

Macro scenario - Paraguay



July 16, 2025

GDP growth revised up

- ▶ GDP growth surprised to the upside in 1Q25, leaving an even higher carryover for 2025. Consequently, we revised our 2025 GDP growth forecast to 4.3%, up from 3.5% in our previous scenario.
- ▶ We maintained our 2025 inflation forecast at 4.0% and envisage the BCP keeping the policy rate unchanged at 6.0% through yearend.

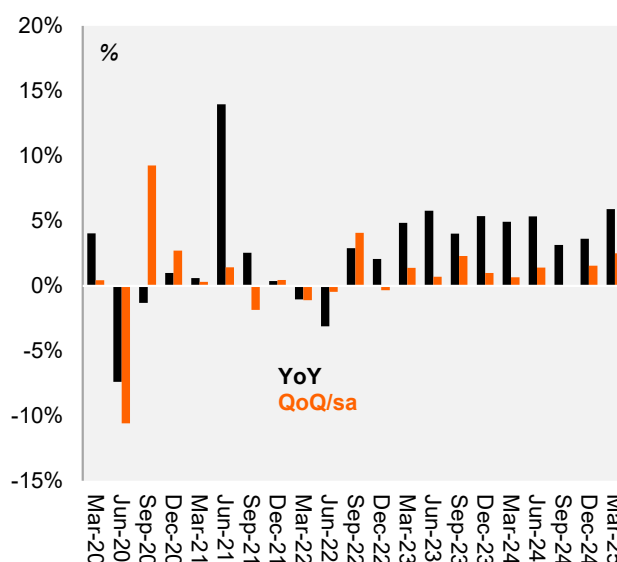
GDP expanded at solid pace in 1Q25...

GDP expanded by 5.9% in 1Q25, up from 3.6% in 4Q24. On the supply-side, the annual positive performance was driven by construction (+12.9% yoy), livestock, forestry and fishing (+10.8% yoy), and the electricity sector (+8.3% yoy) due to the recovery of the level of the Paraná river. Manufacturing expanded 6.6% yoy driven by meat, chemical and textile sectors among others. Services expanded by a solid 6.0% yoy led by the commercial sector helped by tourism sector amid positive spillovers from Argentina (stronger ARS). Conversely, the agricultural sector fell by 3.4% yoy affected by a lower soybean harvest due to drought conditions. At the margin, using our seasonally adjusted series, GDP rose by 2.5% sequentially in 1Q25, leaving the statistical carryover for 2025 at 4.1%.

...and will likely continue growing in 2Q25

The GDP proxy (IMAEP) fell 0.1% MoM /SA in May, after growing by 2.3% in April. Consequently, the IMAEP expanded by 1.8% QoQ/SA. On an annual basis, the proxy increased by 6.2% YoY in May and by 4.8% YoY in the rolling quarter. The monthly GDP proxy, excluding agriculture and bi-nationals, rose by 2.6% QoQ/SA in the rolling quarter. On an annual basis, the index increased by 6.6% in May and 5.4% YoY in the quarter ended in that month, driven by services, manufacturing, and energy generation. Conversely, agriculture and livestock showed lower dynamism, likely due to the moderate drought.

GDP



Source: BCP, Itaú

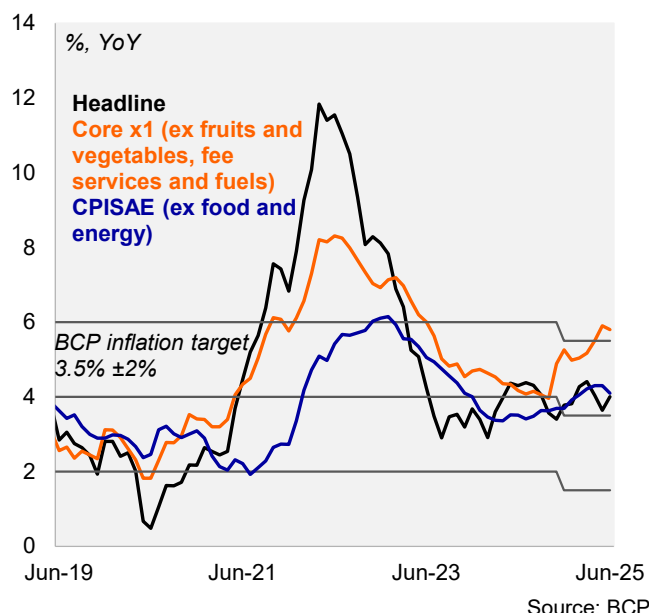
Monthly inflation eases at the margin

CPI in June was flat from May (0.0% MoM), in line with our forecast (0.0%) and below the market consensus (0.2%), according to the BCP survey.

In the monthly behavior, the increases in goods such as fuel (3.2% MoM), clothing (0.34% MoM) and certain services (0.1% MoM) stand out, offset by decreases in food goods such as fruits and vegetables (-4.8% MoM) and meat (-1.3% MoM), as well as some imported durable goods. The Core CPI X1 (which excludes fruits and vegetables, regulated service prices and fuel) remained flat from May, (0.0% MoM) down from 0.1% a year ago. On an annual basis, headline inflation rose to 4.0% in June (up from 3.6% in May), while the Core X1 CPI stood at 5.8% (from 5.9% in the previous month). We note that annual headline inflation has remained within the

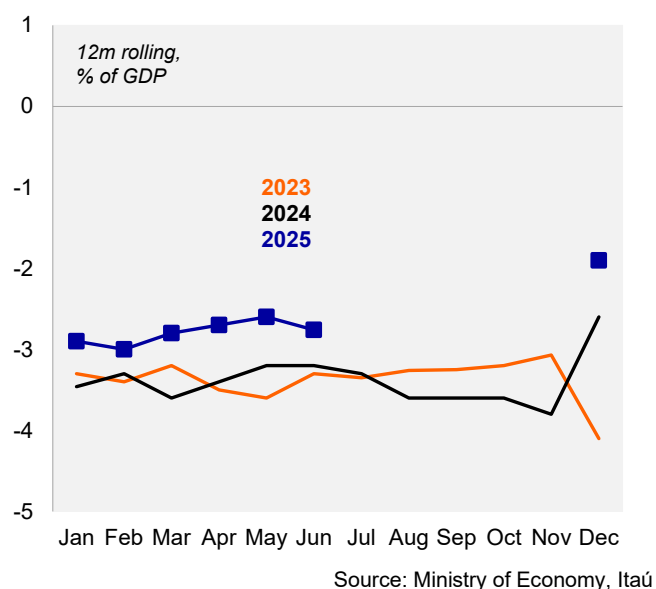
tolerance range of the BCP's inflation target since April 2023, while core X1 is slightly above the tolerance range.

Annual inflation



nominal fiscal deficit accumulated in the first half of the year reached 0.5% of GDP, compared to the year-end official deficit forecast of 1.9% of GDP.

Nominal Fiscal Balance



No rate cuts in sight

In the June monthly monetary policy meeting, the central bank's Monetary Policy Committee kept the policy rate at 6.00% for the fifteenth consecutive month. According to the statement, the committee reaffirmed its commitment to price stability and will continue to monitor domestic and external developments closely, anticipating their potential implications for inflation, and will take appropriate measures to ensure compliance with the 3.5% target over the monetary policy horizon. Furthermore, the BCP highlighted the slight decrease in 12-month inflation expectations. 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 of 1.3%-2.6%.

Fiscal deficit widened, but remains in line with the target

The fiscal deficit widened in June. The 12-month rolling fiscal deficit rose slightly to 2.76% of GDP in June, up from 2.6% of GDP in May). Real tax revenues fell by 5.7% YoY in 2Q25 (+10.2% yoy in 1Q25), while real primary expenditures fell by 6.7% YoY in the same period (+13.9% yoy in 1Q25). Consequently, the

Higher growth for 2025

We upgraded our 2025 GDP growth forecast to 4.3%, from 3.5% in our previous scenario mainly due to tracking in 1Q25. On the demand side, we expect private consumption to continue supporting growth helped by spillovers from Argentina. However, the agriculture sector may be a drag due to a moderate drought.

Our inflation forecast remains unchanged at 4.0% for YE25. Even though inflation in the year through June reached 3.0%, the recent appreciation of the PYG should moderate pressure on tradable prices. Of note, the recent increase in gasoline prices adds an upside bias to our forecast.

We also maintained 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. Disciplined management of the fiscal accounts supports our call. The administration plans on presenting a set of economic reforms to Congress that have the objective of boosting structural growth, foster employment creation, and modernize the State, paving the way for further fiscal consolidation in 2026.

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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	4.3	3.5	3.5	3.5
Nominal GDP - USD bn	35.4	39.9	41.9	43.1	44.5	45.9	45.3	48.5	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

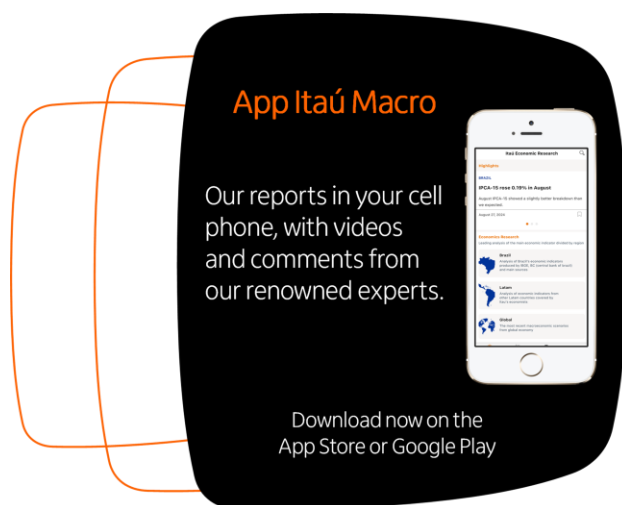
Source: FMI, Haver, Bloomberg, BCP, Itaú.

Macro Research – Itaú

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