

Macro scenario - Paraguay



October 11, 2024

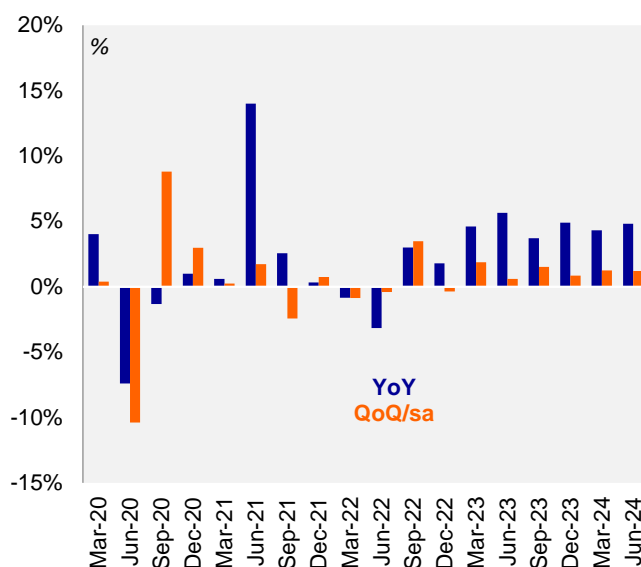
Activity momentum continues

- ▶ Economic activity grew at a solid pace in 2Q24, driven by solid domestic demand, which leads us to leave our 2024 GDP growth forecast unchanged at 4.0%.
- ▶ Our YE24 inflation forecast remains unchanged at the BCP's 4.0% target, as inflation and inflation expectations remain well behaved.
- ▶ We still foresee the BCP resuming its easing cycle this year. We project that the monetary policy rate will be at 5.75% by YE24. However, we don't expect easing to resume until FX market pressures have eased, which poses a risk to our call. For YE25 we project a policy rate of 5.00%, in line with our new scenario for the Fed.

GDP grew sequentially in 2Q24

Activity increased in 2Q24, by slightly less than the monthly GDP proxy (IMAEP). GDP rose by 4.8% yoy in 2Q24 (IMAEP +5.1% yoy), up from the 4.3% increase posted in 1Q24. Looking at the breakdown on the supply side, the annual print was influenced by positive performance in services (+6.2% yoy), manufacturing (+5.8% yoy), livestock, forestry and fishing (+5.4 yoy), construction (+4.7% yoy), and to a lesser extent agriculture (+1% yoy). On the other hand, electricity and water sectors fell by 8.6% yoy, affected by the low level of the Paraná river. At the margin, using our seasonally adjusted series, GDP rose by 1.2% qoq in 2Q24, leaving the statistical carryover for 2024 at 3.7%. Domestic demand increased by 6.8% yoy in 2Q24 (from +3.7% in 1Q24). The positive reading was largely driven by total consumption, which continued its expansionary path, growing by 6.1% yoy (from +4.7% 1Q24), while gross fixed capital formation expanded by 8.6% yoy (from +3.5% in 1Q24). Finally, exports of goods and services rose by 8.6% yoy (from +7.5% in 1Q24) due to higher sales of goods, especially soybean exports, while imports of goods and services increased by 14.1% yoy (from +5.8% in 1Q24) on the back of higher imports of machinery and equipment, fuels and lubricants, and transportation.

GDP

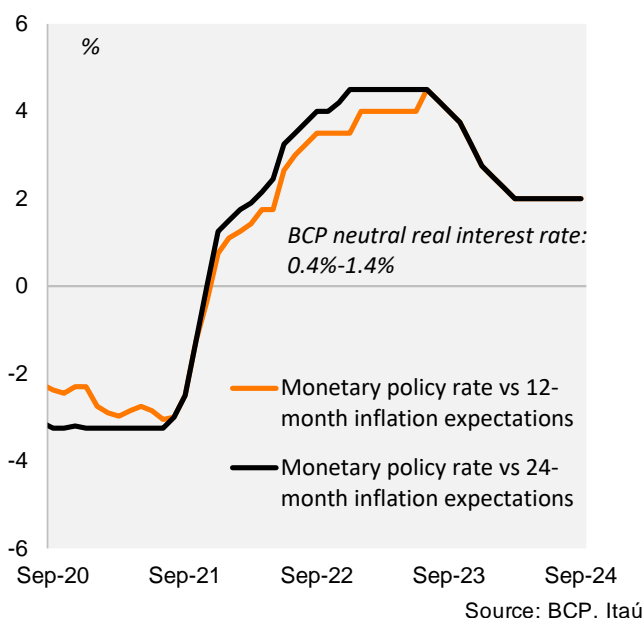


Source: BCP, Itaú.

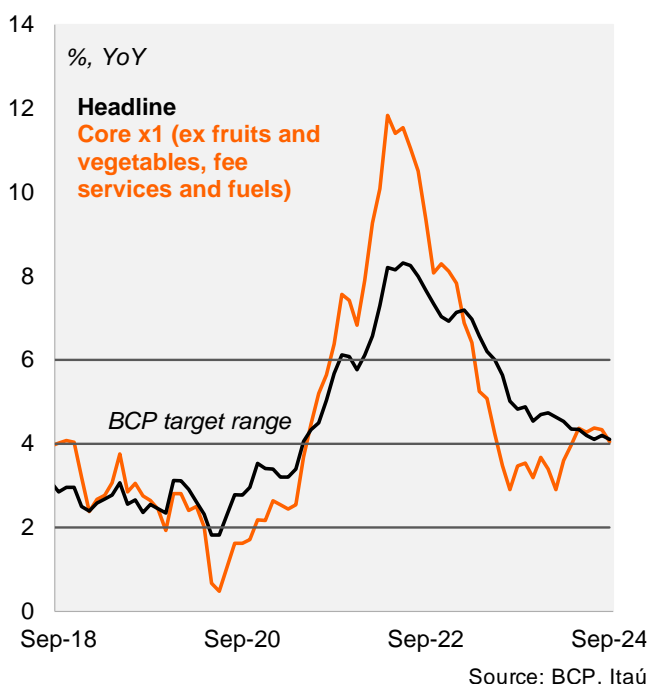
BCP on hold, likely with an eye on a pressured FX market

The central bank's monetary policy committee kept the policy rate at 6.00% for the sixth consecutive month in September. The committee reiterated that the inflation figures have continued to show a reversal of volatile prices, while inflation expectations remain anchored in the middle of the target range. External risks have continued to diminish. The BCP highlighted the start of the Fed's easing cycle and the decline in oil prices. Regarding the monetary policy stance, we estimate that the policy-rate level remains contractionary at 2.0% (using expectations for the policy horizon), compared with the BCP's neutral real interest rate range of 0.4%-1.4%.

Ex-ante real interest rate



Annual inflation



Inflation anchored around the target range

The CPI increased by 0.2% MoM in September (from 0.5% a year ago). In the monthly series, most items in the basket showed price increases. However, the food group showed mixed price behavior, characterized by expected reversals in the prices of horticultural products (-4.5% MoM). Core CPI x1 (which excludes fruits and vegetables, regulated service prices and fuel) stood at 0.3% (from 0.39% a year ago). On an annual basis, headline inflation decreased slightly in September, to 4.1% (from 4.3% in August), while core X1 CPI fell to 4.1% (from 4.2%). We note that both headline and core inflation remain within the tolerance band of the BCP’s inflation target (4% ± 2%).

Downside risks for inflation

We still expect the BCP to resume its easing cycle this year. We project that the monetary policy rate will be at 5.75% by YE24, reflecting the start of the easing cycle by the Fed and well-behaved inflation. However, we do not expect Paraguay’s easing cycle to begin until FX market pressures have eased, which poses a risk to our call. The next monetary policy meeting is scheduled for October 21. For YE25 we forecast a policy rate of 5.00%, in line with our new scenario for the Fed.

We maintain our forecast for a 4.0% inflation rate at year-end. Lower expected pressure in the exchange rate market and the recent reduction in diesel prices support our call. For 2025 we forecast 4.0% inflation, in line with the BCP’s target.

We have revised our YE24 exchange rate forecast to 7,800 PYG/USD from 7,600 PYG/USD in our previous scenario. Solid import demand, especially from the oil sector (maybe reflecting changes in trade with Argentina), prompted the revision to our forecast.

Our 2024 and 2025 GDP growth forecasts remain unchanged at 4.0%. Solid domestic consumption and lower domestic rates support our call. Looking ahead, lower rainfall is a downside risk to our projections.

**Andrés Pérez M.
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	2019	2020	2021	2022	2023	2024F		2025F	
						Current	Previous	Current	Previous
Economic Activity									
Real GDP growth - %	-0.4	-0.8	4.0	0.2	4.7	4.0	4.0	4.0	4.0
Nominal GDP - USD bn	38.8	36.1	40.3	42.1	44.7	46.7	47.0	48.4	49.7
Unemployment Rate - year avg	6.6	7.7	7.5	6.8	5.9	6.0	6.0	6.0	6.0
Inflation									
CPI - %	2.8	2.2	6.8	8.1	3.7	4.0	4.0	4.0	4.0
Interest Rate									
Reference rate - eop - %	4.00	0.75	5.25	8.50	6.75	5.75	5.75	5.00	5.00
Balance of Payments									
PYG / USD - eop	6465	6912	6877	7340	7275	7800	7600	7900	7700
Trade Balance - USD bn	0.5	1.5	1.0	-1.3	1.6	0.5	0.5	0.0	0.0
Current Account - % GDP	-0.6	1.9	-0.9	-7.1	0.2	-0.5	-0.5	-1.0	-1.0
Net Foreign Direct Investment - % GI	1.4	0.4	0.2	1.7	0.8	2.0	2.0	2.0	2.0
International Reserves - USD bn	7.7	9.5	9.9	9.8	10.2	11.0	11.0	11.0	11.0
Public Finances									
NFPS Nominal Balance - % GDP	-2.9	-6.1	-3.6	-3.0	-4.1	-2.6	-2.6	-1.9	-1.9
NFPS Debt - % GDP	22.9	33.8	33.8	35.8	38.2	40.0	40.0	38.1	38.1

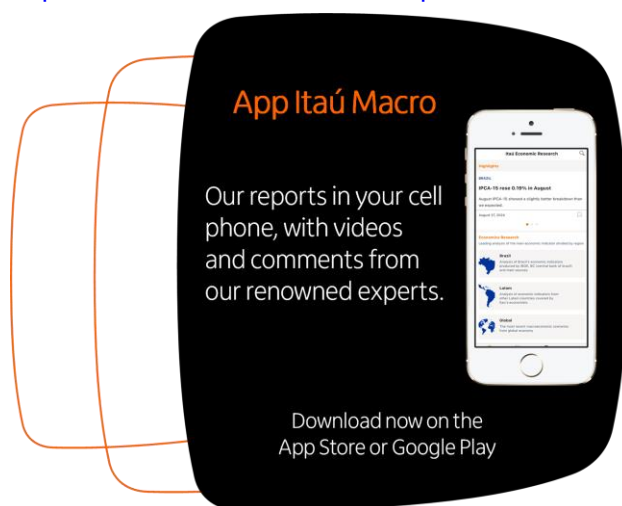
Source: FMI, Haver, Bloomberg, BCP, Itaú.

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