



# *FINANCIAL STABILITY REPORT (FSR)*



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[www.bcp.gov.py](http://www.bcp.gov.py)  
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## Executive Summary<sup>1</sup>

The external boost to the Paraguayan economy is expected to remain positive, albeit moderate, as compared to before the pandemic. In the last few months, international financial conditions have become more restrictive. The international prices of the agricultural commodities of most relevance to Paraguay have slowed while petroleum prices experienced a rebound. Uncertainty about the global macro-financial situation has increased and the risks associated with geopolitical tensions have generated both greater volatility and risk aversion in international financial markets following the outbreak of armed conflict in the Middle East. Given these conditions, the main short-term financial risks stem from the possibility that external interest rates will remain high for a prolonged period and that risk premiums will increase in a scenario of greater uncertainty.

At the domestic level, economic activity has shown a favorable performance in the last few months, and it is expected that GDP growth will reach 4.5% in 2023, driven mainly by agriculture, generation of electricity, manufacturing, and the services sector. On the expenditure side, a positive contribution of net external demand and total consumption (both private and public) is foreseen, while a contraction of gross fixed capital formation is expected for the year. Inflationary pressures have moderated more rapidly than anticipated and total inflation is expected to be 3.8% at the end of 2023, converging to the 4.0% target in 2024. In this context, the Monetary Policy Rate decreased from 8.50% to 7.75% between August and October<sup>2</sup>.

In the local financial system, assets have shown greater dynamism, boosted mainly by the increase of the loan portfolio, in both domestic and foreign currency. Loans granted to households continued to show inter-annual growth, explained by credit intended for general consumption as well as housing loans. Likewise, business loans have continued with favorable dynamics, in a context of economic recovery. Total liabilities have registered a good performance in the recent period, explained by the increase of deposits, especially long-term deposits, in both guaranies and United States dollars.

The non-performing loan (NPL) rate remained at low levels (3.4% in September). As compared to the previous year, a decrease of the NPL ratio for loans in US dollars and an increase of the ratio for loans extended in local currency was registered. However, it is expected that the non-performing loan ratio for loans granted in domestic currency will moderate, provided that economic activity continues its path toward recovery, the labor market continues to show favorable results, and inflation remains at low levels. Provisioning for credit risk allows for coverage of more than 100% of the non-performing loans.

The financial system maintains favorable levels in terms of liquidity and profitability indicators. Liquid assets have increased, explained by the investment in monetary regulation instruments (LRM) and deposits in the Permanent Deposit Facility (FPD). The profitability indicators have continued with the upward trajectory initiated towards the end of 2021, following the negative impact of the pandemic. Thus, the ROA and ROE indicators reached 2.3% and 18.1%, respectively, in September 2023.

The solvency indicators remain above the minimum established in the regulations. In September, core capital (Tier 1) for risk-weighted assets and contingencies stood at 13.8% and total regulatory capital (Tier 1 + 2) for risk-weighted assets and contingencies was 17.4%. The established regulatory minimums are 8% and 12%, respectively.

The results of the stress tests show that the solvency of the financial system, comprised of banks and finance companies, remains at levels above the minimum regulatory requirements, following the simulation of extreme shocks, with a low probability of occurrence.

Finally, the payment system has continued to operate normally, in a fluid and efficient manner, with the implementation of new functionalities of the Instant Payment System (SPI) standing out in the second semester of 2023. Greater usage

<sup>1</sup> The Spanish version prevails.

<sup>2</sup> Further details are available in the September 2023 Monetary Policy Report (IpoM). <https://www.bcp.gov.py/informe-de-politica-monetaria-114>



of digital payment methods by economic agents is also observed, resulting from the advances and investments made in the financial payment infrastructure in recent years.

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