

Macroeconomic Research

**Macro Scenario – Paraguay**  
**August 2024**

# PARAGUAY: Investment grade becomes a reality

## 1. Investment Grade Rating Raised by Moody's

Moody's raises rating to investment grade at Baa3 with a stable outlook.

## 2. BCP on hold since February

Lower Fed rates open room to resume rate cuts?.

## 3. Activity expanded in 1H24

Solid performance of leading indicators in 2Q24.

## 4. Well-behaved inflation

Headline and core inflation remaining inside the central bank's target range.

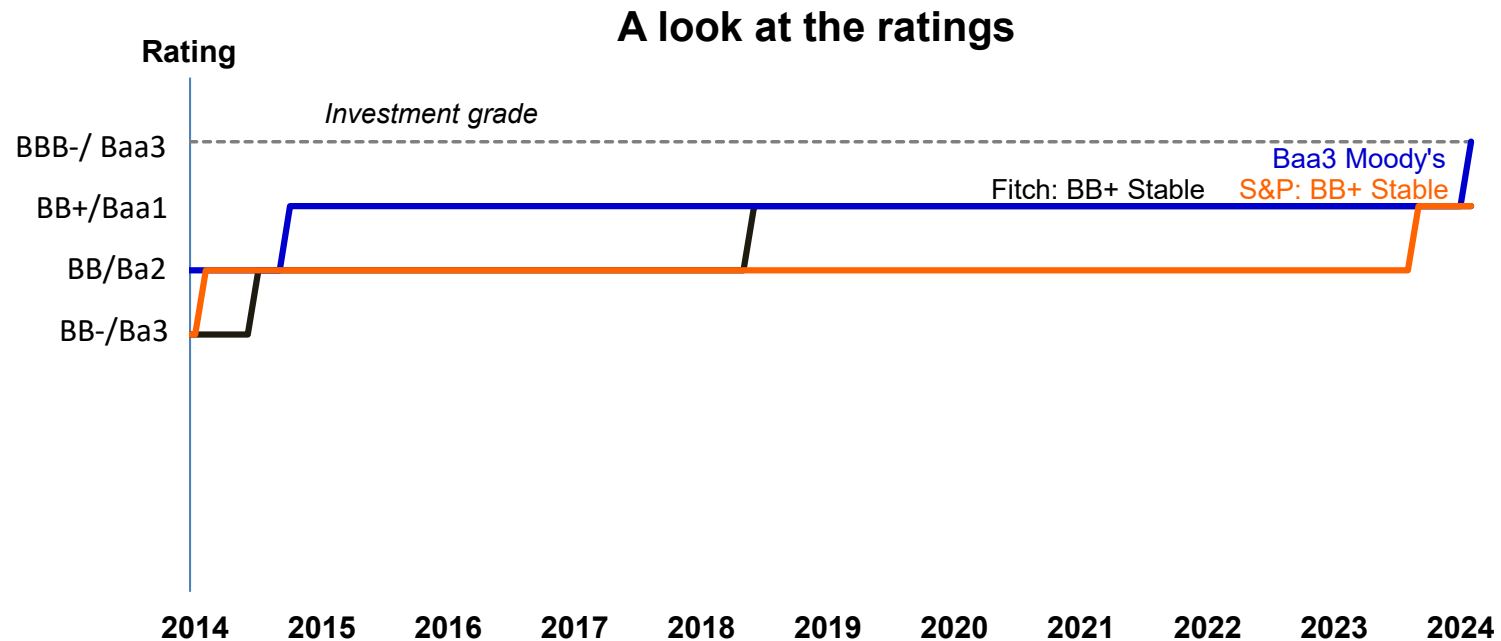
## 5. Fiscal consolidation remains on track

In line with a gradual fiscal consolidation.

# 1. Investment Grade Rating Raised by Moody's

## Moody's raises rating to investment grade at Baa3 with a stable outlook

- Moody's raised Paraguay's long-term foreign debt rating to Baa3 from Ba1 (outlook from positive to stable).
- The upgrade reflects several factors including "robust and sustained economic growth", their expectations that the economy has become more resilient to shocks, and improvement on institutional and governance dimensions.
- S&P and Fitch are still one notch below the investment grade.



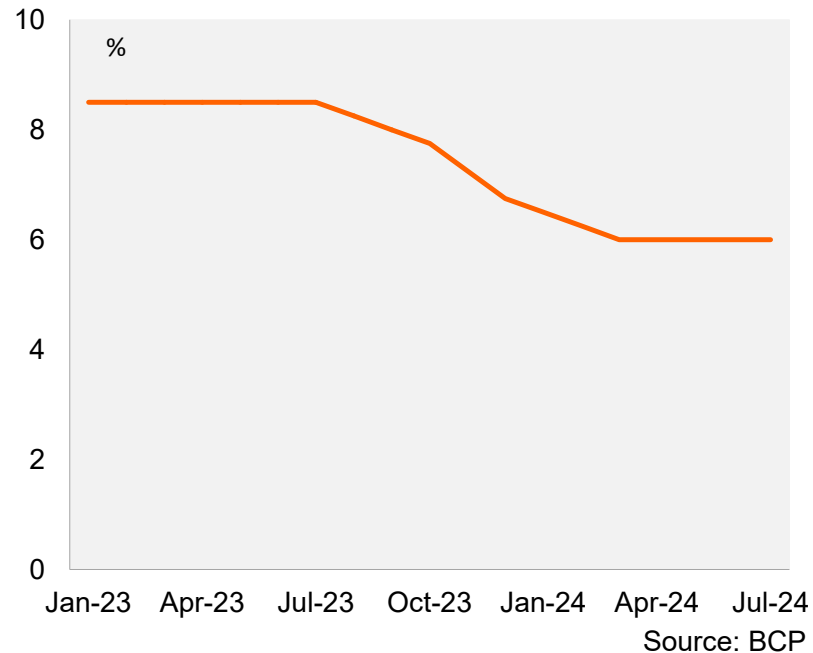
Source: Moody's, S&P and Fitch

## 2. BCP on hold since February

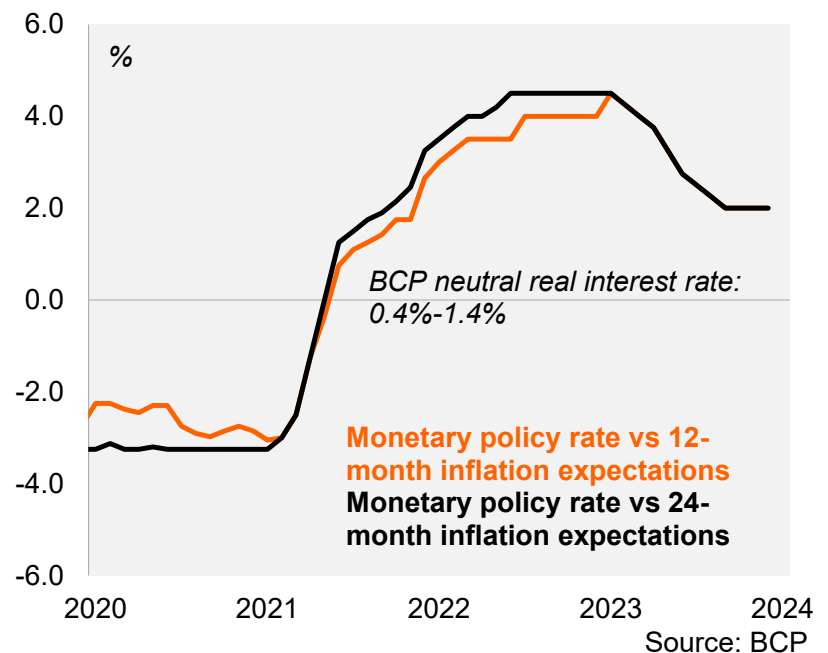
### Lower Fed rates open room to resume rate cuts?.

- The central bank has kept the policy rate unchanged at 6.0% since February.
- In our view, the level of the policy rate remains contractionary at 2.00% (using expectations for the monetary policy horizon), compared with the BCP's neutral real-rate range of 0.4%-1.4%.
- Our new scenario of more Fed cuts this year (3 instead of 2) may put the resumption of domestic rate cuts on the table.
- However, the PYG remains under pressure, leading the central bank to intervene continuously in the FX market.
- Overall, we maintain our year-end target of 6.0%, but we now see a higher probability of rate cuts this year than in our previous scenario.

Monetary policy rate



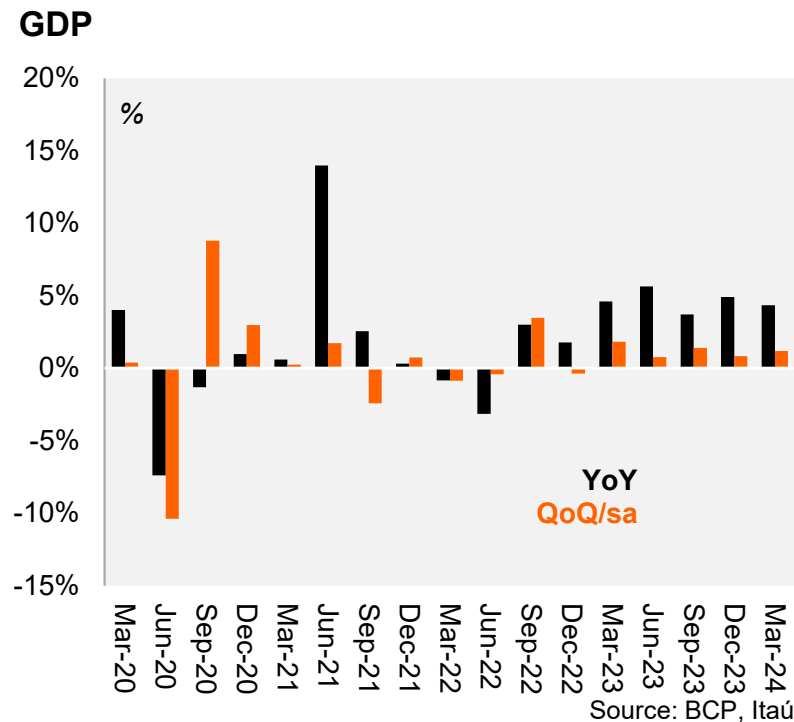
Ex-ante real interest rate



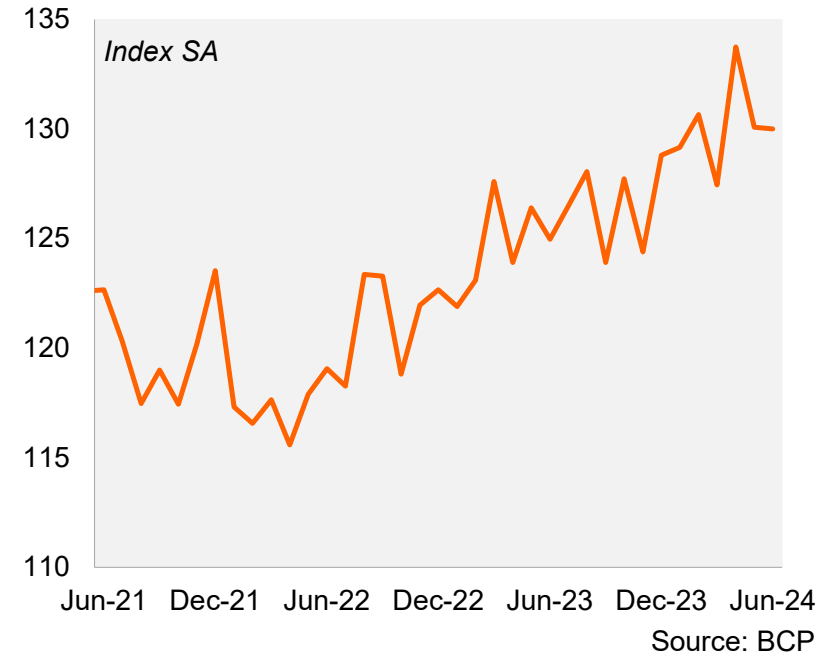
### 3. Activity expanded in 1H24

#### Solid performance of leading indicators in 2Q24

- Leading indicators point to strong activity for 2Q24. The GDP proxy (IMAEP) increased by a solid 1.7% qoq/sa in 2Q24 (same as 1Q24). On an annual basis, the IMAEP increased 5.0% in 2Q24.
- We maintain our GDP growth forecast of 4.0% for 2024.



#### Monthly GDP proxy

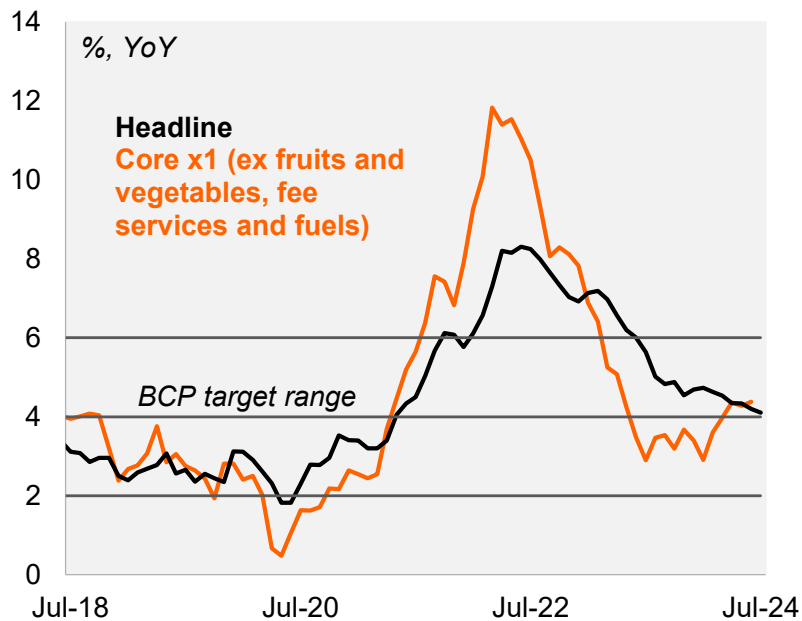


## 4. Well-behaved inflation

### Headline and core inflation remaining inside the central bank's target range

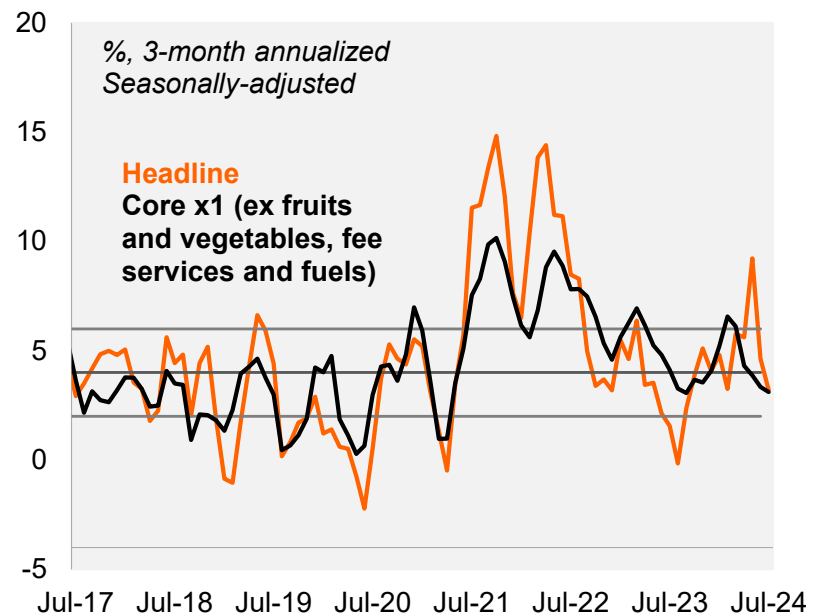
- On an annual basis, headline inflation increased slightly to 4.4% in July (from 4.3% in June), while core X1 CPI declined to 4.1% from 4.2%.
- Our inflation forecast for YE24 stands at 4.3%.

Annual inflation



Source: BCP

Inflation at the margin



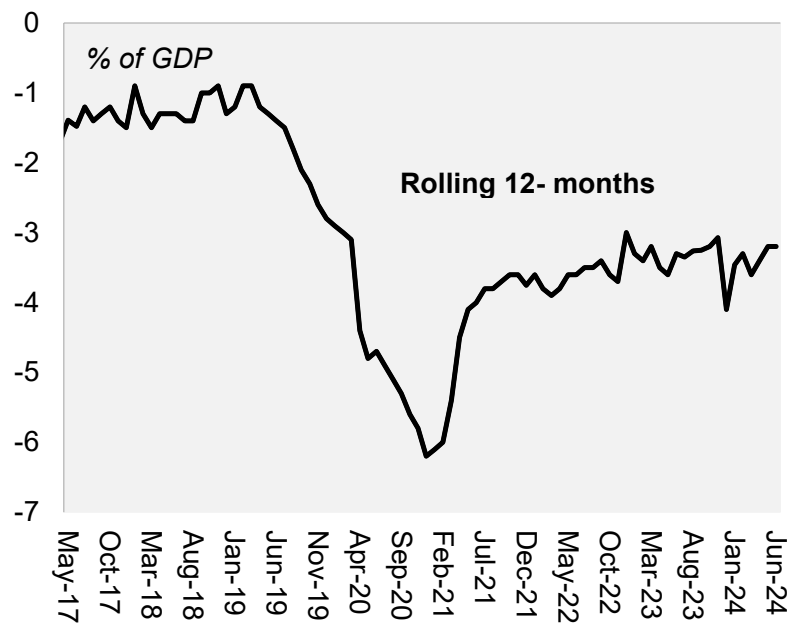
Source: BCP

## 5. Fiscal consolidation remains on track

### In line with a gradual fiscal consolidation

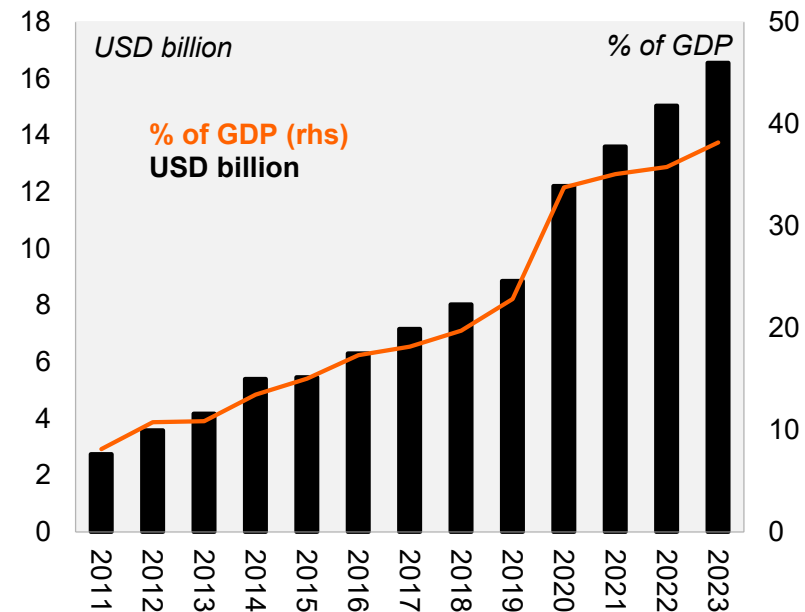
- The estimated 12-month cumulative fiscal deficit was 3.3% of GDP in July, from 4.1% in December 2023.
- Tax revenues rose by 19.1% YoY in real terms in the quarter ended in July, in line with the strong activity.
- Primary expenditures rose by 13.6% yoy in real terms in the same period, led by the increased in expenditure on goods and services.
- Our forecast for the 2024 fiscal deficit remains at 2.6% of GDP, down from 4.1% of GDP in 2023.

Fiscal Balance



Source: Ministry of Treasury

Gross Public Debt



Source: Ministry of Treasury

# Scenario – Paraguay

	2019	2020	2021	2022	2023	2024F		2025F	
						Current	Previous	Current	Previous
<b>Economic Activity</b>									
Real GDP growth - %	-0.4	-0.8	4.0	0.2	4.7	<b>4.0</b>	4.0	<b>4.0</b>	4.0
Nominal GDP - USD bn	38.8	36.1	40.3	42.1	44.7	<b>47.1</b>	47.2	<b>49.8</b>	49.8
Unemployment Rate - year avg	6.6	7.7	7.5	6.8	5.9	<b>6.0</b>	6.0	<b>6.0</b>	6.0
<b>Inflation</b>									
CPI - %	2.8	2.2	6.8	8.1	3.7	<b>4.3</b>	4.3	<b>4.0</b>	4.0
<b>Interest Rate</b>									
Reference rate - eop - %	4.00	0.75	5.25	8.50	6.75	<b>6.00</b>	6.00	<b>5.50</b>	5.50
<b>Balance of Payments</b>									
PYG / USD - eop	6465	6912	6877	7340	7275	<b>7600</b>	7600	<b>7700</b>	7700
Trade Balance - USD bn	0.5	1.5	1.0	-1.3	1.6	<b>0.9</b>	0.9	<b>0.9</b>	0.9
Current Account - % GDP	-0.6	1.9	-0.9	-7.1	0.7	<b>0.0</b>	0.0	<b>0.1</b>	0.1
Net Foreign Direct Investment - % GD	1.4	0.4	0.2	1.7	1.0	<b>2.0</b>	2.0	<b>2.0</b>	2.0
International Reserves - USD bn	7.7	9.5	9.9	9.8	10.2	<b>11.0</b>	11.0	<b>11.0</b>	11.0
<b>Public Finances</b>									
NFPS Nominal Balance - % GDP	-2.9	-6.1	-3.6	-3.0	-4.1	<b>-2.6</b>	-2.6	<b>-1.9</b>	-1.9
NFPS Debt - % GDP	22.9	33.8	33.8	35.8	38.2	<b>40.0</b>	40.0	<b>38.1</b>	38.1

Source: FMI, Haver, Bloomberg, BCP,



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