



Superintendencia
de Bancos de Panamá

Financial Stability Report First Half 2020



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Context of the Financial Stability Report

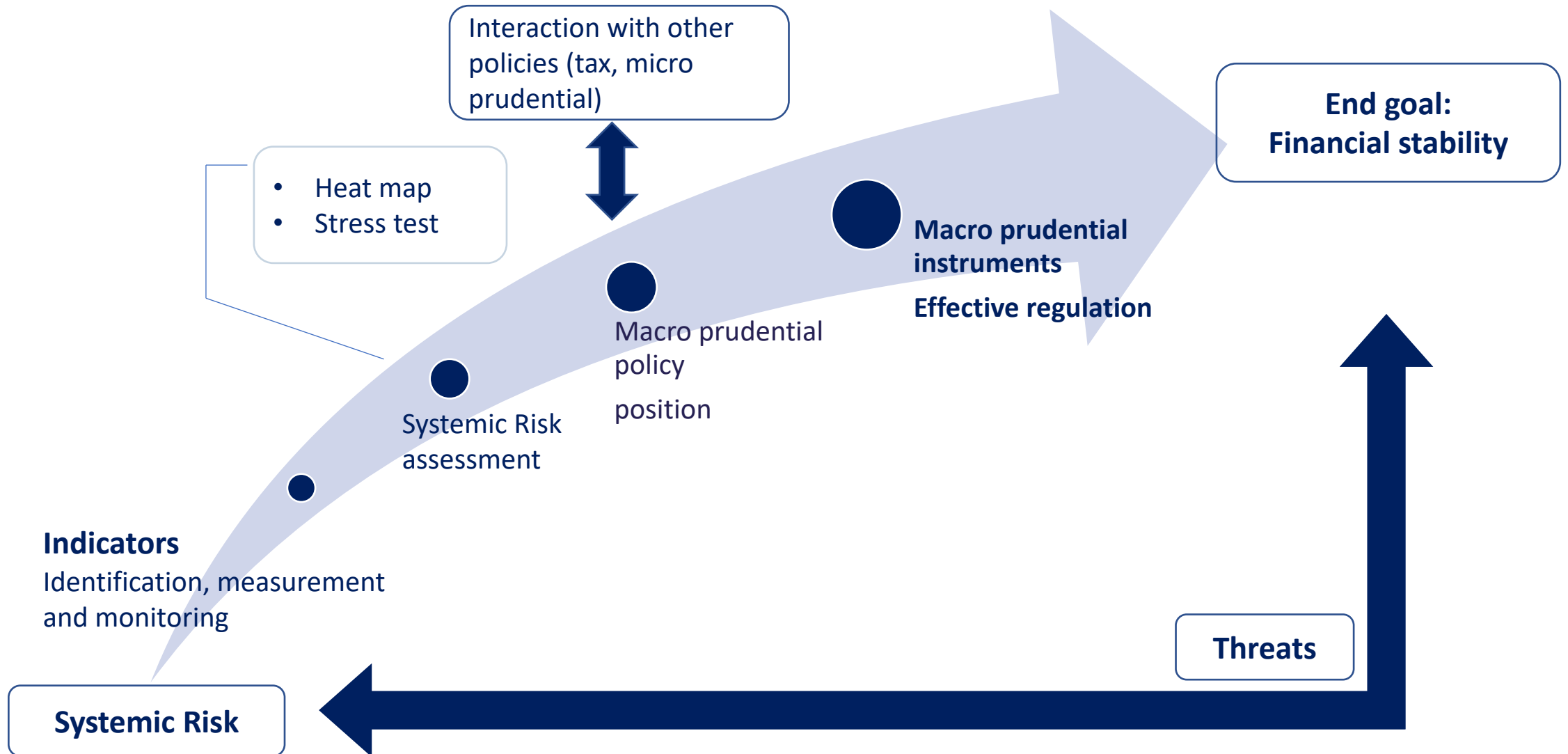
Financial Stability Report



A financial stability situation could be defined as one in which the monetary and financial system operates smoothly and efficiently. In a small economy, open to capital flows, and without its own currency such as the Panamanian, this means that credit institutions distribute the funds they receive from savers among those who demand resources and normally serve the banking services they provide to their clientele. Today, there is a broad consensus that financial stability is an essential element for the proper functioning of the economy, since, among other things, it facilitates a climate of trust in which we can make our decisions.

The Financial Stability Report is framed in the last task and is motivated by the need to have a document that analyses the evolution of the domestic financial sector, particularly the banking sector. Under these parameters and the national environment described, the definition of Financial Stability in Panama would be described as the situation in which the financial system manages to intermediate economic savings, redistributes risks efficiently and contributes to macroeconomic stability.

Macro prudential Policy Framework



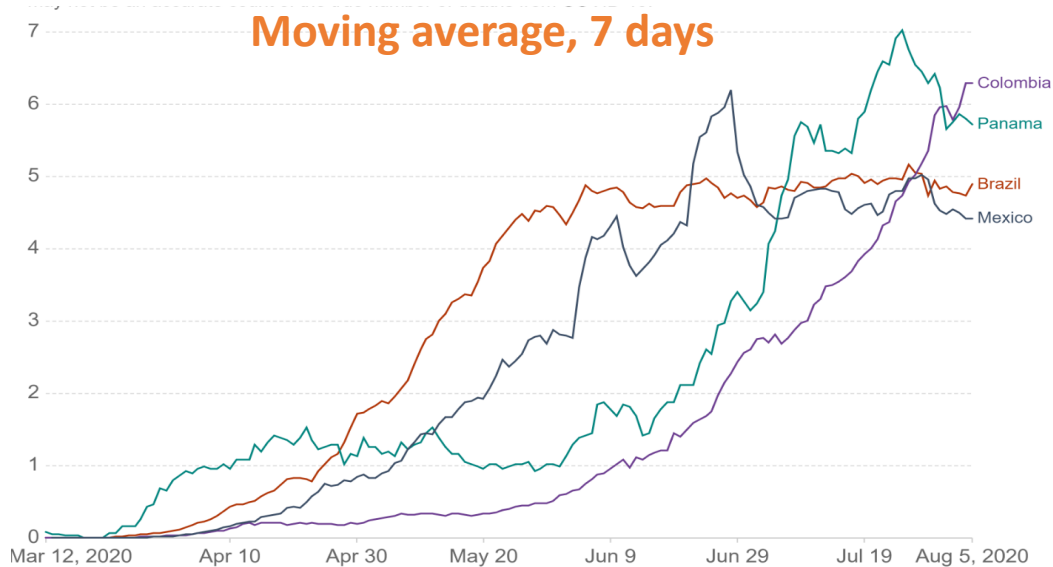


Foreign sector

COVID-19 Context

The World Health Organization (WHO) has declared **Latin America the new epicenter of the pandemic**. Despite the different responses, the pandemic has spread throughout the region.

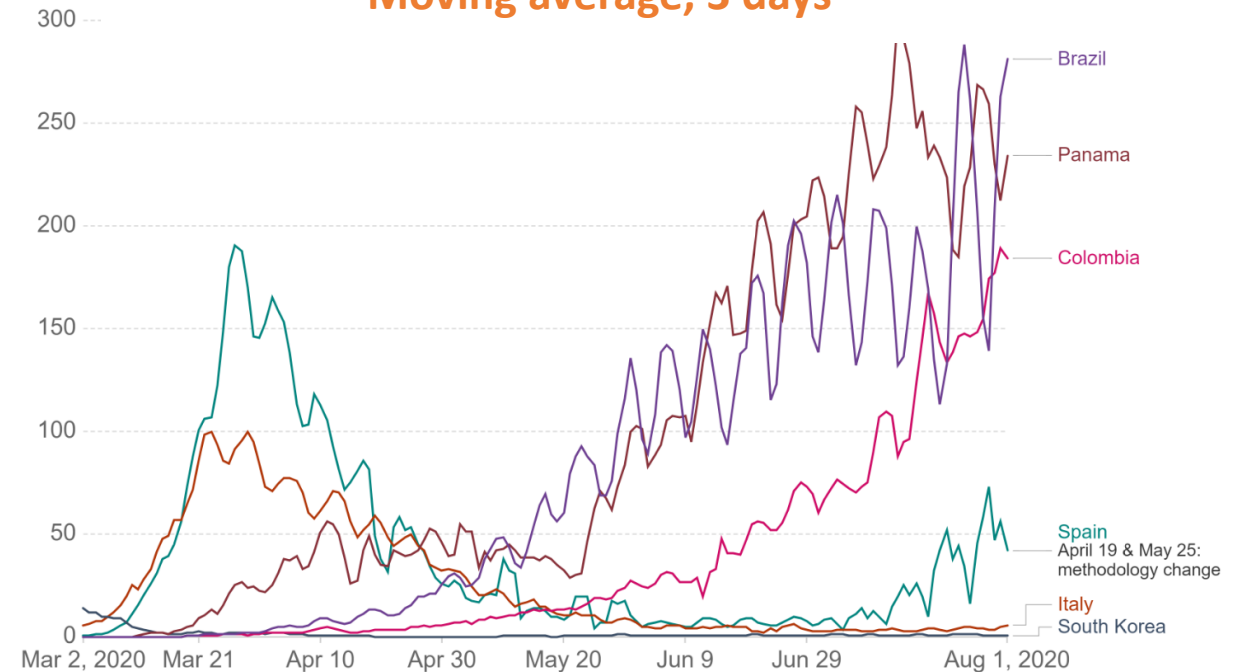
New deaths per million inhabitants
Moving average, 7 days



Source: ourworldindata.org, downloaded on 08-05-2020

In recent weeks, around **46% of new deaths from COVID are attributed to Latin America** and account for about 30% of all cases, despite the fact that the region's population represents 8.4% of the world's population.

New cases per million inhabitants
Moving average, 3 days



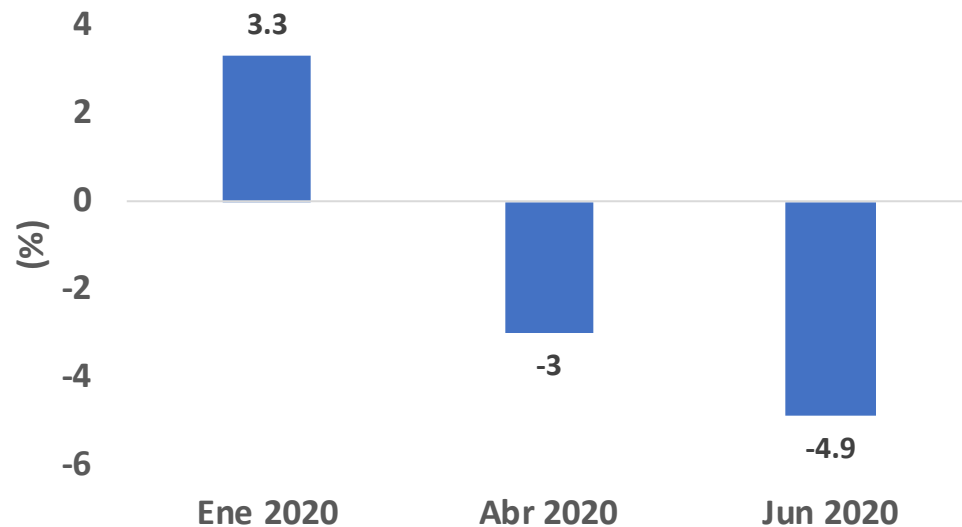
Source: ourworldindata.org, downloaded on 08-05-2020

Advanced economies reached their peak **20 days** after the pandemic started.

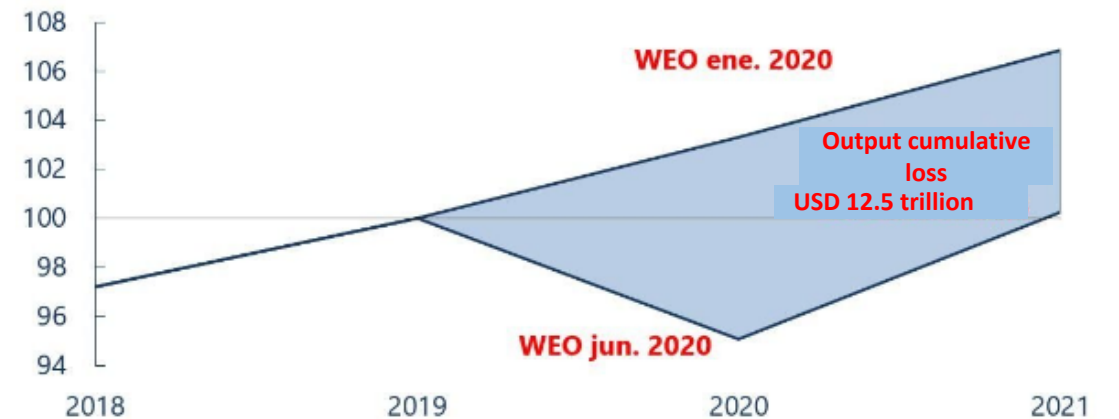
In LATAM after **100 days** it is still increasing.

Compared to the IMF’s April forecast, its latest update **projects a deeper recession in 2020 and a slower recovery in 2021**. World output is expected to decrease 4.9% in 2020 —i.e. 1.9 percentage points less than that projected in April— which will be followed by a partial recovery, with a 5.4% growth in 2021. These outlooks **imply a cumulative loss for the world economy over two years (2020-21) of more than USD 12.5 trillion** as a consequence of the crisis.

Changes in IMF outlook 2020



Product Loss WEO, June 2020

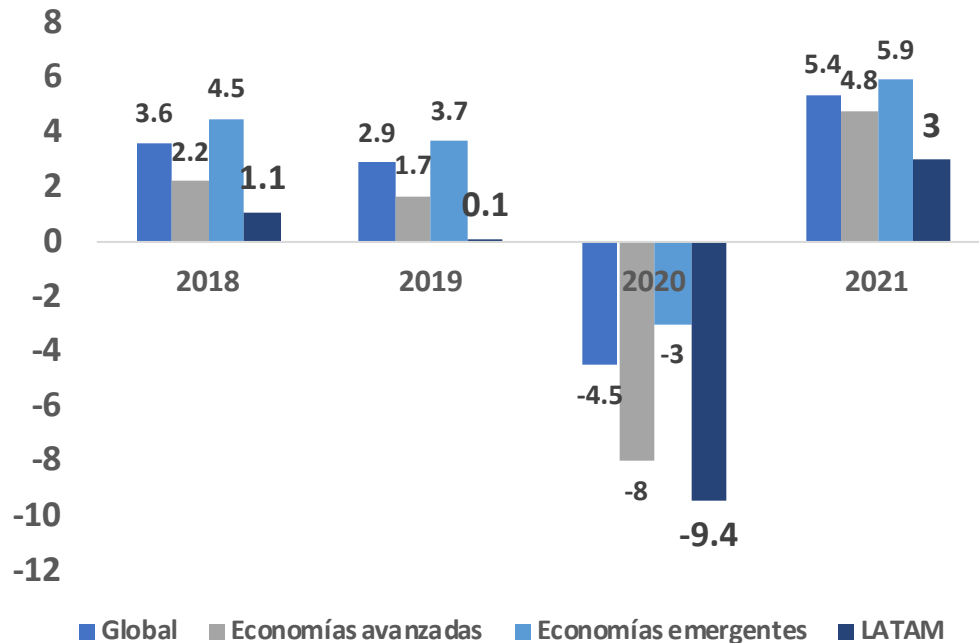


Fuentes: FMI, Perspectivas de la economía mundial; y cálculos del personal técnico del FMI.

Source: International Monetary Fund (WEO June Update 2020)

LATAM would be the hardest hit region. The new forecasts cover a 9.4% GDP contraction for Latin America and the Caribbean and a 5.4% for Central America, Panama and the Dominican Republic (CAPDR).

Growth Forecast- IMF (June update)



Source: International Monetary Fund (WEO June Update 2020)

LATAM Projections WEO, June 2020

	2018	2019	Projections		April 2020 WEO Projections	
			2020	2021	2020	2021
Latin America and the Caribbean	1.1	0.1	-9.4	3.7	-4.2	0.3
Excluding Venezuela	1.8	0.8	-9.2	3.9	-4.2	0.4
South America ²	0.4	-0.1	-9.5	3.9	-4.4	0.5
Excluding Venezuela	1.4	1.0	-9.2	4.2	-4.4	0.6
CAPDR ¹	3.9	3.2	-5.9	3.2	-3.5	-0.8
Caribbean						
Tourism dependent ³	1.9	1.2	-10.3	4.8	-2.8	-1.0
Commodity exporters ⁴	0.7	0.9	3.5	3.2	-1.9	-0.4
Latin America						
Argentina	-2.5	-2.2	-9.9	3.9	-4.2	-0.5
Brazil	1.3	1.1	-9.1	3.6	-3.8	0.7
Chile	3.9	1.1	-7.5	5.0	-3.0	-0.3
Colombia	2.5	3.3	-7.8	4.0	-5.4	0.3
Mexico	2.2	-0.3	-10.5	3.3	-3.9	0.3
Peru	4.0	2.2	-13.9	6.5	-9.4	1.3

Sources: IMF World Economic Outlook database and staff calculations.

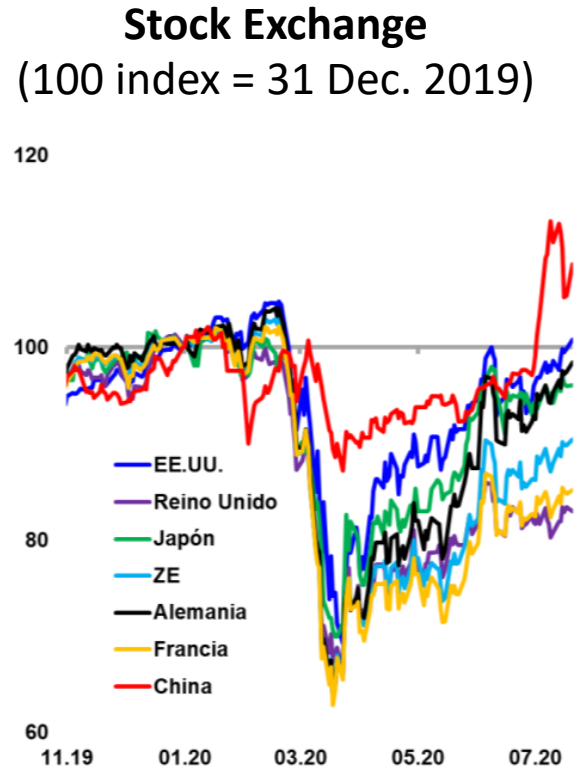
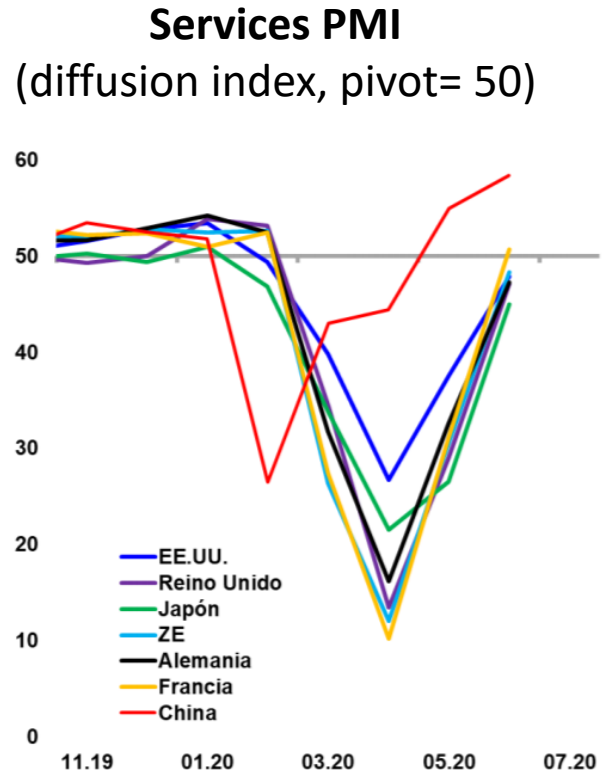
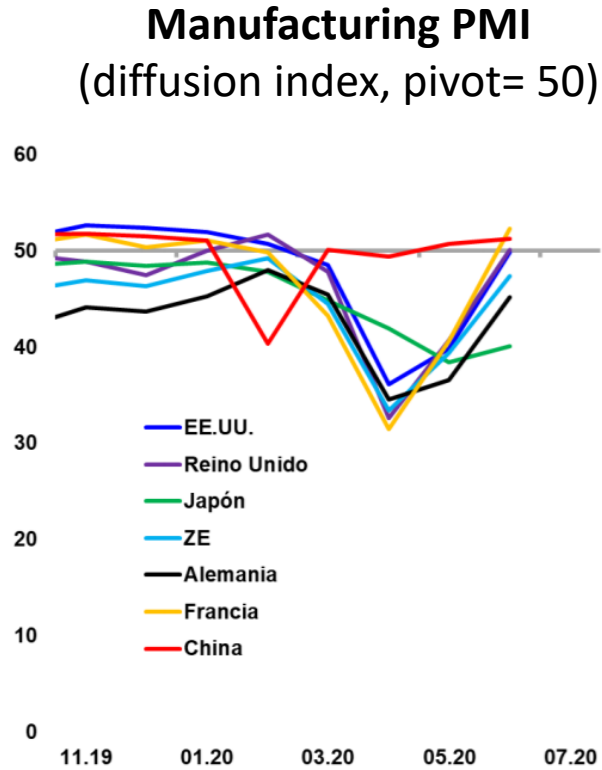
¹CAPDR = Central America, Panama, and the Dominican Republic.

²Excludes Guyana and Suriname.

³Includes Antigua and Barbuda, Aruba, The Bahamas, Barbados, Belize, Dominica, Grenada, Jamaica, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines.

⁴Includes Guyana, Suriname, and Trinidad and Tobago.

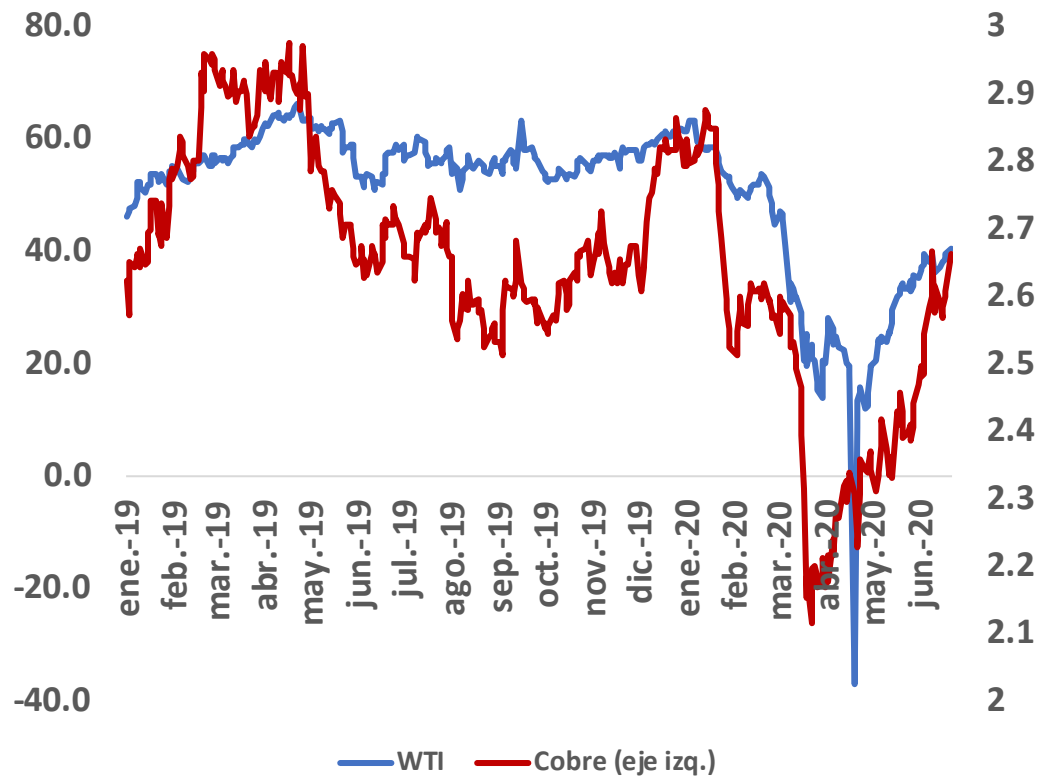
The data suggest that **the second quarter** was the lowest part of the cycle and that advanced economies are **beginning to recover** with greater emphasis on the financial sector.



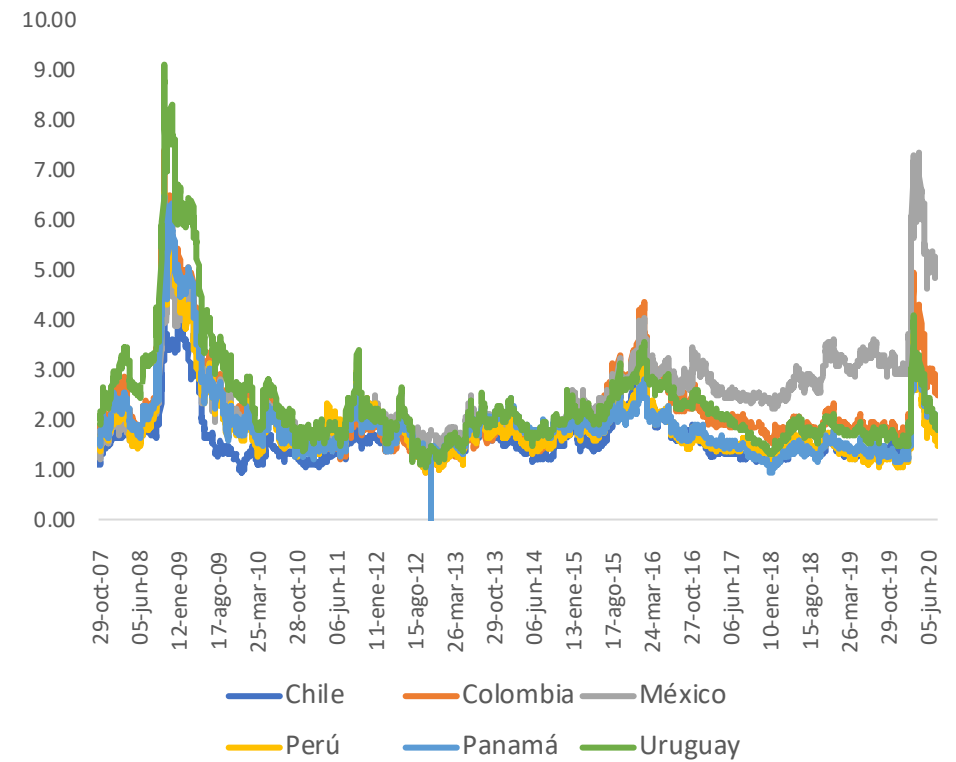
Source: Bloomberg

The data suggest spikes in oil and copper prices in response to supply and demand factors. In a context in which some expectation indicators have recently stabilized, or even, started to show improvements... Market indicators that measure sovereign credit risk in Panama are at low levels compared to those of economies with comparable credit ratings.

Commodities Prices
(USD per pound; USD per barrel)



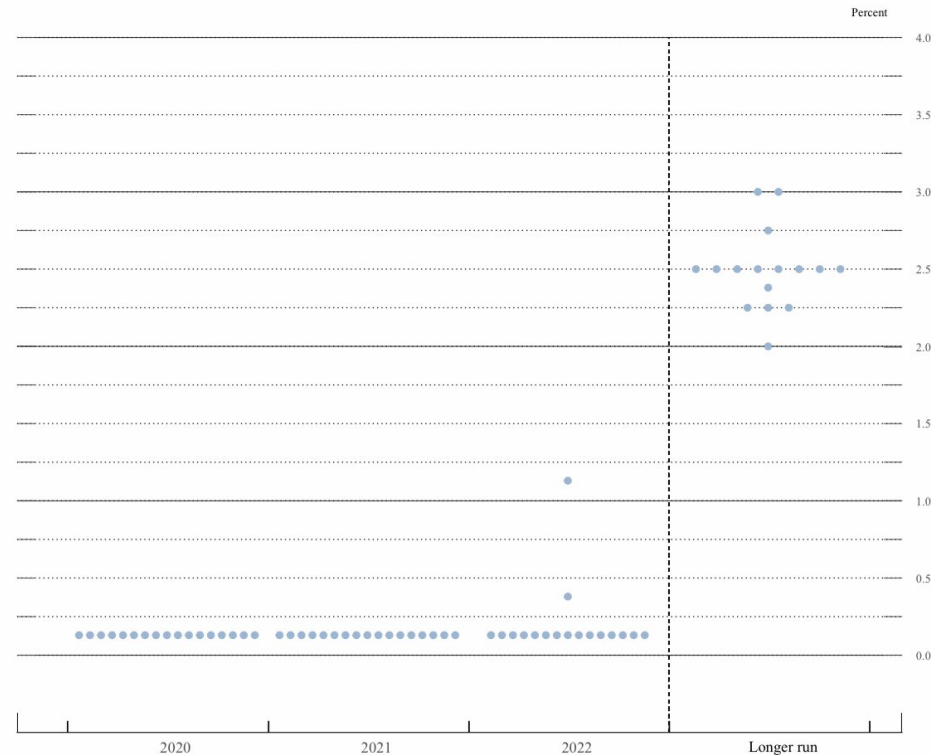
Market indicators measuring National Sovereign Risk / 1 Basis Point



Source: Bloomberg

The **FED** has indicated to maintain interest **rates** at levels of 0 to 0.25%, a range in which they will remain at least until there is confidence in the economic recovery. **The FED projects that interest rates would remain in this range at least until 2022.**

Figure 2. FOMC participants' assessments of appropriate monetary policy: Midpoint of target range or target level for the federal funds rate





National economic activity and 2020 outlook

Forecasts for economic activity

- The fact that the evolution of the Covid-19 pandemic is still in process, both globally locally, it produces a **high degree of uncertainty for any forecast of economic activity**:
 - Uncertainty about the duration and severity of containment measures.
 - Given the eventual relaxation or lifting of many containment measures, there are risks of additional outbreaks.
 - It is unknown when a vaccine might be available.
- Given this uncertainty, it is considered that a central scenario of economic activity forecasts, such as the one usually disclosed, could suggest a level of **precision greater than that which the current environment or the available information allows to achieve**.
- Building up various scenarios on the possible behavior of productive activity, based on different assumptions about the depth and duration of the consequences of the pandemic, could give a better perspective of GDP in 2020 and 2021.

We emphasize that, given the high uncertainty and swift evolution of events, [these scenarios are subject to revisions, potentially frequent and of a high magnitude.](#)

Forecasts for economic activity

Entity	2020 (f)	2021 (f)
IMF	-2.0%	4.0%
World Bank	-2.0%	4.2%
CEPAL	-6.5%	
SBP	-6.3%	4.1%

Remarks: The forecasts have been made in different dates.

- IMF: April 2020
- WB : April 2020
- CEPAL: July 2020
- SBP: April 2020

Risks to growth

Upward

- ↑ Effective containment of COVID-19 spread.
- ↑ That the stimuli granted are effective to support economic recovery.

Downward

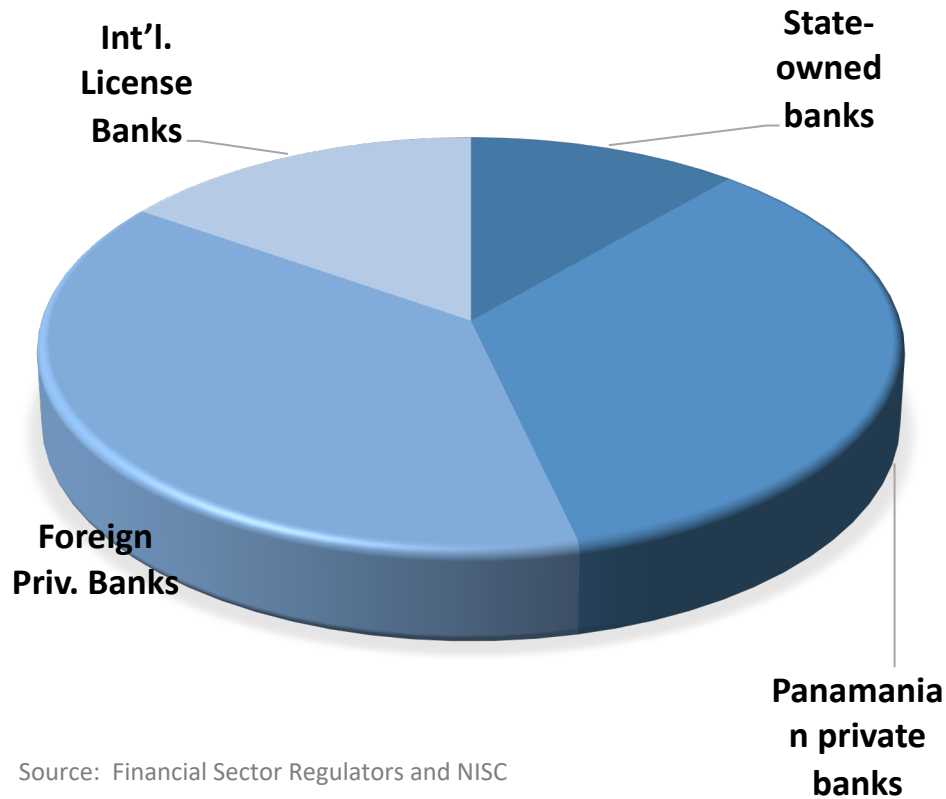
- ↓ That Social distancing measures are extended or stringent.
- ↓ Additional financial volatility episodes.
- ↓ That adopted support measures are not effective.
- ↓ That the consequences caused by the pandemic on the economy are more permanent
- ↓ Additional reductions in sovereign debt rating.
- ↓ Greater weakness in aggregate demand components.



Financial Sector Structure

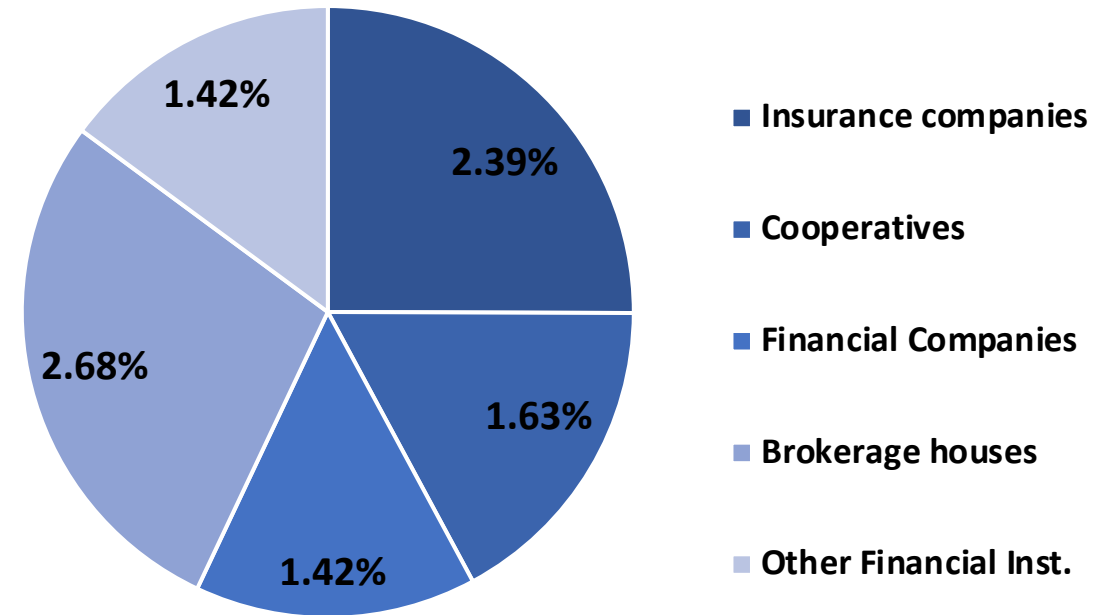
Structure of the domestic financial sector

International Banking Center



Source: Financial Sector Regulators and NISC

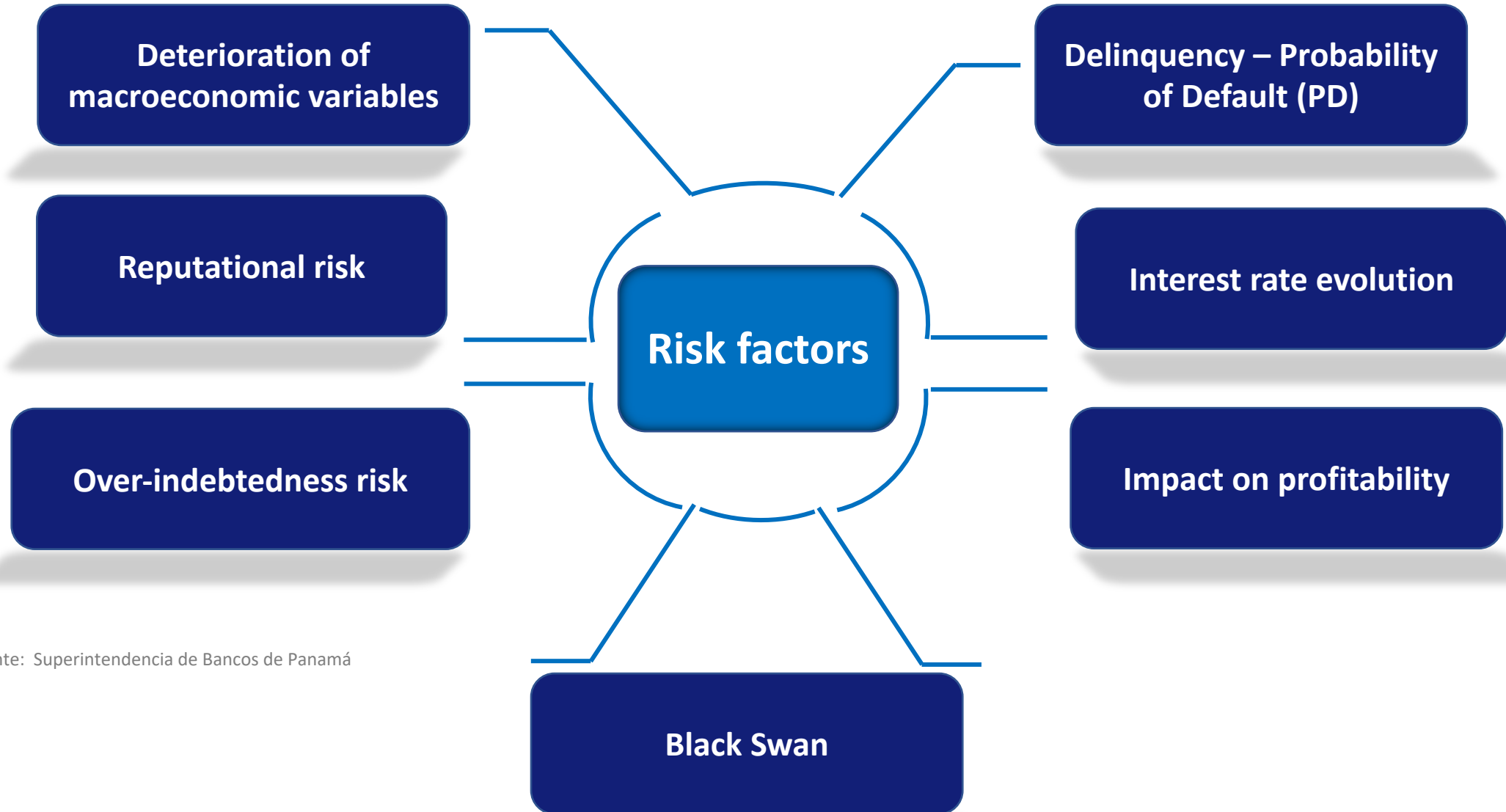
Financial Institutions





Micro financial risks and consequences

Panama: International Banking Center Macro Risk Factors and Consequences



Fuente: Superintendencia de Bancos de Panamá

Risk Mitigators

Banking Rule 4-2013: Specific provisions by risk level.

Banking Rule 4-2013: Dynamic reserves (for systemic events).

Banking Rule 1-2015: Solvency index for Basel III risky operations.

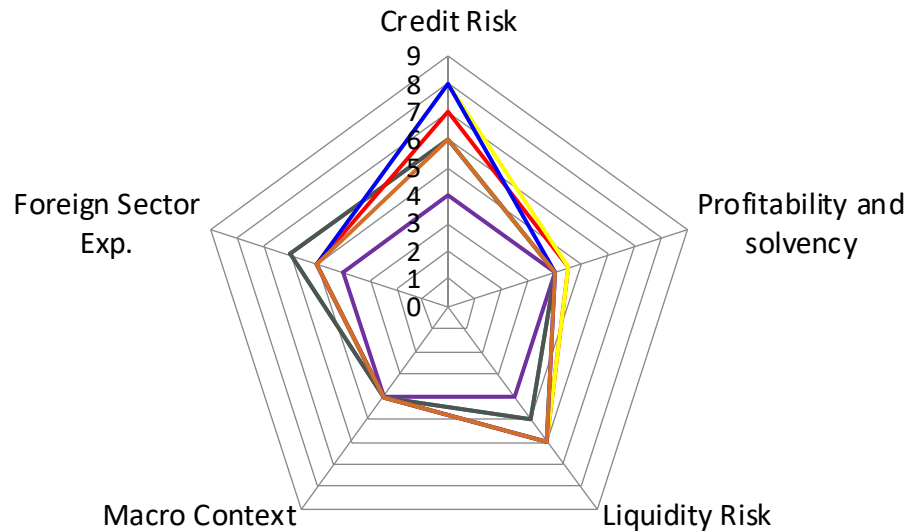
IFRS 9, reserve for impaired portfolio based on expected loss.

Effectiveness of mitigators and proper management

- Until the end of the 1Q2020, the aforementioned risks, with their respective consequences, have not had a significant impact. However, the effect of the Black Swan or unlikely event (COVID-19) will definitely affect the economic variables and, in turn, will have an effect on delinquency, profitability and solvency.

- The challenge as NBS and supervisory body is that such impairments are managed in the best way possible and that the financial impact does not affect the savings of depositors.

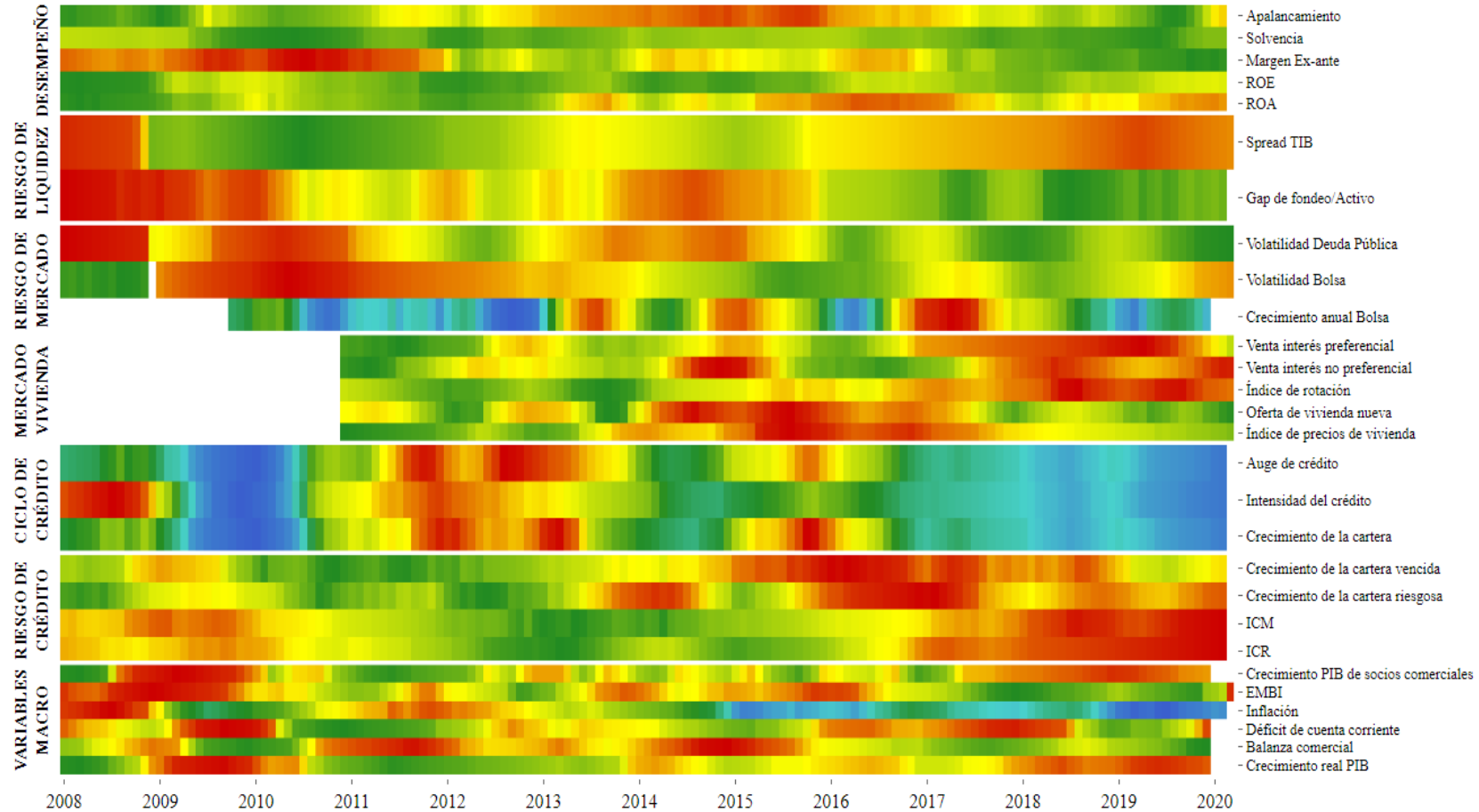
Financial Stability Map



Source: Superintendency of Banks of Panama

Domestic macroeconomic environment	Exposure to foreign sector	Credit risk	Liquidity risk	Solvency & profitability
Variation of Panama's GDP	Checking account	Portfolio at risk / Total portfolio	Loans / Deposits Relation	Net Interest Margin
	Exports / Imports	Growth of portfolio at risk	Deposits / Liquid assets	Solvency
			Interbank funds / Liquid assets	ROE

Financial System Risks Heat map



Source. Superintendency of Banks of Panama



Final Considerations

Final considerations

The performance of the world economy continues to be fundamentally determined by the COVID-19 pandemic and the policies implemented in response to flatten the curve.

The immediate effect of COVID-19 has been severe, with a longer-than-anticipated duration and long-term repercussions still uncertain.

The current situation is different from previous periods of crisis due to its origin, timing and because the current framework of public policies would have a greater response capacity.

Even so, the cost for the country will be high and some sectors will require significant adjustments in the face of more lasting changes in their conditions and modes of operation

Projections continue to adjust downward and many risks prevail.

The report is posted on the following URL address:
https://www.superbancos.gob.pa/superbancos/documentos/financiera_y_estadistica/estudios/IEF_2020.pdf





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Thank you!

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