

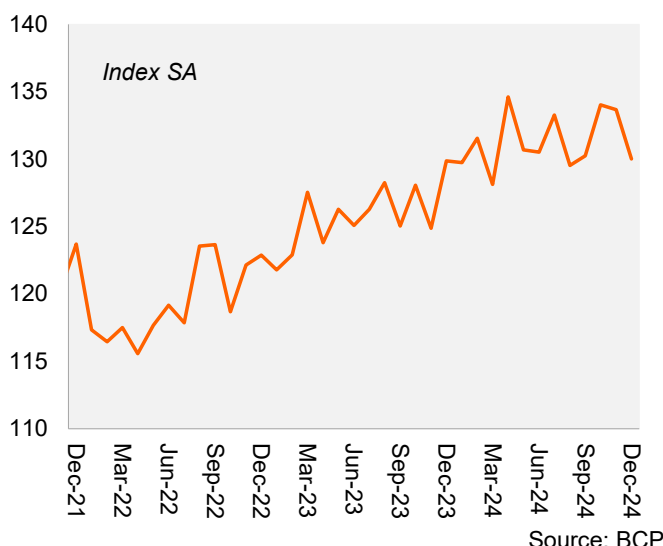
Private consumption to support growth this year

- ▶ Following a slight deceleration in economic activity in 2024, growth is projected to continue to decelerate gradually to 3.5% in 2025, remaining among the top performers in the region. Still, the risks are tilted to the downside due to a moderate drought weighing on the agricultural sector. On the demand side, private consumption will continue to support growth, along with projected continued spillovers from the macro adjustment in Argentina.
- ▶ We forecast inflation of 3.5% for YE25, in line with the central bank's inflation target. Although the CPI started the year strong, a slightly contractionary monetary policy rate and our call for a stable real exchange rate should contribute to a gradual convergence of inflation to the 3.5% target by yearend.

Dynamic economic activity in 2024

The GDP proxy rose by 4.3% in 2024. According to the central bank's seasonally-adjusted series, the monthly GDP proxy (IMAEP) fell by 2.7% MoM/SA in December (from -0.3% in November). In 4Q24, the GDP proxy rose by 1.2% QoQ/SA, after falling by 0.7% in 3Q24. On an annual basis, the IMAEP increased by 0.2% yoy in December and 3.7% yoy in 4Q24 (from 3.6% in 3Q24). As a result, the GDP proxy is estimated to have increased by 4.3% in 2024. Excluding agriculture and binationals, the monthly GDP proxy decreased by 5.6% MoM/SA but rose by 1.2% QoQ/SA in 4Q24. On a year-over-year basis, the index increased by 1.1% in December and 5.9% YoY in 4Q24. According to the statement, the year-over-year growth was driven by the solid performance of services, livestock and construction. On the negative side, there was a decline in manufacturing, agriculture and electricity generation. The official GDP data is scheduled for release on March 28.

Monthly GDP proxy

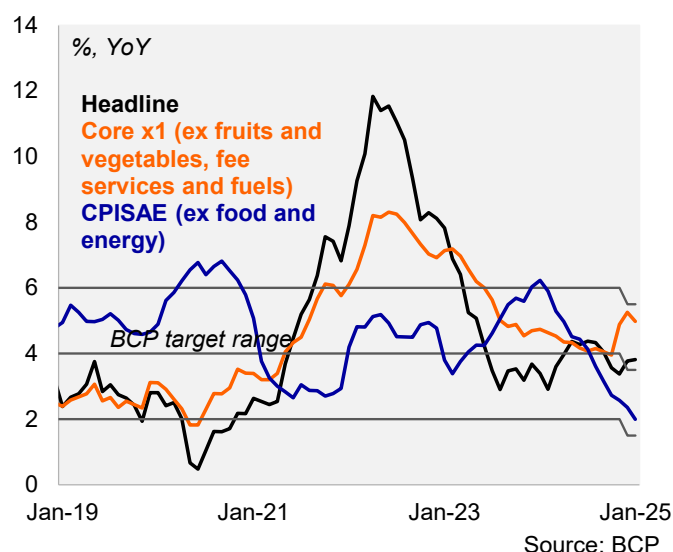


Higher-than-expected inflation in January

CPI rose by 1.0% MoM in January 2025 (from 0.9% a in January 2024). The monthly rise was driven by increases across most basket groups, led by food and services. Vegetables and legumes (24.4% MoM) had the biggest impact on monthly inflation. There were also increases in meat products, including beef and substitutes, such as pork and poultry. Prices of imported durable goods rose by 0.5% MoM, due to a weaker PYG. Core CPI x1 (excludes fruits and vegetables, regulated service prices, and fuel) increased by 0.6% (from 0.9% a year earlier), due to a 1.3% MoM increase in meat prices. On an annual basis, headline inflation rose to 3.8% in January (same as in December 2024), while the core X1

CPI fell to 5.0% from 5.3%. Note that both headline and core inflation remain within the tolerance band of the BCP's new inflation target (3.5% +/- 2%).

Annual inflation

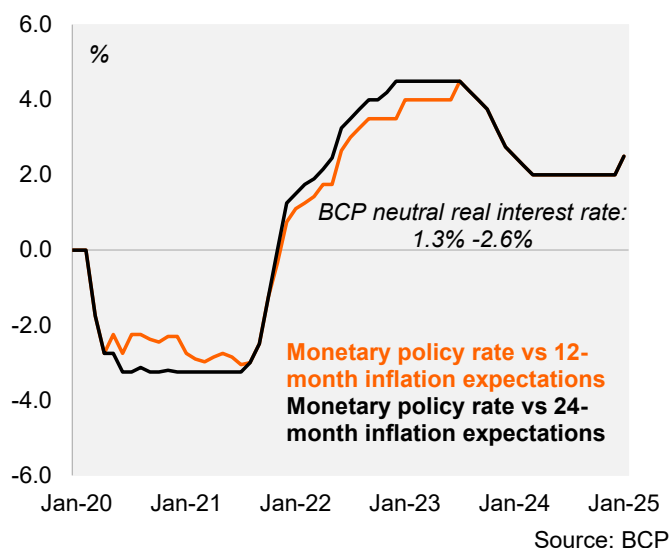


BCP in wait-and-see mode

The Central Bank Monetary Policy Committee kept the monetary policy rate at 6.00% for the tenth consecutive month at the monthly monetary policy meeting in January.

On the domestic front, the statement cited the reduction of inflation expectations to 3.5% (from 4.0%), in line with the downwardly revised central bank target. We therefore estimate that the real ex-ante policy rate rose to 2.5%, from 2.0% previously (using expectations for the monetary policy horizon), compared with the BCP's neutral real interest rate range of 1.3%-2.6%. While the reduction of inflation expectations raised the real ex-ante rate, making it slightly more restrictive than at the end of 2024, we do not see room for cuts this year.

Ex-ante real interest rate



No rate cuts in sight

Our 2025 GDP forecast remains at 3.5%, albeit with downside risks related to the moderate drought weighing on the agricultural sector. On the demand side, private consumption will continue to support growth, along with spillovers from the macro adjustment in Argentina, which we expect to continue this year.

We forecast inflation of 3.5% for YE25, in line with the center of the BCP's target range.

Regarding monetary policy, a lower inflation target and our expectation of no rate cuts by the Federal Reserve this year limits the room for further easing in 2025. We therefore envisage a monetary policy rate of 6.0% for YE25.

Further fiscal consolidation in 2025. We expect a fiscal deficit of 1.9% of GDP for 2025 (from 2.6% of GDP in 2024), in line with the fiscal responsibility law. The government's disciplined fiscal management supports our call.

**Andrés Pérez M.
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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	4.7	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 - % GDF	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, Itaú.

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