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Paraguay: Ueno's Collapse Tests the Investment-Grade Story and Reorders Colorado Power

By

Fernando Prats



20 November 2026

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For information about Rosa&Roubini Associates, please send an email to info@rosa-roubini-associates.com or call +44 (0)20 7101 0718.

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Fernando Prats

Paraguay: Ueno's Collapse Tests the Investment-Grade Story and Reorders Colorado Power

20 November 2026

Executive Summary

- Ueno Bank's collapse has put Paraguay's hard-won investment-grade reputation to the test, triggering its most serious political crisis since 2012.
- The crisis culminated in President Santiago Peña's unanimous removal by the Senate on 6 November and Vice-President Pedro Alliana's accession to the presidency.
- The episode exposed the proximity between public funds, financial supervision and the Colorado Party's leadership, and brought to a head an internal power struggle that predated the bank's failure.
- The macroeconomic shock appears manageable, but around 70 per cent of Ueno's deposit value, including substantial public-sector funds, falls outside the deposit guarantee.
- Former President Horacio Cartes has regained influence over the executive, although divisions within the ruling party leave the durability of the new arrangement uncertain.
- The appointment of new central bank authorities, including the supervisor who first warned about Ueno, offers an opportunity to restore confidence; S&P's revision of the development agency AFD's outlook shows that supervisory concerns already carry credit implications.
- For international investors, the central question is whether Paraguay can contain the bank's losses while preserving the institutional credibility on which its investment-grade reputation rests.

Key Picture: Paraguayan Guarani per $, (inverted scale)



Source: The Economist

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1. Introduction

On 3 November 2026, Paraguay's central bank (BCP) announced the resolution of Ueno Bank after its solvency ratio fell below half the legal minimum[1]. Within days, President Santiago Peña, previously a business partner of the bank's controlling group, had tendered his resignation, been removed by the Senate and placed in pre-trial detention[2]. Vice-President Pedro Alliana was sworn in on the evening of 6 November and will complete the term to August 2028[3].

The immediate story is a banking collapse with political consequences. Its wider significance lies in what it exposed: the proximity between public money, financial supervision and the ruling Colorado Party's elite, alongside a struggle for political influence that had been developing for months. The collapse also struck at the heart of Peña's economic narrative, since Ueno's rapid success had formed part of his pitch of Paraguay as an investment destination[4].

Over the past two decades, Paraguay built a reputation for macroeconomic stability and greater policy predictability, culminating in investment-grade status. Those gains did not mean that institutional weaknesses had disappeared. For investors, Paraguay's economic resilience remains an important buffer; what Ueno now places under scrutiny is the credibility of the institutions behind that hard-won reputation.

2. How a Bank Failure Became a Political Crisis

Ueno's expansion was rapid. Licensed as a bank in 2023, it absorbed Visión Banco a year later and came to serve almost three million customers, while holding some US$800–850 million in public funds[5]. Its audited accounts show public-sector deposits rising 2.6-fold during 2025 alone[6].

The political connections were documented. Peña had been a business partner of the bank's controlling group, and he appointed Carlos Carvallo, a former head of Ueno's predecessor, as Central Bank governor[5]. Ueno and Banco Basa, linked to the family of former president Horacio Cartes, together held nearly half of public-sector dollar deposits in 2025[7]. This concentration raises legitimate questions about the criteria governing the placement of public funds.

Nor did the warning signs go unrecorded. In July, Fernando Rivarola, who had recently left his position as head of banking supervision, warned that Ueno's lending to related companies exceeded regulatory limits and raised concerns about the quality of those loans. The BCP subsequently disputed its formal status, raising questions about how supervisory warnings were handled[8].

The issue soon became entangled in the Colorado Party's internal disputes, with legislators close to Cartes seeking information about the bank after receiving an anonymous warning[9]. Public money nevertheless continued to flow in until the BCP's adjustments revealed severe capital deficiencies. That sequence, amplified by Peña's business ties, turned a bank-specific failure into a broader institutional test: whether the rules governing public funds and financial supervision were sufficiently insulated from political influence.

3. The Colorado Reckoning

Peña reached the presidency in 2023 with former President and Colorado Party strongman Horacio Cartes' backing, but their relationship deteriorated as Peña sought greater autonomy within the party. By October 2026, disagreements over the 2028 presidential succession had weakened Cartes' authority over sections of the party, including its congressional representation[10]. The Ueno crisis did not create this rift, but it precipitated a decisive shift in the party's balance of power.

Following the bank's collapse, Cartes endorsed impeachment and key Colorado legislators withdrew their support from Peña. Yet the manner of his departure exposed divisions among those seeking his removal. While Colorado leaders favoured accepting his resignation, opposition and dissident lawmakers insisted on

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impeachment, which deprived Peña of the lifetime Senate seat and associated procedural protections available to former presidents who leave office without being removed[11].

Alliana's accession, followed by the appointment of Antonio Barrios, a close Cartes associate, as Vice President, has restored Cartes' centrality within the governing coalition[12]. The Senate also rejected Peña's nominee for the Central Bank before approving Alliana's candidates[13]. Yet influence should not be confused with control. The Colorado Party remains divided, and Alliana, who had challenged Cartes' preferences for the 2028 succession, may seek greater autonomy in office.

For investors, the relevant distinction is between political continuity and institutional predictability. The ruling party's survival is likely to preserve the direction of economic policy, but the new administration's credibility will depend on whether regulatory and fiscal decisions remain insulated from factional bargaining.

4. The Institutional Test

Paraguay's investment-grade status rests partly on credible monetary institutions and fiscal discipline. The latter was already under pressure: before Ueno, the IMF projected a 2026 deficit of 3.5 per cent of GDP, with the return to the Fiscal Responsibility Law's 1.5 per cent ceiling deferred until 2028.[14] The crisis has now exposed a further vulnerability: the credibility of financial supervision and the governance of public funds.

On 9 November, the Senate approved Jorge Schreiner, a former Central Bank director and securities regulator, as BCP president, and Fernando Rivarola as a board member[15]. Rivarola's appointment is particularly significant given the controversy surrounding his earlier report on Ueno.

Yet personnel changes alone cannot restore confidence; investors will look for a transparent resolution process and a credible review of earlier supervisory decisions. S&P's decision to revise the development agency AFD's outlook from positive to stable, while affirming its BB+ rating, shows that concerns over supervisory effectiveness are already influencing institution-specific credit assessments[16].

The second test concerns accountability. Criminal investigations now involve both Peña and former BCP governor Carlos Carvallo. Their credibility will depend on whether proceedings follow the evidence irrespective of political affiliation[17].

The third concerns public money. Only around 30 per cent of Ueno's deposit value falls within the guarantee, although uninsured balances are not necessarily irrecoverable.[18] Alliana has pledged full compensation without specifying how, while a proposal to extend the guarantee to public deposits has met strong resistance from business groups.[19] S&P has also flagged a possible fiscal cost.[20] Whether losses are absorbed by the deposit guarantee fund, the state budget or the public institutions themselves will have different fiscal and reputational consequences.

5. Market Implications: A Contained Shock, a Repriced Governance Risk

Over the past two decades, Paraguay had gradually distinguished itself from much of Latin America through macroeconomic stability, relatively prudent policymaking and a growing reputation as an attractive investment destination. Investment-grade upgrades by Moody's in 2024 and S&P in 2025 crowned that trajectory, helping broaden access to international capital and compress sovereign spreads[21]. Those milestones did not mean that macroeconomic progress had resolved every institutional weakness. Ueno's collapse now threatens to undermine that hard-won credibility, not primarily through its immediate financial cost, but by exposing weaknesses in the institutions underpinning investor confidence.

Initial market reactions were significant but stopped short of a systemic sovereign crisis. Paraguay's country-risk spread rose from 119 to 144 basis points, briefly reaching 157, while the Guaraní weakened before recovering some ground following the political transition. Yet sovereign spreads remained low by regional standards[22].

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At the sovereign level, Moody's and S&P saw no immediate implications for Paraguay's investment-grade ratings, while acknowledging institutional and fiscal risks.[23] JPMorgan reportedly maintained an underweight position on Paraguayan sovereign credit, citing tight valuations and diminished ratings momentum.[24]With Fitch still one notch below investment grade, prolonged concerns over governance could complicate future upgrades or weigh on existing ratings, although neither outcome is established[25].

The implications, however, extend beyond sovereign debt. For foreign investors, the crisis raises questions about regulatory reliability, institutional independence and the predictability of dealings with public entities and politically connected business groups. Paraguay's macroeconomic strengths remain largely intact, but restoring confidence in the institutions supporting its investment appeal may prove more demanding than containing the banking losses.

6. The Verdict

Three trajectories remain possible, each with different implications for Paraguay's investment reputation. A transparent resolution, impartial investigations and stronger supervision could contain the reputational damage while preserving Paraguay's macroeconomic strengths. Alternatively, the financial disruption could remain contained while disputes over public losses and accountability create a persistent governance premium. A more adverse path would combine disappointing recoveries, higher fiscal costs and prolonged social or political tensions.

The initial signals are mixed. The new Central Bank leadership, and Rivarola's return in particular, offer an opportunity for institutional repair. Yet the credibility of that response remains to be established: appointments alone cannot settle questions about earlier supervision or the management of public-sector exposure.

Paraguay's economic buffers suggest considerable capacity to absorb a bank-specific shock. The more consequential question for foreign investors is whether the institutional weaknesses exposed by Ueno will be addressed or simply carried into a new political configuration. The clearest tests will be how transparently the authorities determine and distribute the losses, particularly those involving public funds, and whether earlier supervisory decisions face credible scrutiny. Those outcomes will help determine whether Paraguay preserves the reputation it took decades to build or suffers a more durable setback to its investment credibility.

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