

Macro scenario - Paraguay



March 24, 2025

Activity will likely continue to grow in 2025

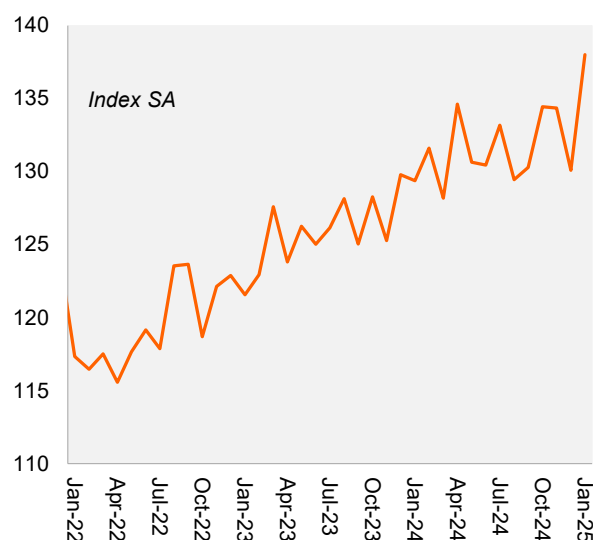
- ▶ With domestic demand driving activity, we have left our 2025 GDP growth forecast unchanged at 3.5%. However, the drought poses downside risk to activity in the agricultural sector and the economy at large.
- ▶ Our YE25 inflation forecast remains unchanged at the BCP's 3.5% target, supported by a slightly contractionary monetary policy rate stance. We forecast the monetary policy rate at 6% by YE25.

The GDP proxy started 2025 on the right foot

The monthly GDP proxy rose sequentially in January

In the central bank's seasonally adjusted series, the monthly GDP proxy (IMAEP) rose by 6.1% MoM/SA in January (from -3.2% in December). In the quarter ending in January, the GDP proxy rose by 2.1% QoQ/SA, after increasing by 1.5% in 4Q24. On an annual basis, the IMAEP increased by 6.7% yoy in January and by 4.4% yoy in the quarter ended in that month (from 3.8% in 4Q24). The monthly GDP proxy excluding agriculture and binationals rose by 7.3% MoM/SA in January and rose by 1.6% QoQ/SA in the quarter ended in that month. On an annual basis, the index increased to 8.7% in January and to 6.4% yoy in the quarter ended in that month. According to the statement, the year-over-year growth was due to the favorable performance of manufacturing, services, livestock and construction sectors. On the negative side, there were activity declines in agriculture and electricity generation. The official GDP data for 2024 is scheduled to be released on March 28.

Monthly GDP proxy

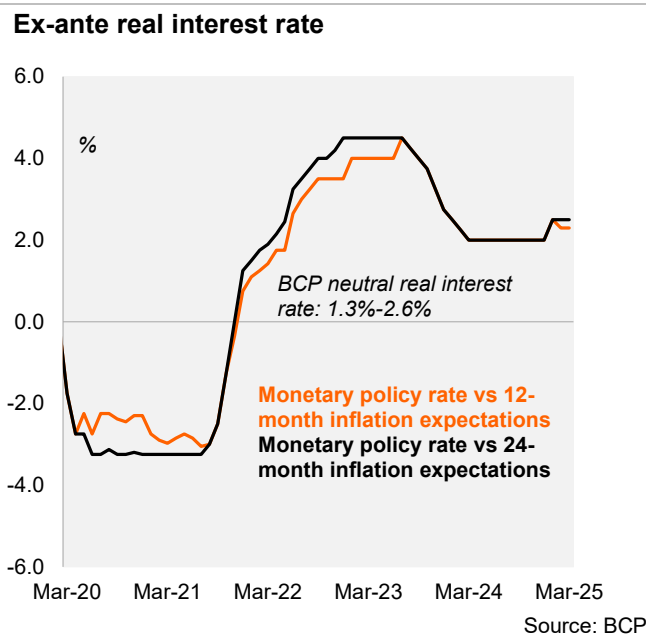
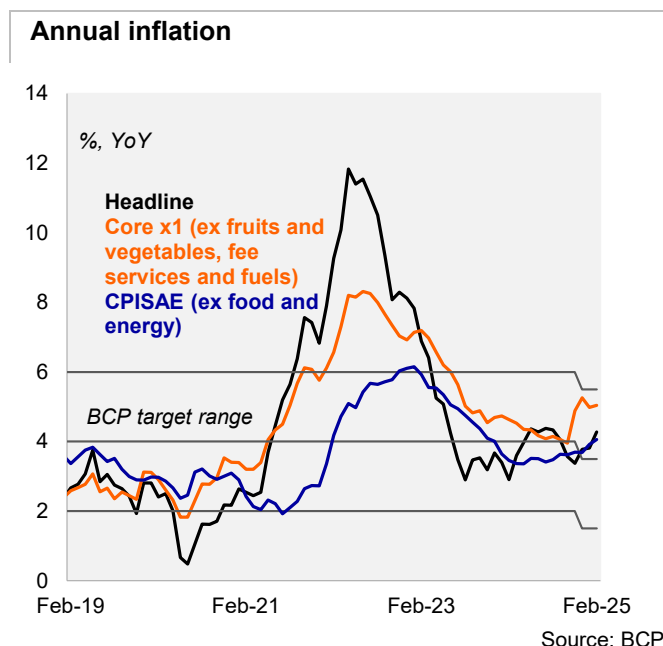


Source: BCP

Inflation surprised to the downside in February

The CPI rose by 0.4% MoM in February (from 0% a year ago), below the 0.5% market consensus estimate according to the BCP survey. Inflation dynamics in the month were mainly driven by higher fuel and services prices, with a significant impact from the annual adjustment in education. Fuel prices rose by 3.5% MoM and had the largest impact on monthly inflation, while education prices increased 4.7% MoM due to tuition and fee increases recorded at all levels. On the other hand, legume prices fell by 5.9% MoM. The Core CPI x1 (which excludes fruits and vegetables, regulated services and fuel) increased by 0.44% (from 0.38% a year ago). On an annual basis, headline inflation rose to 4.3% in February (from 3.8% in January), while the core X1 CPI stood at 5.0%. We note

that both headline and core inflation remain within the BCP’s inflation target tolerance band (3.5% ± 2%).



BCP on hold

At its March monthly policy meeting, the central bank’s monetary policy committee decided to keep the policy rate at 6.00% for the twelfth consecutive month. We estimate that the real ex-ante policy rate remains at 2.5% (using expectations for the monetary policy horizon), compared with the BCP’s neutral real interest rate range of 1.3%-2.6%. On the domestic front, the statement highlighted the stability of inflation expectations for the monetary policy horizon, which remain at 3.5%, in line with the central bank’s revised, lower target. Regarding the international context, the BCP highlighted the fact that the Federal Reserve left the federal funds interest rate unchanged while international prices for oil and main agricultural commodities have decreased over the last month.

Solid economy awaits drought impact

Our 2025 GDP growth forecast remains at 3.5%, with downside risk due to the drought. On the demand side, we expect private consumption to continue supporting growth.

We have left our YE25 inflation forecast unchanged at 3.5%, in line with the center of the BCP’s inflation target range.

In the current context of elevated global policy uncertainty, and with the Fed not expected to deliver cuts this year, we expect the BCP to keep the policy rate at 6.0% through YE25.

We expect fiscal consolidation to continue in 2025. We expect a fiscal deficit of 1.9% of GDP in 2025, down from the 2024 deficit of 2.6% of GDP, in line with the Fiscal Responsibility Law. The government’s disciplined fiscal management supports our call.

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Paraguay | Forecasts and Data

	2020	2021	2022	2023	2024F		2025F		2026F	
					Current	Previous	Current	Previous	Current	Previous
Economic Activity										
Real GDP growth - %	-0.8	4.0	0.2	5.0	4.0	4.0	3.5	3.5	3.5	3.5
Nominal GDP - USD bn	36.1	40.3	42.1	44.7	44.5	44.5	45.7	45.7	48.5	48.5
Unemployment Rate - year avg	7.7	7.5	6.8	5.9	6.0	6.0	5.8	5.8	5.8	5.8
Inflation										
CPI - %	2.2	6.8	8.1	3.7	3.8	-	3.5	3.5	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	-0.9	-7.1	0.2	-3.0	-3.0	-3.5	-3.5	-1.8	-1.8
Net Foreign Direct Investment - % GD	0.4	0.2	1.7	0.8	1.0	1.0	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
NFPS Debt - % GDP	33.8	33.8	35.8	38.2	40.5	40.5	42.2	42.2	41.5	41.5

Source: FMI, Haver, Bloomberg, BCP,

Macro Research – Itaú

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