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Executive Summary*

International and Regional Economy

The global economy showed resilience in 2025 despite heightened global uncertainty. For 2026, the external environment remains uncertain and will be conditioned by the evolution of the conflict in the Middle East. According to the latest available data, global growth for 2025 is estimated at 3.2%, higher than previously expected, supported by a smaller impact from tariffs, more favorable financial conditions, and additional fiscal stimulus. In 2026, global growth is projected to be around 3%, although the recent escalation of the conflict in the Middle East has increased risks, significantly pushing up energy prices and creating a more challenging environment for global growth and inflation.

In the United States, the Federal Reserve kept the target range for the policy interest rate unchanged at its recent meetings, amid high uncertainty surrounding the economic outlook. Regarding activity, GDP growth moderated toward the end of 2025; however, the annual result (2.2%) came in above mid-year expectations. For 2026, the growth projection was revised upward from 1.9% to 2.3%, driven by strong domestic demand. Meanwhile, inflation continued to show signs of moderation, reaching 2.4% year-on-year in February. In financial markets, after a start to the year characterized by increased risk appetite, financial conditions tightened from mid-February onward, reflected in higher U.S. Treasury yields and a stronger dollar.

In the Euro area, economic growth remained moderate, while in China it exceeded expectations. In the Euro area, GDP grew by 1.5% in 2025, driven mainly by domestic demand, while inflation stood around the European Central Bank's target, with policy rates remaining unchanged during the first quarter. However, the intensification of the conflict in the Middle East has increased uncertainty, posing upside risks to inflation and downside risks to economic growth. In this context, growth of 1.1% is projected for 2026. In China, economic activity continued to decelerate gradually, in an environment marked by weak domestic demand—particularly in the real estate sector—although the resilience of exports partially offset this trend. As a result, growth reached 5.0% in 2025, in line with the official target, and is expected to reach 4.6% in 2026. Meanwhile, deflationary pressures have shown signs of moderation in recent months.

In Brazil, economic activity continued to show a moderation in its pace of expansion, while inflation kept slowing. In the fourth quarter of 2025, GDP grew 1.8% year-on-year, bringing annual growth to 2.3%, down from 3.4% in 2024, in a context of restrictive monetary policy. In this scenario, the central bank began a gradual monetary easing cycle in March, with a smaller-than-previously-anticipated interest rate cut, amid heightened external uncertainty. The economic growth projection for 2026 stands at 1.8%.

In Argentina, economic activity showed weaker momentum, while monthly inflation increased in recent months. In the fourth quarter, GDP grew 2.1% year-on-year, slowing compared to the previous quarter. For 2026, growth is projected at 3.1%. Regarding prices, inflation has accelerated in recent months, exceeding the levels observed in the previous Monetary Policy Report (IPoM). Meanwhile, the foreign exchange market remained relatively stable, within a framework of inflation-adjusted exchange rate bands and a policy focused on reserve accumulation, which has contributed to narrowing the exchange rate gap.

Domestic Situation and Monetary Policy

*The Spanish version prevails



Economic activity and domestic demand continued to show solid momentum. GDP recorded year-on-year growth of 6.2% in the fourth quarter of 2025, mainly explained by the strong performance of the services and agriculture sectors, followed by electricity and water, manufacturing, and construction. From the expenditure side, domestic demand expanded, driven by private consumption and gross fixed capital formation (FBKF). Based on short-term indicators, GDP is expected to continue growing year-on-year in the first quarter of 2026, although at a more moderate pace compared to previous periods.

In line with what was anticipated in the previous report, year-on-year inflation continued to decelerate during the first quarter of the year. CPI inflation declined from 3.1% in December 2025 to 1.9% in March 2026, largely explained by a lower contribution from goods, both food and non-food. Meanwhile, services inflation remained around 3.5%. Over the same period, year-on-year inflation excluding food and energy (IPCSAE) declined from 2.3% to 1.8%. Regarding expectations, these have stood at 3.5% across all surveyed horizons.

During the first quarter of 2026, the Monetary Policy Committee (CPM) decided to reduce the policy rate by 50 basis points, bringing it to 5.5%. The Committee highlighted that, since the reduction of the inflation target from 4.0% to 3.5% in December 2024, expectations have been adjusting downward, consolidating around the new target. It also noted that year-on-year inflation has slowed in recent months and is expected to converge to 3.5% during 2026. In this context, the Committee considered it appropriate to lower the policy rate by 25 basis points in the January and February meetings, accumulating a total cut of 50 basis points. Thus, the monetary policy stance remains neutral, consistent with the stance prevailing prior to the adjustment of the inflation target.

Projections

For 2026, the GDP growth projection remains at 4.2%, although with some internal changes (Table A). On the one hand, there would be a stronger contribution from the primary sector, whose forecast was revised upward from 2.4% to 3.1%, mainly explained by agriculture (from 2.2% to 3.2%). This higher growth reflects more favorable weather conditions than those anticipated in the previous Monetary Policy Report (IPoM), which improved production expectations for several crops, including soybeans, rice, and wheat. Meanwhile, livestock maintained its expected growth unchanged at 1.8%. The secondary sector showed a slight upward revision from 4.0% to 4.1%. Within the sector, there was a recomposition, with binational electricity generation slightly below initial projections, offset by stronger performance in electricity and water distribution. Projections for manufacturing and construction remained unchanged at 3.7% and 3.5%, respectively. As for the tertiary sector, there was a slight downward revision from 4.6% to 4.5%, mainly associated with a revision in trade growth from 4.0% to 3.4%, partially offset by better expected performance in other services, whose growth was revised from 5.3% to 5.4%. Excluding agriculture and binational entities, GDP would expand by 4.4%.

From the expenditure side, domestic demand was revised downward compared to the previous projection (Table B). Gross fixed capital formation was revised from 3.6% to 2.2%, reflecting weaker expected investment in machinery and equipment. Total consumption was revised from 4.0% to 3.8%, due to a downward adjustment in public consumption (from 2.8% to 1.5%), while private consumption remained unchanged at 4.2%. Regarding net external demand, its contribution improved, mainly due to a downward revision in imports from 2.7% to 1.2%. Exports, in turn, were slightly revised upward from 2.5% to 2.6%, consistent with improved agricultural prospects and their potential impact on exports of soybean-derived products such as oils and meal.



The inflation projection for 2026 remains at 3.5% (Table C). On the domestic front, output would remain at levels consistent with its potential, ruling out demand-side inflationary pressures. On the external front, demand conditions among main trading partners are not expected to generate inflationary pressures. Although the ongoing conflict is pushing up international energy prices—which are currently being passed through to domestic fuel prices—these effects are partially offset by favorable developments in the inflation of other goods. As these energy-related pressures are not expected to be persistent, their impact on inflation is anticipated to be limited and transitory. Under this scenario, and in the absence of new shocks, inflation is expected to stand at 3.5% by the end of 2026, consolidating convergence to the target within the monetary policy horizon.

Risks

Risks stem mainly from an external environment characterized by heightened uncertainty due to the escalation of the conflict in the Middle East, whose potential macroeconomic effects will largely depend on its duration and intensity. Disruptions in transit through the Strait of Hormuz have significantly constrained global oil supply, pushing prices above USD 100 per barrel. Additional disruptions in energy supply, as well as damage to critical infrastructure, could sustain upward pressure on international fuel prices, constituting the main inflationary risk in the short term. Furthermore, higher logistics costs, constraints in fertilizer supply, and disruptions in global supply chains could translate into higher international food prices, reinforcing the upward bias to inflation.

In addition, a sustained divergence in the evolution of energy and food commodity prices could deteriorate the terms of trade of food-exporting economies. In this context, persistent global inflationary pressures could lead major central banks to maintain restrictive monetary stances for longer, resulting in tighter external financial conditions.

On the other hand, higher inflation, tighter financial conditions, risks associated with fiscal vulnerabilities in advanced economies, and increased trade tensions could negatively affect global economic growth. In this scenario, a sharper slowdown in external demand could help moderate international commodity prices, posing a downside risk to inflation.


Table A. GDP Growth (Economic Sectors). Percent.

	2025 (p)	2026 (f)	2026 (i)
Primary Sector	9.0	3.1	0.3
Agriculture	10.5	3.2	0.2
Livestock	6.2	1.8	0.0
Secondary Sector	6.9	4.1	1.3
Manufacturing	5.6	3.7	0.7
Construction	6.2	3.5	0.2
Electricity & water	10.9	5.7	0.4
Tertiary Sector	6.3	4.5	2.2
General government	4.5	2.6	0.2
Trade	8.0	3.4	0.4
Other Services	6.1	5.4	1.6
Taxes	5.0	5.0	0.4
GDP at market prices	6.6	4.2	4.2
GDP w/o agriculture and binationals	6.3	4.4	

(p) Preliminary (f) Forecast. (i) Incidence

Source: Central Bank of Paraguay

Table B. GDP Growth (Expenditure components) and current account. Percent.

	2025(p)	2026 (f)
GDP	6.6	4.2
Domestic demand	8.6	3.7
Gross fixed capital formation	12.2	2.2
Total consumption	4.0	3.8
Private consumption	5.1	4.2
Public consumption	-2.2	1.5
Exports of goods and services	3.7	2.6
Imports of goods and services	8.9	1.2
Current account (% of GDP)	-3.2	-1.6

(p) Preliminary (f) Forecast

Source: Central Bank of Paraguay

Table C. Inflation projections. Percent.

	2025	2026 (f)	2027 (f)	2028 (f)
December CPI inflation (*)	3.1	3.5	3.5	
CPI inflation around 2 years (**)				3.5
December underlying CPI (*)	2.3	3.1	3.5	
Underlying CPI inflation around 2 years (**)				3.5

(f) Forecast based on data as of March 2026.

(*) Corresponds to end-of-period inflation.

(**) Corresponds to the projected inflation for the first quarter of 2028.

Source: Central Bank of Paraguay