

Macro scenario - Paraguay



September 1, 2025

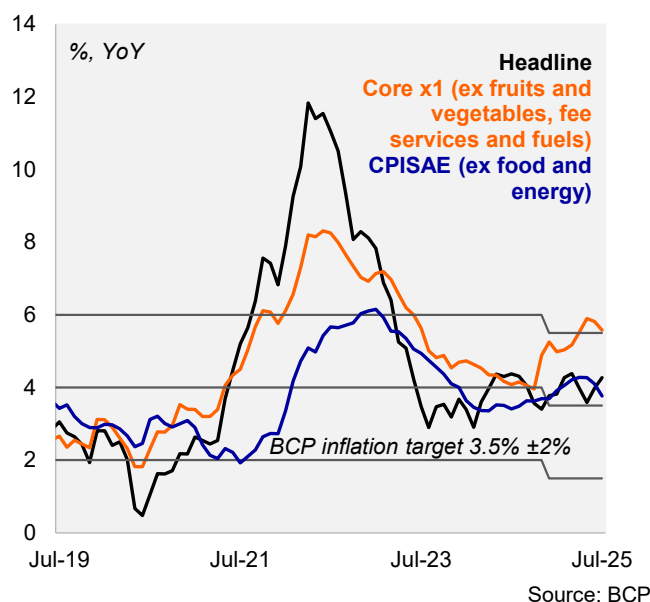
A stronger PYG

- ▶ Activity continued to expand in 2Q25 leading us to maintain our 2025 GDP growth forecast at 4.3%.
- ▶ We maintained our 2025 inflation forecast at 4.0%, but now with upside risks given higher than expected figure in July. We believe that the recent appreciation of the PYG will moderate the pressure on tradable prices in the future.
- ▶ We revised our exchange rate forecast to PYG/USD 7,750 from PYG/USD 8,000 in our previous scenario. The international outlook, with a weaker global dollar, plays in favor of the PYG.

Annual inflation accelerated in July

CPI in July rose by 0.4% MoM, above our forecast and the market consensus (0.1%), according to the BCP survey. On a monthly basis, increases in food goods such as fruits and vegetables (4.1% MoM), seasonal services such as tourism packages (18.8% MoM) and fuel (2.3% MoM) stood out, offset by decreases 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) remained stable in July (0.0% MoM) down from 0.2% a year ago. On an annual basis, headline inflation rose to 4.3% in July (up from 4.0% in June), while the Core X1 CPI fell at the margin to 5.6% (down from 5.8% in the previous month). We note that headline inflation on an annual basis remains within the tolerance range of the BCP's inflation target (3.5% +/- 2%), while core X1 is slightly above the ceiling of the tolerance range.

Annual inflation



BCP on hold again

In the July monetary policy meeting, the BCP kept the monetary policy rate at 6.00% for the sixteenth consecutive month, in line with our call and market expectations (according to the BCP's survey).

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. Moreover, the BCP highlighted the stabilization in 12-month inflation expectations.

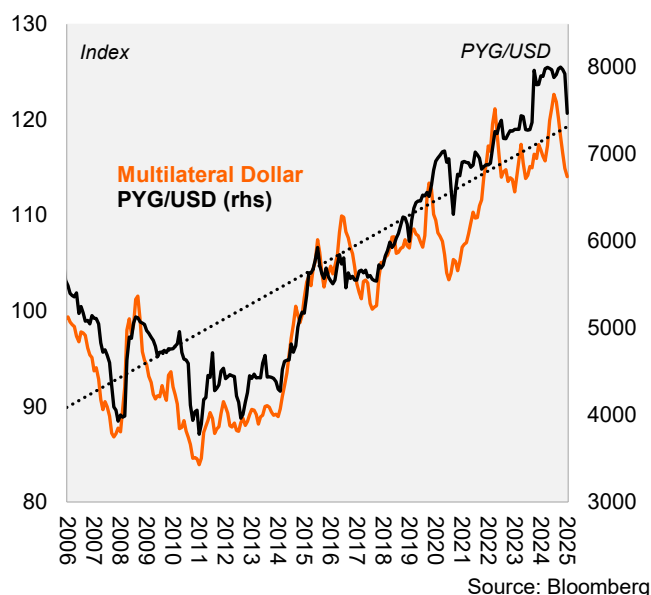
Therefore, we estimate that the real ex-ante policy rate

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%.

Stronger PYG driven by a weaker USD

Like other emerging market currencies, the PYG has benefited from a weaker global USD. The PYG has appreciated at the end of July from 8,000 in April, also helped by the rise in domestic rates (for example, yields stood at around 9.5% in the last Treasury auction in June, compared to 8.4% in March). This occurs at the same time that the Central Bank stopped intervening in the foreign exchange market.

Multilateral dollar vs. PYG/Dollar Exchange Rate

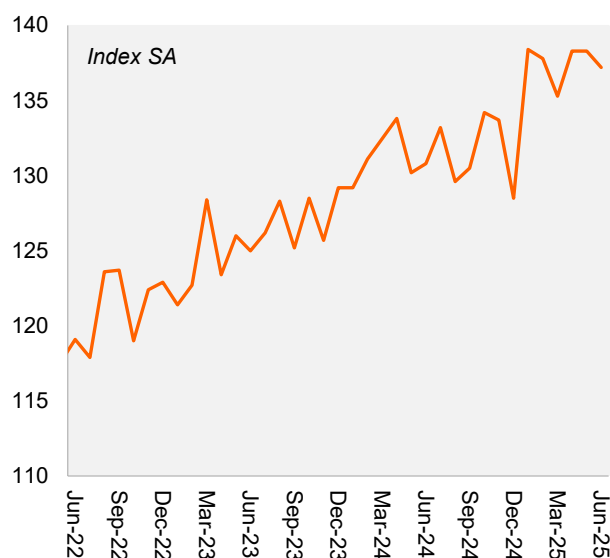


Activity expanded in 2Q25

The GDP proxy (IMAEP) fell by 0.8% MoM/SA in June, after remaining stable in May. Consequently, the IMAEP increased by 0.6% QoQ/SA in 2Q25. On an annual basis, the proxy rose by 4.8% YoY in June and by 4.9% YoY in 2Q25. The monthly GDP proxy, excluding agriculture and bi-nationals, rose by 0.9% QoQ/SA in 2Q25. On an annual basis, the index fell by 0.9% in June but increased 5.3% YoY in the quarter ended in that month. The annual increase was driven primarily by the services, manufacturing, energy generation, and livestock sectors. Conversely, favorable momentum in economic activity was dampened by agriculture and construction. In agriculture, the annual decline was due to lower soybean production. In construction, the decline was due to an increased number of rainy days that

hindered the normal progress of public and private projects.

Activity Index



Growth remains on track

We maintained our 2025 GDP growth forecast at 4.3%, mainly due to tracking in 2Q25. On the demand side, we expect private consumption to continue supporting growth. However, the agriculture sector may be a drag due to a moderate drought.

Our inflation forecast remains unchanged at 4.0% for YE25, but now with upside risks. Even though inflation in the year through July reached 3.3%, the PYG appreciation should moderate pressure on tradable prices.

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.

Andrés Pérez M.
Diego Ciongo
Soledad Castagna

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	4.3	3.5	3.5
Nominal GDP - USD bn	35.4	39.9	41.9	43.1	44.5	47.4	45.9	50.0	48.5
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	7750	8000	7900	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

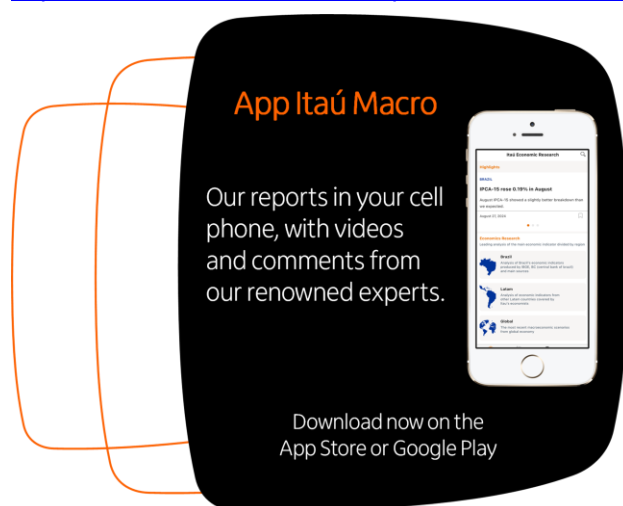
Source: FMI, Haver, Bloomberg, BCP, Itaú.

Macro Research – Itaú

Mario Mesquita – Chief Economist

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