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POLITICS

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INTRODUCTION

ECONOMY AND SOCIETY AIMS TO CONTRIBUTE TO BROADENING THE SPACE FOR DEBATE BY OFFERING ITS READERS AN ANALYSIS OF PARAGUAY'S ECONOMIC PROCESS. PROFESSIONALS COMMITTED TO THE COUNTRY ADDRESS HERE THE CAUSES AND CONSEQUENCES OF EVENTS AND SEEK TO PROMOTE DISCUSSION AMONG THE VARIOUS SOCIAL ACTORS AND ECONOMIC AGENTS.

Readers' responses and suggestions are welcome. With this initiative, CADEP, consistent with its principle of not reflecting sectoral or political interests, hopes to contribute to the public debate with objective analyses that help foster critical thinking and channel citizens' demands.

Asunción, September 2026



261 MUNICIPALITIES AND A CHALLENGE: THE 2026 ELECTIONS AND THE ROAD TO 2028

Diego Abente Brun

The municipal elections on October 4, 2026, represent an important electoral test run ahead of the 2028 general elections—a true stress test. Although municipal elections are often viewed as strictly local contests—and indeed they are—their significance extends beyond the election of mayors and city council members. Also at stake is the territorial distribution of political power and the ability of the various political forces to build, maintain, or expand their support bases throughout the country.

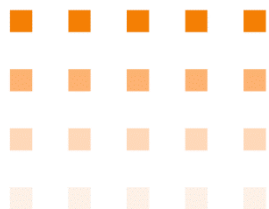
The contest for 261 municipalities will offer an opportunity to gauge the state of national political competition. It will also allow for an assessment of the extent to which the opposition possesses the necessary conditions to build and project a national alternative to the Colorado Party's dominance. In that sense, these elections will serve as a barometer between the 2023 and 2028 general elections.

Territory as the Foundation of Political Power

In Paraguay, subnational governments remain the arenas where politics finds its most concrete expression. Both municipalities and provincial governments do more than simply manage public services and infrastructure projects; they also influence allocation of resources, creation of public-sector jobs, coordination with state institutions, and the day-to-day interactions between citizens and authorities.

For this reason, the competition for mayoral and provincial governor seats has implications that extend far beyond local administration. To a large extent, it constitutes a contest for the territorial infrastructure that underpins political power. A Territorial Map favorable to the Colorado Party

Currently, the National Republican Association (ANR)—the Colorado Party—governs 162 municipalities, and the Authentic Radical Liberal Party governs 62, figures that reflect a marked concentration of local power.



Data from the Superior Court of Electoral Justice (TSJE) regarding the 2021 municipal elections show a clear advantage for the ANR. Of the country's 261 mayoral offices, 162 remained in the hands of the Colorado Party, equivalent to more than 62% of the total. The PLRA won 62 municipalities, while local alliances and movements—the vast majority with Liberal mayors—won another 37.

Table 1. Distribution of Municipalities by Political Party (2021)

Political Party	Number	Percentage
ANR	162	62%
PLRA	62	24%
Alliances	23	9%
Other	14	5%
Total	261	100%

Source: Prepared by the author based on data from the TSJE.

This distribution reflects much more than a temporary electoral advantage. It reveals an organizational presence that extends to virtually the entire national territory. While the Colorado Party—which also controls the national state apparatus—maintains a solid foothold in most departments, the opposition remains concentrated in specific geographic areas and faces difficulties in expanding beyond them.

A department-by-department analysis provides a clearer picture of this reality. The Colorado Party's dominance is particularly strong in several rural departments, where it controls the majority of municipalities. Caazapá, Alto Paraguay, and Presidente Hayes are especially illustrative examples. The areas where the PLRA retains the highest levels of competitiveness are mainly in Cordillera, Central, and some municipalities in Itapúa.

Perhaps the most illustrative case is that of San Pedro. In a department with 21 municipalities, the PLRA does not govern any municipal government; however, several non-Colorado municipalities are administered by local coalitions with a strong Liberal presence. This suggests that competition with the ANR is channeled, in many cases, through specific territorial structures and not necessarily through traditional party affiliations.



Table 2. Distribution of municipal governments by department and political force (2021)

DESCRIPCIÓN	ANR	PLRA	ALIANZA	OTROS
Alto Paraguay	100.00%	-	-	-
Alto Parana	59.09%	18.18%	-	22.73%
Amambay	83.33%	16.67%	-	-
Boqueron	25.00%	-	75.00%	-
Caaguazu	68.18%	22.73%	4.55%	4.55%
Caazapa	100.00%	-	-	-
Canindeyu	62.50%	12.50%	12.50%	12.50%
Capital	100.00%	-	-	-
Central	47.37%	52.63%	-	-
Concepcion	53.85%	38.46%	7.69%	-
Cordillera	25.00%	75.00%	-	-
Guaira	50.00%	27.78%	-	22.22%
Itapua	60.00%	23.33%	13.33%	3.33%
Misiones	80.00%	-	20.00%	-
Ñeembucu	62.50%	18.75%	18.75%	-
Paraguari	66.67%	22.22%	5.56%	5.56%
Pdte. Hayes	88.89%	11.11%	-	-

Source: Prepared by the author based on data from the TSJE.

Two Political Realities: Urban Paraguay and Rural Paraguay

When party distribution is analyzed alongside levels of urbanization, a significant pattern emerges. The most urbanized departments are also those where the opposition performs best. Central is the most obvious example: there, the PLRA governs more municipalities than the ANR. Something similar occurs in Cordillera and in cities such as Encarnación and Villarrica, where the Liberals maintain a competitive presence.

The situation is different in much of the rural interior. In departments with lower levels of urbanization, the Colorado Party exhibits considerably higher degrees of territorial control. This is not merely a statistical coincidence or the result of a lack of opposition support. In these areas, economic opportunities tend to be more limited, and dependence on public resources is greater. As a result, the traditional political structures linked to the state retain significant advantages and a greater capacity for electoral mobilization.



Table 3. Party Dominance by Degree of Departmental Urbanization

Political force	Rural departments (<50%)	Intermediate departments (50%–70%)	Urban departments (>70%)
ANR	Hegemonic	Dominant	Competitive, but not hegemonic
PLRA	Limited	Dominant only in the Cordillera	Strong in the Central region
Alliances	—	—	Strong in Alto Paraná
Others	—	—	—

Note: Rural departments (San Pedro, Caaguazú, Caazapá, Misiones, Paraguari, Ñeembucú, Canindeyú, Presidente Hayes, Alto Paraguay, Boquerón, and Concepción); intermediate departments (Cordillera, Guairá, Amambay, and Itapúa); urban departments (Capital, Central, and Alto Paraná).

In summary, the divide between urban and rural areas reflects two distinct patterns of political competition. In urban centers, greater social and organizational diversity fosters the emergence of alternative candidates, local movements, and campaigns focused on public administration. In many rural areas, by contrast, traditional party networks continue to demonstrate a remarkable capacity for mobilization, supported both by their ties to state structures and their deep historical roots.

The Gender Gap: Unresolved Issues

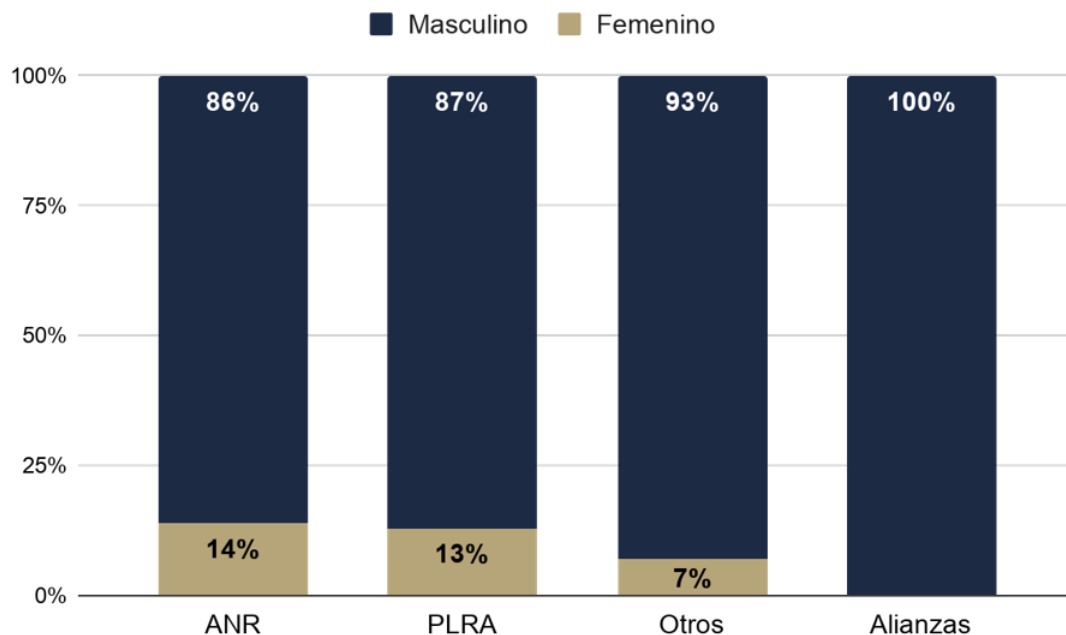
The results of the 2021 municipal elections also reveal a cross-cutting dimension that transcends party lines. These figures reveal a significant gender gap. Of the 261 mayors-elect, only 36 were women—barely 13.8% of the total. This low female participation is not a phenomenon exclusive to any particular political party. On the contrary, it cuts across virtually the entire party system.

The ANR accounts for three-quarters of the women elected, a situation primarily linked to its greater territorial presence and not necessarily to specific policies promoting women's participation. The overall result, however, remains the same: limited participation by women at the level of government closest to the citizens.

It is particularly striking that local alliances and movements—often associated with calls for political renewal—have elected only one woman to lead a municipality. Furthermore, several departments still do not have a single female mayor.

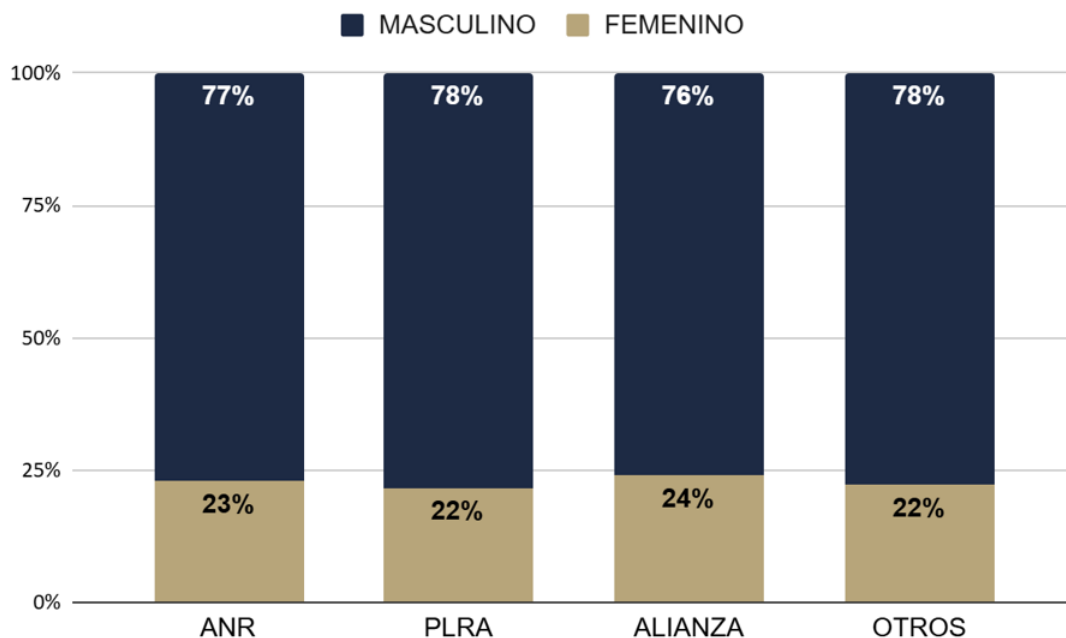


Figure 1. Elected Mayors by Gender and Political Party (2021)

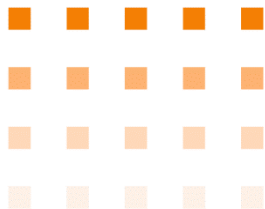


Source: Prepared by the author based on data from the TSJE

Figure 2. Members of Municipal Councils by gender (2021)



Source: Prepared by the author based on data from the TSJE



The lack of female representation is not merely a matter of political equity; it also limits the diversity of experiences and perspectives in local public administration. Four departments have no female mayors at all: Amambay, Canindeyú, Alto Paraguay, and Boquerón. The case of Canindeyú is particularly striking: seventeen municipalities and not a single woman leading a municipal administration.

Scenarios for October 4 and the Opposition's Prospects

Looking ahead to the 2026 elections, the first scenario would be a significant expansion of the Colorado Party's territorial dominance. The ANR enters these elections with an extensive network of local governments, consolidated organizational structures, control over significant state resources, and a territorial presence that no other political force possesses.

A second scenario would be the preservation of the ANR's dominance combined with selective gains by the opposition. The opposition could prevail in municipalities with high political visibility—such as Asunción, Ciudad del Este, Encarnación, or Lambaré—and increase the number of mayoral offices under its control. These victories would have a significant demonstration effect: they would show that the ANR can be defeated in some of the country's major urban centers.

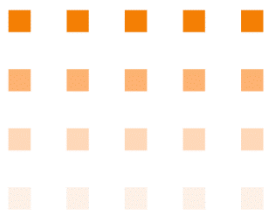
There is also an additional dimension that deserves attention. In certain border departments—particularly Amambay, Canindeyú, and Alto Paraná—the growing influence of organized crime raises questions about the quality of local political representation. There, electoral competition is not necessarily limited to the contest between parties but also extends to the ability of illegal actors to influence political and administrative processes.

If the opposition hopes to use the municipal elections as a springboard toward 2028, it faces several simultaneous challenges.

The first is strategic coordination. Fragmentation remains one of the main obstacles to transforming scattered support into concrete victories. Non-Colorado forces have a significant territorial presence, but they still lack a common strategy to turn that presence into a competitive national alternative.

The second challenge is demonstrating governance capabilities in the areas where they already hold office. Successful municipal experiences often become long-term political assets. The quality of public services, administrative transparency, and the efficient execution of public works projects build credibility in a way that is difficult to achieve through election campaigns alone.

It is also essential to offer a narrative that goes beyond mere criticism of the ruling party. Employment, the quality of urban services, infrastructure, and the cost of living are areas



in which local governments can demonstrate tangible results and build political legitimacy.

Finally, consolidating a competitive alternative requires the opposition to expand its presence beyond its traditional strongholds. Otherwise, the Colorado Party will continue to maintain a structural advantage derived from its extensive territorial presence. Building a national alternative requires contesting areas where the ruling party currently holds dominant positions and where, precisely, a significant part of the country's political balance is defined.

Conclusion: More Than Just a Municipal Election

The 2026 municipal elections offer a unique opportunity to assess the evolution of Paraguayan political competition in the run-up to the 2028 general elections.

The territorial map emerging from the 2021 elections highlights the Colorado Party's main strength: a widespread presence and organizational capacity that spans most of the national territory. Similarly, it reveals the limitations of an opposition that remains competitive in certain urban centers but has not yet managed to translate that strength into a territorial presence of comparable scope.

The October results will determine whether this structure remains intact or whether signs of a more profound political realignment begin to emerge. Regardless of who emerges victorious in the country's most prominent cities, the central question will be whether the opposition manages to reduce the territorial disparities that have characterized Paraguayan politics over the past decade.

Other indicators relevant to the quality of democracy will also be at stake: the inclusion of more women in local decision-making bodies and the institutional capacity to curb the influence of organized crime in certain areas of the country.

Ultimately, the 2026 municipal elections will not determine who will govern Paraguay in 2028, but they will offer a clear indication of who is truly in a position to contend for national power. If the ruling party maintains its extensive territorial network, it will enter the next general elections with a significant advantage. If, on the other hand, the opposition manages to expand its presence, coordinate its efforts, and demonstrate its ability to govern where it holds office, October 2026 could be remembered as the moment when the country's political balance began to shift.

In short, these municipal elections—beyond being merely local elections—will also serve as a test of each political force's ability to build territorial power. And in Paraguay, as the data show, territorial power remains the most solid foundation of national political power.



CHALLENGES FACING THE FINANCIAL SITUATION OF MUNICIPALITIES IN PARAGUAY

Lucas Boh

With the 2026 municipal elections approaching, local governments are once again in the spotlight. One of the topics of discussion is the financial situation of municipalities, as this reflects the quality of administration and determines the ability to provide public services to residents.

This analysis provides an overview of the revenue and expenditures reported by municipalities in 2025. The data used comes from the annual financial report of the Ministry of Economy and Finance (MEF), Section 5B, “Municipalities: Budgetary Situation.” In addition, the analysis considers data from the National Institute of Statistics (INE) regarding population, data from the Superior Court of Electoral Justice (TSJE) regarding the political situation in the municipalities, and data from the MEF on transfers from the central government. The analysis covers 247 of the 263 municipalities, as 17 did not submit their financial reports to the MEF, including Asunción¹.

Municipal Revenue

In 2025, the 247 municipalities collected a total of 3.9 trillion² Gs., 5.9% more than in 2024. Each municipality’s share of this total varies widely, of course. The range extends from 2 billion Gs. (Quyquyho, Paraguari) to 290 billion Gs. (Ciudad del Este, Alto Paraná).

Municipalities in the Central department collect disproportionately more than the rest, accounting for a quarter of total revenue. On the other hand, the 10 municipalities with the highest revenue—6 of which are located in Central—account for 33.7% of total revenue, while the 100 municipalities with the lowest revenue account for only 12% of the total collected.

¹ The following did not submit their reports: ASUNCIÓN, CAPITAN MEZA, NUEVA ALBORADA, PASO BARRETO, SAN RAFAEL DEL PARANÁ, CARMEN DEL PARANÁ, FUERTE OLIMPO, GRAL. JOSÉ MARÍA BRUGUEZ, ÑACUNDAY, AREGUA, PUERTO PINASCO, ARROYITO, BELLA VISTA – AMAMBAY, JUAN DE MENA, HERNANDARIAS, and VALENZUELA.

² 3,923,720,000,000



To make a comparison on an equal footing, the total revenue was divided by the population of each municipality, resulting in per capita revenue. This measure reveals a completely different distribution (Fig. 1). In this case, the lowest revenue per inhabitant per year was 224,748 Gs. (J. Augusto Saldivar, Central) and the highest was 41,704,773 Gs. (Carmelo Peralta, Alto Paraguay), with an average of 1,192,955 Gs per inhabitant.

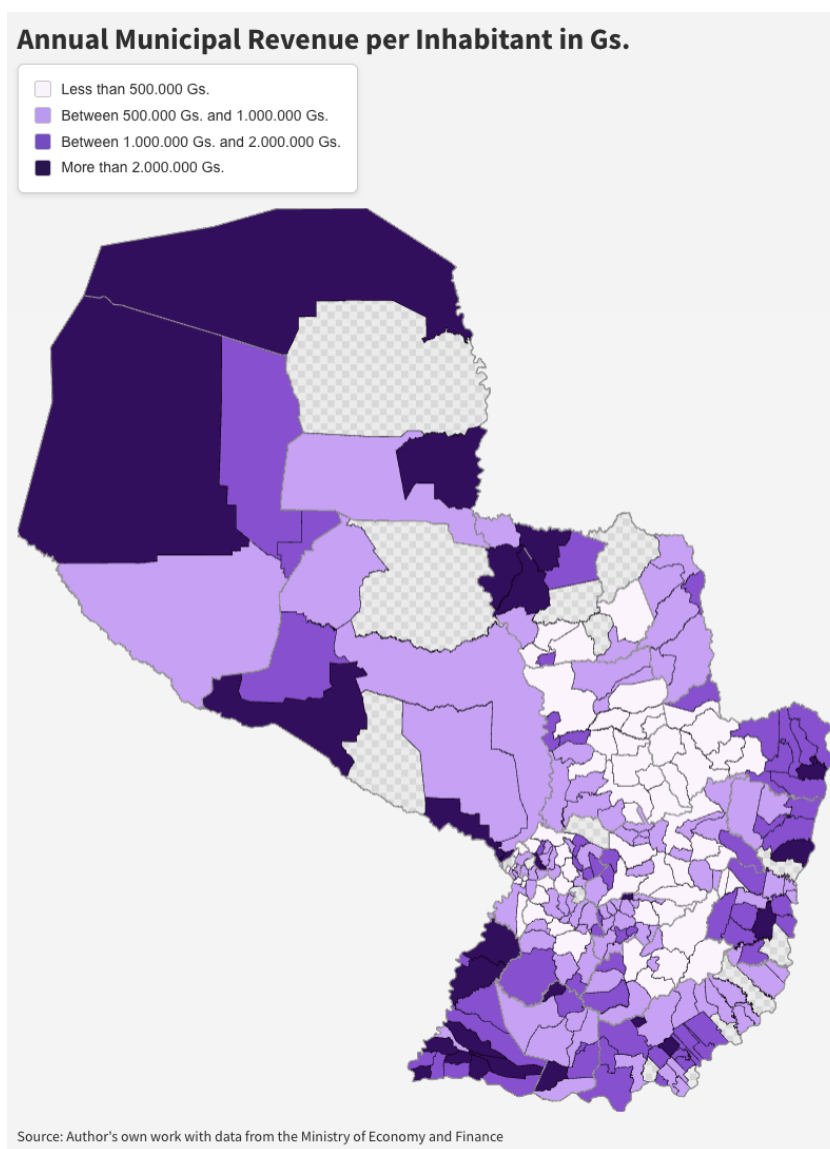
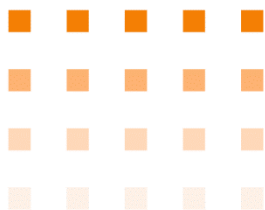


Figure 1: Annual per capita tax revenue by district. Interactive map available here: <https://public.flourish.studio/visualisation/30182130/>

Property tax is one of the main sources of revenue for municipalities, but property tax revenue accounted for only 0.15% of GDP on average in 2024 (SNC, 2024), while the regional average stands at 0.5% of GDP (OECD/UCLG, 2022).

These low revenues can be attributed in part to the low effectiveness of property tax collection. In 2024, only 37.1% of all potential revenue estimated by the National



Cadastral Service—calculated based on the value of properties registered in the cadastre—was actually collected. This highlights the extremely low administrative and technical capacity at the subnational level, with a large number of municipalities collecting less than 10% of the potential revenue from this tax.

Another important factor preventing the generation of more substantial revenue is that the assessed values determined by the cadastre are extremely low and far below market prices. This is particularly serious in the case of rural properties, whose assessed values in 2023 were as low as 150,742 Gs./ha in some regions, resulting— —with a 1% property tax rate—in annual tax revenue of 1,507 Gs./ha (Boh, 2024).

The Role of Central Government Transfers

Central government transfers play a key role in the municipal budget. These consist mainly of royalties (from binational hydroelectric projects), gambling levies, and laws that specifically benefit certain municipalities.

Total central government transfers to the municipalities included in the analysis amounted to 1.2 trillion Gs., a 19.5% decrease compared to 2024, primarily due to a decline in the value of transfers related to royalties. Cash transfers received in 2025 accounted for 30.7% of total municipal revenue.

If we analyze per capita revenue without taking into account transfers from the central government—that is, actual municipal revenue—the average is 676,780 Gs. per inhabitant (per year), reaching a low of just 12,288 Gs. per inhabitant in Quyquyho, Paraguari.

The dependency ratio—the ratio of each municipality's revenue to what it received from the central government—averages 60% but reaches alarming levels in certain cases: in 22 municipalities, transfers from the central government account for more than 80% of their revenue.

Excluding central government transfers, the analysis reveals each municipality's actual revenue collection efficiency, as well as the purchasing power of its residents. According to the OECD (2018), a large number of the country's municipalities lack the capacity to collect taxes effectively, resulting in virtually total dependence on the central government. At the same time, the very existence and size of these transfers act as a disincentive to increased tax collection, especially for smaller municipalities, since they allow these municipalities to obtain resources without any effort (Borda and Caballero, 2017).

Dependence on Central Government Transfers

Central government transfers received as a % of total annual municipal revenue

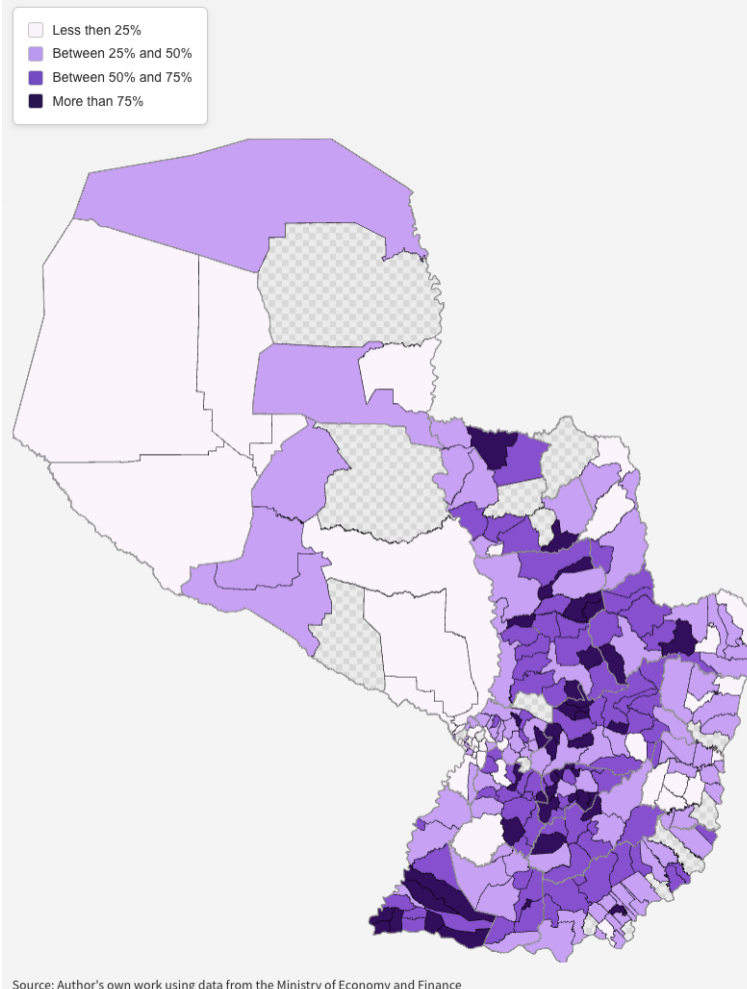


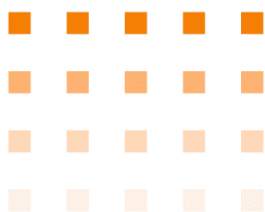
Figure 2: Percentage of dependence by district. Interactive map available here: <https://public.flourish.studio/visualisation/30182237/>

Expenditures and Percentage of Budget Execution

Total municipal spending in 2025 was 3.7 trillion Gs., or 96.6% of total revenue. Per capita spending follows a similar distribution to that of per capita revenue, averaging 1,125,150 Gs per inhabitant per year.

Among the municipalities analyzed, 93 reported expenditures exceeding their revenue, with an average deficit of 998,000,000 Gs. In relative terms, the overspending represents more than 20% of reported revenue in several cases, with Azote'y, Concepción, being the most severe case, with a deficit equivalent to 28% of its revenue.

The remaining 170 municipalities have an execution rate close to 100%; averaging expenditures equivalent to 90.86% of revenue. Despite this generally positive result,



many municipalities report low execution rates, reaching a low of 50% (Tebicuarymi, Paraguari).

Monetary Poverty and Its Effect on Municipal Revenue

To identify the main factors influencing municipalities' revenue-generation capacity, a statistical analysis was conducted considering the key differences among them, including geographic (department, area), demographic (population size and district poverty), and political (mayor's party and the party holding a majority on the Municipal Council) aspects.

The results show that municipalities' autonomous revenue—that is, excluding government transfers—is primarily influenced by the demographic and economic reality of the territory, while local political dynamics play a statistically insignificant role. The level of monetary poverty among the local population is the factor that has the greatest impact on the total revenue collected by the municipality. For every 1% increase in the level of monetary poverty, there is an average 4.2% reduction in municipal revenue. In other words, if a municipality experiences a 5% increase in monetary poverty (caused by the disappearance of a major local employer, for example), municipal revenue will decrease by 20%.

Total monetary poverty in Paraguay stood at 16.0% at the end of 2025, affecting nearly one million people, according to official data from the INE. Despite a fairly positive reduction at the national level in recent years, the district-level poverty map published by the INE (using data through 2023) reveals regional disparities that are hidden in the national averages.

At the district level, poverty rates range from 53% (Paso Barreto, Concepción) to 3.7% (Fernando de la Mora, Central), illustrating the country's regional inequalities. Even within a single municipality, more complex internal territorial dynamics can exist, as in Asunción, which has an average rate of 7.3% but includes neighborhoods with virtually no poverty (Mburicao) and others where nearly half of the residents live in poverty (San Miguel).

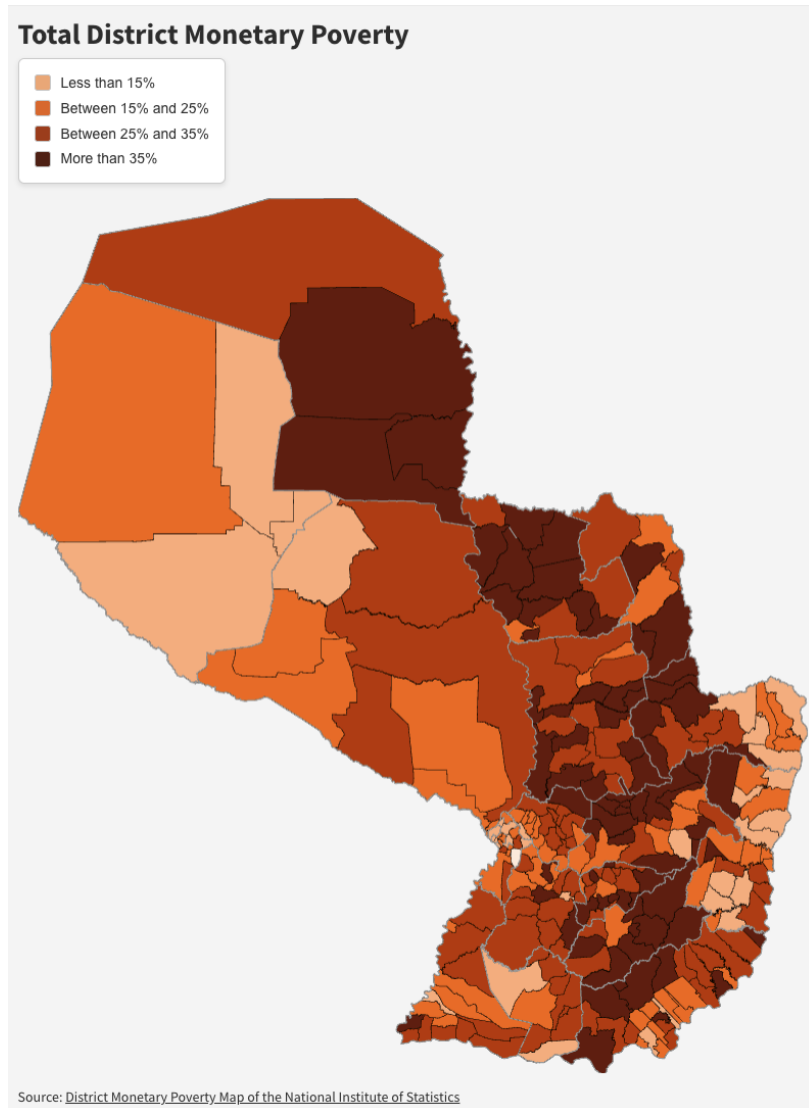
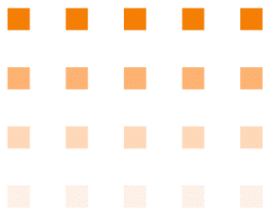


Figure 3: District-level monetary poverty. Interactive map available here: <https://public.flourish.studio/visualisation/30182340/>

Conclusions

The high degree of dependence that municipalities have on government transfers highlights the need to increase the efficiency of tax and fee collection. This becomes even more urgent if the amount transferred from the central government continues to decline, as occurred between 2024 and 2025.

Both the financial deficit (expenditures > revenue) and an execution rate well below 100% reflect the management problems faced by many municipalities in the country and suggest a lack of technical and administrative capacity to collect and manage funds; therefore, implementing or strengthening support mechanisms for local governments would be advisable (Borda, D., & Caballero, M., 2018).



With such low revenue per capita—averaging just over Gs. 1 million per year—municipalities can hardly have the resources necessary to fulfill their functions. This is reflected in the shortcomings of many of the public services that municipalities are supposed to provide:

- Only 62% of the population has access to garbage collection services (INE, 2025).
- Only 11% of the population has access to a sanitary sewer system (INE, 2025).
- Only 55% of the population has access to water supplied by ESSAP, SENASA, or a sanitation board (INE, 2025).
- Public transportation faces serious problems with coverage and quality (Martí et al., 2024), and people's overall mobility—both within and between municipalities—is hindered by roads and streets that are in poor condition or unpaved, as well as sidewalks that are often nonexistent.

It should be noted that many municipal services depend on coordination with other public entities or with other municipalities. For example, in the case of public transportation, DINATRA and the Vice Ministry of Transportation are involved, and intermunicipal cooperation is also important. The latter is made particularly difficult by the absence of institutional elements such as a regulatory framework for metropolitan governance.

Providing quality public services is especially difficult in small municipalities, which account for a large proportion of the country's total. There are 14 municipalities with fewer than 2,500 residents and 65 with fewer than 5,000. More than half—134 municipalities—have fewer than 10,000 residents, which is the minimum required by the Organic Municipal Law to create new municipalities. This requirement is intended to ensure a municipality's financial sustainability after its establishment, but it was not met in 24 of the 36 municipalities created since 2005 (Boh & Goerzen, 2025).

Although this minimum population is clearly defined in the Organic Municipal Law, one could argue that there is a “backdoor” provision in the law, as it includes measures not explicitly provided for in the statute but rather through an interpretation that is ultimately discretionary, when it states that the requirement (for the minimum population to create a new municipality) “may be waived when special circumstances related to better administration—due to the size of the territory and the distribution of the population—make it advisable to divide a parent municipality to create a second one.”

Since neither the parameters nor the evaluation criteria, nor the procedures, nor those who will have the authority to waive the provisions of the law are regulated, this opens the door to discretionary and case-by-case treatment of such matters. Amid this regulatory ambiguity, extremely small new municipalities were created without solid



justification. This results in the creation of new political positions and public offices, at the cost of increased government spending required to sustain these financially weak municipalities.

Finally, the fact that the level of local monetary poverty is the factor that most affects a municipality's tax collection capacity suggests that focusing solely on improving the effectiveness of tax collection would not be sufficient, since in poorer municipalities, residents lack the ability to pay their taxes. Strengthening the financial situation of municipalities and increasing tax collection are key steps toward municipal development and improving the quality of life for their residents, but at the same time, public policies must be implemented to help people escape poverty, access opportunities, and increase their incomes.

There is a clear need for a broader and more in-depth debate on the structural aspects of Paraguay's municipalities and on the country's current model of territorial governance itself.

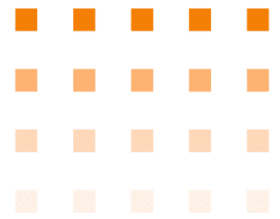
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BETWEEN BUSINESS SAVINGS AND TAX DEFERRAL

Rodrigo Ibarrola

In early 2026, as the debate over fiscal reform took center stage on the economic agenda and the government warned of resource constraints, DNIT Director Óscar Orué publicly raised the need to regulate discretionary reserves. The hypothesis was that some companies might be using discretionary reserves to retain profits that, if distributed, would have been subject to the IDU tax. In March, Orué confirmed that a bill was being drafted and argued that the problem was not the reserves themselves, but rather retaining them indefinitely without distributing or capitalizing them.¹

A company that earns profits may distribute them to its owners, capitalize them, or retain them as part of its equity. Law No. 6380 expressly recognizes one of these options under the term “discretionary reserves.” Article 42 provides that profits allocated to the legal reserve, discretionary reserves, or capitalization are not subject to the IDU as long as they remain in that status. The tax becomes due when the profits are made available to or paid to the owners.

Nor did this situation arise entirely with Law No. 6380. The previous regime already recognized discretionary reserves and excluded profits transferred to those accounts from the IRACIS surcharge. Therefore, the incentive to defer taxation by retaining profits predates the IDU. What changed in 2020 was its tax regime, its rate, and its scope. It is worth asking whether companies’ behavior also changed after the reform.

What the Data Show

To assess the evolution of discretionary reserves, we use information provided by the DNIT, aggregated by year, taxpayer category, and primary economic activity.² The

¹ ABC Color. (2026, June 25). *DNIT Detects Misuse of Corporate Reserves and Warns of Penalties*. <https://www.abc.com.py/economia/2026/06/25/dnit-detecta-uso-indebido-de-reservas-empresariales-y-advierte-sobre-sanciones/>

² National Tax Revenue Directorate. (2026). *Response to the request for information on the evolution, composition, and use of retained earnings and corporate reserves* [Data file]. National Congress of Paraguay, Legislative Information System (SILPy). <https://silpy.congreso.gov.py/web/expediente/153032>

database contains, among other variables, discretionary reserves, net income for the fiscal year, net worth, capital, operating income, and IDU payments from various anonymized taxpayer entities.

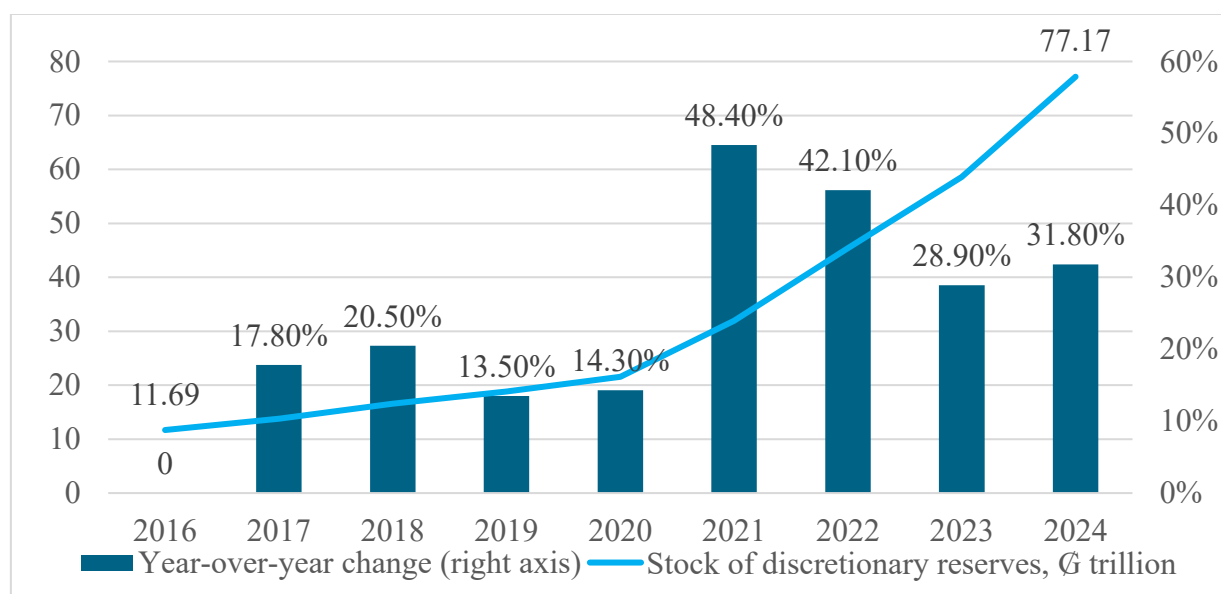
To assess this phenomenon, it is useful to examine it from several perspectives, namely: level, rate of accumulation, relationship to earnings, share of equity, scale of activity, and composition by taxpayer size. This is the analysis presented below.

The stock quadrupled, and the rate of accumulation changed

Discretionary reserves totaled ₡11.7 trillion in 2016 and ₡18.8 trillion in 2019, the last fiscal year before the new tax regime took effect. By 2024, they reached ₡77.2 trillion. Thus, between 2019 and 2024, the stock increased by a factor of 4.1.

The trend shows two clearly distinct periods. Between 2017 and 2020, reserves grew at annual rates ranging from 13% to 21%. The shift occurred in 2021, when they grew by 48.4%; in 2022, they increased again by 42.1%, and subsequently continued to grow at an annual rate of around 30%. The difference is also evident in absolute terms. Between 2017 and 2020, the stock increased by between ₡2.1 and ₡2.8 trillion annually; starting in 2021, the increases rose to ₡10–19 trillion, reaching ₡18.6 trillion in 2024.

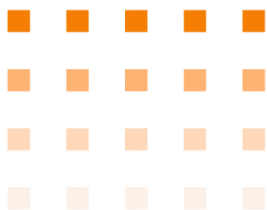
Figure 1. Evolution of the stock of discretionary reserves, 2016–2024



Source: Author's own analysis based on data from the DNIT, S-2603326 (2026).

Reserves grew much faster than companies

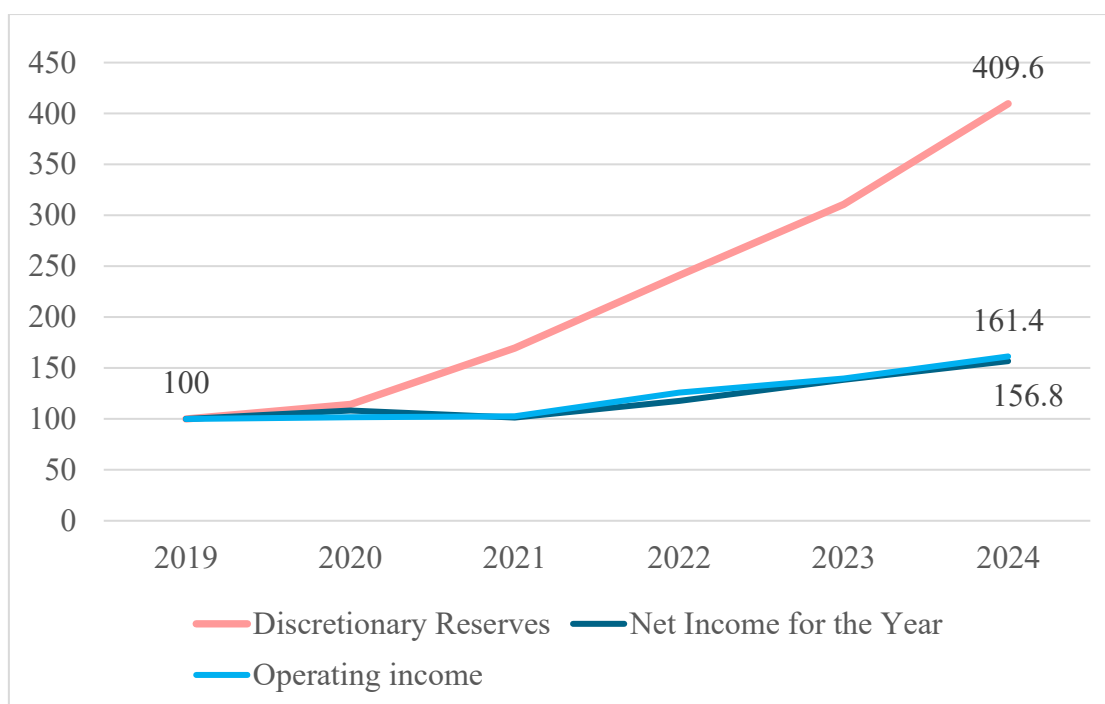
One might argue that the increase accompanied a similar expansion in corporate profits or business volume. However, using 2019 as a baseline, between 2019 and 2024,



discretionary reserves increased by approximately 310%, while net income rose by 56.8% and operating revenue increased by 61.4%.

This divergence shows that the increase in reserves cannot be explained simply by the fact that companies earned more or proportionally increased their level of activity.

Figure 2: Trends in discretionary reserves, net income, and operating revenue; index 2019=100



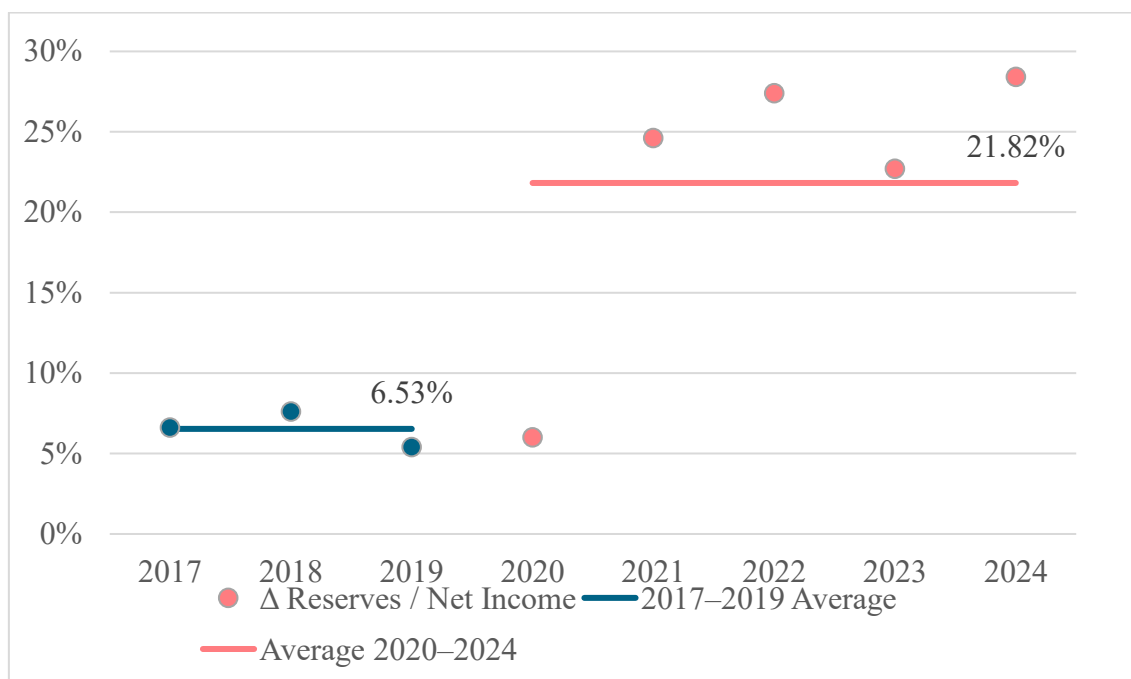
Source: Author's own analysis based on data from the DNIT, S-2603326 (2026).

The rate of accumulation increased approximately fourfold

It is also possible to compare the annual increase in reserves with the earnings generated by companies. Before the reform, between 2017 and 2019, the increase in reserves represented, on average, approximately 6.5% of aggregate earnings for the fiscal year. Although this figure remained within that range in 2020, the ratio has changed radically since 2021.

Figure 3 shows two clearly distinct periods. This does not literally mean that percentage of each year's profits was transferred to reserves. Changes in an equity account may include reclassifications and transactions related to prior fiscal years. However, it has descriptive value, as it indicates that the accumulation of reserves grew much more rapidly than the generation of profits during the same period.

Figure 3. Annual increase in reserves as a proportion of net income for the fiscal year



Source: Author's own analysis based on data from the DNIT, S-2603326 (2026).

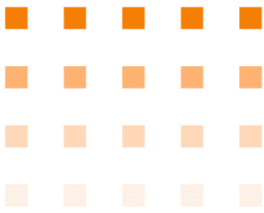
Reserves also increased their share of the balance sheets

If this phenomenon were simply a result of companies' overall growth, one would expect reserves to maintain roughly the same weight within their balance sheet structure. However, this was not the case. In 2019, discretionary reserves accounted for 4.8% of net equity. By 2024, they represented 12.7%. Relative to capital, they rose from 7.8% to 19%. And relative to operating income, they rose from 4.4% to 11.1%.

Table 1. Selected Indicators

Indicators	2019	2024	Change
Reserves / Net Equity	4.80%	12.70%	+7.9 percentage points
Reserves / Capital	7.80%	19.00%	+11.3 percentage points
Reserves / operating income	4.40%	11.10%	+6.7 percentage points

Source: Author's own calculations based on data from the DNIT, S-2603326 (2026).



The data show that reserves not only increased in nominal terms but also gained relative importance within the economic structure of firms.

A significant figure on a macroeconomic scale

The cumulative figure is already macroeconomically significant. The ₱77.2 trillion recorded in 2024 was equivalent to 22.8% of nominal GDP. This comparison should be interpreted with caution because it compares a stock to a flow. A more appropriate comparison is the increase in the stock, which amounted to ₱18.6 trillion in 2024, equivalent to 5.5% of that year’s GDP.

The phenomenon is particularly concentrated among large and medium-sized taxpayers and extends to various sectors of activity

The increase is evident across all categories, but its intensity is not uniform. Among large taxpayers, the increase in the stock that occurred in 2024 alone accounted for more than four-fifths of the aggregate result for the fiscal year. Among small taxpayers, the proportion was just 7%, suggesting that the recent change is particularly pronounced among large and medium-sized taxpayers.

Nor is there a single sector that accounts for the result. The five largest groups account for approximately 32% of reserves, and the top twenty account for 63%. The accumulation is concentrated but distributed across diverse activities, with no single sector dominating its own.

Table 2. Change in Reserves by Taxpayer Category

Category	2019 Reserves	Reserves 2024	Change in Reserves 2019–2024	Δ Reserves / result
Large	₱9.56 trillion	₱39.87 trillion	317%	82.80%
Medium-sized	₱5.2 trillion	₱22.5 trillion	332%	41.60%
Small	₱4.08 trillion	₱14.8 trillion	263%	7.00%

Source: Author’s own calculations based on data from the DNIT, S-2603326 (2026)

Pandemic, Economic Cycle, or Something Else

The pandemic may have prompted companies to preserve liquidity and reduce distributions. However, the break does not occur in 2020—when reserves grew by 14.3%, still within the previous pattern—but rather in 2021.

The subsequent economic cycle also does not provide a sufficient explanation. Real GDP grew 4% in 2021, 0% in 2022, 5.3% in 2023, and 4.7% in 2024. Even in 2022, with



zero growth, reserves increased by 42.1%, and the acceleration continued during the subsequent recovery.³

The pandemic and the economic cycle likely explain part of the retention, but not the persistence of the shift observed since 2021.

The Tax Incentive: Distribute Now or Pay Later

Distributing profits means paying the IDU; on the other hand, retaining earnings allows for deferral of the tax. That deferral has economic value. Paying a tax in five, ten, or twenty years is not the same as paying it today. While the tax is deferred, the funds remain within the company and can generate returns. Even if the IDU is eventually paid in full in the future, the present value of that obligation decreases the longer the time that elapses. This incentive would be less significant if the law established clear conditions for retaining reserves.

IDU revenue rose from \$0.89 trillion in 2020 to \$1.74 trillion in 2024. Therefore, companies did not stop making distributions; rather, higher distributions coexisted with an even greater growth in reserves.

In 2026, following General Resolution No. 49/2026⁴, which requires—starting with financial statements as of December 31, 2025—that legal reserves, discretionary reserves, statutory reserves, and other reserves be identified separately, and to report their balances, movements, origin, purpose, fiscal years in which they were generated, the corporate body that approved their creation, and the possibility of future distribution, IDU revenue reached approximately \$1.4 trillion between January and May 2026—nearly 90% of the total revenue collected in 2025—and increased by nearly 30% compared to the same period the previous year. This does not prove that the increase was caused by tax evasion, but it does indicate that decisions regarding the distribution and maintenance of reserves are driven by changes in perceived tax costs and risks.⁵

It is therefore important to distinguish between legal deferral, accumulation that is difficult to justify (an area currently subject to little regulation), and covert distribution, where funds remain formally recorded as company assets but, in practice, benefit shareholders through withdrawals, personal expenses, fictitious loans, or other transactions.

³ Central Bank of Paraguay. (2025). *Annual National Accounts 2024*.

https://www.bcp.gov.py/documents/20117/335700/CUENTAS%2BNACIONALES_2024_03122025.pdf/62ee89a7-eb35-764d-8bd3-f3555155bea8?t=1764776466478

⁴ National Tax Revenue Directorate. (2026, March 24). *DNIT General Resolution No. 49/2026*.

<https://www.dnit.gov.py/web/portal-institucional/w/resoluci%C3%B3n-general-dnit-n%C2%B0-49/26>

⁵ ABC Color. (June 26, 2026). *IDU revenue grew by nearly 30% following audits of discretionary reserves, according to the DNIT*. <https://www.abc.com.py/economia/2026/06/26/recaudacion-del-idu-crecio-cerca-de-30-tras-controles-sobre-reservas-facultativas-segun-la-dnit/>

A Counterfactual Exercise

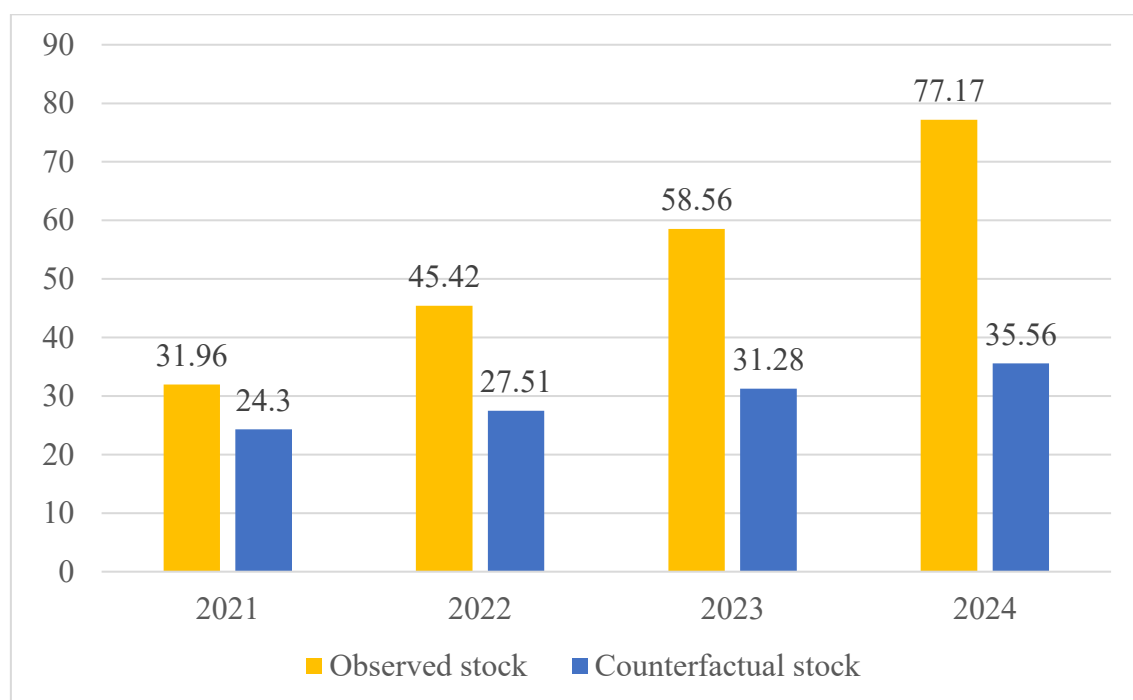
Between 2017 and 2019, the annual increase in reserves averaged 6.5% of corporate earnings. The 2020 stock is taken as the starting point, and that coefficient is applied to the actual results observed between 2021 and 2024.

Reserves increased by \$55.6 trillion between 2021 and 2024. Had the previous pattern continued, the increase would have been approximately \$14 trillion. The cumulative difference is \$41.6 trillion.

In turn, if hypothetically the entire surplus had been distributed to resident beneficiaries, subject to the 8% tax rate, the associated tax revenue would have been approximately \$3.3 trillion. If the entire amount had gone to nonresidents, taxed at 15%, the upper limit would have been about \$6.2 trillion.

This exercise does not aim to causally estimate the effect of Law No. 6380, but rather to determine how much would have accumulated in reserves and in IDU payments if, after 2020, their growth had maintained the same relationship with corporate earnings as observed prior to the reform.

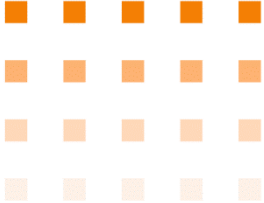
Figure 4. Observed and counterfactual stock of discretionary reserves, in \$ trillion



Source: Author's own calculations based on data from the DNIT, S-2603326 (2026).

Regulation in Other Countries

Paraguayan "discretionary reserves" do not have an exact legal equivalent in all systems. What is comparable is not necessarily the name of the account, but rather the extent to



which a company may retain undistributed profits, the justification it must provide, and the consequences when it exceeds established rules.

Argentina allows reserves other than the statutory reserve, but the General Companies Law No. 19,550 requires that they be “reasonable” and consistent with “prudent management.” Uruguay adopts a very similar standard. Law No. 16,060 permits the creation of other reserves provided they are reasonable and consistent with prudent management. In addition, it requires a minimum dividend distribution of 20% of net profits for each fiscal year.

In Brazil, Law No. 6,404/1976 requires that reserves have a specific purpose, criteria for determining the annual allocation, and a maximum limit. They must be supported by a budget previously approved by the shareholders’ meeting.⁶ Furthermore, certain retained earnings reserves may not exceed the share capital, and any surplus must be allocated to capitalization or dividend distribution. A mandatory dividend is also established. Similarly, Chile employs a minimum distribution mechanism. Law No. 18,046 establishes an annual distribution of at least 30% of profits.⁷

In Germany, the Aktiengesetz provides that, under certain circumstances, no more than half of the annual surplus may be allocated to other retained earnings.⁸

In the United States, when earnings accumulate beyond the “reasonable needs of the business”⁹, unless proven otherwise, the Internal Revenue Code imposes a 20% Accumulated Earnings Tax on accumulated earnings used to avoid taxation of shareholders.¹⁰ The regulations require specific, well-defined, and feasible plans.¹¹

Generally speaking, the reviewed regimes can be grouped into three broad categories: reasonableness and justification controls (Argentina and Uruguay); direct restrictions on retention or distribution requirements (Brazil, Chile, and, to some extent, Germany); and specific taxation of excessive accumulations (United States). Paraguay does not currently apply any of these mechanisms on a general basis.

⁶ Brazil. Office of the President. (1976). *Law No. 6,404, of December 15, 1976: Provides for joint-stock companies*. https://www.planalto.gov.br/ccivil_03/leis/l6404compilada.htm

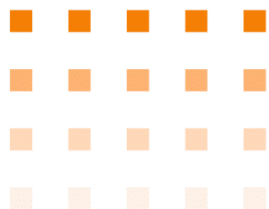
⁷ Library of the National Congress of Chile. (1981). *Law No. 18,046 on corporations* (Arts. 78–80). <https://www.bcn.cl/leychile/Navegar?idNorma=29473>

⁸ Germany. Federal Ministry of Justice. (1965). *Stock Corporation Act (Aktiengesetz—AktG)* (§ 58). https://www.gesetze-im-internet.de/englisch_aktg/englisch_aktg.html

⁹ United States. Department of the Treasury. (1960). *26 C.F.R. § 1.537-2: Grounds for accumulation of earnings and profits*. Legal Information Institute, Cornell Law School. <https://www.law.cornell.edu/cfr/text/26/1.537-2>

¹⁰ United States. (1954). *26 U.S.C. § 531: Imposition of accumulated earnings tax*. Legal Information Institute, Cornell Law School. <https://www.law.cornell.edu/uscode/text/26/531>

¹¹ United States. (1954). *26 U.S.C. § 537: Reasonable Needs of the Business*. Legal Information Institute, Cornell Law School. <https://www.law.cornell.edu/uscode/text/26/537>

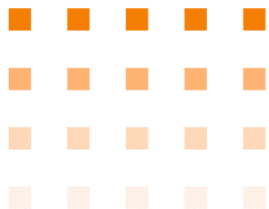


What Should Be Done in Paraguay

The data justify regulation without resorting to a general presumption of abuse. A reform should meet, at a minimum, certain conditions.

First, it should require that reserves held for extended periods be justified by reasonable business needs, preventing the length of time held alone from triggering the tax. Second, it should use the information already required by RG 49 to establish periodic reviews and objective risk criteria—amount, length of time held, ratio to equity, earnings, and investments—thereby limiting administrative discretion. Finally, the law should define what happens when an accumulation is no longer justified: the taxable event, the tax base, the timing of the IDU's accrual, and the treatment of existing reserves. Given that the stock reached 22.8% of GDP in 2024, any amendment should include a transitional regime.

The objective should not be to force companies to distribute profits, but rather to prevent a mechanism intended for corporate savings from allowing a tax to be deferred indefinitely without a verifiable economic need.



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