# COMMUNIQUÉ

As administration of the Special Interest Compensation Fund (FECI, for its acronym in Spanish), the Superintendency of Banks of Panama deems it appropriate to communicate its concerns about aspects of interest that have do to with the current situation of this Fund, in light of the National Assembly's recent approval of Bill 449, which amends Law 4 of 1994 establishing the regime of preferential interest rates in the agricultural sector, by overriding the Presidential veto in third reading.

The Regime of Preferential Interest Rates in the Agricultural Sector was originally established by means of Law 20 dated 9 July 1980. This Law granted the National Banking Commission (today known as the Superintendency of Banks) the responsibility of administering, regulating and controlling the FECI Program. In the beginning, the purpose of the FECI (hereinafter referred to as the "Fund"), was primarily to compensate for the preferential interest rates applied to all of the loans granted by banks and other finance entities to the agricultural sector.

This Fund was supported and sustained, at that time, by the withholding of a sum equivalent to one percent (1%) per year of the domestic personal and commercial loans greater than five thousand balboas (B/.5,000.00) granted by banks and finance entities.

By means of Law 4 of 1994, which subrogated Law 20 of 1980 and was in effect until this year, the FECI's sole purpose was still to subsidize loans to the agricultural sector, but this time the main objective became loans to the qualified agricultural sector.

Afterwards, Law 28 of 1995 was approved, amending Law 4 of 1994. This reform introduced, for the first time, the distribution of withheld funds (the proceeds of the 1% charged to domestic personal and commercial loans) as follows: 50% of the withheld amounts was transferred to Banco de Desarrollo Agropecuario (Agriculture Development Bank, BDA for its acronym in Spanish) and the remaining 50% was remitted to the FECI Program to cover the subsidies granted to qualified agricultural loans and the industrial agriculture sector exports of non-traditional products, per the conditions set forth in Article 1 of the Law.

Subsequently, Law 49 of 2009 also amended Law 4 of 1994, establishing a new distribution for the withheld amounts: 50% of withheld money was reserved for the National Treasury to cover the payment of the preferential interest rate reductions included in the preferential interest rate mortgages referred to in Article 3 of Law 29 of 2008; 25% was awarded to Banco de Desarrollo Agropecuario and the remaining 25% to the FECI Program to compensate for deductions to the interest rates applied by lending banks and finance entities.

As a financial consequence of this amendment, the Special Interest Compensation Fund that, at that time was reduced to half on its allocation, tends to be in deficit. The overall amounts provided to compensate for the interest rates of agricultural loans started to exceed the amounts coming into the Fund from withholdings. However, a significant part of this deficit was relieved by the installments to some loans granted to Banco de Desarrollo Agropecuario and various agricultural cooperatives by IPACOOP. The rest was covered by the FECI Fund through the use of the

**technical reserve** created by legal mandate, not to mention the positive impact of the diligent examinations conducted to ensure the good management of the Fund both in the collection of withholdings and the awards of subsidies.

The Fund's 25% portion of the total amount withheld was maintained until the modification of Law 4 of 1994 by Law 15 of 2015, which mandated the reduction of the Fund's allocation from 25% to 20% of the total withheld money.

It is worth mentioning that during this period of a little over five years, Fund reserves decreased from forty million balboas (B/.40,000,000.00) in 2009 to thirty-one million balboas (B/.31,000,000.00) in 2014. This reserve recovered a bit with the introduction of the 1% surcharge on factoring operations mandated by Law 110 of 2013, reaching a reserve of thirty-four million balboas (B/.34,000,000.00) in 2016.

In addition, during this period the percentages to be subsidized, the maximum amount of benefitted loans and the number of line items to be considered were increased. It must be noted, then, that by January 2018, the reserve had fallen barely twenty-four million balboas (B/.24,000,000.00). This means that as a result of the amendments to which the regime has been subjected since 2009, sixteen million balboas (B/.16,000,000.00), 40% of the reserve, has been consumed. Under the current conditions, it is conservatively estimated that the reserve could last three years —— which would be the fate of the Program as well.

But that is not all. As we stated at the beginning of this communiqué, a new amendment to Law 4 of 1994 was approved by veto override that, on the one hand, reduces the amount the Fund would receive from 20% to 12.5% of total withholdings to continue covering the subsidies. On the other hand, [the amendment] increases the number of items to be subsidized and the amounts of the loans that could be subsidized. In addition, the BDA requires that loans to be granted at low interest rates with moneys subsidized by the Fund be compensated to the current market interest rate. All of this, to be covered with the scanty income and a dwindling technical reserve that could not be expected to last longer than one year.

What is worrisome is that, if the approved distribution is maintained, the administration of the FECI Program would very soon not be viable or sustainable, making it impossible for the State, through this Program, to cover the compensation of subsidies granted by domestic banks, which is the main objective of the Program. In addition, one consequence would be a drastic decrease in loans to the sector. The proposed alternative was and it is still simple: allocate to the FECI the resources needed to cover its financial obligations, and then distribute the surplus as deemed appropriate and necessary.

This short description of the facts paints the true picture of the situation of the FECI Program, and as the Administrator and Chairman of the FECI Commission I must present its stark reality.

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