Macro scenario - Paraguay

March 6, 2026

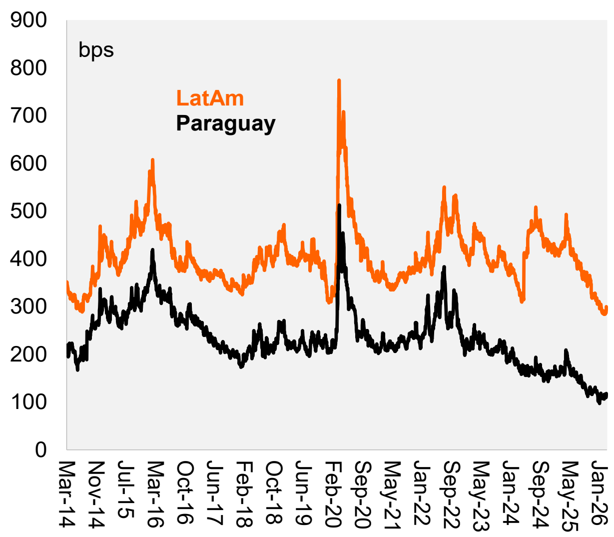
Upside risks to GDP growth

- We maintained our 2026 GDP growth forecast at 4.0%, with upside risks stemming from prospects of a record soybean harvest. In fact, the latest USDA report estimates a soybean production of 11.5 million tons, up by 12.7% YoY.
- We foresee inflation at 3.5% for YE26, supported by a strong PYG. We now foresee the exchange rate at USD/PYG 6,650 in December, underpinned by the record soybean harvest and still-weak global USD.
- Our YE26 monetary policy rate forecast remains at 5.25%, consistent with one additional rate cut at the next meeting. However, recent pressures on oil prices in the context of tensions in the Middle East could prompt a pause in the easing cycle.

New debt issuance

Paraguay returned successfully to international markets. The government issued its third local-currency sovereign bond, totaling USD 1 billion (bid-to-cover of 1.5x), at an 8.5% interest rate - and a 12-year maturity. Additionally, the government reopened the dollar-denominated bond maturing in 2055 for USD 300 million. Thus, the appetite for Paraguayan debt remains strong. In fact, the EMBI neared 100 bps, reaching a new historical low.

Embi+

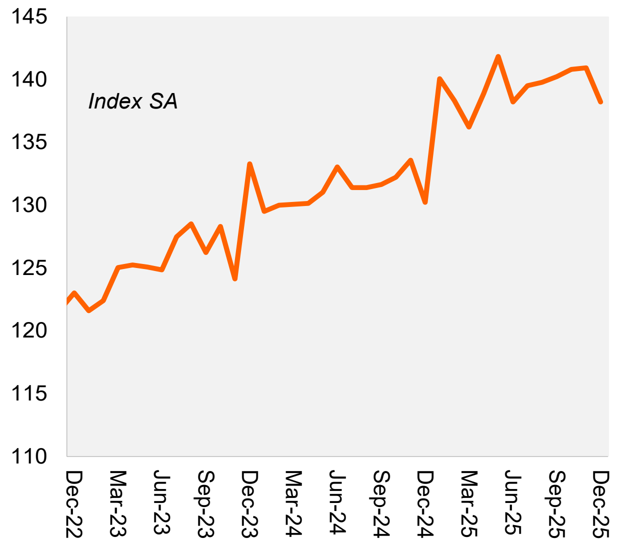


Source: Bloomberg

Activity stabilizes at the margin in 4Q25

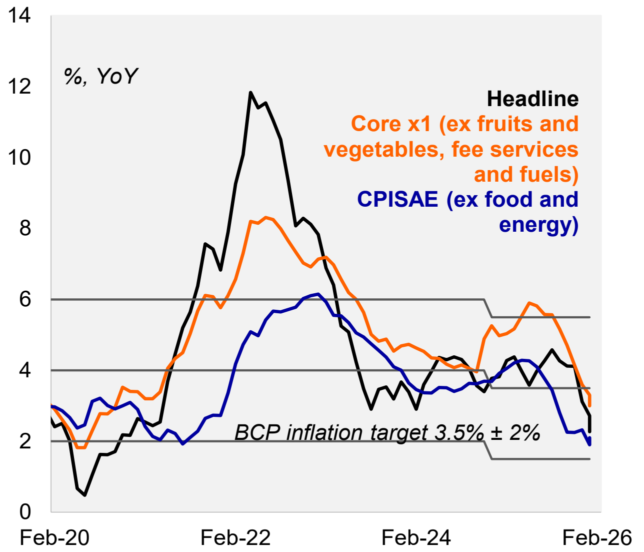
The monthly GDP proxy (IMAEP) rose by 5.5% year on year (YoY) in December. All sectors expanded in the last quarter of the year, led by the primary sector (+10.4% YoY), explained by higher production of corn, wheat, rice, and cotton mitigated by lower soybean production. Manufacturing increased by 4.8% YoY during the period, while the secondary sector expanded by 6.1% YoY, supported by higher energy distribution. The services sector increased by 4.6% YoY, driven by financial sector and the spillovers from the macro adjustment in Argentina in the commerce and tourism sectors in Paraguay. At the margin, activity grew 0.1% qoq/sa in 4Q25, repeating the same growth as the previous quarter. Overall, according to the monthly GDP proxy, the Paraguayan economy expanded by 6.0% in 2025, leaving a 0.4% statistical carryover for 2026. Paraguay has persistently outperformed on growth over the last few years.

Monthly GDP proxy



Source: BCP

Annual inflation



Source: BCP

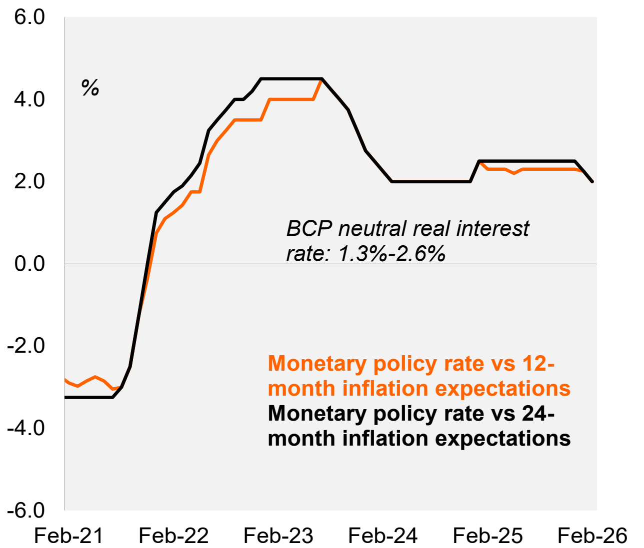
Another benign inflation print in February

CPI was flat in February (0.0% MoM). Service prices increased (1.1% MoM), mainly reflecting the rise in education services (5.8%). Nonetheless, monthly declines in food goods (-0.8%) and fuel (-2.7%), supported by a strong PYG, helped contain the monthly uptick. Core CPI x1 (excludes fruits and vegetables, regulated service prices and fuel) stood at 0.1% MoM (from 0.4% a year ago). On an annual basis, headline inflation fell to 2.3% in February, the lowest annual print since December 2020, while core X1 CPI decreased to 3.0%, from 3.3% in the previous month. We note that both the headline and the core remain within the tolerance band of the BCP's inflation target (3.5% +/- 2%).

The BCP moves forward with the easing cycle

In February, the Central Bank unanimously cut the monetary policy rate by 25-bps, to 5.50%, marking the second consecutive cut. The MPC highlighted that inflationary pressures have eased in recent months, primarily due to lower inflation in goods, amid a stronger PYG. Inflation is expected to continue below the target for most of 2026, converging to the target towards the end of the year. Additionally, the Committee highlighted the consolidation of inflation expectations at the target of 3.5% across all horizons. We estimate the one-year ex-ante real policy rate at 2.00%, remaining within the BCP's neutral real interest rate range (1.3%–2.6%).

Ex-ante real interest rate



Source: BCP

Fiscal deficit stabilizes at the margin

The 12-month rolling fiscal reached 2.0% of GDP in January, unchanged from December. Real tax revenues fell 3.9% YoY in the quarter ended in January. Meanwhile, real primary expenditure declined 0.6% yoy in the quarter ended in January, driven by a 28.9% drop in spending on goods and services. The 2026 budget approved by Congress targets a nominal fiscal deficit of 1.5% of GDP, aligned with the Fiscal Responsibility Law. Importantly, the administration's bill that reforms the public retirement and pensions system has advanced in Congress.

Upside bias for growth

We maintained our 4.0% GDP growth forecast for 2026, with upside risks from the record soybean harvest projected by the USDA. Spillovers from Argentina in the services sector and new FDI projects will further support growth.

Our inflation forecast remains at 3.5%. The sustained PYG appreciation since 2S25 should maintain durable goods prices under control throughout the first half of the year. We revised our exchange rate forecast for 2026 amid a weaker global USD. Thus, we now foresee the exchange rate at PYG/USD 6,650 by YE26, from PYG/USD 6,850 in our previous scenario.

Our monetary policy rate forecast for YE26 stands at 5.25%, consistent with one more rate cut in the next meeting to be held on 20 March. Consistently, we estimate that the nominal neutral interest rate range is between 4.8% and 6.1%, with a median value of 5.2%. However, recent pressures on Brent oil prices amid the US and Iran conflict could lead to a pause in the easing cycle.

We project a nominal fiscal deficit of 1.5% in 2026, consistent with the Fiscal Responsibility Law. The fiscal deficit reached 2.0% of GDP in 2025, slightly above the budget estimations. Fiscal compliance with the fiscal targets is key in further strengthening credibility of the fiscal institutional framework.

Andrés Pérez M.
Diego Ciongo
Soledad Castagna

Paraguay | Forecasts and Data

	2022	2023	2024	2025F		2026F		2027F	
				Current	*Previous*	*Current*	*Previous*	*Current*	*Previous*
Economic Activity									
Real GDP growth - %	0.2	5.0	4.2	**6.0**	6.0	**4.0**	4.0	**4.0**	4.0
Nominal GDP - USD bn	41.9	43.1	44.5	**49.8**	49.8	**60.2**	59.3	**64.5**	62.6
Unemployment Rate - year avg	6.8	5.9	5.8	4.8	-	**4.8**	5.8	**4.8**	5.8
Inflation									
CPI - %	8.1	3.7	3.8	3.1	-	**3.5**	3.5	**3.5**	3.5
Interest Rate									
Reference rate - eop - %	8.50	6.75	6.00	6.00	-	**5.25**	5.25	**5.00**	5.00
Balance of Payments									
PYG / USD - eop	7340	7275	7913	6598	-	**6650**	6850	**6650**	6850
Trade Balance - USD bn	-1.3	1.6	-0.5	-1.4	-	**-0.5**	-0.5	**-0.5**	-0.5
Current Account - % GDP	-7.1	-0.4	-3.8	**-4.0**	-4.0	**-2.5**	-2.5	**-2.5**	-2.5
Net Foreign Direct Investment - % GD	1.7	0.8	0.8	**1.5**	1.5	**2.0**	2.0	**2.0**	2.0
International Reserves - USD bn	9.8	10.2	9.9	11.0	-	**10.5**	10.5	**11.0**	11.0
Public Finance									
NFPS Nominal Balance - % GDP	-3.0	-4.1	-2.6	-2.0	-	**-1.5**	-1.5	**-1.5**	-1.5
Gross Public Debt - % GDP	35.8	38.2	40.5	**42.2**	42.2	**41.5**	41.5	**40.3**	40.3

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

Macro Research – Itaú

Mario Mesquita – Chief Economist

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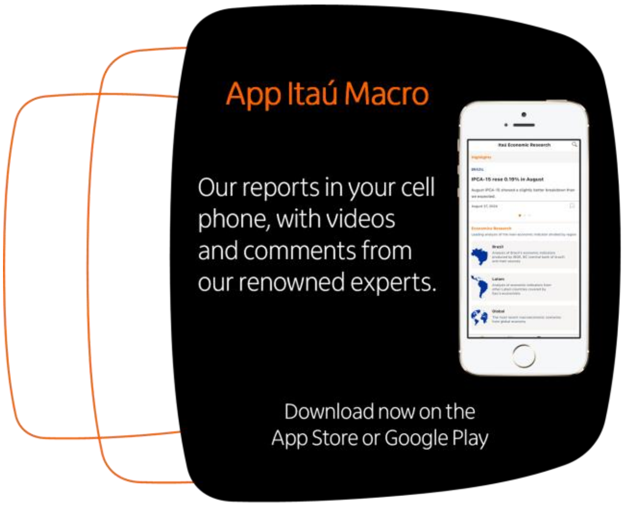

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