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Paraguay's Political Crisis: Constitutional Steadiness, the Return of Cartes and Relations with the United States

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Executive Summary

Paraguay is experiencing its most serious political and financial crisis in years. The collapse of Ueno Bank and the subsequent removal of President Santiago Peña have exposed the dangers of political patronage, weak institutional oversight, and the concentration of political and economic power. Yet amid the turmoil, one important development deserves greater attention: Paraguay's constitutional democracy held. The political crisis was resolved through established constitutional processes, presidential succession proceeded without interruption, and the country's democratic order remains intact. There is no immediate threat to democratic stability.

This distinction is essential. Paraguay's institutions demonstrated their capacity to manage a major political crisis without resorting to unconstitutional measures or undermining democratic governance. The impeachment process, congressional deliberations, and orderly succession of Vice President Pedro Alliana provide evidence of institutional resilience.

Nevertheless, the successful management of presidential succession should not obscure the deeper institutional vulnerabilities exposed by the crisis. The collapse of a politically connected financial institution raises troubling questions about regulatory independence, accountability, and the influence of powerful economic interests over public policy. Moreover, the political consequences of Peña's removal have reinforced the dominance of former President Horacio Cartes, whose extensive influence over the ruling Colorado Party and key state institutions remains one of the greatest obstacles to democratic consolidation in Paraguay. Cartes epitomizes the dangers of entrenched political patronage, corruption, and state capture, having built a powerful network of political and economic interests that has penetrated and weakened democratic institutions. In many respects, Cartes remains the albatross around the neck of Paraguayan democracy: a political power broker whose enduring influence undermines institutional independence, perpetuates impunity, and prevents the emergence of a more accountable and transparent democratic system. Thus, while Paraguay's constitutional democracy has demonstrated steadiness in managing the immediate crisis, the persistence of Cartes's political dominance underscores the profound weaknesses that continue to constrain its democratic development.

For the United States, the crisis also raises important questions about the future of bilateral relations. Peña had cultivated a particularly close relationship with the Trump administration, positioning Paraguay as a key partner in Washington's hemispheric security strategy, including the Shield of the Americas initiative. Although Alliana's succession is unlikely to produce significant changes in Paraguay's foreign policy, Cartes's reassertion of political dominance could complicate bilateral relations, particularly as Democrats assume control of Congress and seek to advance a more assertive anti-corruption agenda. Renewed congressional scrutiny of Cartes's influence, corruption, and the erosion of institutional independence in Paraguay could create some tensions but it is unlikely to derail the current relationship as the Trump administration has largely prioritized strategic alignment and security cooperation over concerns about democratic governance and accountability.

A Financial Crisis Becomes a Political Crisis

The immediate catalyst for Paraguay's political upheaval was the collapse of Ueno Bank, one of the country's fastest-growing financial institutions, whose rapid expansion was driven largely by its digital banking and electronic transaction services. Its extraordinary growth, substantial holdings of public deposits, and close ties to politically

influential business interests had raised serious questions about the adequacy and independence of regulatory oversight. Peña's previous financial connections to interests associated with Ueno, together with questions about regulatory appointments and the handling of public resources, placed the president under intense scrutiny. Although Peña denied wrongdoing, the scandal weakened his political position and fractured his support within the Colorado Party.

The bank reportedly served approximately three million customers and managed more than $800 million in public funds, a substantial portion of which consisted of workers' pension and retirement savings. Among the affected institutions was *Paraguay's Instituto de Prevision Social* (IPS), which administers pensions for much of the country's workforce and had approximately $517 million in operational and investment funds invested in Ueno Bank. Other affected funds included those serving teachers, public employees, and retirees. Regulatory intervention following serious solvency problems froze access to deposits, threatened the retirement security of thousands of workers and pensioners, generated widespread uncertainty, and provoked public protests. The exposure of workers' retirement savings added a particularly troubling dimension to the scandal, raising questions about the government's stewardship of public resources and its responsibility to protect citizens' financial security. Allegations of questionable lending practices, inadequate regulatory supervision, political interference, and potential conflicts of interest quickly transformed what began as a banking crisis into a broader political scandal that ultimately brought down the Peña administration.

On November 5, Peña offered his resignation in an apparent effort to avoid impeachment and removal from office. Under Paraguay's Constitution, a former president who completes his term or voluntarily resigns may assume the status of *senador vitalicio* (senator for life), a position Peña reportedly hoped would preserve his parliamentary immunity from prosecution. Congress, however, had other plans. Rather than accept his resignation, lawmakers proceeded with impeachment, effectively denying Peña the constitutional protections he had sought. The Senate subsequently voted to remove him from office by near unanimous vote, and Vice President Pedro Alliana assumed the presidency. Congress then elected Senator Antonio Barrios as vice president, completing the constitutional succession process and ensuring an orderly transfer of executive authority.

The importance of this outcome should not be underestimated. Despite the seriousness of the scandal and the political tensions surrounding Peña's removal, the constitutional order was preserved. Congress exercised its authority, the established rules of succession were respected, and the military remained outside the political process. There was no constitutional rupture or interruption of democratic governance. In fact, the procedure established in a previous congressional resolution after the impeachment of former President Fernando Lugo, was strictly followed. The resolution does not specify a minimum period for preparing a defense.

This does not mean every aspect of the impeachment proceedings should be exempt from scrutiny. Questions concerning due process and the speed of the proceedings merit examination. Nevertheless, these concerns should be evaluated within the constitutional framework rather than interpreted as evidence of democratic breakdown. Paraguay's political system demonstrated that it possesses institutional mechanisms for addressing a crisis involving the country's highest elected official. The greater challenge now is ensuring that the same commitment to constitutional accountability extends to the financial institutions, regulatory authorities, and politically connected economic interests implicated in the scandal.

Political Continuity and Cartes's Return to Power

Alliana's succession ensures political continuity rather than significant policy change. A longtime Colorado Party leader and close associate of Horacio Cartes, Alliana had previously been publicly endorsed by the former president as his preferred presidential successor in the 2028 elections. The rupture between Cartes and Peña reflected a growing struggle over political power, economic resources, and control of the Colorado

Party. Peña and Alliana had begun building an independent political base, challenging Cartes's dominance and his influence over the 2028 presidential succession. Ueno Bank and its associated business interests reportedly formed an important part of this emerging economic power structure, although allegations that bank resources directly financed *peñismo* remain unsubstantiated.

The banking scandal effectively ended that challenge. Peña's removal weakened the emerging political alliance and provided Cartes with an opportunity to reassert his authority over the party and government. The selection of Antonio Barrios as vice president on November 6 provides particularly compelling evidence of this political realignment. Barrios, Cartes's personal physician and longtime political ally, resigned his Senate seat before assuming the vice presidency. His appointment reinforces Cartes's influence over the new administration and illustrates how quickly the former president has reestablished his position at the center of political decision-making.

Alliana consequently enters the presidency in a politically vulnerable position. Although he possesses the constitutional authority of the office, he lacks an independent political base sufficiently strong to govern without Cartes's support. His dependence on the former president could limit his autonomy, particularly regarding cabinet appointments, investigations, and the selection of candidates for the 2028 elections. It is important to note that Alliana is now out of the 2028 presidential race, as Paraguay's Constitution prohibits presidential reelection under all circumstances. This allows Cartes to maintain control over the presidency, given Alliana's political dependence on him.

The political implications extend beyond the immediate succession. The Colorado Party has dominated Paraguayan politics for decades, demonstrating an extraordinary capacity to manage internal disputes while preserving its hold on power. Peña's removal and Alliana's succession reinforce that pattern. Yet Cartes's renewed dominance should not be confused with a resolution of the country's underlying problems. The financial scandal has generated widespread public anger over the relationship between political power, financial institutions, and the management of public resources. Should the new administration appear more interested in protecting established political interests than pursuing accountability, public confidence could deteriorate further.

Paraguay therefore confronts a fundamental paradox: *while its constitutional institutions have demonstrated stability in managing the political crisis, the resulting political realignment has reinforced the very networks of patronage, corruption, and entrenched interests that have long undermined democratic governance.* At the center of these networks stands Horacio Cartes, whose extensive influence over the ruling Colorado Party, Congress, the executive branch, and key state institutions (including the judiciary) enabled him to exercise extraordinary political power without holding elected office. Through a system of political patronage, personal loyalties, and economic influence, Cartes has helped perpetuate a system of state capture in which institutional independence is compromised and the boundaries between public authority and private interests are blurred. His dominance makes it exceedingly difficult for the rule of law to take root, as judicial independence, regulatory oversight, and accountability remain vulnerable to political interference. The central contradiction of Paraguayan democracy is thus that its constitutional institutions can function effectively in moments of political crisis while remaining deeply constrained by entrenched power structures that undermine their independence and capacity to uphold the rule of law. In other words, it is Cartes who decides when to allow constitutional institutions to function, depending on what best serves his interests.

What Comes Next?

The immediate priority for the Alliana administration is restoring confidence in Paraguay's financial system. It is true that other banks remain in a strong position, and the financial system as a whole remains solvent. However, Ueno Bank's collapse has raised serious questions about regulatory independence, political interference, and the management of public funds, especially pension resources. Paraguay has long benefited from a

reputation for relative macroeconomic stability and fiscal discipline. Preserving that reputation will require more than assurances that the banking crisis is a one-off. The government must demonstrate that financial regulators can operate independently, that depositors will receive appropriate protection, and that investigations into alleged wrongdoing will proceed without political interference.

The appointment of new financial authorities offers an opportunity to rebuild confidence, but their credibility will depend on their ability to act independently of powerful political and economic interests. Transparent investigations and a comprehensive review of public deposits and financial exposure will be essential. Beyond financial stabilization, Alliana faces the challenge of maintaining political stability while managing competing pressures within the Colorado Party. His dependence on Cartes may provide short-term political support but could also constrain his capacity to undertake reforms that threaten entrenched interests, not that he was ever really committed to reforms.

Three broad trajectories are possible:

The first involves political continuity under renewed Colorado Party control, with Alliana stabilizing the financial system while preserving the existing distribution of political power. A second involves more substantial institutional reform, driven by public pressure and the recognition that restoring investor confidence requires stronger oversight and accountability. A third involves prolonged financial uncertainty, additional revelations of misconduct, and renewed political tensions that could weaken the government and generate further instability.

The constitutional order is not presently threatened in any of these scenarios. Nevertheless, the quality of democratic governance will depend on whether the political system moves beyond managing the immediate crisis toward addressing its underlying structural or political causes.

Implications for U.S.–Paraguayan Relations

Peña's removal represents the departure of one of Washington's most reliable political partners in South America. U.S.–Paraguayan relations strengthened considerably under the Peña administration, particularly in defense, security, and law enforcement cooperation. In May 2025, the two countries signed an agreement facilitating Paraguay's acquisition of U.S. defense equipment and services, followed in December by a Status of Forces Agreement (SOFA) establishing a legal framework for U.S. military personnel participating in training and joint security activities. Cooperation expanded further in October 2026, when Deputy Secretary of State Christopher Landau visited Asunción and signed agreements on aerial interdiction, intelligence sharing, and border security, including the deployment of U.S. technology to identify suspected terrorist travel. Washington also announced nearly $12 million in additional assistance to combat transnational organized crime, strengthen counterterrorism capabilities, and improve border security. The two governments also advanced cooperation on peaceful nuclear energy and migration management.

Also, Peña's participation in the March 2026 Shield of the Americas summit was particularly significant. The initiative reflects the Trump administration's emphasis on strengthening security cooperation with governments aligned with Washington's regional priorities, particularly in combating transnational organized crime, narcotics trafficking, and other security threats. Paraguay's geographic position, its proximity to major trafficking corridors, and the security challenges associated with the Tri-Border Area make it an important partner in these efforts. Peña's willingness to participate in the initiative reinforced Paraguay's standing within Washington's emerging hemispheric security framework.

Despite Peña’s departure, bilateral relations should remain stable. Alliana shares the Colorado Party's traditionally favorable orientation toward the

United States, and Paraguay's strategic interests provide strong incentives for continued cooperation. Not long after assuming office, for example, President Alliana designated by decree twenty-one transnational organized crime organizations as terrorist groups, in line with the decision adopted previously by the Shield of the Americas.

However, the return of Cartes to the center of political power introduces a potentially important complication. The extent of Cartes's influence over Paraguay's political institutions was laid bare in January 2023, when the Biden administration imposed financial sanctions against the former president under the Global Magnitsky sanctions framework. The U.S. Treasury Department accused Cartes of engaging in systematic corruption before, during, and after his presidency, including bribing Colorado Party officials, paying legislators to secure their political loyalty, and manipulating legislative decisions to advance his personal and economic interests. According to Treasury, Cartes made monthly payments ranging from $5,000 to $50,000 to individual legislators, a practice that reportedly continued after he left office in 2018. These allegations help explain how Cartes accumulated and maintained extraordinary political influence, effectively blurring the boundaries between private economic interests and public authority while undermining institutional independence and the rule of law.

The Trump administration's decision in October 2025 to lift the financial sanctions should not be interpreted as an exoneration of Cartes or a repudiation of the underlying corruption allegations. Rather, the reversal arguably removed an important external constraint on his financial and political activities, facilitating his political rehabilitation and strengthening his capacity to reassert control over the Colorado Party and the Paraguayan state. In this respect, Washington's shifting approach to Cartes has implications not only for bilateral relations but also for the broader struggle against corruption and state capture in Paraguay.

Thus far, the Trump administration has shown limited interest in confronting Cartes over corruption, emphasizing instead strategic alignment and security cooperation. This approach has helped facilitate close relations with the Colorado Party leadership. Nevertheless, the political environment in Washington could change. As Democrats assume leadership of Congress, renewed congressional scrutiny of Cartes, corruption, and democratic governance in Paraguay could complicate the bilateral relationship.

Congressional investigations, hearings, and oversight of security cooperation could bring greater attention to issues that have received relatively little emphasis from the executive branch.

The other key component of the relationship is the Shield of the Americas. Although the initiative provides a political framework for expanded regional security cooperation, its institutional structure, resources, and operational objectives remain insufficiently developed. Its effectiveness will ultimately depend on the capacity, credibility, and commitment of participating governments. In Paraguay’s case, the Peña government signed the March 5, 2026, Americas Counter Cartel Coalition (A3C) declaration, joining a U.S.-led multinational security initiative aimed at combating transnational organized crime. During Deputy Secretary of State Christopher Landau’s visit to Paraguay in October 2026, Washington announced security assistance to strengthen counterterrorism, border security, and efforts to combat transnational organized crime. The assistance includes support for aerial interdiction, communications equipment and capabilities, the deployment of a U.S. counterterrorism adviser to Asuncion, and the establishment of a new INL-sponsored counterterrorism center in Paraguay.

For Washington, the lesson, especially once the Trump administration leaves office in two years, is that effective security cooperation requires more than ideological alignment or personal relationships with political leaders. Strong financial institutions, independent regulators, credible judicial systems, and transparent governance are essential components of any durable security partnership. The United States therefore has an interest in maintaining close relations with Paraguay while supporting institutional reforms that strengthen the country's capacity to confront corruption and organized crime.

This need not entail political intervention or confrontation with the Alliana administration. Rather, it requires recognizing that institutional accountability and security cooperation are mutually reinforcing objectives.

Conclusion: Constitutional Stability and the Challenge of Accountability

Paraguay's political crisis has demonstrated an important strength of its democracy. Despite the removal of a sitting president amid a major financial scandal, constitutional procedures were respected, presidential succession occurred peacefully, and democratic order remained intact. The constitutional system prevailed, and Paraguay's democracy passed an important institutional test.

Yet constitutional stability does not necessarily translate into effective governance or the consolidation of the rule of law. The Ueno scandal exposed profound weaknesses in regulatory oversight and the deeply entrenched relationship between political and economic power. Moreover, the political realignment following Peña's removal has further consolidated Cartes's influence, reinforcing his capacity to perpetuate a system of state capture in which powerful political and economic interests undermine institutional independence and accountability. His renewed dominance raises serious questions about the Alliana administration's autonomy, its willingness to confront entrenched interests, and its capacity to strengthen the rule of law and uphold democratic accountability.

For Washington, Paraguay will remain an important partner, particularly on Taiwan/China, and regional security. Yet the durability of that relationship will depend on more than political alignment. A credible and effective security partnership requires institutions capable of exercising independent oversight and resisting political interference and corruption. Ultimately, Paraguay's challenge is not preserving constitutional order (that has been accomplished) but ensuring that the institutions that successfully managed the political crisis can also address the underlying weaknesses that produced it. The distinction between constitutional steadiness and institutional accountability will define the country's political future.

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