

# Macro scenario - Paraguay



September 25, 2025

## Higher growth

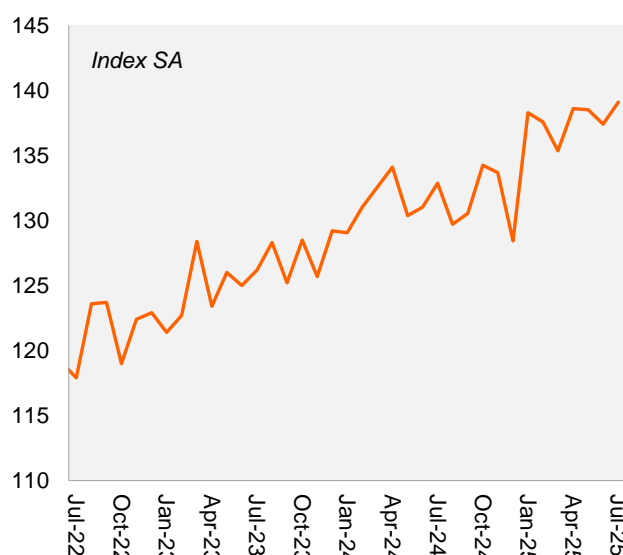
- ▶ Activity continued to expand at the beginning of 3Q25, led by the services sector. Thus, we see now upside risks to our GDP growth forecast of 4.3% for 2025.
- ▶ We revised our 2025 inflation forecast to 4.2% up from 4.0% in our previous scenario, due to higher-than-expected prints in recent months. The recent appreciation of the PYG, if sustained, should moderate the pressure on tradable prices in the rest of the year.
- ▶ We revised our exchange rate forecast to PYG/USD 7,400 from PYG/USD 7,750 in our previous scenario. The international outlook, with a weaker global dollar, plays in favor of a stronger PYG, in line with other emerging market currencies.

### Activity continued to grow at the start of the 3Q25

**The GDP proxy (IMAEP) rose by 1.2% MoM /SA in July, after falling 0.8% in June.** Consequently, the IMAEP increased by 0.9% QoQ/SA in the quarter ended in July. On an annual basis, the proxy rose by 4.9% YoY in July and by 5.3% YoY in the quarter ended in that month. The monthly GDP proxy, excluding agriculture and bi-nationals, rose by 0.7% QoQ/SA in the quarter ended in July. On an annual basis, the index rose by 5.5% in July and increased 5.7% YoY in the quarter ended in that month. The annual increase was driven primarily by services, manufacturing, electricity generation, construction, and livestock farming. However, the negative performance of agriculture dampened the favorable momentum of economic activity.

**Moreover, the Consumer Confidence Index published by the BCP in August 2025 registered a level of 50.7, which is 6.1% above the value observed in the previous month, but 8.59% below the level recorded in August 2024.** Overall, the index indicates moderate optimism.

### Monthly GDP proxy



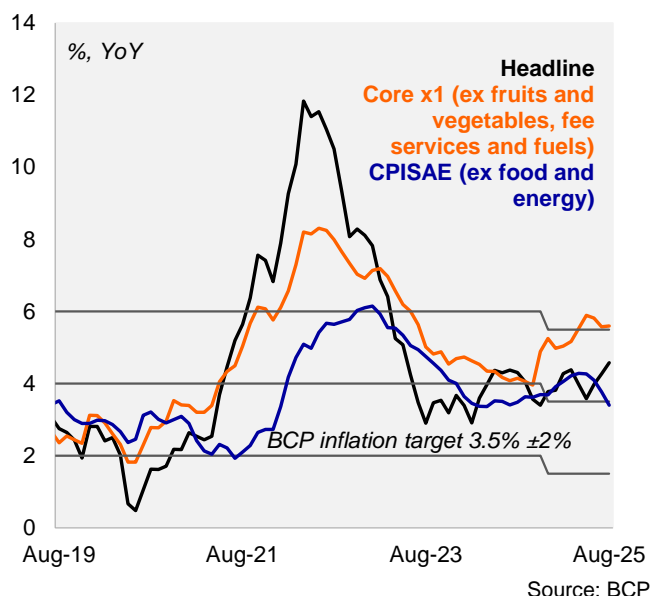
Source: BCP

### Annual inflation rose again in August

**CPI in August rose by 0.1% MoM, above our forecast (-0.2%) and below the market consensus (0.2%), according to the BCP survey.** On a monthly basis, increases in food goods such as beef meat (0.6% MoM) and fruits and vegetables (2.6% MoM); services such as food and beverages consumed outside the home (0.4% MoM) stand out, partially offset by decreases in fuel (-2.7% MoM) and in some imported durable goods amid the recent appreciation of the PYG. The core CPI X1 (which excludes fruits and vegetables, regulated service prices and fuel) rose by 0.2% MoM in August, which remain stable from a

year ago (0.2% MoM August 2024). **On an annual basis, headline inflation rose to 4.6% in August (up from 4.3% in July), while the core X1 CPI remained at 5.6%.** Headline inflation on an annual basis remains within the tolerance range of the BCP's inflation target (3.5% +/- 2%), while core X1 remains slightly above it.

#### Annual inflation



**Inflation expectations remain anchored.** Inflation expectations for the Monetary Policy Horizon (around 18 and 24 months) remain stable at 3.5% since January 2025, one month after the BCP reduced the target from 4.0% to 3.5% before. On the other hand, inflation expectations (median value) for YE25 stand at 4.0%, while for the next 12 months stand at 3.7%.

#### BCP on hold again

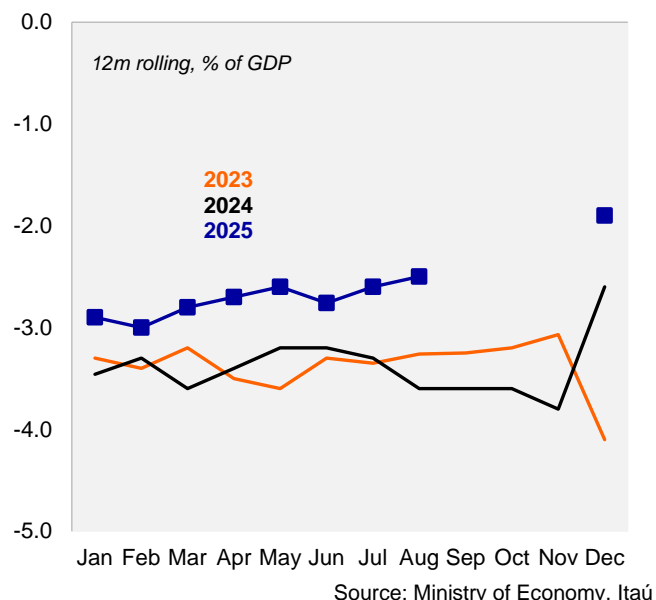
**In the September monetary policy meeting, the BCP kept the monetary policy rate at 6.0% for the eighteenth consecutive month.** According to the statement, the committee reaffirmed its commitment to price stability and will continue to closely monitor domestic and external developments, anticipating their potential implications for inflation, and will take appropriate measures to ensure compliance with the 3.5% target over the monetary policy horizon. Therefore, we estimate that the real ex-ante policy rate remains at 2.5% (using expectations for the monetary policy horizon), compared to the BCP's neutral real interest rate range (1.3%-2.6%).

#### The fiscal deficit narrowed and remains in line with the target

**The fiscal deficit narrowed in August.** The 12-month rolling fiscal deficit fell to 2.5% of GDP in August, down from 2.6% of GDP in July. Tax revenues fell by 1.9% yoy in real terms in the quarter ended August (-5.6% yoy in 2Q25). Moreover, primary expenditure fell by 6.8% yoy in real terms in the quarter ended August (-6.6% yoy in 2Q25), driven by a decrease in spending on goods and services (-31.0% in the period).

The announcement of the inclusion of local currency government bonds in well-known EM fixed income indices is a welcome development and should contribute to greater demand, and hence, lower borrowing costs over time.

#### Nominal Fiscal Balance



#### Higher inflation despite stronger PYG

**We maintained our 2025 GDP growth forecast at 4.3%, but now we see upside risks given the solid momentum at the start of 3Q25.** On the demand side, we expect private consumption to continue supporting growth.

**We revised our inflation forecast to 4.2% up from 4.0% in our previous scenario, due to higher-than-expected inflation readings in recent months.** However, the appreciation of the PYG should ease pressure on tradable prices in the coming months.

**We are maintaining our policy rate forecast at 6.0% for the end of 2025.** The policy rate is already at the upper bound of the BCP's neutral range in real ex-ante terms. Leading indicators suggest positive momentum in economic activity, and inflation expectations for the monetary policy horizon (18–24 months) remain under control.

**We also revised our exchange rate forecast from PYG/USD 7,750 to PYG/USD 7,400** amid a favorable external scenario, aligning with the weaker dollar trend.

**We expect a fiscal deficit of 1.9% of GDP by 2025 and 1.5% by 2026, which is consistent with the fiscal responsibility law.** Disciplined management of the fiscal accounts supports our forecast.

**Andrés Pérez M.  
Diego Ciongo  
Soledad Castagna**

## Paraguay | Forecasts and Data

	2020	2021	2022	2023	2024	2025F		2026F	
						Current	Previous	Current	Previous
<b>Economic Activity</b>									
Real GDP growth - %	-0.8	4.0	0.2	5.0	4.2	<b>4.3</b>	4.3	<b>3.5</b>	3.5
Nominal GDP - USD bn	35.4	39.9	41.9	43.1	44.5	<b>47.8</b>	47.4	<b>52.8</b>	50.0
Unemployment Rate - year avg	7.7	7.5	6.8	5.9	5.8	<b>5.8</b>	5.8	<b>5.8</b>	5.8
<b>Inflation</b>									
CPI - %	2.2	6.8	8.1	3.7	3.8	<b>4.2</b>	4.0	<b>3.5</b>	3.5
<b>Interest Rate</b>									
Reference rate - eop - %	0.75	5.25	8.50	6.75	6.00	<b>6.00</b>	6.00	<b>6.00</b>	5.50
<b>Balance of Payments</b>									
PYG / USD - eop	6912	6877	7340	7275	7913	<b>7400</b>	7750	<b>7450</b>	7900
Trade Balance - USD bn	1.5	1.0	-1.3	1.6	-0.5	<b>-1.5</b>	-1.0	<b>0.5</b>	0.5
Current Account - % GDP	1.9	-1.1	-7.1	-0.4	-3.8	<b>-4.0</b>	-3.5	<b>-1.8</b>	-1.8
Net Foreign Direct Investment - % GD	0.4	0.5	1.7	0.8	0.8	<b>1.5</b>	1.5	<b>2.0</b>	2.0
International Reserves - USD bn	9.5	9.9	9.8	10.2	9.9	<b>10.0</b>	10.0	<b>10.5</b>	10.5
<b>Public Finances</b>									
NFPS Nominal Balance - % GDP	-6.1	-3.6	-3.0	-4.1	-2.6	<b>-1.9</b>	-1.9	<b>-1.5</b>	-1.5
Gross Public Debt - % GDP	33.8	33.8	35.8	38.2	40.5	<b>42.2</b>	42.2	<b>41.5</b>	41.5

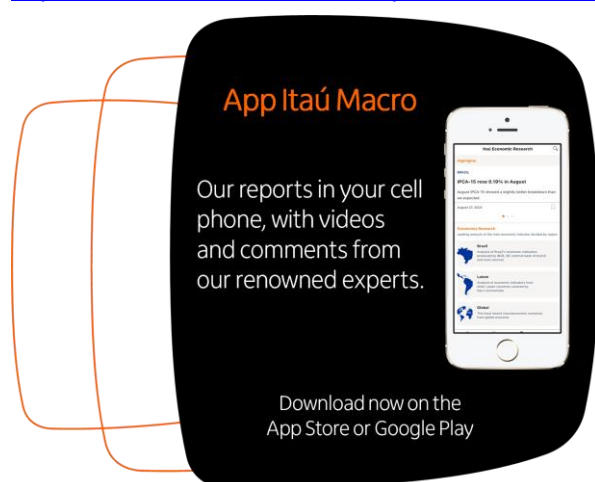
Source: FMI, Haver, Bloomberg, BCP, Itaú.

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