

Macro scenario - Paraguay



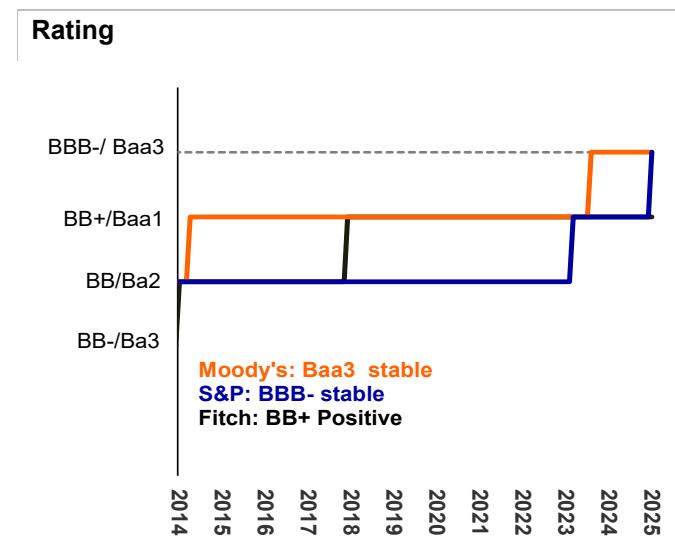
December 19, 2025

Boom! S&P awards IG status

- ▶ Rating agency S&P upgraded Paraguay to investment grade status at BBB- with a stable outlook, matching Moody's assessment from July 2024.
- ▶ We revised our YE25 inflation forecast to 3.5% from 3.9%, mainly due to recently announced fuel price cuts, downside inflation surprises, and the expected effects of a substantially stronger PYG during the second semester of the year. For 2026 we foresee inflation at 3.5%, in line with the center of the target assuming a PYG stable in real terms. Our scenario considers the BCP on hold at 6.0% during 2026.
- ▶ Our 2025 GDP growth forecast of 5.0% has upside risks, due to recent activity dynamics. For 2026 we expect 4.0% growth, supported by domestic macro dynamics and spillovers from Argentina. National accounts data for 3Q25 will be key in determining revisions for 2025 and 2026.

S&P upgraded Paraguay to investment grade

S&P upgrades to BBB-, with a stable outlook from BB+. Thus, S&P is the second major rating agency, after Moody's in July 2024, to grant Paraguay an investment-grade rating. The rating agency had revised the BB+ outlook to positive from stable in January 2025, pointing to a swift materialization of the outlook. Fitch's rating is BB+, with a positive outlook — just one notch below investment grade. According to S&P, the upgrade reflects a solid track record of macroeconomic stability, pro-market reforms, and growing credibility of monetary policy, evidenced by inflation expectations converging toward the central bank's lower target. Robust private investment and diversified growth prospects are expected to sustain GDP expansion around 4% in 2026–2027, supporting fiscal consolidation and rebuilding buffers. Key strengths include prudent fiscal management, improving institutional capacity, and abundant natural resources, while vulnerabilities persist in external accounts, heavy reliance on commodity exports, shallow domestic capital markets, and high foreign-currency debt exposure. S&P's stable outlook assumes continued reforms, moderate current account deficits financed by FDI, and gradual improvement in fiscal and monetary flexibility.



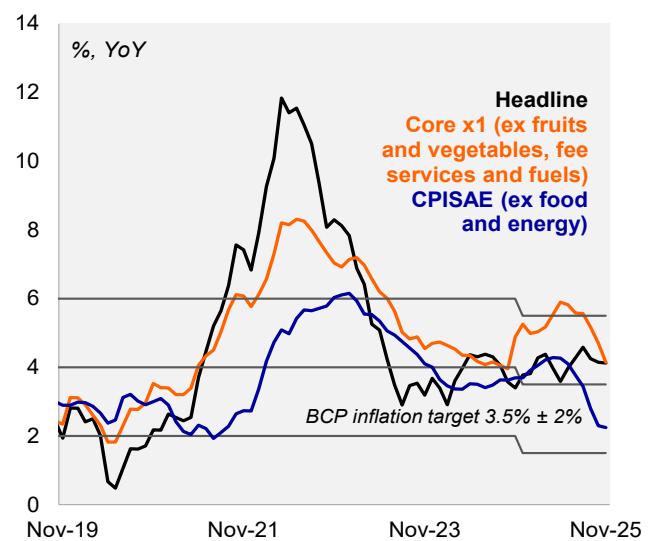
Source: Moody's, S&P, Fitch, Itaú

Inflation was broadly in line with expectations

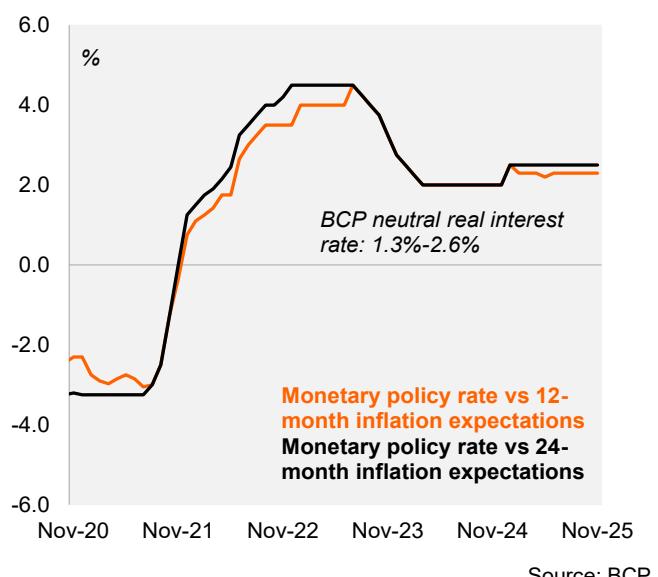
Inflation by 0.2% MoM in November, in line with the central bank's survey (0.2%). Increases in volatile fresh fruits, beef meat, and services were partially offset by lower vegetables prices. The core CPI X1 (which excludes fruits and vegetables, regulated service prices and fuel) increased by 0.4% MoM, up from 0.0% MoM in October, but down from 0.9% MoM a year ago. On an annual basis, headline inflation was unchanged at 4.1% in November, while the core X1 CPI fell to 4.1%, from 4.7% in October. Cumulative headline inflation in the year reaches 3.4%. Both headline inflation and core X1

remain within the tolerance range of the BCP's inflation target (3.5% +/- 2%).

Annual inflation



Ex-ante real interest rate

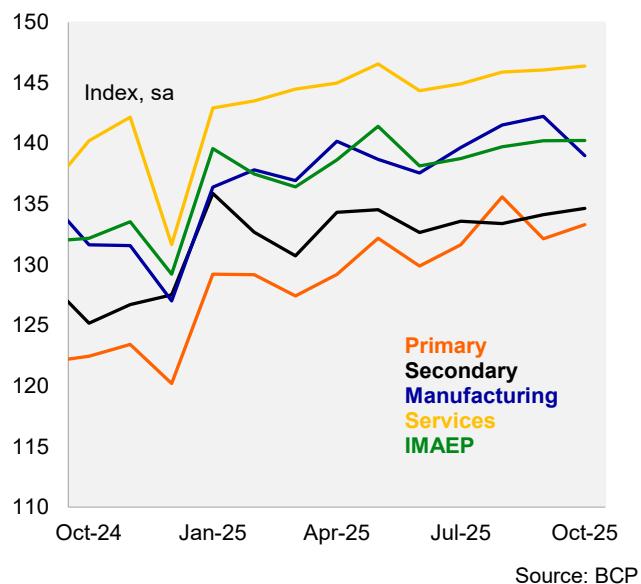


Activity stabilizes at the margin

In November, the BCP kept the monetary policy rate at 6.0% for the twentieth consecutive month, in line with our call and market expectations. The Committee reaffirmed its commitment to price stability and will continue to closely monitor internal and external developments to anticipate their potential impact on inflation. Additionally, as has frequently been stated, it will take appropriate measures to ensure compliance with the 3.5% target over the monetary policy horizon. Therefore, we estimate that the one-year real ex-ante policy rate remains at 2.5%, towards the upper bound of the BCP's neutral rate range (1.3%-2.6%).

The monthly GDP proxy (IMAEPI) increased by 5.7% year on year (YoY) in October and by 6.0% YoY in the quarter ended in that month. All sectors expanded in October, led by the primary sector (up 8.2% YoY), explained by higher production of corn, wheat, rice, and cotton mitigated by lower soybean production. Manufacturing rose by 5.0% YoY during the period, while the secondary sector expanded by 7.3% YoY driven by higher energy distribution. The services sector increased by 4.1% YoY, driven by spillovers from the macro adjustment in Argentina in the commerce and tourism sectors in Paraguay. At the margin, activity remained unchanged in October (0.0% mom/sa), down from a gain of 0.4% mom/sa in September. Thus, the IMAEP rose 0.3% qoq/sa in the quarter ended in October, which is unchanged from 3Q25, but below 2Q25 (1.1% qoq/sa).

Activity by sectors



Fiscal consolidation in line with the target

The fiscal deficit fell again in November. The 12-month rolling fiscal deficit fell to 2.0% of GDP in November, down from 2.3% of GDP in October. Real tax revenues rose by 0.9% YoY in the quarter ended in November. Real primary expenditure fell by 7.0% yoy in the quarter ended November, driven by a decrease in spending on goods and services (-32.6% in the period). The 2026 budget was approved by Congress and considers a nominal fiscal deficit of 1.5% of GDP for 2026, consistent with the Fiscal Responsibility Law. In November, the Treasury completed its fourth and final domestic bond issuance, selling the equivalent of USD 40 million in 12-year nominal bonds with a yield of 9.1%. Thus, during 2025 the Treasury issued USD 215 million in local currency bonds.

Lower inflation

We maintained our 2025 GDP growth forecast at 5.0%, with upside risks due to a high statistical carryover from leading indicators. We also kept our 2026 GDP growth call at 4.0%. The national accounts data for 3Q25, to be published on December 23, will be key in revising our 2025 and 2026 forecasts.

The sustained PYG appreciation during 2H26, persistence of downside inflation surprises, and the fuel price reduction in December led us to revise our YE25 inflation forecast to 3.5%, from 3.9% in our previous scenario. In fact, we also revised our

exchange rate forecast for 2025 and 2026 amid a weaker global USD. Thus, we now foresee the exchange rate at PYG/USD 6,850 by YE26, from PYG/USD 6,500 by YE25. In our view, tradable good prices should remain supported by our view of stable PYG in real terms. Thus, inflation should remain within the inflation target's tolerance range throughout the monetary policy horizon (18-24 months).

We maintained our policy rate forecast at 6.0% until YE26. The policy rate is already at the upper bound of the BCP's neutral range in real ex-ante terms. Although inflation expectations for the monetary policy horizon are anchored, economic activity is growing well above its potential (3.5%) and local currency liquidity is at minimum levels.

We project a nominal fiscal deficit of 1.9% of GDP in 2025 and 1.5% in 2026, 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

| | 2021 | 2022 | 2023 | 2024 | 2025F | | 2026F | | 2027F |
|--------------------------------------|------|------|------|------|-------------|----------|-------------|----------|-------------|
| | | | | | Current | Previous | Current | Previous | Current |
| Economic Activity | | | | | | | | | |
| Real GDP growth - % | 4.0 | 0.2 | 5.0 | 4.2 | 5.0 | 5.0 | 4.0 | 4.0 | 3.5 |
| Nominal GDP - USD bn | 39.9 | 41.9 | 43.1 | 44.5 | 48.9 | 48.6 | 57.8 | 55.1 | 61.6 |
| Unemployment Rate - year avg | 7.5 | 6.8 | 5.9 | 5.8 | 5.8 | 5.8 | 5.8 | 5.8 | 5.8 |
| Inflation | | | | | | | | | |
| CPI - % | 6.8 | 8.1 | 3.7 | 3.8 | 3.5 | 3.9 | 3.5 | 3.5 | 3.5 |
| Interest Rate | | | | | | | | | |
| Reference rate - eop - % | 5.25 | 8.50 | 6.75 | 6.00 | 6.00 | 6.00 | 6.00 | 6.00 | 5.50 |
| Balance of Payments | | | | | | | | | |
| PYG / USD - eop | 6877 | 7340 | 7275 | 7913 | 6500 | 7150 | 6850 | 7200 | 6850 |
| Trade Balance - USD bn | 1.0 | -1.3 | 1.6 | -0.5 | -1.5 | -1.5 | 0.0 | 0.5 | 0.0 |
| Current Account - % GDP | -1.1 | -7.1 | -0.4 | -3.8 | -4.0 | -4.0 | -2.0 | -1.8 | -2.0 |
| Net Foreign Direct Investment - % GD | 0.5 | 1.7 | 0.8 | 0.8 | 1.5 | 1.5 | 2.0 | 2.0 | 2.0 |
| International Reserves - USD bn | 9.9 | 9.8 | 10.2 | 9.9 | 10.5 | 10.0 | 10.5 | 10.5 | 11.0 |
| Public Finances | | | | | | | | | |
| NFPS Nominal Balance - % GDP | -3.6 | -3.0 | -4.1 | -2.6 | -1.9 | -1.9 | -1.5 | -1.5 | -1.5 |
| Gross Public Debt - % GDP | 33.8 | 35.8 | 38.2 | 40.5 | 42.2 | 42.2 | 41.5 | 41.5 | 40.3 |

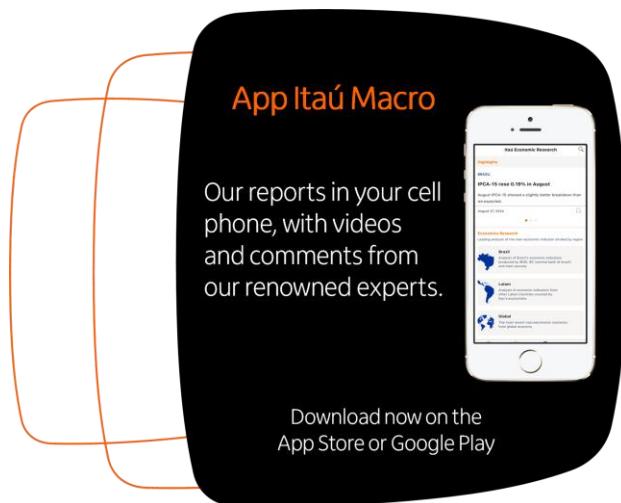
Source: FMI, Haver, Bloomberg, BCP, Itaú.

Macro Research – Itaú

Mario Mesquita – Chief Economist

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