

Macro scenario - Paraguay



April 16, 2025

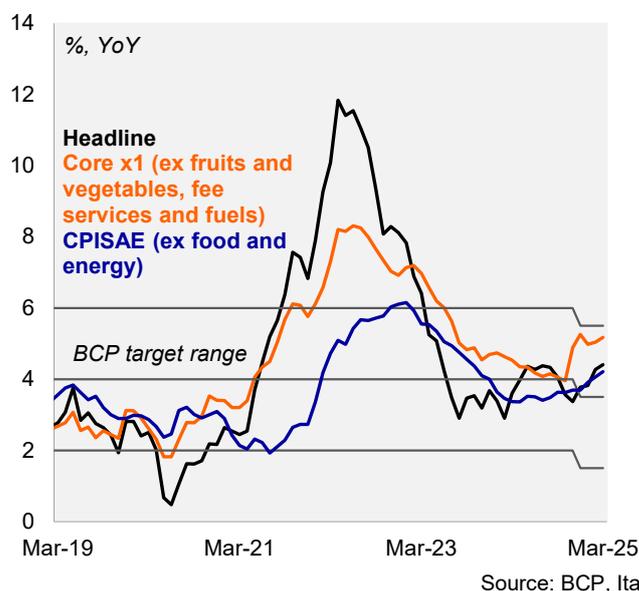
Sticky inflation in a volatile global environment

- ▶ In the context of heightened global policy uncertainty, our 3.5% GDP growth forecast for 2025 faces downside risks due to a moderate drought. We expect private consumption to continue supporting growth.
- ▶ Inflation surprised to the upside in 1Q25 leading us to revise our YE25 forecast to 4.0% from 3.5% in our previous scenario. We expect the BCP to maintain the policy rate at 6.0% until YE25.

Higher-than-expected inflation in March

CPI rose by 1.2% MoM in March (from 1.1% one year ago), well above our forecast (0.3%) and market consensus (0.4%), according to the BCP survey. Following the upside inflation surprises in 1Q25, inflation accumulated in the year reaches 2.6%, above the 2.0% during the same period in 2024. Inflation dynamics in March were mainly characterized by price increases in the food basket, especially fruit and vegetable products, increases in durable goods of imported origin, which were partly offset by the decline in fuel prices. Volatile fruit and vegetables prices rose by 20.6% MoM. In addition, imported consumer goods (excluding fruits and vegetables) increased by 0.3% MoM, partly due to the depreciation of the Guarani against the US dollar. On the other hand, fuel prices fell by 0.8% MoM, driven by downward adjustments in gasoline. The Core CPI x1 (excludes fruits and vegetables, regulated service prices and fuel) increased by 0.5% (from 0.4% a year ago). On an annual basis, headline inflation rose to 4.4% in March (up from 4.3% in February), while the core X1 CPI stood at 5.2%. We note that both the headline and the core remain within the tolerance band of the BCP's inflation target (3.5% +/- 2%).

Inflation

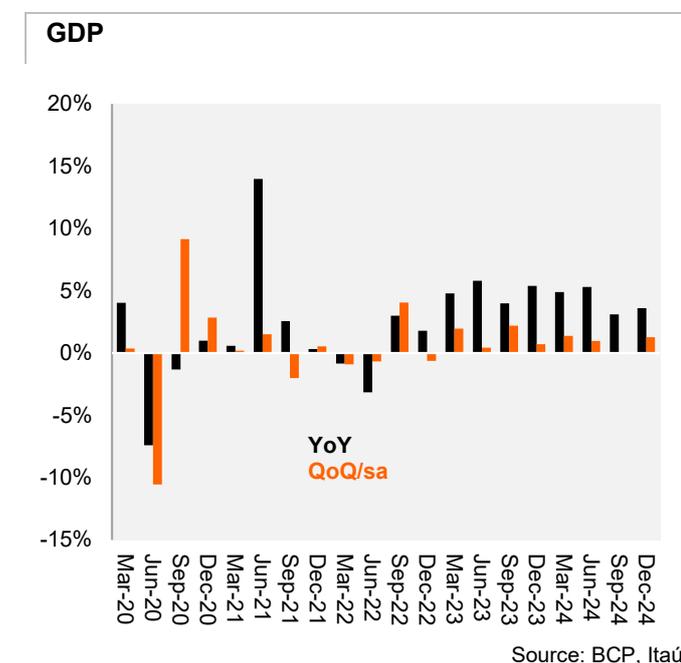


BCP in wait-and-see mode

The central bank's monetary policy committee decided to keep the policy rate at 6.00% for the twelfth consecutive month in March. 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 global context, the BCP noted 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. 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%.

GDP rose by 4.2% in 2024

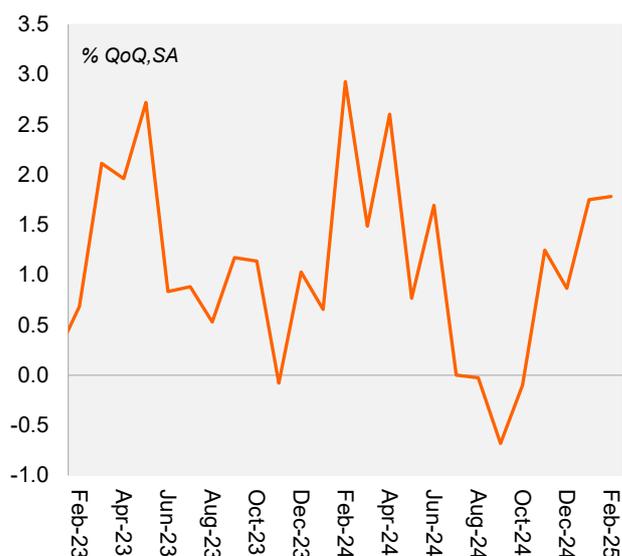
GDP expanded by 3.6% in 4Q24, up from 3.1% in 3Q24. Looking at the breakdown on the supply side, the annual print was influenced by the positive performances in construction, services, manufacturing, livestock, forestry and fishing. On the other hand, the electricity sector contracted on an annual basis affected by the low level of the Paraná river and agriculture also fell, affected by the drought. Thus, in 2024, GDP expanded at a solid 4.2%, down slightly from the 5.0% growth in 2023. At the margin, using our seasonally adjusted series, GDP rose sequentially in 4Q24 (1.3% QoQ/sa), leaving the statistical carryover for 2025 at 1.2%.



Leading activity indicators point to an improvement at the start of 2025

The GDP proxy (IMAEP) rose by 1.8% QoQ/SA in February. On an annual basis, the IMAEP increased by 4.9% yoy in February and by 3.6% yoy in the quarter ended in that month. The monthly GDP proxy excluding agriculture and binationals rose by 0.4% QoQ/SA in the quarter ended in February. On an annual basis, the index increased to 6.0% in February and 4.8% YoY in the quarter ended in that month. On an annual basis, growth was due to most sectors, while agriculture weighed on economic activity.

Monthly GDP proxy



Higher Inflation

In the context of heightened global policy uncertainty, our 2025 GDP growth forecast remains at 3.5%, with downside risks due to the drought. On the demand side, we expect private consumption to continue supporting growth helped by spillovers from Argentina. The positive performance of leading indicators has led us to maintain our growth forecast for this year, for now.

We revised our inflation forecast for YE25 to 4.0% from 3.5% in our previous scenario, mainly reflecting the upside surprises in 1Q25. Lower commodity prices, in particular oil, should help to decelerate inflation during the rest of the year.

We maintained our YE25 policy rate forecast at 6.0%. 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 activity, and inflation surprised to the upside in 1Q25, although inflation expectations remain well-behaved.

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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	3.5	3.5	3.5	3.5	
Nominal GDP - USD bn	35.4	39.9	41.9	43.1	44.5	45.7	45.7	48.3	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	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	-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	
NFPS 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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