



FINANCIAL STABILITY REPORT (FSR)



May, 2024

CENTRAL BANK OF PARAGUAY

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www.bcp.gov.py

Asunción - Paraguay





Executive Summary¹

At the international level, the resilience of the global economy – driven especially by the strength of the United States' economy – is highlighted. Given this scenario, it is expected that in 2024 the external boost of the Paraguayan economy will remain positive, although moderate as compared to the pre-pandemic period. On the other hand, international financial conditions would remain tight considering that the monetary policy normalization process in the United States has been postponed and uncertainty associated with the risks stemming from geopolitical tensions has increased.

At the domestic level, economic activity has continued to show favorable dynamics in the last few months. It is expected that GDP growth will be 3.8% in 2024, driven mainly by manufacturing and services. On the expenditure side, increases in gross fixed capital formations and private consumption would contribute to growth. Total inflation has remained stable and below 4.0%, while expectations continue anchored to the target. Thus, it is expected that the total inflation rate will be 4.0% at the end of this year. In this context, the Monetary Policy Rate (TPM) decreased from 8.00% (September 2023) to 6.00% (in March 2024)².

In the local financial system, assets have continued with good dynamics, due primarily to the increase of the loan portfolio. The dynamism of the loan portfolio was driven by credit granted to households for private consumption as well as loans to businesses, where the manufacturing, wholesale trade, and services sectors made the greatest contributions to growth. Liabilities also registered year-on-year growth, resulting from the positive performance of deposits, especially long-term savings Certificates of Deposits (CDs), the principal liabilities component.

As regards credit quality, the non-performing loan (NPL) rate decreased since the last Financial Stability Report, standing at 3.3% in March. When breaking down by currency, the NPL ratio for loans extended in both local and foreign currencies has diminished since the last report. Provisioning for credit risk allows for coverage of more than 100% of the non-performing loans, thereby mitigating credit risks. In terms of liquidity, liquid assets have shown an important growth, primarily due to deposits in the Permanent Deposit Facility (FPD) and the greater holdings of Treasury bonds and bonds issued by the Financial Development Agency (AFD).

Considering the performance indicators, the profitability of the financial system has continued to evolve in a favorable manner, standing at levels very similar to those observed before the beginning of the pandemic. The solvency indicators remain above the minimum established in the regulations. In March 2024, core capital (Tier 1) for risk-weighted assets and contingencies stood at 13.2% and total regulatory capital (Tier 1 + 2) for risk-weighted assets and contingencies was 18.0%; the established regulatory minimums are 8% and 12%, respectively. Following stress tests involving the simulation of extreme shocks, but with a low probability of occurrence, the solvency of the financial system has remained above the minimum regulatory requirements.

The payment system has continued to operate normally in a fluid, secure and efficient manner. It is highlighted that the Payment System of Paraguay (SIPAP) has completed ten years of operation in the Paraguayan financial system, achieving significant advances in the usage of digital payment methods. The growing dynamism of the Instant Payments System (SPI), which incorporates new functionalities to SIPAP, stands out in particular as it enhances the clients' experience and facilitates the transfer process.

¹ The Spanish version prevails.

² Further details are available in the March 2024 Monetary Policy Report (IPoM). <https://www.bcp.gov.py/informe-de-politica-monetaria-marzo-2024-i1432>

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