Macro scenario - Paraguay

November 21, 2025

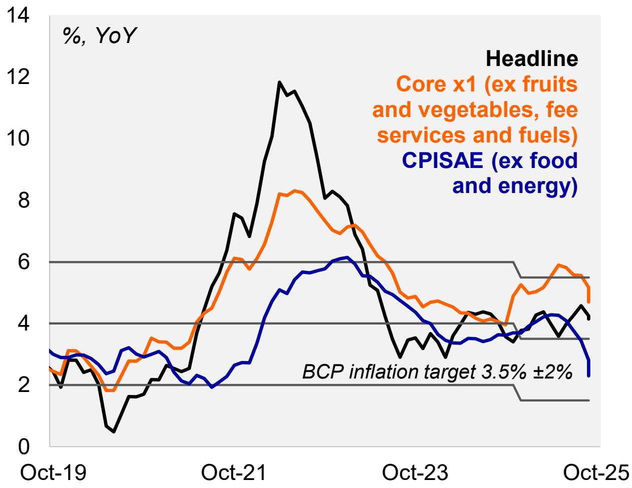
Upside risks to growth

- A string of deflation surprises led us to revise our 2025 inflation forecast to 3.9%, from 4.2% in our previous scenario. We still foresee inflation at 3.5% in 2026.
- While we maintained our 2025 GDP growth forecast at 5.0%, we now see upside risks to our call. We kept our 2026 GDP growth call at 4.0%.

A new monthly deflation in October

Consumer prices fell by 0.1% MoM in October, below both the central bank survey's median and our forecast, marking the second consecutive downside surprise. Declines in the month were focused on vegetables and legumes, fuel prices and in some imported durable goods, given the post-June appreciation of the PYG relative to the USD (roughly 12%). However, the increases in food prices such as beef meat, foods ex fruits and vegetables, and poultry partly offset reductions. The core CPI X1 (which excludes fruits and vegetables, regulated service prices and fuel) remained stable compared to October. On an annual basis, headline inflation fell to 4.1% in October (down from 4.3% in September), while the core X1 CPI decreased to 4.7% (down from 5.2% in September). Cumulative headline inflation in the year reaches 3.2%. Both headline inflation and core X1 remain within the tolerance range of the BCP's inflation target (3.5% +/- 2%).

Annual inflation



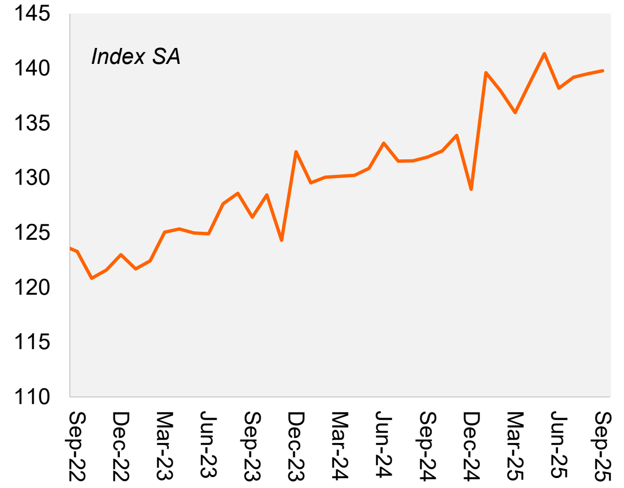
Source: BCP

In October, the BCP maintained the monetary policy rate at 6.00% for the nineteenth consecutive month, as widely expected. The committee reaffirmed its commitment to price stability and will continue to closely monitor internal and external developments, to anticipate their possible implications on inflation and take appropriate measures to ensure compliance with the 3.5% target over the monetary policy horizon. We estimate that the real ex-ante policy rate remains at 2.5%, towards the upper bound of the BCP's neutral real interest rate range of 1.3%-2.6%.

Activity remains strong despite a deceleration at the margin

The monthly GDP proxy (IMAEP) increased by 6.7% year on year (YoY) in September and by 5.8% YoY in 3Q25. All sectors expanded in 3Q25, led by the primary sector (up 6.7% YoY), explained by higher production of corn, wheat, rice, and cotton mitigated by lower soybean production. Manufacturing rose by 6.6% YoY during the period, while the secondary sector expanded by 5.8% YoY driven by higher energy distribution. Services increased by 5.5% YoY, driven by spillovers from the macro adjustment in Argentina in the commerce and tourism sectors in Paraguay. Looking at the margin, activity rose by 0.1% QoQ/sa, down from a gain of 1.1% QoQ/sa in 2Q25 leaving a statistical carryover of 5.9%. The national accounts data for 3Q25, to be published on December 23, will be key to confirming the statistical carryover.

Monthly GDP proxy

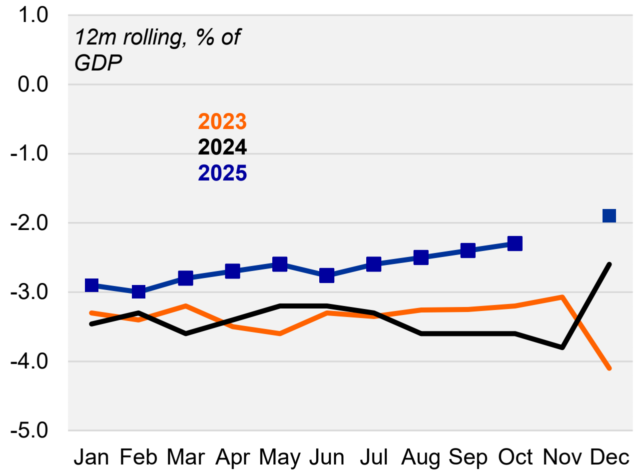


Source: BCP

Fiscal consolidation remains on track

The fiscal deficit narrowed in October. The 12-month rolling fiscal deficit fell to 2.3% of GDP in October, down from 2.4% of GDP in September. Real tax revenues rose by 2.3% yoy in the quarter ended October (3.1% yoy in 3Q25). Moreover, real primary expenditure fell by 5.6% yoy in the quarter ended October (-6.3% yoy in 3Q25), driven by a decrease in spending on goods and services (-30.9% in the period). The 2026 budget was approved by the Lower House and is now under discussion in the Senate. The budget bill forecasts a nominal fiscal deficit of 1.5% of GDP for 2026, consistent with the Fiscal Responsibility Law.

Nominal Fiscal Balance



Source: Ministry of Economy,

Lower inflation

We maintained our 2025 GDP growth forecast at 5.0%, now with upside risks amid a preliminary high statistical carryover from leading indicators (5.9%). We also kept our 2026 GDP growth call at 4.0%.

The string of downside inflation surprises led us to revise our YE25 inflation forecast to 3.9% from 4.2%. The appreciation of the PYG eased the pressure on tradable prices, a trend that is expected to continue in the coming months.

We maintained our yearend 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. Although inflation expectations for the monetary policy horizon (18–24 months) are anchored, economic activity is growing well above its potential (3.5%) and local currency liquidity is at minimum levels. This introduces the risk of higher rates over time.

Finally, we project a nominal fiscal deficit of 1.9% of GDP in 2025 and 1.5% in 2026, consistent with the Fiscal Responsibility Law. Disciplined management of the fiscal accounts supports our forecast.

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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	**5.0**	5.0	**4.0**	4.0
Nominal GDP - USD bn	35.4	39.9	41.9	43.1	44.5	**48.6**	48.4	**55.1**	55.0
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	**3.9**	4.2	**3.5**	3.5
Interest Rate									
Reference rate - eop - %	0.75	5.25	8.50	6.75	6.00	**6.00**	6.00	**6.00**	6.00
Balance of Payments									
PYG / USD - eop	6912	6877	7340	7275	7913	**7150**	7150	**7200**	7200
Trade Balance - USD bn	1.5	1.0	-1.3	1.6	-0.5	**-1.5**	-1.5	**0.5**	0.5
Current Account - % GDP	1.9	-1.1	-7.1	-0.4	-3.8	**-4.0**	-4.0	**-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
Gross Public 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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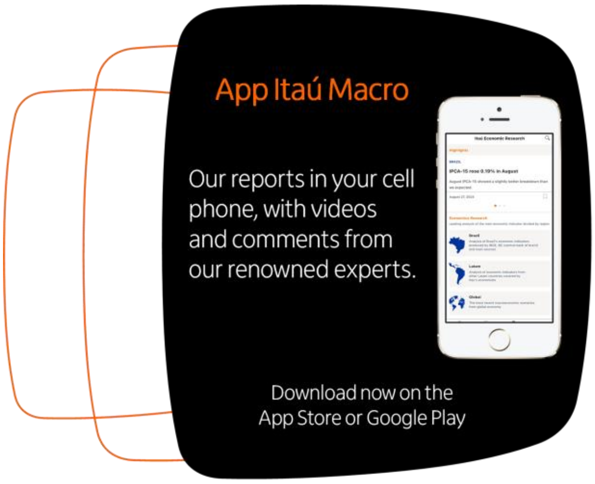

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