

Macro scenario - Paraguay



November 21, 2024

Higher rates amid a challenging global scenario

- ▶ Given that the policy rate is already essentially at neutral and our call for fewer cuts by the Federal Reserve, we now expect the BCP to keep the policy rate at 6% through the end of 2025.
- ▶ A string of lower-than-expected prints this year has led us to lower our 2024 year-end inflation forecast to 3.7% from 4.0%. Our YE25 inflation forecast remains at 4.0%, the midpoint of the BCP's target range.
- ▶ While we have left our 2024 GDP growth forecast unchanged at 4.0%, changes to our global forecasts have prompted us to lower our 2025 GDP growth forecast to 3.5% (from 4.0%).

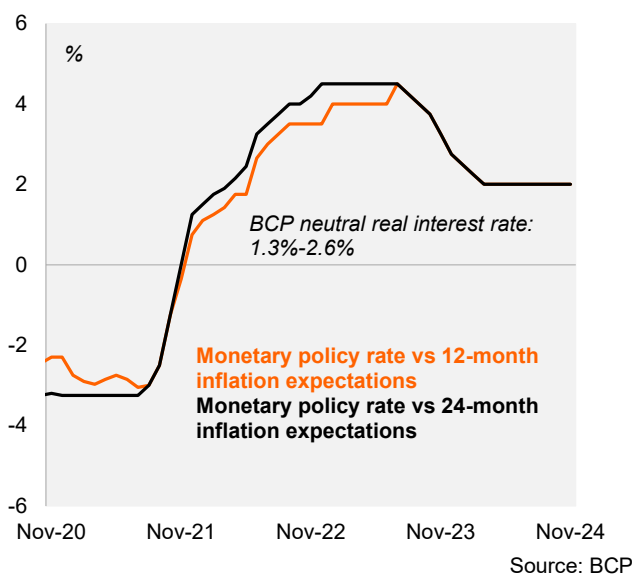
BCP on hold, with a more cautious tone

In its November meeting, the central bank's monetary policy committee left the policy rate at 6.00% for the eighth consecutive month. In contrast to its October statement, which mentioned a moderation of external risks to inflation, this month's communiqué asserted that the risks were now more balanced. Separately, the communiqué also explicitly references expectations of a more moderate reduction path for the Federal Funds Rate. Following the decision, we estimate that the real ex-ante policy rate remains at 2%, essentially in the center of the BCP's neutral real interest rate range of 1.3%-2.6%.

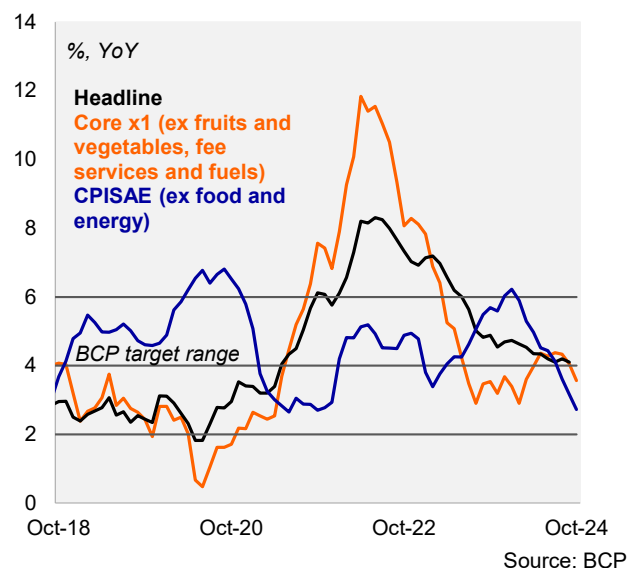
Lower-than-expected inflation in October

The CPI was 0.0% mom in October (from 0.5% one year earlier). In the outcome for the month, the numbers from the food category were mixed, with expected reversals in the prices of horticultural products (-12.1% mom) offset by price increases for meat and fruits (2.1% mom and 3.8% mom, respectively). Core CPI X1 (which excludes prices for fruits and vegetables, regulated services and fuel) stood at 0.4% (from 0.5% one year earlier). On an annual basis, headline inflation declined to 3.6% in October (from 4.1% in September), while core CPI X1 decreased to 4.0% (from 4.1%). We note that headline and core remain within the tolerance band of the BCP's inflation target (4% ± 2%). Importantly, inflation expectations for year-end 2024 and 2025 have remained steady at 4% for several quarters.

Ex-ante real interest rate



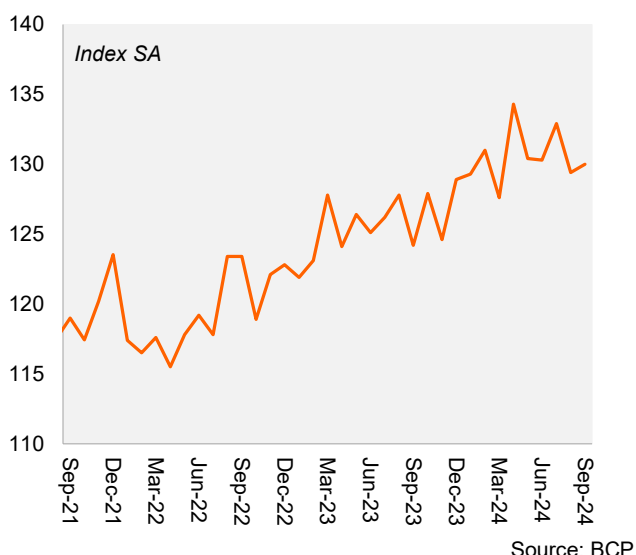
Annual inflation



Softer activity in 3Q24

The monthly GDP proxy rose sequentially in September. Using the central bank’s seasonally adjusted series, the monthly GDP proxy (IMAEP) increased by 0.5% MoM/SA in September (from -2.6% in August). The GDP proxy fell by 0.7% qoq/sa in 3Q24 after expanding by about 1.8% in 2Q24. On an annual basis, the IMAEP increased by 4.6% yoy in September and by 3.8% yoy in 3Q24 (from 5.2% in 2Q24). The monthly GDP proxy excluding agriculture and binationals decreased by 0.9% qoq/sa in 3Q24 and increased by 5.5% YoY in the same period. The annual-basis growth is attributable to the favorable performance of services, manufacturing, construction, livestock and agriculture. On the negative side, there was a decline in electricity generation.

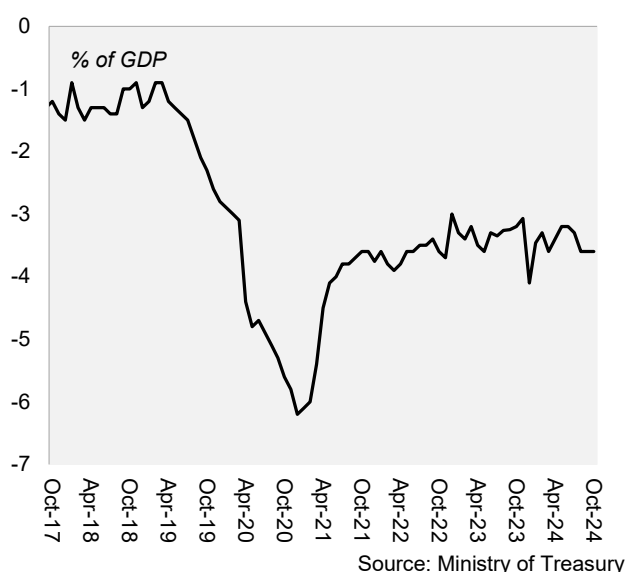
Monthly GDP proxy



Fiscal deficit stabilizes

The fiscal deficit remained unchanged in October. The 12-month rolling fiscal deficit remained at 3.6% of GDP in October, unchanged since August yet below the 4.1% posted in December 2023. Tax revenues increased by 10.4% yoy in real terms in the quarter ended in October (11.4% yoy in 3Q24), in line with the strong economic activity and likely supported by lower foreign expenditures due to the appreciation of the parallel exchange rate in Argentina. However, real primary expenditures grew by 11.7% yoy in the quarter ended in October (13.8% yoy in 3Q24), led by increased spending on goods and services (50.8% in the period).

Fiscal Balance



No rate cuts in sight

With the policy rate already essentially at neutral, we expect the BCP to keep the policy rate steady at 6.0% through 2025. Our expectation of fewer cuts is in line with changes in our international scenario, with the prospect of a more restrained easing cycle by the Federal Reserve. The more cautious tone of the BCP’s latest statement reinforces our call. Indeed, the recent revision of the neutral rate to a range between 1.3% and 2.6%, with a median of 1.7%, limits the room for additional cuts in the near term.

We have lowered our YE24 inflation forecast to 3.7% from 4.0%, mainly due to the impact of lower-than-expected prints. For 2025, our CPI forecast remains unchanged at 4.0%.

As for GDP growth, we have left our 2024 forecast unchanged at 4.0% but have lowered our 2025 estimate to 3.5% (from 4.0%), essentially at potential, reflecting downward revisions to global growth forecasts.

We have also revised our exchange-rate forecasts to 7,900 PYG/USD for YE24 (from 7,800 in our previous scenario) and 8,000 PYG/USD for YE25 (from 7,900) due to our expectation of a stronger global USD.

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Paraguay | Forecasts and Data

	2019	2020	2021	2022	2023	2024F		2025F	
						Current	Previous	Current	Previous
Economic Activity									
Real GDP growth - %	-0.4	-0.8	4.0	0.2	4.7	4.0	4.0	3.5	4.0
Nominal GDP - USD bn	38.8	36.1	40.3	42.1	44.7	46.6	46.8	47.5	48.6
Population (millions)	5.8	5.9	6.1	6.1	6.2	6.4	6.4	6.4	6.4
Per Capita GDP - USD	6,651	6,079	6,640	6,889	7,177	7,338	7,393	7,338	7,393
Unemployment Rate - year avg	6.6	7.7	7.5	6.8	5.9	6.0	6.0	6.0	6.0
Inflation									
CPI - %	2.8	2.2	6.8	8.1	3.7	3.7	4.0	4.0	4.0
Interest Rate									
Reference rate - eop - %	4.00	0.75	5.25	8.50	6.75	6.00	5.75	6.00	5.00
Balance of Payments									
PYG / USD - eop	6465	6912	6877	7340	7275	7900	7800	8000	7900
Trade Balance - USD bn	0.5	1.5	1.0	-1.3	1.6	0.0	0.5	0.0	0.0
Current Account - % GDP	-0.6	1.9	-0.9	-7.1	0.2	-2.0	-0.5	-2.0	-1.0
Net Foreign Direct Investment - % GD	1.4	0.4	0.2	1.7	0.8	2.0	2.0	2.0	2.0
International Reserves - USD bn	7.7	9.5	9.9	9.8	10.2	10.0	11.0	10.0	12.0
Public Finances									
NFPS Nominal Balance - % GDP	-2.9	-6.1	-3.6	-3.0	-4.1	-2.6	-2.6	-1.9	-1.9
NFPS Debt - % GDP	22.9	33.8	33.8	35.8	38.2	40.0	40.0	38.1	38.1

Source: FMI, Haver, Bloomberg, BCP,

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