

Macro scenario - Paraguay



June 17, 2025

Upside risks to growth

- ▶ Headline CPI remained flat in May compared to April, bringing the year-over-year reading down to 3.6% from 4.0% the previous month. We maintain our inflation forecast of 4.0% for YE25. We do not foresee changes in the monetary policy rate this year.
- ▶ Leading indicators at the start of 2Q25 are encouraging for activity, and we foresee upside risks to our 3.5% 2025 GDP growth forecast. The national accounts data for 1Q25 (June 27), is key to revising our forecast amid a likely high statistical carryover.

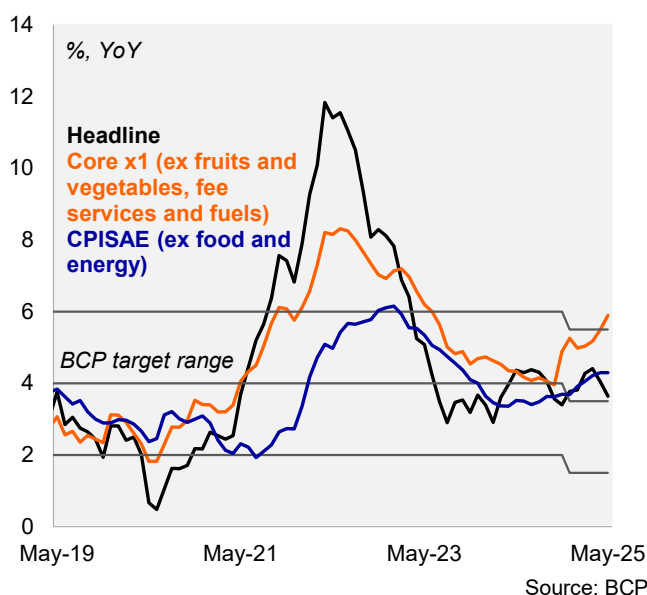
Annual headline inflation eases

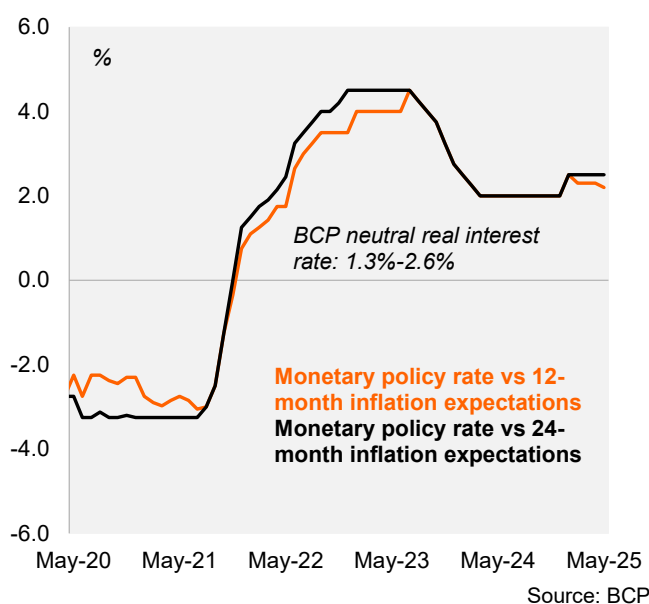
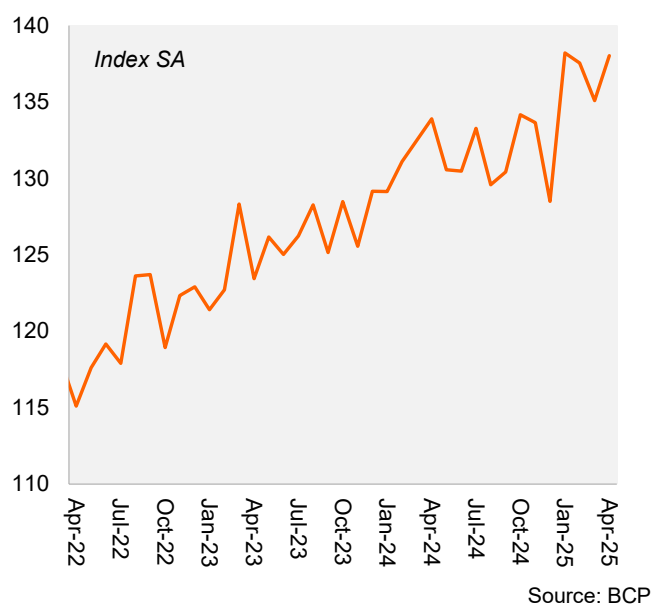
CPI in May remained flat from April (0.0% MoM). Food prices fell by 0.1% MoM in May due to a decline in fruits and vegetables (-7.8% MoM), partially offset by higher meat prices (5.0% MoM). Meanwhile, fuel prices fell by 2.9% MoM, driven by downward adjustments in gasoline. The Core CPI X1 (which excludes fruits and vegetables, regulated service prices and fuel) increased by 0.6%, up from 0.2% a year ago. On an annual basis, headline inflation fell to 3.6% in May (down from 4.0% in April), while the Core X1 CPI stood at 5.9% (from 5.5% in the previous month). Headline inflation remains within the tolerance band of the BCP's inflation target (3.5% +/- 2%), while core X1 is above the upper limit of the target range.

BCP: A long pause

In May, the central bank's Monetary Policy Committee (MPC) maintained the monetary policy rate at 6.00% for the fourteenth consecutive month. The MPC highlighted that despite a slight uptick in short-term inflation expectations, long-term expectations remain on target. Consequently, we estimate that the real ex-ante policy rate remains at 2.5% (using expectations for the monetary policy horizon), towards the upper bound of the BCP's neutral real interest rate range of 1.3%-2.6%. Regarding the global context, the MPC highlighted that global financial market volatility declined due to easing trade tensions, and fewer Fed rate cuts are now expected in 2025. Moreover, international oil prices fell due to improved supply outlooks. Soybean and wheat prices rose recently, while corn prices declined.

Annual inflation

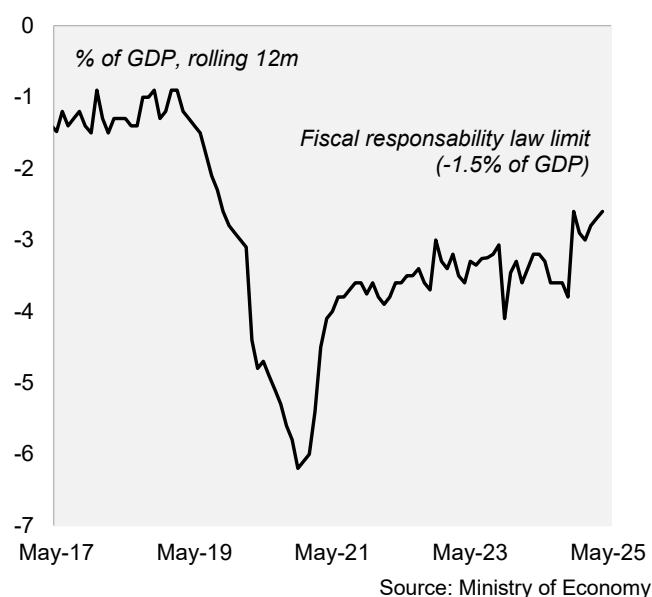


Ex-ante real interest rate**Monthly GDP proxy****Activity started with the right foot in 2Q25**

The GDP proxy (IMAEP) rose sequentially by 2.2% MoM/SA in April, after falling 1.8% in the previous month. Thus, the IMAEP expanded by 2.6% QoQ/SA, down from 3.7% in 1Q25. On an annual basis, the proxy increased by 3.3% YoY in April and by 4.2% YoY in the quarter ended in that month (5.4% YoY in 1Q25). The monthly GDP proxy, excluding agriculture and bi-nationals, rose by 2.7% QoQ/SA in the quarter ended in April. On an annual basis, the index increased by 3.8% in April and 5.1% YoY in the quarter ended in that month. The expansion was driven by services, manufacturing, and energy generation. Conversely, agriculture and livestock showed lower dynamism, likely due to the moderate drought.

Fiscal deficit narrows

The fiscal deficit narrowed in May. The 12-month rolling fiscal deficit slightly dropped to 2.6% of GDP in May, slightly below April (2.7%). Tax revenues increased by 0.7% yoy in real terms in the quarter ended in May (10.2% yoy in 1Q25), while real primary expenditures fell by 7.6% yoy in the same period (13.9% yoy in 1Q25). Thus, the nominal fiscal deficit returned to YE24 levels.

Fiscal Balance

Waiting for the national accounts figures for 1Q25

Activity extended its positive momentum at the beginning of 2Q25, according to leading indicators. While we expect the national accounts figures for 1Q25 (June 27), we foresee upside risks to our 3.5% GDP growth forecast for this year. We expect private consumption to continue supporting growth, helped by spillovers from Argentina. Meanwhile, the agriculture sector may be a drag due to a moderate drought.

We maintained our inflation forecast for the end of 2025 at 4.0%. Our expectation of an unchanged nominal exchange rate supports this forecast, while commodity prices, particularly oil prices, will play a key role in inflation for the rest of the year.

We also kept our policy rate forecast at 6.0% for YE25. The policy rate is already at the upper bound of the BCP's neutral range in real ex-ante terms. Leading indicators point to positive momentum in economic activity, while inflation expectations for the monetary policy horizon (18-24 months) remain well-behaved.

We expect a fiscal deficit of 1.9% of GDP by 2025 and 1.5% of GDP in 2026, in line with the fiscal responsibility law. A disciplined management of the public accounts supports our estimate.

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Paraguay | Forecasts and Data

	2020	2021	2022	2023	2024	2025F		2026F	
						Current	Previous	Current	Previous
Economic Activity									
Real GDP growth - %	-0.8	4.0	0.2	5.0	4.2	3.5	3.5	3.5	3.5
Nominal GDP - USD bn	35.4	39.9	41.9	43.1	44.5	45.3	45.4	48.1	48.1
Unemployment Rate - year avg	7.7	7.5	6.8	5.9	5.8	5.8	5.8	5.8	5.8
Inflation									
CPI - %	2.2	6.8	8.1	3.7	3.8	4.0	4.0	3.5	3.5
Interest Rate									
Reference rate - eop - %	0.75	5.25	8.50	6.75	6.00	6.00	6.00	5.50	5.50
Balance of Payments									
PYG / USD - eop	6912	6877	7340	7275	7913	8000	8000	8125	8125
Trade Balance - USD bn	1.5	1.0	-1.3	1.6	-0.5	-1.0	-1.0	0.5	0.5
Current Account - % GDP	1.9	-1.1	-7.1	-0.4	-3.8	-3.5	-3.5	-1.8	-1.8
Net Foreign Direct Investment - % GD	0.4	0.5	1.7	0.8	0.8	1.5	1.5	2.0	2.0
International Reserves - USD bn	9.5	9.9	9.8	10.2	9.9	10.0	10.0	10.5	10.5
Public Finances									
NFPS Nominal Balance - % GDP	-6.1	-3.6	-3.0	-4.1	-2.6	-1.9	-1.9	-1.5	-1.5
Gross Public Debt - % GDP	33.8	33.8	35.8	38.2	40.5	42.2	42.2	41.5	41.5

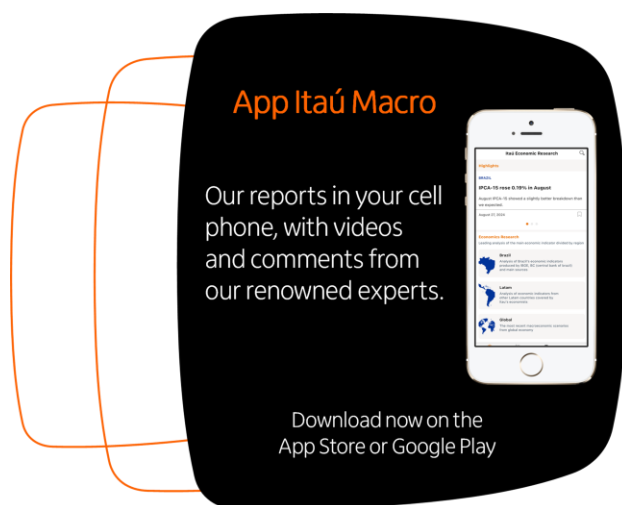
Source: FMI, Haver, Bloomberg, BCP, Itaú.

Macro Research – Itaú

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