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Paraguay's Banking Crisis And The Politics Of Impunity – Analysis

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By Steven E. Hendrix



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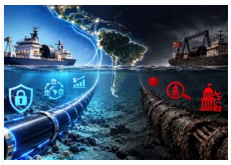
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Key Takeaways:

- Paraguay's President Santiago Peña was impeached on November 6 after the collapse of Ueno Bank, which held $800–850 million in public funds and left millions unable to access deposits; he faces criminal charges.
- The crisis echoes 1990s banking failures involving weak supervision, insider lending and public pension losses, raising questions about political influence over regulators and the Colorado Party's enduring control of state institutions.
- Accountability requires an independent probe into deposits, related-party lending and regulatory delays, not merely a change of president, if Paraguay is to restore confidence and prevent recurrence.

The collapse of Ueno Bank has brought down a president. Paraguay's history suggests that removing one political leader will not be enough to address the institutions that allowed the crisis to develop.

Paraguay has removed its president, placed senior financial officials under arrest, and watched millions of people struggle to recover their savings from a failed bank. Santiago Peña, elected in 2023 with the backing of former President Horacio Cartes, was impeached on November 6 after losing the support of his own Colorado Party. His vice president, Pedro Alliana, assumed office, while Peña was subsequently charged with offenses arising from the collapse of Ueno Bank and ordered detained at a military facility. The events unfolded with extraordinary speed, even for a region accustomed to political upheaval.

The immediate scandal concerns a financial institution that expanded rapidly, attracted hundreds of millions of dollars in public deposits, and developed

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Thank you for your thoughtful comment in a larger geopolitical context. I agree that we are witnessing a transition toward...

close relationships with senior government officials. The larger story concerns the political system that allowed those relationships to develop, the regulators responsible for supervising them, and the governing party that ultimately abandoned the president it had helped elect. Paraguay has experienced banking failures, political corruption scandals, and contested presidential impeachments before. The present crisis brings elements of all three together.

A banking success story unravels

Ueno Bank represented a genuine advance in Paraguayan financial services. Its digital platforms, convenient payment systems, and aggressive expansion attracted customers who had often been underserved by traditional banks. The institution became a familiar presence in everyday commercial life, sponsoring sporting events and making its brand visible throughout the country. By November 2026, Ueno reported approximately three million customers, representing roughly 60 percent of Paraguay's adult population.

Its growth also brought it into a close relationship with the public sector. According to the Associated Press, Ueno held between $800 million and $850 million in public funds, including substantial deposits from Paraguay's state pension and health fund. These were public resources entrusted to a rapidly expanding private institution. Their concentration raised questions about how deposit decisions were made, whether financial risks were adequately evaluated, and what influence political relationships may have exercised over those decisions.

The Central Bank had identified problems before the institution collapsed. Supervisors had warned Ueno about excessive lending to companies associated with its owners. By early November, adjustments to the bank's financial statements revealed that its solvency ratio had fallen below half the legally required minimum. Regulators placed Ueno into resolution proceedings, seeking to protect depositors and transfer viable assets and liabilities to other institutions. The intervention left millions of customers temporarily unable to withdraw or transfer their money.

The consequences reached well beyond Ueno's shareholders and executives. Ordinary depositors could not access savings needed for household expenses and commercial transactions. Pensioners worried about the security of public retirement funds. Businesses faced disruptions to payments and payroll. The government began arrangements for deposit reimbursements, but the immediate damage to public confidence was substantial. For many Paraguayans, the crisis revived a question that had troubled the country during earlier banking failures: why had regulators


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allowed a financial institution entrusted with so much public money to reach this condition?

Peña's financial connections made the crisis politically explosive. He had held shares in Grupo Vázquez, the business group associated with Ueno, until March 2025, after becoming president. His appointment of Carlos Carvallo, who had previously headed Ueno's predecessor, to lead the Central Bank raised additional questions about the independence of financial supervision. The Central Bank maintained that Carvallo recused himself from decisions involving Ueno, but the overlapping relationships became increasingly difficult to defend as the institution's financial problems emerged.

Peña's political position deteriorated rapidly as the banking emergency unfolded. On November 5, he offered his resignation, describing his decision as an effort to preserve national stability and democratic institutions. Congress nevertheless continued impeachment proceedings. Peña's departure through resignation rather than removal carried potentially important implications for his future political status and the protections available to former presidents. As the Associated Press explained, lawmakers were concerned that accepting his resignation could preserve his eligibility for a lifetime Senate seat and associated legal protections.

The Senate completed the impeachment on November 6. All 44 senators present voted to remove Peña, whose support within the Colorado Party had collapsed. Vice President Pedro Alliana was sworn in to complete the presidential term through August 2028. The unanimity of the vote among those present reflected the extent of Peña's political isolation, but it did not settle the separate questions of criminal responsibility or the fairness of the proceedings.

Peña was initially placed under house arrest. On November 7, prosecutors filed criminal charges arising from the Ueno investigation, and a judge ordered him detained at a military facility pending further proceedings. Reuters reported on November 8 that Peña had been charged with breach of trust and using his office for personal gain. Former Central Bank chief Carvallo was also charged. Peña denies wrongdoing and has pleaded not guilty. The allegations remain subject to judicial determination.

The speed of the proceedings has raised legitimate procedural questions. Peña requested additional time to prepare his defense during the impeachment, but the Senate proceeded without granting the requested extension. Those concerns deserve examination regardless of the seriousness of the allegations against him. Paraguay's institutions must be capable of investigating corruption and removing officials when constitutionally justified, while respecting the procedural protections that give such decisions legitimacy.

Paraguay has been here before

During the banking crises of 1995 through 1998, Paraguay experienced repeated failures involving weak supervision, insider lending, inadequate capitalization, and political resistance to closing insolvent institutions. The International Monetary Fund's examination of Paraguay's financial sector documented the extensive damage caused by the collapse of locally owned banks and the government's costly efforts to contain the crisis.

The problems were not confined to a handful of troubled institutions. According to the IMF's historical analysis, fifteen of Paraguay's nineteen locally owned banks were closed or absorbed by stronger institutions between 1995 and 1999. The failures followed years of undercapitalization, inadequate supervision, and lending to companies associated with bank owners. Public intervention prevented an even broader collapse but transferred substantial financial losses to the state.

The treatment of social security funds was especially disturbing. Rather than allowing troubled banks to fail promptly, authorities encouraged the Instituto de Previsión Social, Paraguay's public social security institution, to increase its deposits in financially weak banks. In January 1997, IPS was persuaded to convert 26 billion guaraníes in deposits at Banco de Desarrollo into equity in an effort to prevent the institution's failure. The strategy did not resolve the underlying problems.

The IMF estimated that IPS lost more than 620 billion guaraníes, equivalent at the time to approximately $265 million, in banks liquidated during 1997 and 1998. The government subsequently agreed to absorb 525 billion guaraníes through a long-term bond. Public retirement resources had been exposed to institutions whose financial condition should have prompted more decisive regulatory action. Political reluctance to close troubled banks allowed losses to accumulate, while the eventual costs were transferred to the public sector.

The resemblance to the present Ueno scandal warrants careful examination. In both periods, substantial public resources were exposed to private financial institutions, questions arose about the adequacy of banking supervision, and political relationships complicated the effort to establish responsibility. Paraguay's financial system has changed considerably since the 1990s, however, and the failure of one institution does not establish that the entire system is unsound. The current investigation must determine whether the problems arose from inadequate regulation, improper political influence, failures of management, or some combination of these factors.

The earlier banking crisis also produced a prolonged struggle over accountability. Former President Juan Carlos Wasmosy, who governed from 1993 to 1998, faced criminal proceedings concerning government assistance

to Banco de Desarrollo, one of the troubled institutions of the period. He was initially convicted, but that conviction was overturned on appeal. On June 21, 2007, Paraguay's Supreme Court confirmed his acquittal. The proceedings continued for years after the immediate financial emergency had passed. They also demonstrate why allegations, initial judgments, and final judicial outcomes must be treated separately.

Paraguay adopted important reforms after the earlier banking crises, including measures to strengthen banking supervision and financial regulation. Those changes should not be dismissed. The country's financial system has demonstrated greater stability in subsequent decades, and its monetary authorities have often been credited with maintaining a degree of macroeconomic discipline that distinguishes Paraguay from several of its neighbors. Nevertheless, the Ueno scandal raises the possibility that improvements in regulation were not accompanied by sufficient protection against political interference.

The World Bank's earlier warning

The international financial institutions were already confronting Paraguay's governance problems during the banking crisis of the 1990s. The timing was significant because the World Bank itself was undergoing a major change in how it approached corruption.

When James D. Wolfensohn became president of the World Bank in 1995, corruption remained a subject that many officials approached cautiously. The institution's charter prohibited political interference in member countries, and corruption had long been treated as the "C word," a subject considered politically sensitive and therefore difficult to address directly. Wolfensohn challenged that reluctance. In October 1996, he publicly described corruption as a cancer undermining development, arguing that international assistance could not achieve its objectives without greater transparency and accountability. The World Bank adopted a formal anticorruption strategy the following year, expanding its willingness to examine the governance conditions affecting the effectiveness of its lending.

Paraguay soon experienced a serious deterioration in its relationship with the Bank. In December 1998, the institution informed the government that it would stop preparing new loans until implementation of existing projects improved and outstanding obligations involving the Yacyretá hydroelectric project were addressed. The Bank's September 2001 Country Assistance Evaluation found that Paraguay had one of its ten worst-performing project portfolios in August 1999. No new World Bank loans had been approved

since 1997, despite a country assistance strategy that had contemplated continued lending.

The difficulties extended across several sectors. A $29 million Land Use Rationalization Project, approved in 1992 to help modernize Paraguay's rural property cadastre, had suffered extensive implementation delays and achieved only a fraction of its original objectives. The project initially contemplated cadastral work covering more than 24 million hectares. Its scope was eventually reduced to a pilot covering approximately 2.3 million hectares, which remained incomplete despite extensions. The Bank's evaluation identified procurement problems, inadequate management, weak technical supervision, and poor-quality deliverables. Other projects experienced similar difficulties, reflecting broader weaknesses in public administration and the capacity to implement development programs.

Land administration was particularly important in Paraguay, where the concentration of rural property, uncertain land titles, and longstanding disputes over ownership complicated economic development and social equity. A functioning cadastre was essential for protecting property rights, improving taxation, reducing disputes, and establishing a reliable basis for agricultural investment. Failure to complete the project therefore had consequences extending beyond the Bank's financial portfolio. It represented a missed opportunity to strengthen an institution central to Paraguay's economic and political development.

The Bank's decision to curtail new lending was not formally described as the first application of Wolfensohn's anticorruption policy, nor do the available records establish that Paraguay was the first country to have a loan cancelled under that initiative. The documented episode is nevertheless significant. At the same time that Paraguay was struggling with banking failures and the political management of public financial resources, one of its principal development partners was concluding that serious governance and implementation problems had undermined the effectiveness of its assistance.

The Bank's 2001 evaluation was particularly critical of the country's limited commitment to reform. It found that projects approved during the 1990s had encountered serious difficulties, many attributable to governance conditions, and that political and institutional obstacles had prevented reforms needed to sustain economic development. The problems were not confined to the financial sector. They extended into land administration, infrastructure, public-sector management, and programs intended to improve the lives of ordinary Paraguayans.

The IMF's 2001 assessment also documented the lingering consequences of the banking crisis and weaknesses in financial supervision. The World Bank,

meanwhile, maintained a policy dialogue with Paraguay despite the deterioration in its lending portfolio. Its approach included technical assistance and efforts to support public-sector reform. The Bank had not abandoned Paraguay. It was attempting to maintain an institutional relationship while insisting that the country address weaknesses that undermined the effectiveness of development assistance.

International institutions can provide financing, technical assistance, and advice, but they cannot substitute for domestic political commitment to effective administration and independent oversight. The difficulties confronting Paraguay in the 1990s were not simply a shortage of resources or technical expertise. They also involved the political arrangements through which public institutions made decisions and allocated economic opportunities. Those arrangements deserve renewed scrutiny as Paraguay examines how substantial public deposits came to be concentrated in Ueno Bank.

The Colorado Party and the distribution of power

The Colorado Party's relationship with the Paraguayan state provides essential context for understanding these recurring problems. Under Alfredo Stroessner, who ruled from 1954 until 1989, the party became deeply integrated into the government, military, civil service, and judiciary. Political loyalty influenced public employment, government contracts, and access to economic opportunity. The dictatorship ended, but the networks connecting party organization to state resources proved more durable.

A study of Paraguay's political institutions by José Molinas, Aníbal Pérez-Liñán, Sebastián Saiegh, and Marcela Montero, published through the Inter-American Development Bank, examined how these relationships shaped policymaking across the dictatorship and the subsequent democratic transition. The authors found that competitive elections changed the mechanisms through which political authority was exercised but did not immediately dismantle the patronage networks developed over decades. Their analysis describes a political system comparatively effective at distributing benefits to particular constituencies while struggling to adopt broader regulatory and redistributive reforms.

The Colorado Party has governed Paraguay for most of the period since 1947, interrupted most notably by Fernando Lugo's election in 2008. Its electoral success reflects genuine popular support as well as organizational strength and longstanding access to state resources. Internal competition can be intense, sometimes more consequential than competition with opposition parties. Factions disagree over leadership, appointments, economic

opportunities, and political strategy, even while sharing an interest in preserving the party's position.

The party's longevity has also shaped the institutions responsible for holding government officials accountable. Political appointments, access to public employment, and the distribution of government benefits have remained important instruments of party organization. These practices are not exclusive to the Colorado Party, nor does party membership establish involvement in corruption. But the party's extraordinary endurance has given it particular influence over institutions responsible for distributing public resources and enforcing the rules governing their use.

Financial regulation does not operate in isolation from these political institutions. Decisions about public deposits, regulatory appointments, supervisory priorities, and the enforcement of banking rules are made within a broader political environment. Even technically sound regulations can be undermined if the officials responsible for enforcing them lack independence or face pressure from powerful political and economic interests.

Paraguay must now examine whether its institutions have developed sufficient independence to resist such pressures. The failure of one bank cannot answer that question by itself. Investigators need to examine the specific decisions that allowed Ueno to expand, attract public resources, and continue operating despite emerging concerns about its financial condition. Their work must include the conduct of officials who remain politically influential, not merely those who have already lost office.

Horacio Cartes and the American sanctions reversal

Horacio Cartes's rise demonstrates how political and economic influence can reinforce one another within this system. A successful businessman before becoming president in 2013, Cartes subsequently consolidated substantial influence over the Colorado Party. His support was instrumental in Peña's election, and his position as party leader gave him considerable influence over legislators and the political fortunes of the administration.

Cartes also has a significant history with American anticorruption sanctions. In January 2023, the U.S. Treasury Department sanctioned him under the Global Magnitsky framework, alleging extensive corruption before, during, and after his presidency. Treasury accused Cartes of making payments to legislators to secure their loyalty and influence political decisions, describing monthly payments ranging from $5,000 to $50,000. The allegations portrayed political support as something that could be maintained through financial incentives and withdrawn when legislators failed to comply.

Treasury's allegations went beyond isolated payments. The department described efforts to influence decisions within the Colorado Party, obstruct investigations, and protect business interests through political relationships. The sanctions represented an unusually direct American intervention against a former president who continued to exercise considerable influence in Paraguay's governing party.

Cartes denied wrongdoing. On October 6, 2025, the Trump administration lifted the financial sanctions, removing Cartes and associated companies from the Treasury sanctions list. The decision was politically significant, particularly given the detailed allegations accompanying the original designation. American officials explained the reversal in terms of foreign policy interests and the continued utility of the sanctions, rather than announcing that the earlier corruption allegations had been disproved.

The State Department explained that the restrictions were no longer required to encourage changes in behavior and therefore no longer served American foreign policy and national security interests. That explanation left unanswered whether the underlying concerns about corruption had changed. Paraguay's continued recognition of Taiwan and its cooperation with Washington on international issues provided the Trump administration with reasons to value the bilateral relationship. Whether those considerations determined the sanctions decision has not been established.

The reversal also prompted criticism in Washington. Democratic senators Jeanne Shaheen, Elizabeth Warren, and Tim Kaine publicly questioned the decision, arguing that the administration was undermining the credibility of the Global Magnitsky sanctions system by allowing political considerations to influence anticorruption enforcement. The criticism deserves consideration, but it does not establish that an improper bargain occurred.

Sanctions are instruments of foreign policy, not criminal verdicts. Their imposition does not establish guilt beyond a reasonable doubt, and their removal does not establish innocence. Administrations have authority to reassess whether particular sanctions continue to advance American interests. That discretion also creates the possibility that foreign policy considerations will influence decisions originally justified on anticorruption grounds.

Cartes regarded the reversal as a vindication. Others saw a political decision that said little about the substance of the original allegations. The available evidence does not establish that an improper transaction occurred between Washington and Cartes. Nor does the reversal erase the history that led to his designation.

That history makes Cartes's role in Peña's downfall particularly revealing. As the banking scandal intensified, Cartes withdrew his support from the

president he had helped elect. Colorado Party legislators joined the impeachment effort, and Peña's political position collapsed. Cartes may have concluded that protecting Peña would inflict lasting damage on the party. He may also have recognized an opportunity to preserve his own influence while distancing himself from the scandal. The evidence does not establish that Cartes engineered the bank's collapse or organized the demonstrations that followed, but his influence over the president's political survival demonstrates the importance of party leadership in determining how Paraguay's institutions respond to a crisis.

The Colorado Party's ability to remove a president while retaining control of the executive branch is a significant feature of the present crisis. Alliana's succession preserves the governing party's position through the remainder of the presidential term, scheduled to end in August 2028. The party has changed its leadership in government without necessarily changing the political relationships that shaped the previous administration.

A familiar constitutional dilemma

I have seen Paraguay confront a contested presidential removal before. I was serving simultaneously as acting USAID Mission Director and acting Deputy Chief of Mission at the U.S. Embassy in Asunción when Congress impeached President Fernando Lugo in June 2012. The international community was struggling with a question that was anything but academic: had Paraguay experienced a legitimate constitutional transfer of power or a parliamentary coup? Governments across the region were debating how to respond, and we had to be careful that our actions at the Embassy did not prejudge decisions properly belonging to Washington.

The timing created an unusual diplomatic dilemma. Our annual Fourth of July reception was approaching, and we had to decide whom to invite. Extending an invitation to one side while excluding the other could easily have been interpreted as an American decision about the legitimacy of the new government. That was not a decision we intended to make through a guest list. We invited everyone. After all, the occasion was America's Independence Day, not an opportunity for the U.S. Embassy to determine who should govern Paraguay.

The uncertainty was not confined to our Embassy. The Organization of American States was still examining the political and legal consequences of Lugo's removal in early July. Its secretary general, José Miguel Insulza, subsequently acknowledged that the speed of the proceedings had created serious questions about the legitimacy of the process. Neighboring governments reacted more sharply, and Paraguay was suspended from

Mercosur. The circumstances of Peña's removal are different, particularly the financial scandal and criminal allegations involved, but the earlier experience shows how constitutional procedures can produce outcomes whose legitimacy remains contested.

Lugo's impeachment was completed in less than two days following a deadly confrontation over a land dispute at Curuguaty. The proceedings were formally grounded in Paraguay's constitution, which gives Congress authority to remove a president for poor performance of official duties and certain other grounds. But the extraordinary speed of the process and the limited opportunity for Lugo to prepare a defense prompted criticism from governments across Latin America. The dispute concerned not only whether Congress possessed the constitutional authority to act, but whether its exercise of that authority satisfied broader expectations of democratic legitimacy.

The present controversy raises related questions. Peña's lawyers have complained that he was not given adequate time to prepare his defense. His removal followed the rapid collapse of political support within the governing party, and the impeachment proceeded amid intense public anger over the banking emergency. Those circumstances do not establish that the process was illegitimate. They do, however, warrant examination of whether the procedures used were sufficiently fair and independent of the political interests involved.

Washington's response this time has been notably more direct. On November 8, Secretary of State Marco Rubio telephoned President Alliana to congratulate him on assuming office. In a readout issued the following day, the State Department reaffirmed America's commitment to a strong and enduring partnership with the Paraguayan people. Alliana subsequently described discussions about security, technology, trade, investment, and development, and said Rubio had invited him to a future meeting.

The contrast with 2012 is striking to someone who experienced that earlier uncertainty firsthand. Fourteen years ago, even the guest list for an Independence Day reception required diplomatic care. This time, the American secretary of state has publicly congratulated the successor president within days of the impeachment. The call signals Washington's willingness to work with the new government. It does not establish that the United States has endorsed the impeachment procedures or reached conclusions about Peña's criminal responsibility. Those are separate matters, and the brief official readout did not address them.

Presidents should not be protected from accountability. But the institutions responsible for enforcing accountability must act independently, provide fair

procedures, and resist pressure from the political factions that control them. Paraguay's history offers reasons to examine those obligations carefully.

Esperanza Martínez and the lessons of 2012

Esperanza Martínez remembers the Lugo impeachment from a different vantage point. She was Lugo's minister of health, and I worked closely with her during that period, when USAID supported Paraguay's public health sector. Fourteen years later, she is again confronting a presidential impeachment, this time as a senator. Her participation in the present controversy provides a connection to the political upheaval of 2012, although the circumstances surrounding the two impeachments are substantially different.

Martínez was raising concerns about Ueno before the bank collapsed. In October 2026, she publicly questioned the placement of IPS pension funds at Ueno, criticized the role of central bank officials in facilitating the institution's rapid expansion, and urged Colorado Party legislators to protect retirement savings. Her accusations were political allegations, not established findings of misconduct, but they were made before the November intervention. The chronology raises questions about what regulators and legislators knew, how they responded, and whether earlier scrutiny might have reduced the damage.

Following Peña's removal, Martínez published a Facebook statement recalling that fourteen years earlier, after Lugo's impeachment, she had stood in the same public square sharing a painful sense of powerlessness with other Paraguayans. The mood this time, she wrote, was one of celebration and renewed determination to build a better country. Yet she also warned that the political struggle was far from over, describing a mafia-like network that quickly reorganizes itself within the structures of power.

Her language reflects her political position and should be understood as such. But the concern she raises extends beyond the opposition. Paraguay has changed presidents while leaving the Colorado Party in control of the executive branch. Alliana, a longtime party leader and ally of Cartes, represents continuity within the governing establishment. Whether the new administration will pursue a genuinely independent investigation of the financial and political relationships surrounding Ueno remains to be seen.

Martínez's experience also illustrates the changing political circumstances surrounding Paraguay's impeachment processes. In 2012, she was a member of an administration removed by a Congress dominated by political opponents. In 2026, she has participated in the political response to the

removal of a Colorado Party president whose own allies withdrew their support. The two episodes differ in their causes, political alignments, and legal allegations, but both demonstrate how congressional authority can become decisive when a president loses the political support necessary to remain in office.

The demonstrations and the struggle over the narrative

The collapse of Ueno produced genuine public anger. Depositors, pensioners, workers, and students took to the streets demanding access to their money and accountability from the government. Some protesters called for the removal of both Peña and Alliana, reflecting dissatisfaction with the political establishment more broadly. The disruption of ordinary financial transactions gave the demonstrations a direct connection to the daily lives of thousands of Paraguayans.

The political interests involved need not have been identical. Depositors wanted their savings restored. Workers feared losing their jobs. Opposition politicians saw evidence of government misconduct, while factions within the Colorado Party faced decisions about their own political futures. These interests could converge in demanding Peña's removal without sharing a common explanation for the crisis or a common vision of what should follow.

The protests have continued after the change of government. On November 9, public schoolteachers went on strike, demanding protection and repayment of approximately $60 million in pension funds deposited at Ueno. Their action underscores the distance between a political transition and the resolution of the underlying financial emergency. The resignation or removal of senior officials does not restore pension assets, settle outstanding obligations, or answer questions about why those resources were exposed to a troubled institution.

The press has played an important role in exposing Ueno's financial problems and the relationships among its owners, government officials, and regulators. Individual reports deserve scrutiny for accuracy, sourcing, and fairness. But allegations that journalists collectively manufactured the crisis or coordinated a campaign to remove Peña require evidence that has not been established. The bank's financial condition, regulatory intervention, and criminal investigation cannot be dismissed merely because their reporting also served the interests of particular political actors.

Journalists must distinguish the financial facts from the political struggle surrounding them. Evidence of improper lending or regulatory failures should be reported regardless of whether it benefits the opposition or a

faction of the governing party. Allegations about the motives of politicians, journalists, and demonstrators deserve the same scrutiny. Paraguay's citizens need accurate information about the management of their savings and public resources, not another contest in which competing political interests determine which facts receive attention.

The regional experience

Paraguay is not the first Latin American country to discover that a banking scandal can become a crisis of political legitimacy. Ecuador's financial collapse in the late 1990s exposed serious weaknesses in banking supervision and contributed to the political upheaval that removed President Jamil Mahuad in January 2000. The circumstances were more severe than Paraguay's present difficulties, involving a systemic banking crisis, currency collapse, and military intervention. The IMF's September 2000 assessment of Ecuador attributed the crisis partly to failures to address emerging weaknesses in the banking system, alongside external shocks and broader economic policy problems.

Ecuador's experience demonstrated how quickly public confidence in a government can deteriorate when citizens lose access to savings and believe powerful financial interests have received preferential treatment. The country's banking emergency was followed by a dramatic deterioration in economic conditions, the adoption of the U.S. dollar, and a political transition that took place amid widespread public anger. The relationship between financial collapse and political instability was not simply a matter of economic indicators. It reflected a broader loss of confidence in the institutions responsible for protecting citizens and managing public resources.

The Dominican Republic experienced another instructive crisis in 2003, when the collapse of Banco Intercontinental, or Baninter, revealed extensive accounting irregularities and concealed liabilities. The resulting government intervention imposed enormous costs on public finances and contributed to currency depreciation and inflation. The IMF's October 2003 assessment documented accounting malpractice, fraud, and unregistered liabilities amounting to several times the bank's recorded deposits. The Central Bank intervened in April 2003 and provided substantial liquidity assistance to contain the damage.

The consequences extended beyond Baninter itself. Problems emerged at other financial institutions, while the costs of intervention contributed to rising public debt and pressure on the currency. The IMF called for stronger bank supervision, improved governance, and more effective mechanisms for resolving troubled financial institutions. The episode demonstrated how failures of oversight at a politically influential bank could impose costs far beyond its shareholders and depositors.

Argentina's financial collapse in 2001 provides a further example of how restrictions on access to bank deposits can transform an economic emergency into a political crisis. The government's *corralito*, which restricted withdrawals and transfers, became a powerful symbol of the failure of public institutions to protect ordinary citizens. Mass demonstrations followed, and President Fernando de la Rúa resigned in December 2001. The IMF's Independent Evaluation Office examined the deposit runs, withdrawal restrictions, and collapse of confidence that preceded the political upheaval.

Argentina's crisis was much broader than Paraguay's present banking emergency. It involved the collapse of a currency arrangement, a sovereign debt default, and a prolonged economic contraction. But the experience shows why access to savings can become an immediate question of political legitimacy. When citizens cannot withdraw money needed for ordinary transactions, confidence in financial institutions and confidence in political leadership can deteriorate together.

These comparisons have limits. Paraguay has not experienced Ecuador's systemic economic collapse or Argentina's sovereign debt and currency crisis, and allegations concerning Ueno remain subject to investigation. The Dominican Republic's Baninter failure offers a closer institutional comparison because of the allegations of accounting irregularities and the consequences of inadequate banking supervision. In each case, however, the eventual political and economic costs were shaped by the credibility of the institutions responsible for managing the emergency.

Paraguay's own banking history provides the more immediate warning. The country has already experienced the consequences of using public resources to sustain weak financial institutions, allowing regulatory problems to accumulate, and delaying intervention when politically influential interests are involved. Those failures were documented extensively, and reforms followed. The current investigation must establish whether the safeguards developed over subsequent decades were insufficient, poorly enforced, or compromised by political relationships.

What accountability would require

Pedro Alliana inherits a government facing an immediate financial emergency and a serious credibility problem. As a longtime Colorado Party leader and political ally of Cartes, he represents continuity within the governing establishment. His administration cannot plausibly claim to have resolved the underlying institutional questions simply because Peña has been removed.

The recovery of depositors' money must remain the first priority. By November 8, the Central Bank reported that approximately $160 million had been paid to nearly 1.2 million customers through the deposit guarantee system. That progress matters, particularly for families and small businesses unable to withstand prolonged disruption. But restoring access to deposits will not establish why the bank failed or whether public institutions acted properly in placing substantial resources there.

Alliana has begun changing the leadership of the institutions responsible for financial oversight. On November 9, he nominated economist Jorge Schreiner to head the Central Bank, and Congress approved the appointment. Schreiner previously served on the Bank's board and headed the securities commission. The government also appointed Fernando Rivarola, a former banking regulator, to the Central Bank's board. According to Reuters, Rivarola had warned about Ueno's condition in a July report that became public in October.

These appointments may help restore confidence, but their significance will depend on what follows. The reported July warning raises an obvious question: if serious concerns about Ueno's condition were already documented, why did the institution continue operating until November? The answer requires examination of the powers available to supervisors, the information presented to the Central Bank's leadership, and the decisions made after those warnings. Replacing officials will have limited value unless the reasons for earlier regulatory failures are established.

A credible investigation should examine the bank's lending practices, its relationships with related companies, the decisions governing public-sector deposits, and the conduct of financial regulators. It should establish when concerns about Ueno's condition first emerged, how those concerns were communicated, and why corrective action was not taken sooner. Public institutions, including IPS, should explain the criteria used to select financial institutions for their deposits and the safeguards intended to protect public resources.

The investigation must also extend beyond individuals who have already lost political power. If evidence implicates officials who remain influential, prosecutors and regulators should be able to pursue it without interference. Conversely, allegations against Peña and other defendants must be tested through fair legal procedures. Accountability loses much of its meaning when criminal investigations become instruments of political rivalry.

The earlier banking crises offer a practical agenda for reform. Paraguay should examine whether the rules governing public deposits provide adequate protection against concentration risk, whether financial regulators have sufficient independence from political appointments, and whether

existing mechanisms for identifying related-party lending are being enforced. The country should also consider how information about the placement of public pension funds can be made more transparent without compromising legitimate financial confidentiality.

These questions extend beyond Ueno. A financial institution can satisfy formal reporting requirements while still presenting risks that require closer supervision. Public agencies may comply with procurement or deposit rules while making decisions that expose taxpayers and pensioners to unnecessary losses. Regulators may possess the legal authority to intervene but hesitate when an institution has powerful political connections. Determining whether any of these failures occurred at Ueno requires a detailed examination of the documentary record.

The investigation should also establish the responsibilities of the various public institutions involved. The presidency, the Central Bank, the banking superintendency, public pension authorities, and state-owned enterprises do not exercise identical powers. Their decisions must be examined separately, with attention to the legal duties of each official and the evidence of any improper intervention. Political responsibility may extend beyond conduct that satisfies the elements of a criminal offense, but that broader responsibility should not be used to bypass the protections afforded to defendants.

Paraguay’s experience with the World Bank in the 1990s also suggests that international partners can contribute to institutional reform without substituting for domestic accountability. Technical assistance can strengthen financial supervision, improve public financial management, and support transparent systems for administering public resources. Yet those improvements will have limited effect unless Paraguayan institutions are willing and able to apply the rules consistently, including when politically influential individuals or organizations are involved.

Paraguay’s capacity for reform

Paraguay has considerable strengths. Its entrepreneurs have demonstrated remarkable ingenuity, its civil society organizations have produced innovations recognized internationally, and successive governments have maintained a degree of macroeconomic stability that distinguishes the country from several of its neighbors. I have seen those strengths firsthand through my work in Paraguay, including with organizations pursuing practical solutions to poverty, health care, and economic opportunity. The country’s achievements deserve recognition, and the present crisis should not obscure them.

Organizations such as Fundación Paraguaya and CEPEP have demonstrated that Paraguayan institutions can produce meaningful results, often with limited resources and in difficult political circumstances. Their experiences illustrate the country's capacity for innovation and sustained institutional development. Paraguay's private sector has shown similar ingenuity, while its economic management has often avoided some of the more severe instability experienced elsewhere in the region.

These achievements make the present crisis particularly damaging. Paraguay has spent years building confidence among international investors and development partners. Its fiscal discipline, relatively stable currency, and expanding financial sector have helped attract capital and strengthen its economic reputation. But a country can maintain sound macroeconomic indicators while allowing political relationships to distort decisions about public resources. Financial supervision depends on regulators who can act without interference, public institutions that can explain where they place their money, and a judiciary capable of examining misconduct without regard to political affiliation.

Economic modernization requires more than new technology, expanding financial services, or favorable investment indicators. It also depends on institutions capable of applying rules consistently, protecting public resources, and resisting improper political influence. Ueno's expansion showed what financial innovation could accomplish. Its collapse has raised questions about the institutions responsible for ensuring that innovation remained financially sound.

The Colorado Party has survived dictatorships, democratic transitions, banking crises, corruption scandals, and contested changes of government. Its ability to adapt has been an important part of Paraguay's political history. Whether the present crisis produces institutional reform or simply another rearrangement of power within the governing establishment remains uncertain.

Peña's removal may prove to be an important act of political accountability. The criminal proceedings may establish responsibility for serious financial misconduct. But neither outcome, standing alone, will explain why Paraguay once again found itself confronting questions about public pension funds, politically connected banks, and the independence of financial regulators.

Nearly thirty years after its earlier banking crises, Paraguay has another opportunity to examine the relationship between political power and public money. Its citizens have already paid a substantial price for failures of financial supervision. They deserve an investigation that follows the evidence wherever it leads, including into the political arrangements that may have allowed those failures to develop. The real measure of Paraguay's response

will be whether the institutions responsible for protecting public resources emerge more independent, transparent, and capable of enforcing the law, including against those who remain in power.

About Steven E. Hendrix

Steven E. Hendrix is a former senior U.S. foreign assistance official who served in leadership roles with the U.S. Agency for International Development and the U.S. Department of State. He worked extensively in Latin America, Africa, and Asia, including collaboration with European development partners.

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