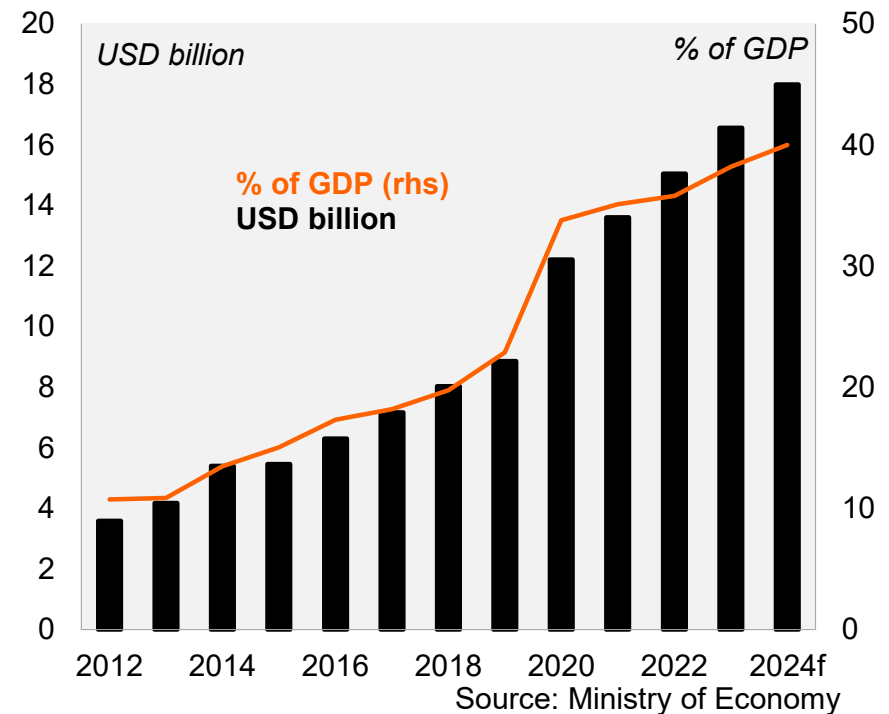
The fiscal deficit in the year through November reached 1.8% of GDP.

- The 12-month rolling fiscal deficit remained at 3.8% of GDP in November, but at 2.6% of GDP excluding one-effect debt payments held in December 2023.
- Gross public debt has reached 40% of GDP.

### Fiscal Balance



### Gross Public Debt



## 6. Paraguay | Scenario forecast

	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>
Nominal GDP - USD bn	38.8	36.1	40.3	42.1	44.7	<b>44.5</b>	46.6	<b>45.7</b>	47.5	<b>48.5</b>
Unemployment Rate - year avg	6.6	7.7	7.5	6.8	5.9	<b>6.0</b>	6.0	<b>5.8</b>	6.0	<b>5.8</b>
<b>Inflation</b>										
CPI - %	2.8	2.2	6.8	8.1	3.7	<b>3.5</b>	3.7	<b>3.5</b>	4.0	<b>3.5</b>
<b>Interest Rate</b>										
Reference rate - eop - %	4.00	0.75	5.25	8.50	6.75	<b>6.00</b>	6.00	<b>6.00</b>	6.00	<b>5.50</b>
<b>Balance of Payments</b>										
PYG / USD - eop	6465	6912	6877	7340	7275	<b>7900</b>	7900	<b>8000</b>	8000	<b>8125</b>
Trade Balance - USD bn	0.5	1.5	1.0	-1.3	1.6	<b>0.0</b>	0.0	<b>0.0</b>	0.0	<b>0.5</b>
Current Account - % GDP	-0.6	1.9	-0.9	-7.1	0.2	<b>-2.0</b>	-2.0	<b>-2.0</b>	-2.0	<b>-1.8</b>
Net Foreign Direct Investment - % GD	1.4	0.4	0.2	1.7	0.8	<b>1.0</b>	2.0	<b>1.5</b>	2.0	<b>2.0</b>
International Reserves - USD bn	7.7	9.5	9.9	9.8	10.2	<b>9.5</b>	10.0	<b>10.0</b>	11.0	<b>10.5</b>
<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	<b>-1.5</b>
NFPS Debt - % GDP	22.9	33.8	33.8	35.8	38.2	<b>40.5</b>	40.0	<b>42.2</b>	38.1	<b>41.5</b>

Source: FMI, Haver, Bloomberg, BCP,



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