

Macroeconomic Research

PARAGUAY: Top themes for 2026

Paraguay: Top themes for 2026

1. What is the balance of risks to GDP growth in 2026?

- We expect 4.0% GDP growth in 2026, still driven by consumption supported by spillovers from Argentina's ongoing macroeconomic adjustment.

2. What is our inflation scenario?

- We foresee inflation at 3.5% by the end of the year, in line with the central bank's inflation target.

3. Will the central bank have room to continue to cut rates?

- Inflation aligned with the BCP's target, together with expectations of Federal Reserve rate cuts, points to room for further monetary easing.

4. What is the balance of risks for the currency?

- Benign external environment coupled with good perspective for soybean harvest support a stable currency in real terms.

5. Will fiscal consolidation continue?

- We expect a fiscal deficit of 1.5% of GDP in 2026, in line with the fiscal responsibility law.

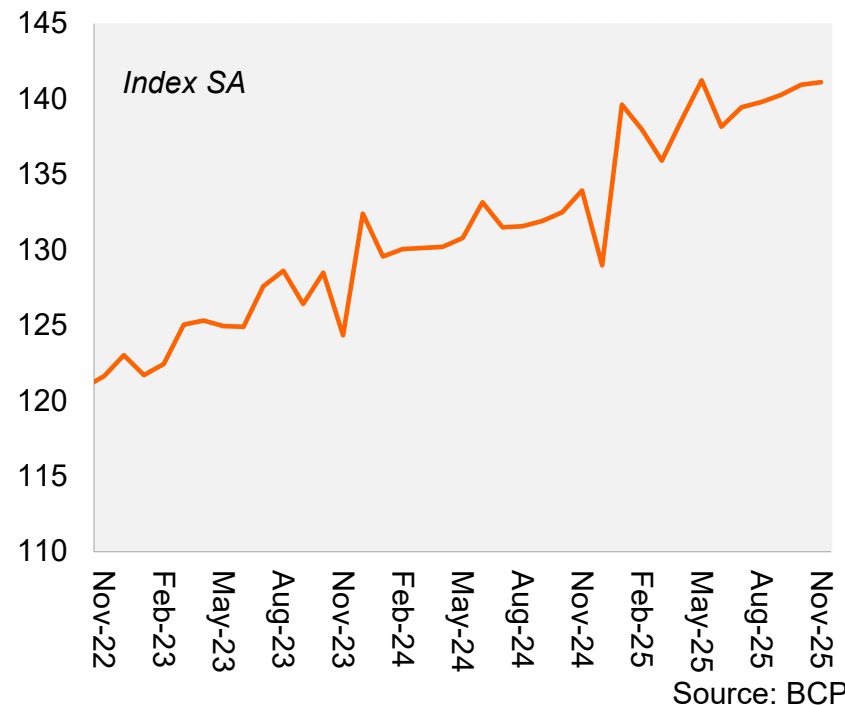
▪ 6. Forecasts.

1. What is the balance of risks to GDP growth in 2026?

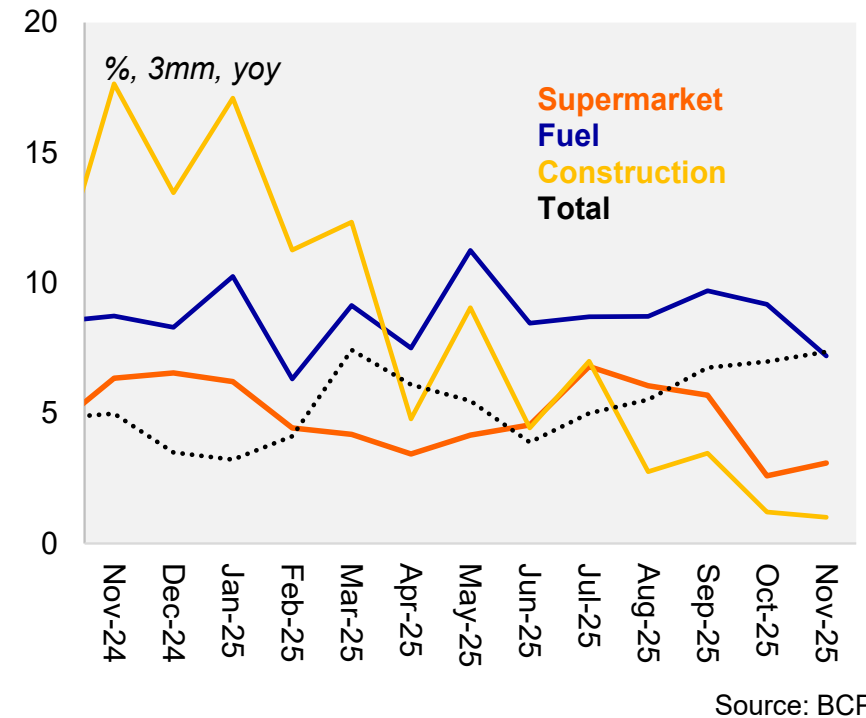
We kept our 2026 GDP growth call at 4.0%.

- On the demand side, private consumption is expected to continue supporting growth, alongside positive spillovers from Argentina's ongoing macroeconomic adjustment.
- Positive outlook for this year's soybean harvest.

Monthly GDP proxy



Large business sales indicator

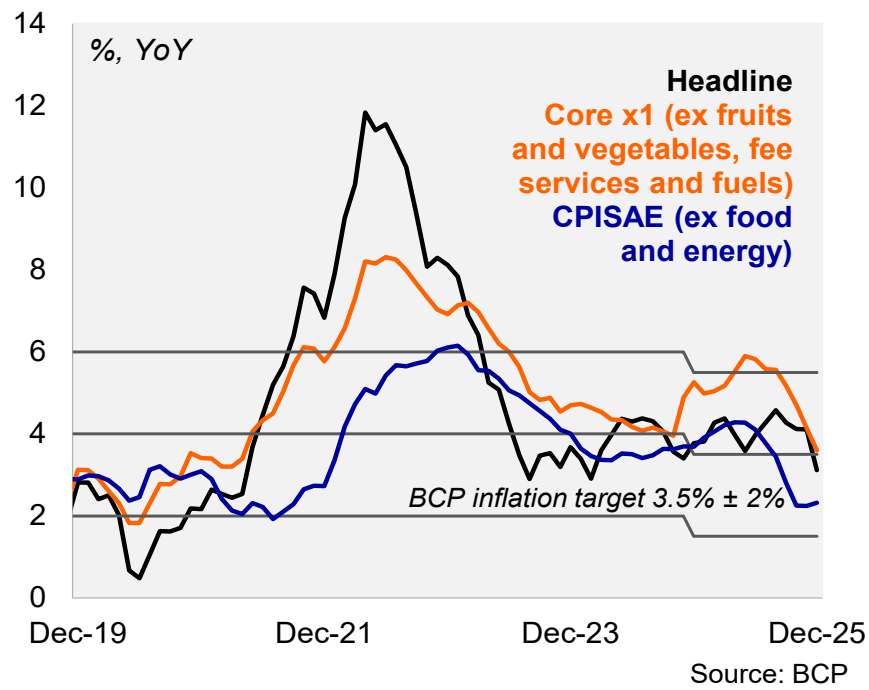


2. What is our inflation scenario?

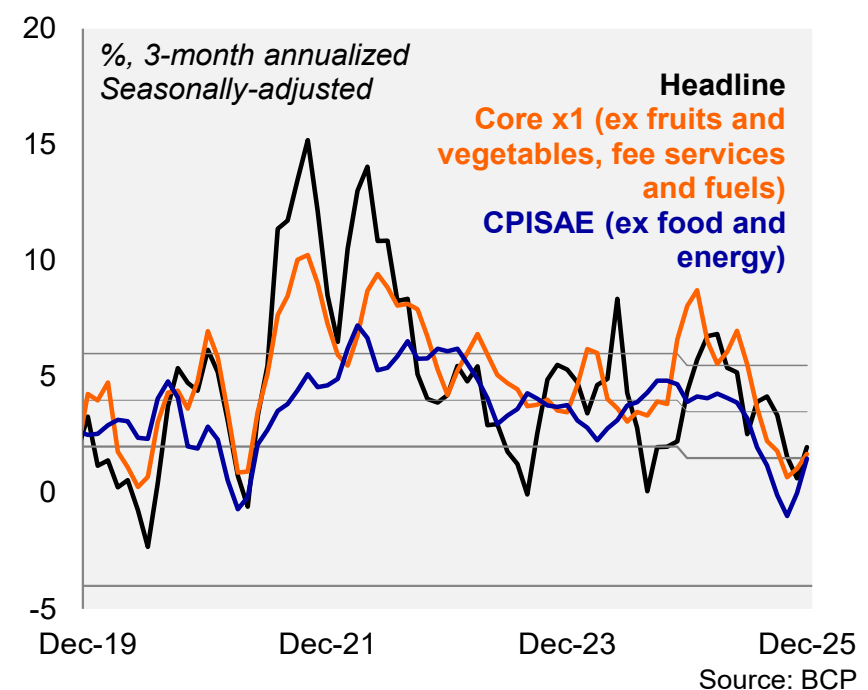
We foresee inflation at 3.5% in YE26, in line with the central bank's inflation target.

- Inflation fell by 0.3% MoM in December, while headline inflation hit 3.1% YoY in December.
- We expect inflation to remain within the central bank's target (3.5% +/- 2%) during 2026.

Annual inflation



Inflation at the margin

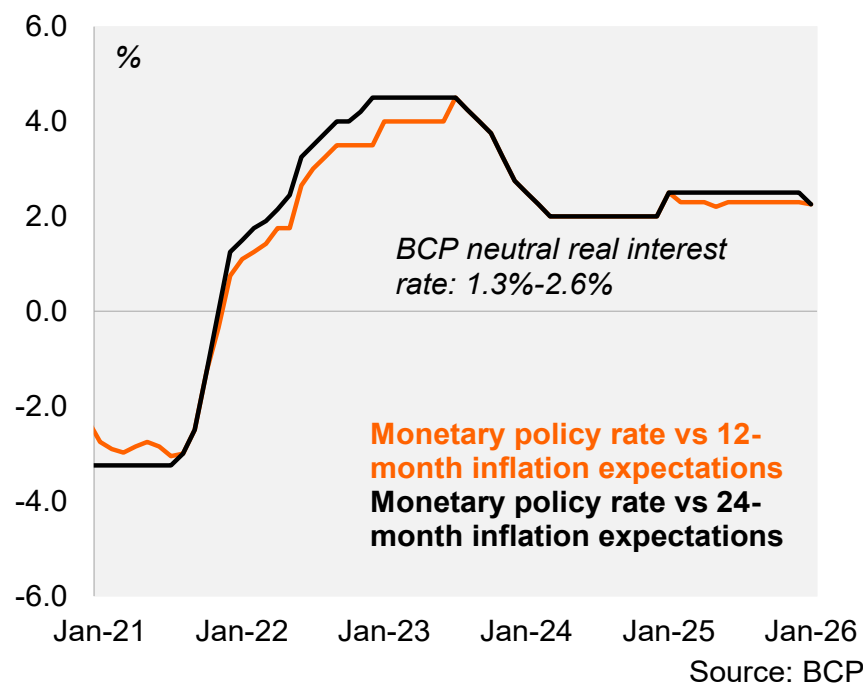


3. Will the central bank have room to continue to cut rates?

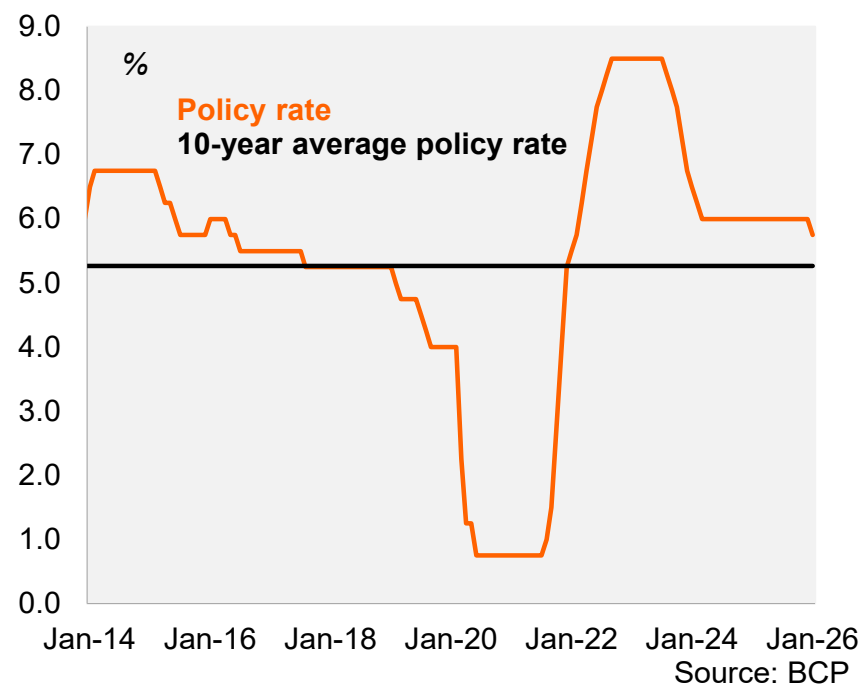
Inflation aligned with the BCP's target, together with expectations of Federal Reserve rate cuts, open room for further monetary easing.

- In the first Monetary Policy Committee meeting of the year, the BCP unanimously decided to cut the monetary policy rate by 25-bps, to 5.75%, marking the first cut since March 2024.
- We estimate the one-year ex-ante real policy rate at 2.25%, remaining towards the upper bound of the BCP's neutral real interest rate range (1.3%–2.6%, median of 1.7%). BCP's inflation estimation suggests it will continue decelerating throughout 2026, reaching the target by year-end. This supports our prediction of lower interest rates in the coming months. We foresee the policy rate at 5.25% by YE26.

Ex-ante real interest rate



Policy rate

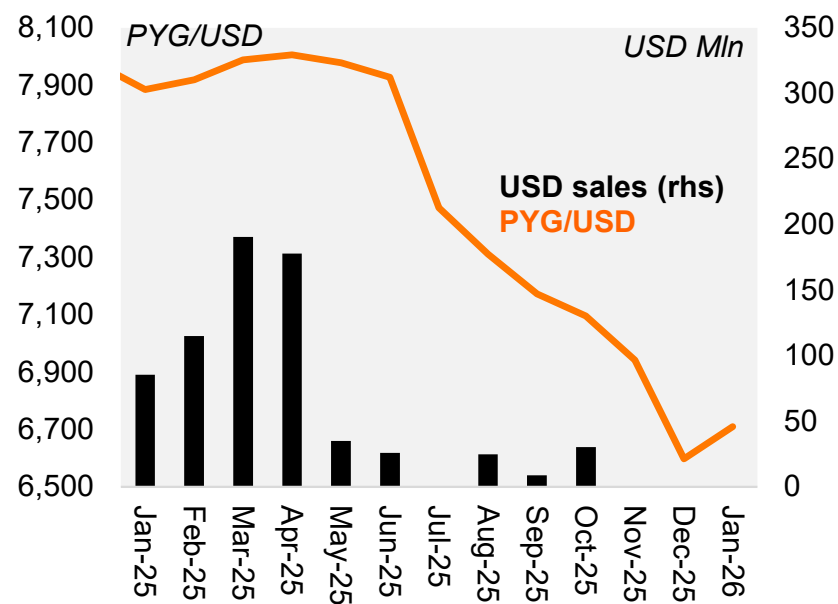


4. What is the balance of risks to the currency?

Benign external environment coupled with good perspective for soybean harvest support a stable currency in real terms

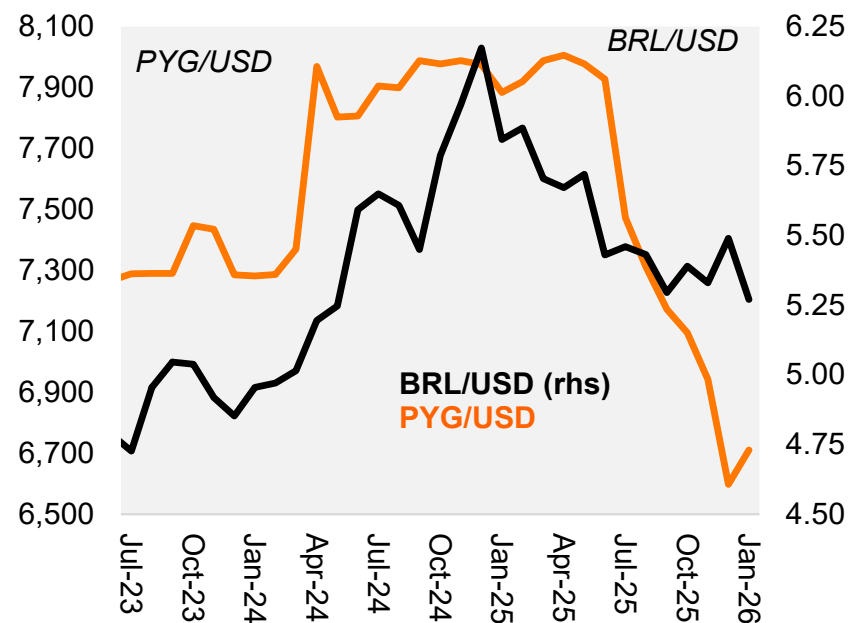
- We expect the exchange rate at PYG/USD 6,850 by YE26.
- In case of pressures, the central bank intervention will play a key rule to reduce volatility, as happened in other years.

FX market



Source: BCP

FX market



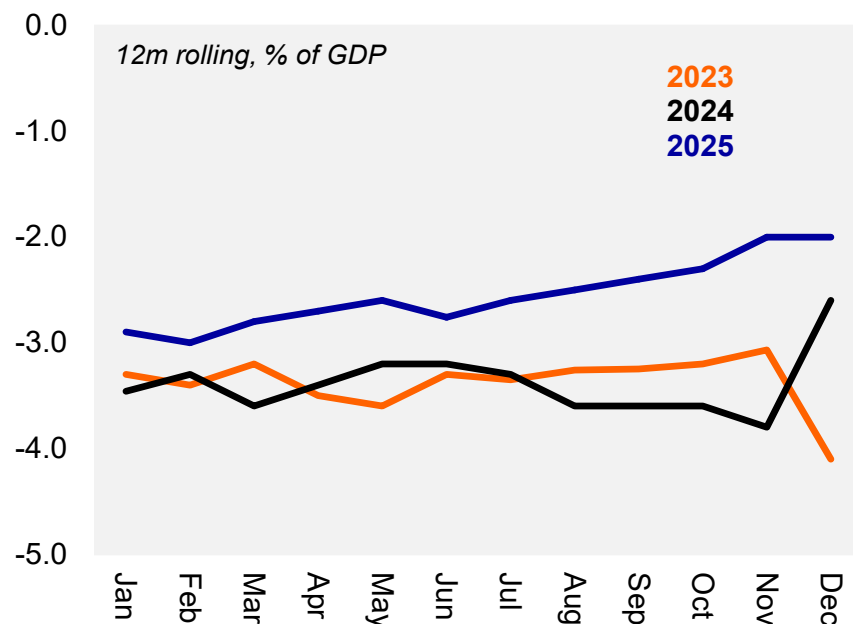
Source: BCP

5. Will fiscal consolidation continue?

We expect a fiscal deficit of 1.5% of GDP in 2026 and 2027, in line with the fiscal responsibility law.

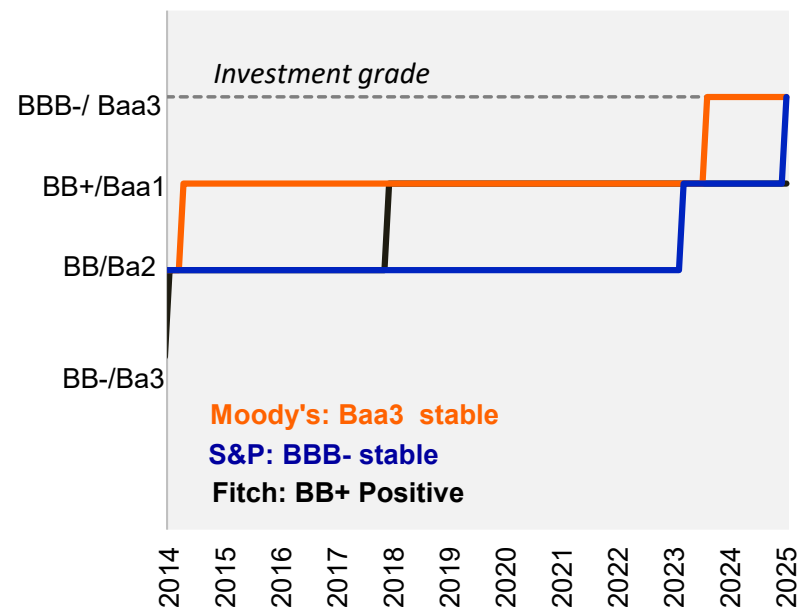
- The fiscal deficit reached 2.0% of GDP in 2025, slightly above the budget estimations.
- Rating agency S&P upgraded in December 2025 Paraguay to investment grade status at BBB- with a stable outlook, matching Moody's' assessment from July 2024.
 - Approval of the social security reform currently being debated in Congress, together with fiscal discipline, could lead to future rating upgrades.

Nominal Fiscal Balance



Source: Ministry of Economy, Itaú

Rating



Moody's: Baa3 stable
S&P: BBB- stable
Fitch: BB+ Positive

Source: Itaú

6. Paraguay | Scenario forecast

	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	5.0	4.0	4.0	4.0	3.5
Nominal GDP - USD bn	41.9	43.1	44.5	49.8	49.1	59.3	58.9	62.6	61.6
Unemployment Rate - year avg	6.8	5.9	5.8	5.8	5.8	5.8	5.8	5.8	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	6.00	5.00	5.50
Balance of Payments									
PYG / USD - eop	7340	7275	7913	6598	-	6850	6850	6850	6850
Trade Balance - USD bn	-1.3	1.6	-0.5	-1.4	-	-0.5	0.0	-0.5	0.0
Current Account - % GDP	-7.1	-0.4	-3.8	-4.0	-4.0	-2.5	-2.0	-2.5	-2.0
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	10.5	10.5	10.5	10.5	11.0	11.0
Public Finances									
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.

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