

# Macro scenario - Paraguay



May 20, 2025

## Leading indicators point to strong growth in 1Q25

- ▶ Activity surprised to the upside in 1Q25 and we now foresee upside risks to our 3.5% GDP growth forecast for this year.
- ▶ Even though inflation began under pressure in 2025, low oil prices and our expectation of a stable nominal exchange rate for the rest of the year, led us to maintain our YE25 forecast at 4.0%. We do not foresee changes in the monetary policy rate this year, as inflation expectations remain anchored.

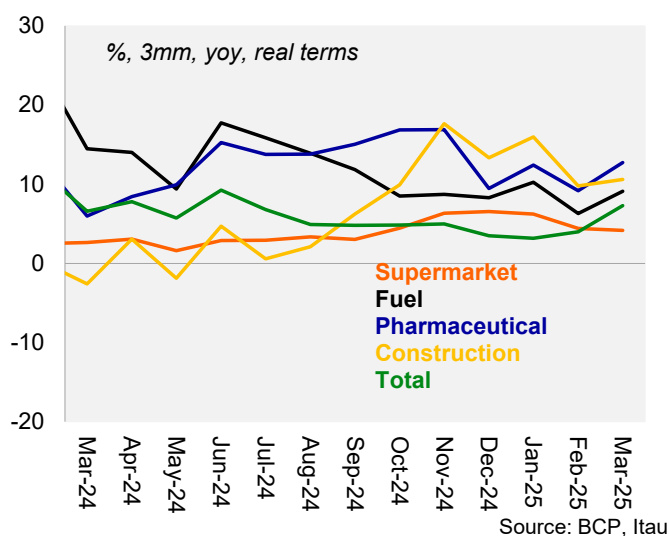
### Solid activity in 1Q25

**The GDP proxy (IMAEP) rose sequentially by 3.4% QoQ/SA in March. On an annual basis, the proxy increased by 4.4% YoY in March and by 5.5% YoY in 1Q25.** The monthly GDP proxy, excluding agriculture and binationals, rose by 2.9% QoQ/SA in the quarter ended in March. On an annual basis, the index increased to 5.4% in March and 6.8% YoY in 1Q25.

**Most sectors showed annual gains in the quarter, likely supported by the spillover effects from the macro adjustment in Argentina and the consequent strengthening of the ARS in real terms.** In fact, the large companies' sales indicator (ECN) published by the BCP increased by 7.3% YoY in real terms in 1Q25, driven by favorable dynamics in commercial, manufacturing, and services activities. The BCP recently published a survey showing that, in March, prices in Clorinda (a city on the Argentine border) were 9.3% higher than in the entire country, after being 8.5% cheaper in the same month of 2024.

**The strong momentum of loans and imports aligns with solid growth.** Total credit in domestic currency expanded by 14.7% YoY in real terms in 1Q25, while credit denominated in foreign currency grew by 12.3% YoY in the same period. Conversely, imports expanded by 4.3% YoY in 1Q25, after declining by 2.5% YoY in 4Q24.

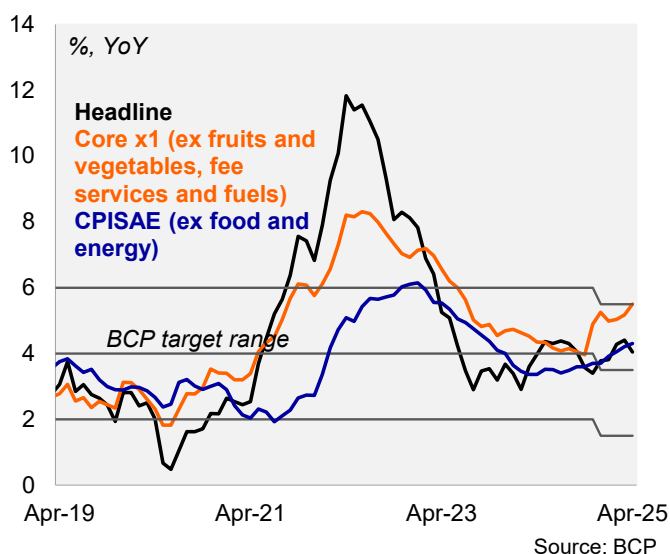
### Large business sales indicator



### Core inflation remains under pressure

**CPI rose by 0.4% MoM in April (from 0.8% a year ago).** Inflation dynamics in the month were mainly characterized by increases in the food basket, especially meat prices (2.9% MoM), partially offset by fruit and vegetables (-2.2% MoM). On the other hand, fuel prices fell by 1.5% MoM, driven by downward adjustments in gasoline. The Core CPI x1 (excludes fruits and vegetables, regulated service prices and fuel) increased by 0.7% (from 0.4% a year ago). On an annual basis, headline inflation fell to 4.0% in April (down from 4.4% in March), while the core X1 CPI stood at 5.5%. We note that both the headline remains within the tolerance band of the BCP's inflation target (3.5% +/- 2%), while core X1 edged up to the ceiling of the band.

## Annual inflation

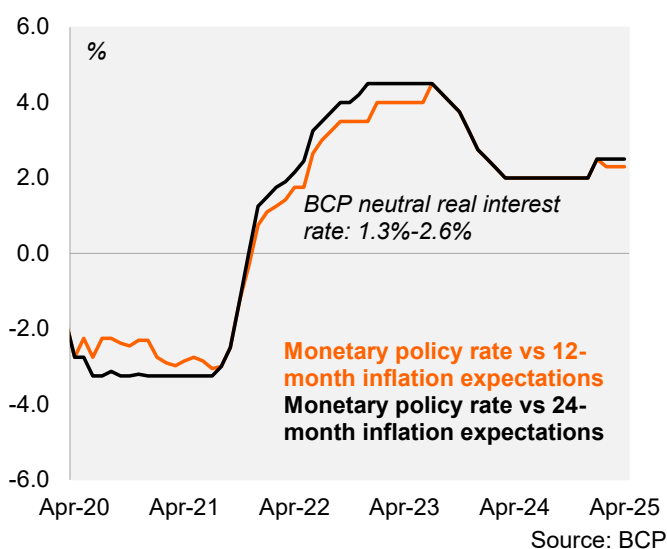


## A long pause for the BCP

**In April, the central bank's Monetary Policy Committee maintained the monetary policy rate at 6.00% for the thirteenth consecutive month.**

Domestically, the statement emphasized the stability of inflation expectations for the monetary policy horizon, which remain at 3.5%, aligning with the central bank's target. Consequently, we estimate that the real ex-ante policy rate remains at 2.5% (using expectations for the monetary policy horizon), towards the upper bound of the BCP's neutral real interest rate range of 1.3%-2.6%.

## Ex-ante real interest rate



## Activity started with the right foot

**Activity surprised to the upside in 1Q25, according to several leading indicators.** Thus, the statistical carryover for 2025, if the sequential growth for 1Q25 is confirmed in the national accounts data to be published on June 27, stands at 4.2%. Consequently, we now foresee upside risks to our 3.5% GDP growth forecast for this year. We expect private consumption to continue supporting growth, helped by spillovers from Argentina. Meanwhile, the agriculture sector may be a drag due to a moderate drought.

**We maintained our inflation forecast for YE25 at 4.0%.** Lower commodity prices, particularly oil, should help decelerate inflation for the rest of the year. In fact, Petropar announced a reduction in gasoline prices, which will impact May's CPI.

**We have maintained our year-end 2025 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 economic activity, while inflation expectations remain well-behaved.

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## Paraguay | Forecasts and Data

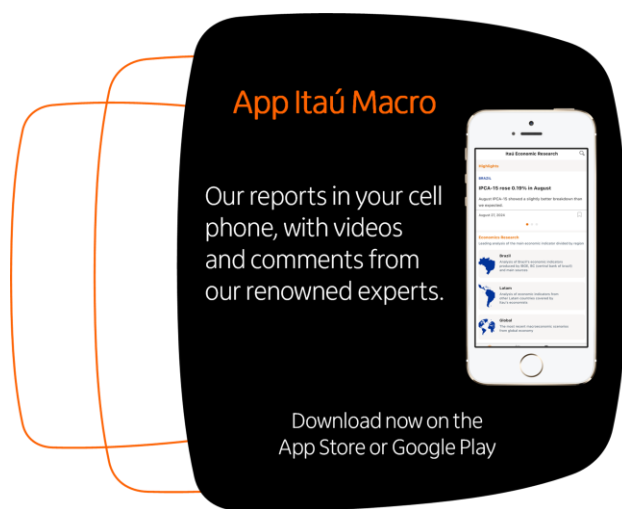
	2020	2021	2022	2023	2024	2025F		2026F	
						Current	Previous	Current	Previous
<b>Economic Activity</b>									
Real GDP growth - %	-0.8	4.0	0.2	5.0	4.2	<b>3.5</b>	3.5	<b>3.5</b>	3.5
Nominal GDP - USD bn	35.4	39.9	41.9	43.1	44.5	<b>45.4</b>	45.7	<b>48.1</b>	48.3
Unemployment Rate - year avg	7.7	7.5	6.8	5.9	5.8	<b>5.8</b>	5.8	<b>5.8</b>	5.8
<b>Inflation</b>									
CPI - %	2.2	6.8	8.1	3.7	3.8	<b>4.0</b>	4.0	<b>3.5</b>	3.5
<b>Interest Rate</b>									
Reference rate - eop - %	0.75	5.25	8.50	6.75	6.00	<b>6.00</b>	6.00	<b>5.50</b>	5.50
<b>Balance of Payments</b>									
PYG / USD - eop	6912	6877	7340	7275	7913	<b>8000</b>	8000	<b>8125</b>	8125
Trade Balance - USD bn	1.5	1.0	-1.3	1.6	-0.5	<b>-1.0</b>	-1.0	<b>0.5</b>	0.5
Current Account - % GDP	1.9	-1.1	-7.1	-0.4	-3.8	<b>-3.5</b>	-3.5	<b>-1.8</b>	-1.8
Net Foreign Direct Investment - % GD	0.4	0.5	1.7	0.8	0.8	<b>1.5</b>	1.5	<b>2.0</b>	2.0
International Reserves - USD bn	9.5	9.9	9.8	10.2	9.9	<b>10.0</b>	10.0	<b>10.5</b>	10.5
<b>Public Finances</b>									
NFPS Nominal Balance - % GDP	-6.1	-3.6	-3.0	-4.1	-2.6	<b>-1.9</b>	-1.9	<b>-1.5</b>	-1.5
Gross Public Debt - % GDP	33.8	33.8	35.8	38.2	40.5	<b>42.2</b>	42.2	<b>41.5</b>	41.5

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

## Macro Research – Itaú

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