



# *FINANCIAL STABILITY REPORT (FSR)*



*November, 2024*

**CENTRAL BANK OF PARAGUAY**

Federación Rusa y Augusto Roa Bastos

[www.bcp.gov.py](http://www.bcp.gov.py)

Asunción - Paraguay





## Executive Summary<sup>1</sup>

At the international level, the global growth forecast for 2024 was revised upward, driven by the more favorable prospects of the United States economy. Likewise, the growth estimates of Paraguay's trade partners have improved in the recent period. International financial conditions are more flexible as compared to the previous report, in a context of lower global inflation and the beginning of a cycle of interest rate cuts in advanced economies. However, uncertainty stemming from geopolitical conflicts persists.

At the domestic level, economic activity has continued to show an upward trajectory. In the second quarter of 2024, GDP grew 4.8% year-on-year, explained by the positive performance of services, manufacturing, livestock production, construction, and product taxation. On the expenditure side, the positive incidence of private consumption and gross fixed capital formation is highlighted. In the third quarter, economic activity continued to show positive dynamics, according to the short-term indicators. In this context, the GDP growth forecast was revised upward from 3.8% to 4.0%<sup>2</sup>. As regards prices, total inflation and inflation trend measures have remained in line with the 4.0% target, and agents' expectations for all the consulted horizons remain aligned to the target as well.

In the financial system, total assets have continued to grow, driven primarily by loans, a trend consistent with the favorable dynamism of the economy and the reduction of market interest rates. According to user type, loans extended to households and businesses have continued to expand. Credit granted to the services, agriculture, wholesale trade, and manufacturing sectors made the greatest contributions to the growth of business loans. Liabilities also have continued to increase, explained by the positive evolution of all its components, especially deposits.

As regards financial soundness indicators, credit quality has improved since the last Financial Stability Report, as reflected in a decrease in the total non-performing loan (NPL) rate, both in domestic currency and United States dollars. Likewise, the most stressed credit risk measure - which includes non-performing loans and part of the renegotiated loan portfolio - has continued to decrease. Provisioning for credit risk coverage continues above 100% of the non-performing loans portfolio, thereby mitigating credit risks. While liquidity indicators have decreased in the last months, they remain at adequate levels, due to the holdings of different types of liquid assets by banks, including Monetary Policy Instruments (LRM), the Permanent Deposit Facility (FPD), Treasury bonds, and securities issued by the Financial Development Agency (AFD).

As regards profitability, ROA and ROE indicators have increased since the last report, standing at levels similar to those observed before the beginning of the pandemic. Meanwhile, solvency indicators continue to surpass the minimum requirements established in local regulations. In addition, following stress tests involving the simulation of extreme shocks, it has been observed that the solvency of the financial system would remain above the minimum regulatory requirements.

The payment system has continued to operate normally in a secure, efficient, and competitive manner. Since the last FSR, the Central Bank of Paraguay (BCP) has continued to support the advancement and modernization of the Payment System of Paraguay (SIPAP) with new projects and regulations. The adoption of the standardization of QR payments as a means to foster payment interoperability and security is highlighted. At the same time, the BCP promotes the adoption of the electronic payment systems in micro, small, and medium-sized businesses through its "Digital Economy" program, with the purpose of lowering transaction costs and increasing the formalization of the sector.

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

<sup>2</sup> Further details are available in the September 2024 Monetary Policy Report (IPoM). <https://www.bcp.gov.py/informe-de-politica-monetaria-14>

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