



Superintendencia  
de Bancos de Panamá



# Financial Studies Division

TRANS



**Report on the  
Banking System's  
Interest Rates –  
As of December 2013**

## I. Recent Performance of Interest Rates in Panama

### a) Some definitions and regulations

Interest is defined as the sum or sums charged or paid in any form or under any name for the use of money.

Article 79 of the Banking Law states that “banks may freely fix the interest rates on asset and liability operations. For this reason, other laws or regulations that establish maximum rates of interest are not applicable to banks.”

Based on this article, free competition among banks operating in the banking center is promoted, resulting in a greater supply for customers, who will have the opportunity to choose the bank that best meets their needs.

In this sense, banks fix their interest rates based on the risk in each economic sector and operation, the demand in the market and whether or not the bank has an expansionary policy in any given sector.

As a result, the capping of interest rates is avoided, as this tends – among other things – to reduce loan availability, mainly to the lower-income sectors (credit contraction), and promotes credit portfolio concentration, as banks will allocate their income only to the sectors of greatest benefit and reduce the asset portfolio, since lower profitability means a reduction in the ability to attract deposits and make new investments.

#### i. Reference Interest Rate

Reference interest rates in Panama are covered by different laws according to the productive or economic sector to which they refer. Laws are posted in the “Approved Laws” section of the National Assembly’s website ([www.asamblea.gob.pa](http://www.asamblea.gob.pa)). These laws include

the definitions and methods of calculation for each reference interest rate.

The Superintendency of Banks is responsible for calculating the following interest rates:

Mortgage reference rate: “Law 3 dated 20 May 1985, amended by laws 11/90, 5/94, 28/95, 30/99, 50/99, 65/2003, 29/2008, 8/2010 and 28/2012.” This rate is calculated on a quarterly basis.

Reference interest rate for the restoration of Panama City’s Old Quarter (Casco Antiguo): Decree Law 9 dated 27 August 1997, amended by Law 4 of 2002. This rate is calculated on a quarterly basis.

Reference rate for commercial bank loans: Article 1072-A of the Tax Code. This rate is calculated on an annual basis.

#### ii. Other rates (non-statutory):

Besides the above reference rates, the Superintendency of Banks calculates an average of the loan, deposit and interbank rates for the Banking System based on rates reported by banks, which are an indicator of the level of the rates contracted or managed in Panama. These rates are posted in the General, Financial and Statistical section of our website [www.superbancos.gob.pa](http://www.superbancos.gob.pa). These rates are calculated on a monthly basis.

### b) Interest rates as of December 2013

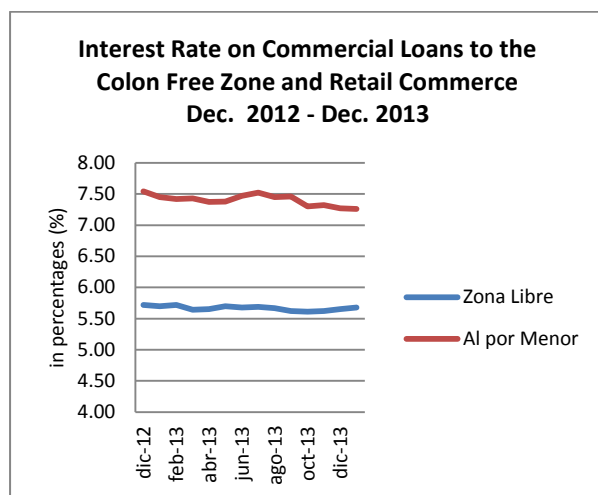
Loan and deposit Interest rates remain stable, reflecting upward trends in some sectors and downward trends in others, especially in the second half of 2013, while staying within in the margins of the average rates reported in 2012.

### i. Commerce

The interest rate on loans to the commercial sector, with maturities up to one year for Panamanian private banks, showed an average rate of 7.58% in December of 2013, increasing 31 basis points over the 7.27% reported during the same period in the previous year. Foreign banks showed an average rate of 7.26%, increasing 77 basis points over December 2012.

Within this sector, loans to the Colon Free Zone reached B/.2.57 billion as of December 2013, with rates fluctuating between 5.72% in December 2012, and 5.65% in December 2013.

For retail commerce, the domestic balance was B/.1.84 billion as of December 2013, with rates varying from 7.54% in December 2012 to 7.27% in December 2013.



### ii. Personal consumption

As of December 2013, personal loans reached B/.4.92 billion.

Interest rates for these loans remain at levels similar to those of a year earlier, with rates fluctuating between 8.22% in December 2012 and 8.41% in December 2013.

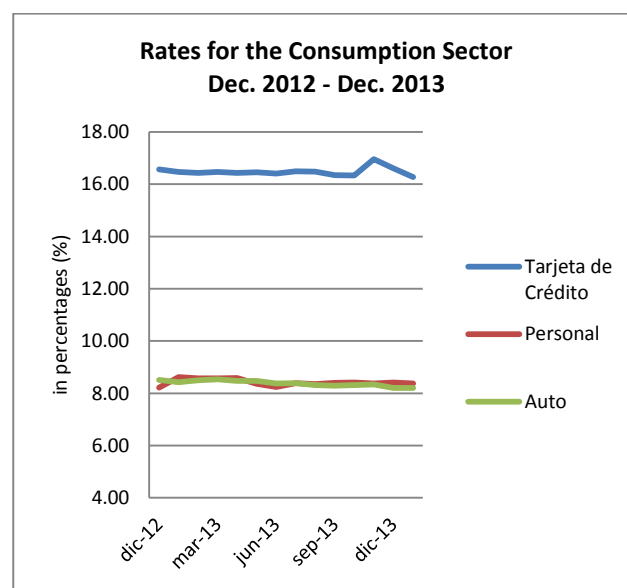
### iii. Cars

As of December 2013, car loans totaled B/.962 million, a B/.170 million increase over 2012. Much of this increase was facilitated by the strong competition in rates for these loans, which are evident mainly at the annual auto fairs.

In this sense, average car loan rates fluctuated between 8.51% in December 2012 and 8.20%, in December 2013, which shows a slight decrease over the past year despite progressive increases in car prices in recent years or, looking at it from another point of view, as a counterpoint to the rise in prices.

### iv. Credit cards

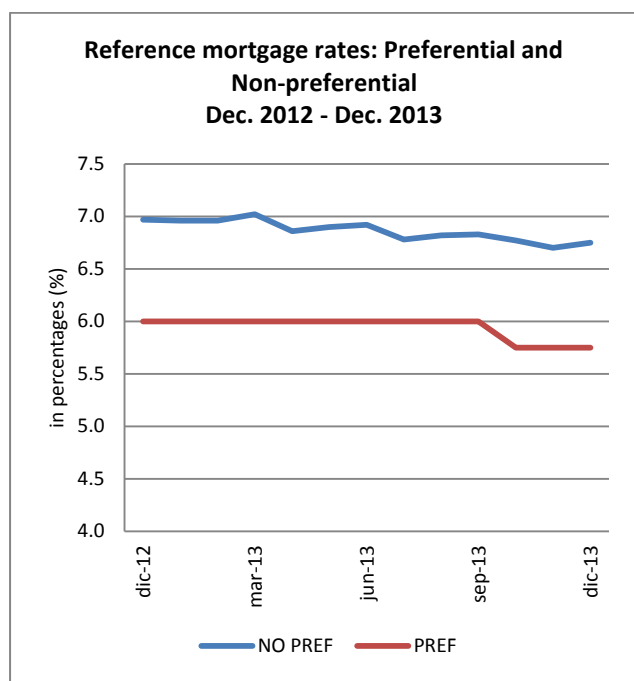
The credit card category is dominated by the five banks that make up to 80% of the domestic card balance. The average rate for credit cards fluctuated between 16.57% in December 2012 and 16.60% in December 2013. It is worth noting that the banks with greater market share have quite different rates due to the level of risk each bank handles.



### v. Housing Mortgages

As of December 2013, the balance of mortgaged housing rose to B/.8.32 billion, divided into B/.3.08 billion for preferential interest rate loans and B/.5.24 billion for non-preferential interest rate loans.

The interest rate for preferential mortgage loans (subsidized) was 5.75% in December 2013. This rate decreased a quarter of a percent from the previous three quarters of the year due to a downward adjustment made by the banks used for its calculation.



### vi. Industry

The industrial sector, consisting of food, clothing, steel, and oil and its derivatives, among other subsectors, reached B/.1.67 billion in December 2013.

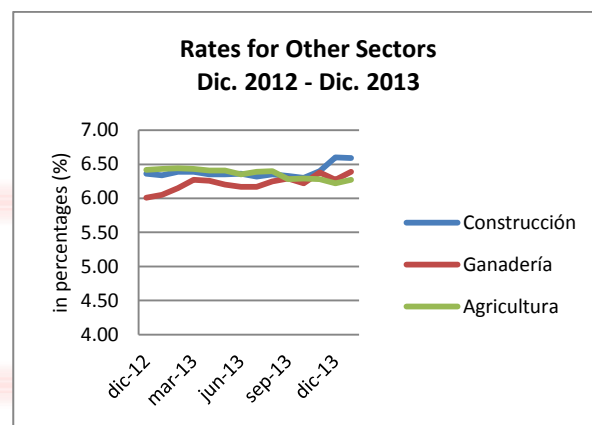
For this activity, the average interest rate was 7.29% for the year in question, with a maturity between 1 and 5 years. This rate showed an increase over the 6.85% in December 2012.

### vii. Construction

Construction, which is one of the fastest growing sectors in the Panamanian market, ended the year with B/.3.60 billion and maintained annual rates between 6.40% and 6.30%.

### viii. Agriculture

The agriculture sector ended the year with a balance of B/.1.35 billion and average rates of 6.39% for stockbreeding and 6.27% for agriculture. These rates are quite similar to the rates of a year earlier.

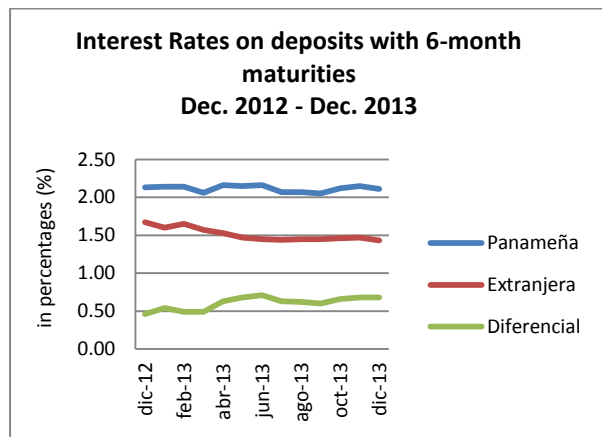


### ix. Time deposit interest rates

Taking as a reference point the rates for time deposits with a six-month maturity, interest rates on deposits in Panamanian private banking registered an average rate of 2.11% compared to a 1.43% average rate for foreign banking, resulting in a difference of 0.68% between the two types of banking as of December 2013.

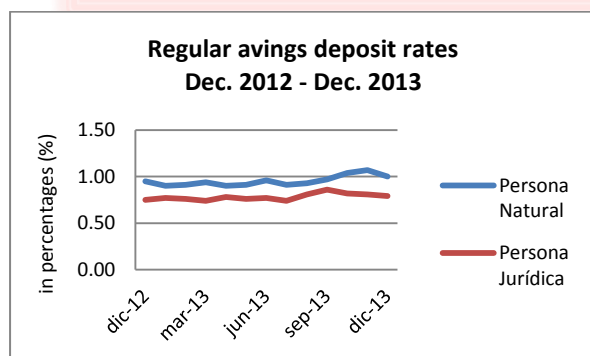
It is worth mentioning that in the domestic market, foreign banks generally offers more attractive loan rates than Panamanian banks, because the cost of money in foreign banks is lower, since they are funded largely by foreign banks or their parent companies. However, Panamanian banking has its main source of

funding in deposits, which is affected by high interbank competition, forcing Panamanian banks to offer more attractive rates on deposits than foreign banks do.



#### x. Savings

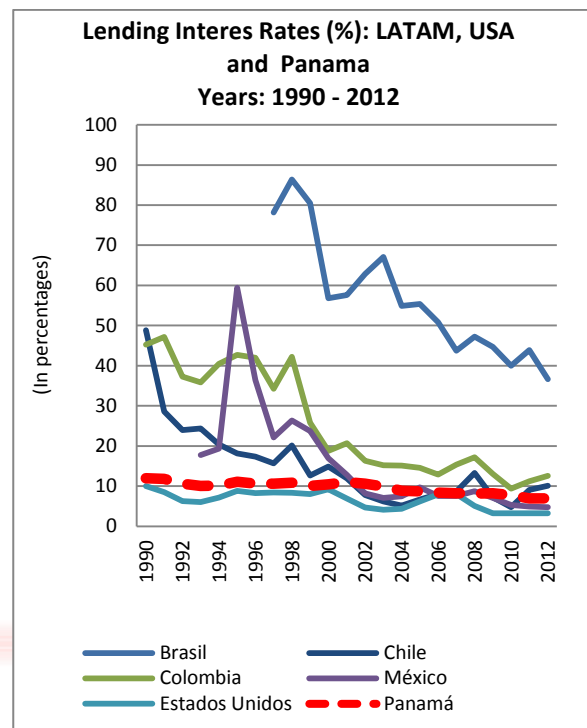
In 2013 the regular savings rates averaged around 0.87%, divided in 0.95% for individuals and 0.78% for entities. These rates generally remain stable, and most banks in the system offer the same rates. There are few banks with rates above the average.



## II. International comparison of lending and deposit rates

In this section, we will provide a brief comparison of (deposit and lending) interest rates with some countries in the region. As you can see, interest rates in Panama compare favorably to those of Latin

America, being both substantially lower and less volatile.



Source: WDI, World Bank

According to Moreno Villalaz (1999), interest rates are lower and closer to international interest rates due to a lower country risk, no risk of devaluation and financial integration.<sup>1</sup> Moreno Villalaz remarks that with the modification to the Banking Law in 1970 and the deregulation of interest, Panamanian banking joined the international financial system.<sup>2</sup> As a result of this financial integration, domestic interest rates are determined by international rates, adjusted for transaction costs and

<sup>1</sup> The mobility of funds through banking, as in Panama, implies a balance of financial transactions with the private sector and interest rates that are always set by the international markets. This defines a more direct and immediate process which operates differently from the mechanism of capital mobility.

<sup>2</sup> This process facilitated the characteristics of the Panamanian monetary system, which is based on the free flow of capital and a dollarized system.

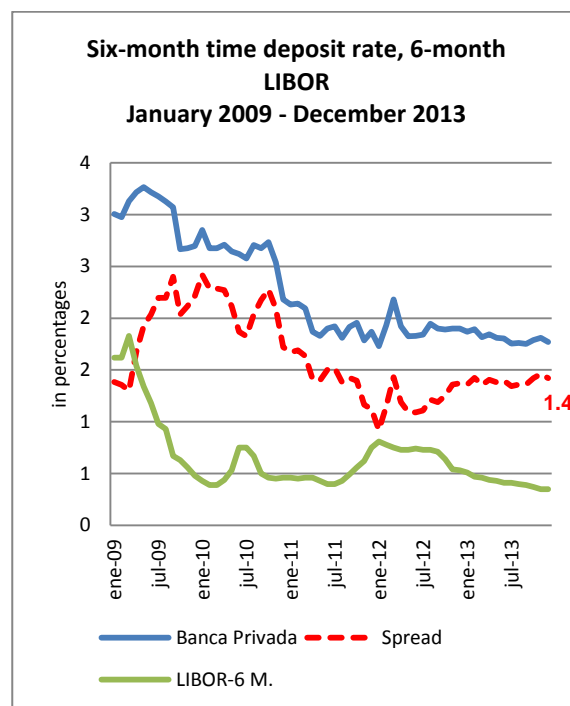
(country and client) risk. Hence, when compared to the rest of the Latin American region, Panamanian market interest rates are lower.

This result is strengthened by other elements. Panamanian banking is guided by parameters of prudence that are reinforced by the absence of a lender of last resort. This has helped deposit interest rates avoid the high volatility seen in the rest of the region, but has also kept these rates relatively low<sup>3</sup>.

It is worth mentioning that deposits in Panama represent most of bank funding, meaning that in general, their liquidity tends to be stronger than in other countries in the region. Similarly, the high level of competition in the Panamanian marketplace is significant. These elements have helped banks establish satisfactory funding structures and appropriate liquidity positions. Thus, the large number of banks has created a very competitive market and, given the low country risk and no risk of devaluation, interest rate volatility is relatively low. In fact, in some segments, loans benefit from a system of direct deductions from wages that virtually eliminates the risk and cost of collection.

On the other hand, it is important to emphasize that foreign banking operates at a “wholesale level” with domestic banks (via interbank deposits) and serves as an intermediary between the domestic and international markets. International funds are allocated domestically or, conversely, domestic funds are received to be invested in foreign markets. Foreign banking pays its depositors a rate similar or linked to LIBOR (London interbank offered rate), although with a gap equivalent to its funds cost. Since the 80s, the average deposit interest rate has been between 0 and 1.6 basis points above the LIBOR rate and, currently, is near 1.4.

<sup>3</sup> The above would suggest that the user of Panamanian banks is risk averse, preferring savings over more profitable, and therefore riskier, instruments.



Source: SBP

### III. Final remarks

Lending and deposit interest rates remain stable, a situation reflected throughout most of 2013. While there are some areas with small increases and decreases, they have not fallen outside the average margins observed during 2012.

Compared to the rest of the region, the Panamanian market lending and deposit rates are low and show low volatility. This is due mainly to low country risk, no risk of devaluation, and financial integration, which have kept interest rates low and close to the interest rates in international markets.

We reiterate that this also has been favored by banks possessing satisfactory funding structures and appropriate liquidity positions that have allowed them to maintain lower rates compared to other countries in the region. At the same time, their prudent management of their activities has reduced volatility.



#### IV. Appendix

#### V. Descriptive Statistics for Different Types of Lending Rate Years: 1990 - 2012

Country	Average	Median	Maximum	Minimum	Std. Dev.
Brazil	56.7	55.2	86.4	36.6	14.9
Chile	14.9	12.6	48.9	4.8	10.0
Colombia	25.4	18.8	47.1	9.4	13.2
Costa Rica	24.7	24.7	38.9	12.8	6.6
Guatemala	18.0	16.9	34.1	12.8	5.3
Honduras	22.5	21.7	32.1	16.6	4.8
Mexico	15.6	9.2	59.4	4.7	13.4
Nicaragua	16.7	17.9	22.0	10.5	3.7
<b>Panama</b>	<b>9.6</b>	<b>10.1</b>	<b>12.0</b>	<b>6.9</b>	<b>1.5</b>
Peru	274.4	25.5	4774.5	18.7	992.8

Source: WDI, World Bank

#### Descriptive Statistics for Different Types of Deposit Rate Years: 1990 - 2012

Country	Average	Median	Maximum	Minimum	Std. Dev.
Brazil *	899.0	19.1	9394.3	7.9	2241.9
Chile	10.3	7.5	40.4	1.8	8.8
Colombia	17.2	12.1	37.2	3.7	11.8
Costa Rica	12.5	11.8	27.3	4.0	6.2
Guatemala	8.1	5.8	24.4	4.2	4.9
Honduras	12.4	11.5	21.3	7.8	3.8
Nicaragua	8.2	9.5	12.4	1.0	3.8
Panama	5.2	5.7	8.4	2.1	2.0
Peru	121.6	7.5	2439.6	1.5	506.6

Source: WDI, World Bank

\*Data available from 1997