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Political crisis Paraguay

Paraguay and the price of trust

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Trust is one of the few forms of wealth that cannot be created by decree. Governments can issue currency, banks can extend credit, and parliaments can pass laws. But no institution can force a society to believe in it. When that trust disappears, the consequences can be faster and more profound than those of a conventional economic crisis.

Paraguay has just experienced this in dramatic fashion. On November 3, the Central Bank initiated resolution proceedings against Ueno Bank, a financial institution that had grown at breakneck speed to nearly three million customers. Two days later, Santiago Peña announced his resignation, having lost the support of key factions within his own party and facing impeachment proceedings. The Chamber of Deputies unanimously approved the charges, leaving the Senate with a decision of enormous political and legal significance.

How could the collapse of a financial institution precipitate the downfall of a president? The answer requires looking beyond banking irregularities and disputes among political leaders. What happened compels us to examine one of the most delicate relationships in any democracy: the one between political power, financial interests, and the institutions responsible for overseeing both.

A banking crisis may begin as a problem of liquidity, solvency, or mismanagement. But when the ties between a financial institution and political power become too close, the consequences take on a different dimension. Citizens no longer ask only whether the bank managed their deposits properly. They also begin to question whether the authorities responsible for supervising it acted independently, whether warnings were heeded, and whether public decisions served the general interest. What initially appeared to be a financial problem ultimately puts the credibility of the state itself to the test. This is why the independence of financial regulators is not a technocratic luxury. It is a prerequisite for the system to function.

In Paraguay, Ueno Bank had received approximately 800 million dollars in deposits from public entities, including funds linked to the social security system. The Central Bank found that its solvency ratio had fallen below half the required minimum following adjustments to its financial statements. The institution, which had presented itself as a symbol of modernization and financial inclusion, left a huge number of citizens without immediate access to their funds.

The circumstances surrounding this rapid growth warrant particularly careful scrutiny. Peña retained a shareholding in a company linked to the bank until 2025. Carlos Carvallo, appointed by Peña's government to head the Central Bank, had previously run the financial company that preceded Ueno Bank. These facts do not, in themselves, establish that a crime was

committed. They do, however, raise a fundamental governance question: how can we ensure that regulatory decisions serve the public interest exclusively when there are prior ties between supervisors, the institutions they oversee, and political authorities?

The significance of a conflict of interest lies precisely in the fact that corruption does not have to be proven for the institutional risk to be recognized. Rules on incompatibility, transparency, and the separation of functions exist because no prudent system should depend solely on the personal integrity of its officials. Institutional independence thus serves an essential purpose: replacing personal trust in those who govern with impersonal trust in the rules.

Latin America knows all too well the price of losing that distinction. In Ecuador, the 1999 banking crisis led to the closure or intervention of numerous financial institutions, the freezing of deposits, and a profound erosion of public trust. According to an International Monetary Fund analysis, weaknesses in banking supervision and delayed responses helped exacerbate a crisis also fueled by fiscal, monetary, and external factors. In January 2000, President Jamil Mahuad lost power amid political and social upheaval, as the country embarked on its transition toward dollarization.

Argentina offers another revealing example. In late 2001, restrictions on bank withdrawals, known as the *corralito*, turned financial distrust into widespread political outrage. The crisis had much deeper roots, linked to public debt, the currency convertibility regime, and the loss of access to international financing. Yet when citizens discovered they could no longer freely access their own money, a fundamental relationship between society and the state was broken. Fernando de la Rúa left the presidency on December 20. The IMF's independent evaluation of Argentina offers insight into the extent to which economic policy mistakes and institutional shortcomings exacerbated that crisis.

The point is not to equate different situations or suggest that Paraguay is necessarily facing a widespread financial collapse. Ecuador experienced a systemic banking and monetary crisis; Argentina went through a crisis of debt, currency, and political representation. The Paraguayan case is, for

now, centered on a single financial institution, although its political consequences have already been extraordinary.

What connects these experiences is a deeper issue. Money deposited in a bank represents a legal obligation, but also a social expectation that the obligation will be honored. When the institutions responsible for safeguarding that expectation lose credibility, the problem ceases to be exclusively financial. It becomes a crisis of authority, as citizens begin to wonder whether the same institutions that demand they fulfill their obligations are capable of fulfilling their own.

In this context, we must ask: who has access to information, who makes the decisions, and who bears the consequences when things go wrong?

At Ueno Bank, this last question is particularly troubling. Executives may lose their positions, and politicians may lose their offices. But for a family unable to access its savings, the consequences are immediate. A loss of liquidity is no financial abstraction when it means being unable to pay for medication, food, or a debt.

There is also a political dimension that goes beyond Peña's personal fate. Horacio Cartes, a former president and the leading figure in the Colorado Party, withdrew his support for the president amid the crisis. Vice President Pedro Alliana was left on course to complete the presidential term. But replacing a head of government, even through the appropriate constitutional mechanisms, does not necessarily answer questions about the quality of banking supervision, the management of public deposits, or the accountability of those entrusted with oversight.

Here, it is worth distinguishing between a government crisis and a crisis of trust. The former can be resolved through a resignation, removal from office, or constitutional succession. The latter requires rebuilding the reasons why citizens should believe in their institutions again.

The experiences of Ecuador and Argentina remind us that the consequences of a banking crisis can last for years. But they also teach us something less obvious: restoring macroeconomic indicators or replacing those politically responsible is not enough. Trust is rebuilt when

institutions demonstrate, through verifiable decisions, that they have learned from their mistakes.

Paraguay has human resources, professional capabilities, and a tradition of social innovation that deserve recognition. Its challenge is not to invent perfect institutions, but to ensure that existing ones operate independently and transparently, even when doing so is uncomfortable for those in power.

Ultimately, the great lesson of this crisis is a paradox of modern democracy. For citizens to trust their authorities, institutions must be designed so that blind trust in them is unnecessary.

Santiago Peña's resignation may close a political chapter. Restoring trust will be a much longer task. And unlike a presidential succession, it cannot be resolved through a simple vote.

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