Fundación BBVA Microfinanzas

Social Performance Report 2023

Macroeconomic context

2023: the slowest growth since 2000 (excluding the pandemic and the global financial crisis)

Economy[1]

The pandemic submerged Latin America in a deep contraction of economic activity, with a 6.5% fall in PIB, which then spiked upwards in 2021 by 6.7%, with growth continuing in 2022 at 3.8%. This post-pandemic expansion was mainly due to the fiscal and monetary stimuli and the improvement in external conditions.

In 2023 conditions became less favorable; with the reduction in fiscal stimulus public transfers were reduced and monetary policy hardened to control inflation, with the result that economic growth slowed to 2.2%, nearly half the rate of 2022.

In 2023 across our footprint[2], the economy grew at less than the average for the region, at just 1.0%, marking a significant fall from 2022 when it grew by 4.8%. This lower growth was driven by Peru (-0.3%), Chile (0.2%), and Colombia (1.1%), while the Dominican Republic (2.5%) and Panama (7.3%) made the most positive contribution to the average for this group of countries.

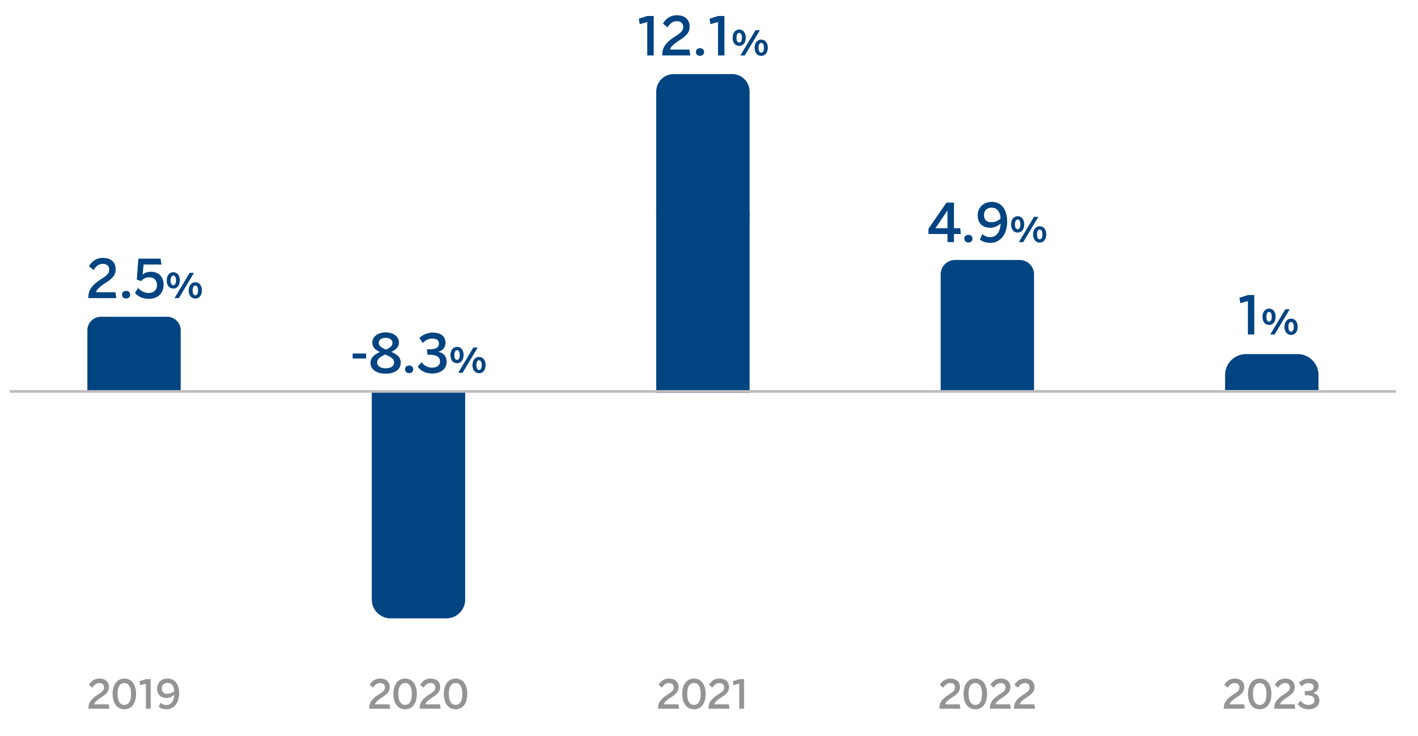
From the perspective of spending, domestic demand fell in line with lower household consumption and investment. Household demand shrank by 0.7%, reflecting a decline in spending on non-durable goods and, to a lesser extent, on durables. Investment, meanwhile, experienced a sharp fall in all countries apart from the Dominican Republic and Panama, resulting in a 10.5% decrease in the aggregate across the footprint.

Commercial activity dropped by 0.9%, an outcome caused largely by the retail component, and to a lesser extent, the remainder of the segment. This sector plays a large part in microfinance, as it represents the biggest demand component in its credit portfolios

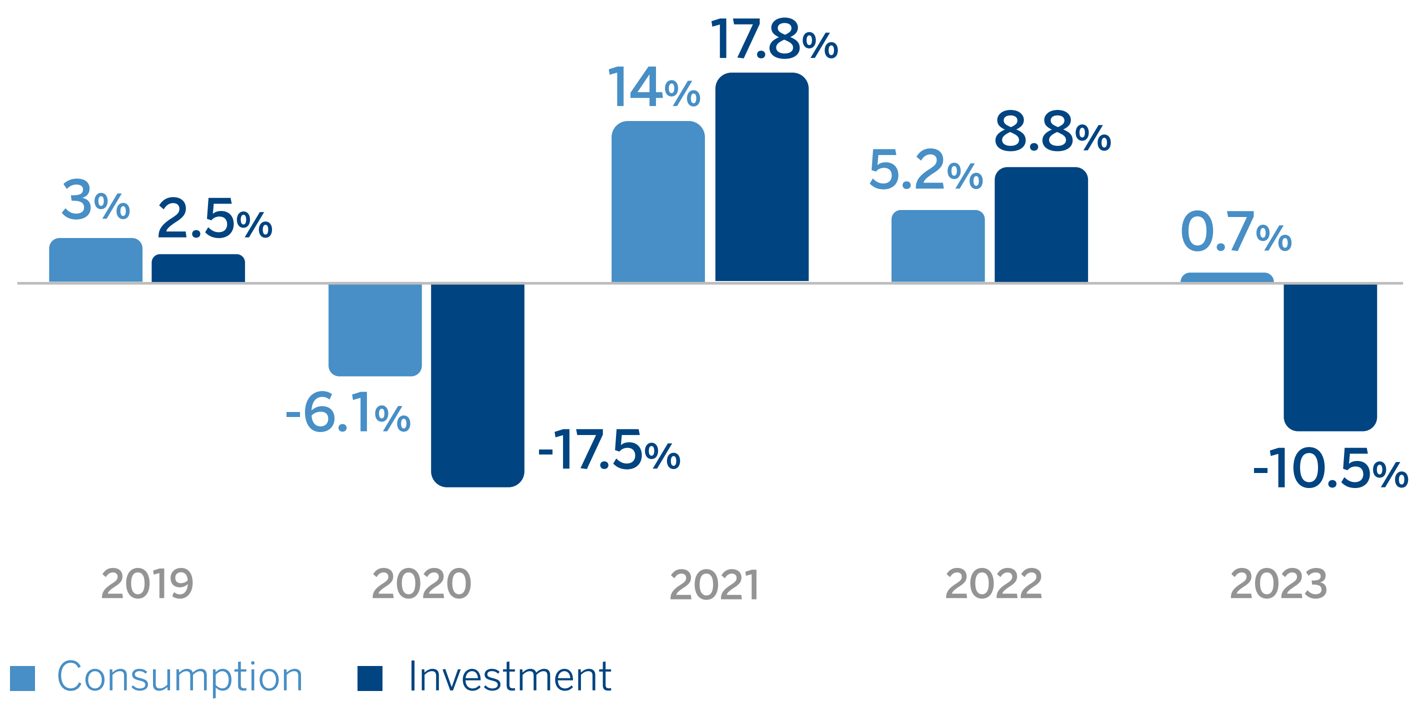
1. Several national sources. BBVAMF Research estimates from incomplete data and construction of aggregates

2. Area comprising: Colombia, Peru, Chile, Dominican Republic, and Panama

1 GDP growth in our footprint



2 Growth in internal demand across our footprint



In behavior similar to the rest of the region, inflation across the footprint posted at an average of 5.3% in 2023, in the direction of convergence towards the targets, down from the maximums reached in 2022 of 10.9%, with a particularly high variation in the food component.

Inflation converged at different speeds in each country. It was most persistent in Colombia, where it closed the year at 9.28%, but this was still down, by 3.84 percentage points (pp), from 2022, when it reached 13.12%.

In Peru the fall was swift, with a faster reversal in the last few months of the impact that supply shocks had on food prices, causing the inflation rate to close the year at 3.4%, a downward adjustment from the maximum registered in February of 9%.

In Chile, there was a swifter adjustment, with a sharp drop from its peak at 14% in 2022, closing the year with a variation of 3.9%, after recording an average rise in prices over the year of 7.6%. Moderation in spending, the absorption of the price shocks in previous years, a more restrictive monetary policy and lower activity have all contributed to mitigating pressures.

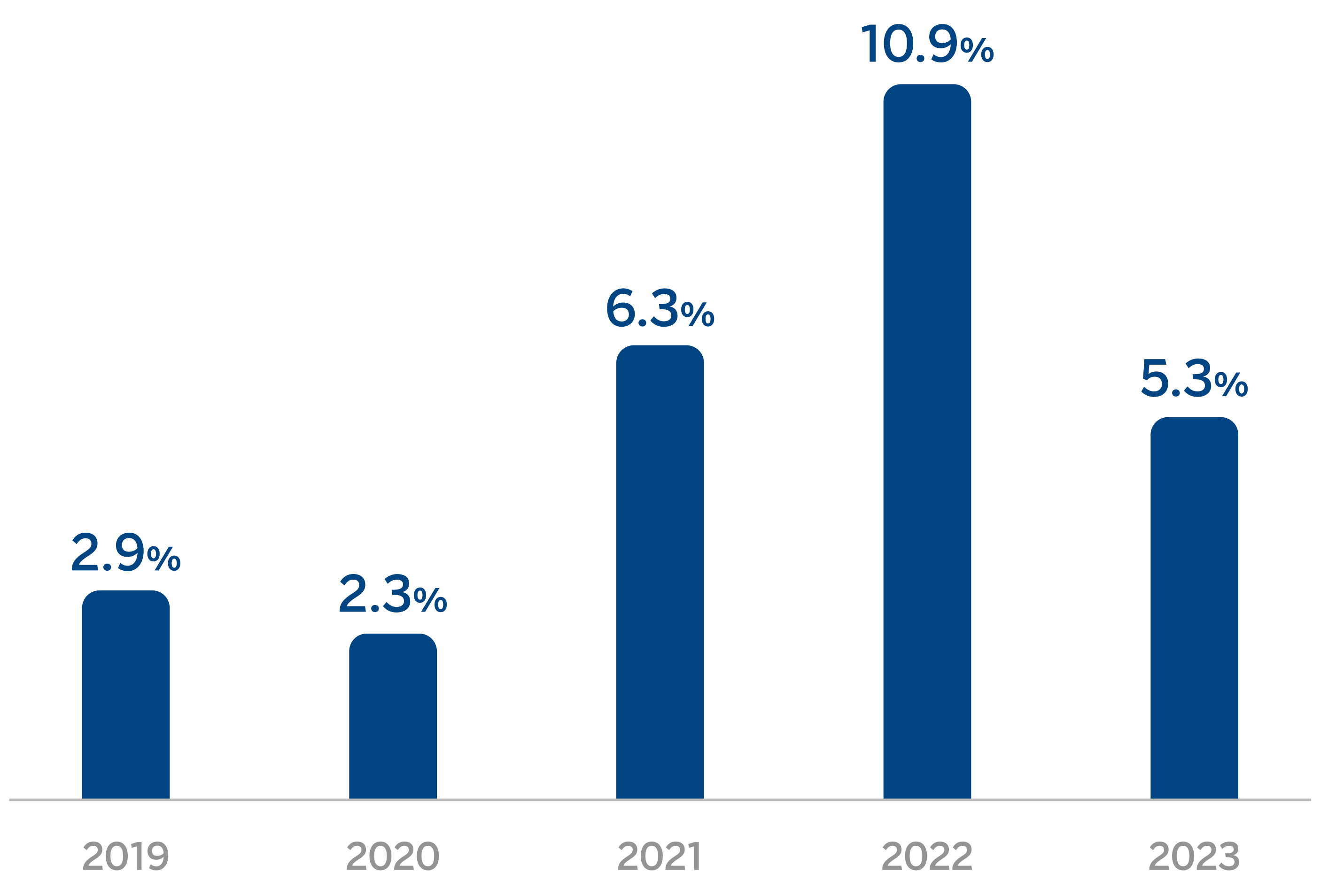
Inflation across the footprint posted at an average of 5.3%

In the Dominican Republic, unlike the other countries, inflation in 2023 posted at its lowest rates in the last five years, at 3.57%, continuing its downward trend even below the central target range of 4.0 % ±1.0% set in the country's monetary policy program, where exchange rate stability has softened pressure on the import component.

Panama, despite global uncertainty and shocks on food and energy prices, continues to have one of the lowest rates of inflation in the world, with a variation in the consumer price index of 1.5% in 2023, while in 2022 it was 2.1%.

However, this is a result of having applied major subsidies. The price increases on food and energy had triggered social unrest, with inflation leaping from -2% in October 2020 to 5.2% in June 2022. Public protests against the rising prices of food and fuel at the beginning of July 2022 led the government to announce a series of subsidies on food and fuel, that helped to bring overall inflation down, with these measures in place until the end of 2023.

3 Inflation across our footprint



The behavior of inflation in each country was accompanied by a more restrictive monetary policy[3]. Colombia's central bank, the Banco de la República, in the context of that country's highly indexed economy, has acted with greater caution, with the monetary policy rate ending the year at 13%, 100 basis points (bp) above 2022 year-end, but down by 25 bp since its peak in May 2023.

The Board of Peru's central bank, the Banco Central de Reserva, decided in 2023 to reduce its country's benchmark interest rate by 75 bp to 6.75%, with the maximum during the year reaching 7.75%. The region's central banks have been raising their interest rates since 2021 to offset the effects of inflation. Against this backdrop, Peru's benchmark interest rate has always been the lowest among the large countries in the region.

In Chile, the monetary policy rate had been accumulating a cut of 300 bp since December 2022, closing last year at 8.25%. In the Dominican Republic, the central bank's Board agreed in 2023 to reduce its benchmark interest rate by 150 bp to 7.0%, with the maximum during the year reaching 8.5%. Convergence of inflation toward the target was the driver for these monetary policy cuts in both countries.

3. Except for Panama, that has no central bank.

Employment and the informal economy[4]

This combination of lower growth and higher inflation in the last few years has had a particularly harsh impact on lower-income segments, as it has been accompanied by less job creation.

Job creation in the decade between 2014 and 2023 has been the lowest since the Fifties. Over the decade, the growth rate of the number of people in work has been 1.2%, compared with 3.2% in the Eighties. In 2020, during the pandemic, job creation fell by 8.2%, the only time it has fallen in the last 70 years[5].

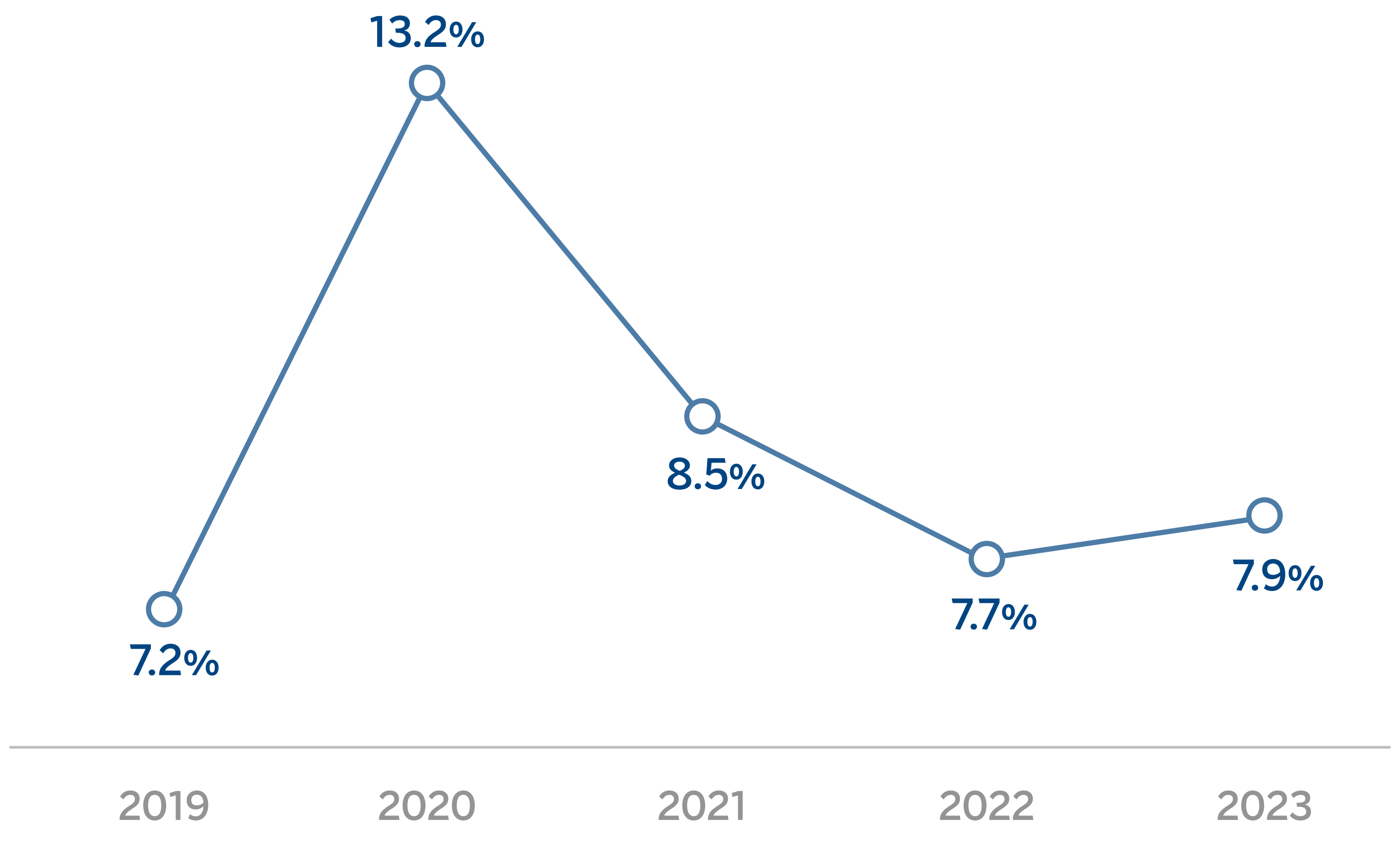
Across the footprint, lower economic growth has meant that the unemployment rate has increased by 0.2 pp, posting at 7.9% in 2023.

In Colombia, the national unemployment rate was 10.0% in 2023. In the thirteen cities and metropolitan areas it was 10.2 %, while during the same period the year before it was 10.8 %. The unemployment rate nationally, in December 2023, was 12.2% for women, whereas for men it was 8.4%, a gender gap of 3.8 pp.

Peru's unemployment rate in 2023 was 5.4%, 0.7 pp higher than the year before (in 2022 it was 4.7%). Unemployment affected women more (6.4%) than men (4.5%). According to the employment rates, 49.0% of the population had decent jobs, up by 0.7 pp from 2022 (48.3%); while the underemployed accounted for 45.6%, lower by 1.5 pp than in 2022 (47.1%).

In Chile, nationwide unemployment posted at 8.5%, a rise of 0.6 pp over 2022, a consequence of the increase in the labor force (3.6%), greater than the increase in the number of people in work (2.9%). The number of people not in employment increased by 11.6%, affected by those who were laid off (11.5%) and those looking for work for the first time (12.9%). By gender, the unemployment rate among women was 8.8%, and among men 8.2%.

4 Unemployment rate



4. Several national sources. Estimates to end of 2023 by BBVAMF Research.
5. Economic Commission for Latin America and the Caribbean (ECLAC)

The unemployment rate in the Dominican Republic was registered at 5%, corresponding to the unemployed who were actively looking for work at the end of 2023. The figure for the year represents a year-on-year variation of 0.2 pp., remaining below the pre-COVID-19 pandemic average. The underutilization rate, which covers those who, although employed, would like to work more hours (the underemployed) as well as the available unemployed, posted at 7.1%, an increase of 0.2 pp from the same period in 2022.

The male unemployment rate was 4.6%, doubling in the case of women to 10.5%. If we include those who are employed but would like to work more hours, the figures rise to 9.5% for men, and 17% for women. Both unemployment measures show the wide gender gaps in our footprint.

In Panama, the unemployment rate was 7.4%, a fall of 2.5 pp from 2022, the outcome of strong growth in the economy during 2023. To have an idea of the dynamism in Panama's labor market, in 2020, the first year of the pandemic, unemployment posted at 18.5%. This means that between 2020 and 2023, the unemployment rate has dropped by 11.1 pp.

For men the unemployment rate was 6.0%, while for women it was 9.4%, a gender gap of 3.4 pp. In 2022 these rates were 8.8% and 11.5% respectively – a gap of 2.7 pp – indicating that despite the improvement in the Panamanian labor market, the gap has widened by 0.7 pp.

However, the employment situation is precarious. Job creation is increasingly in the informal sector. Of the approximately 56 million people in work across our footprint, 55.6% are doing so in informal jobs, which amounts to more than 31 million informal workers, even though the weight of informal employment has inched down by 1.6 pp in the last year.

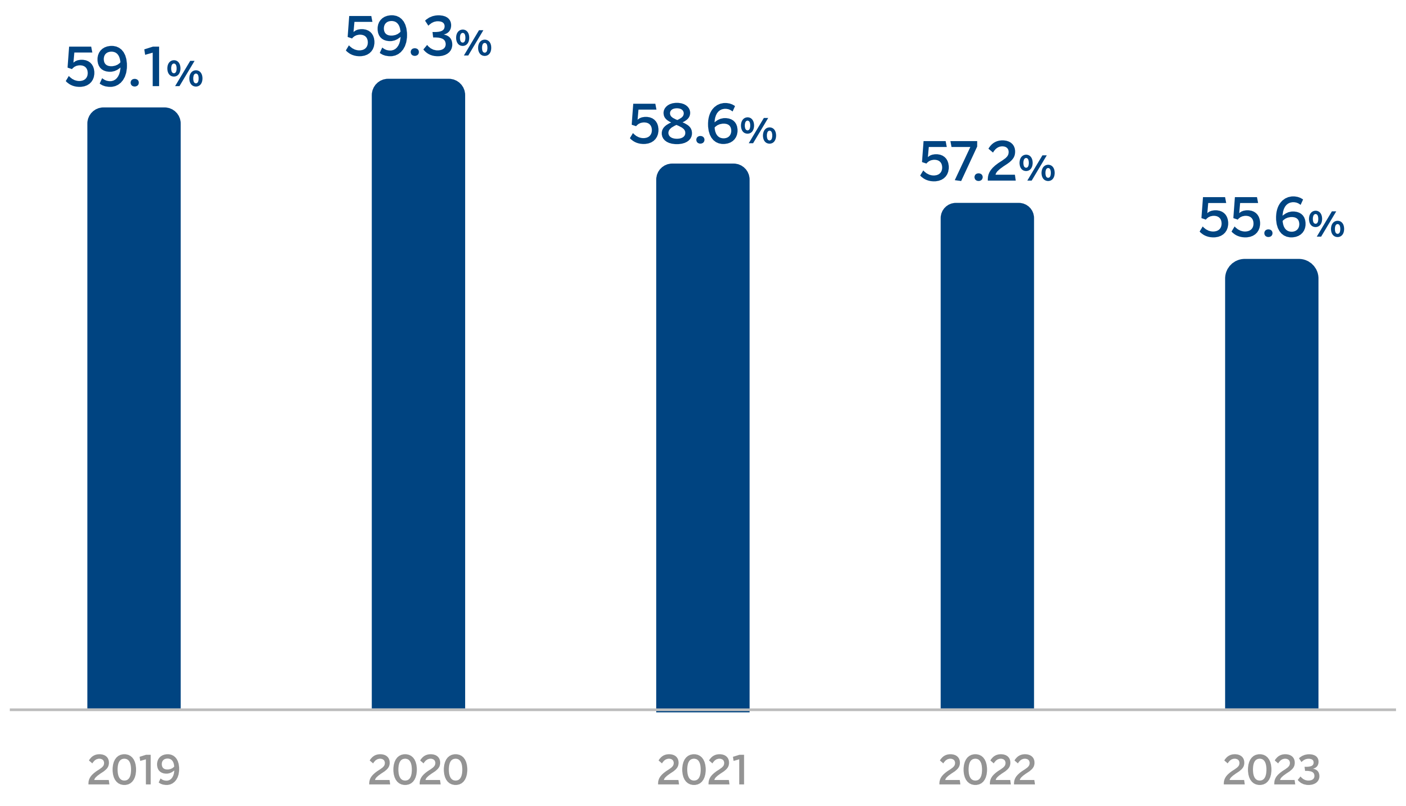
In Colombia, la proportion of informally employed people, that is, those with a labor relationship that is not subject to national legislation, without social protection cover and lacking employment-related benefits, was 55.7% in 2023, a reduction of 2.0 pp from the previous year. In the case of urban areas, informal jobs accounted for 42.7% of the total, a reduction of 1.0 pp from 2022. In rural areas, however, informal jobs represented 83.8% of all employment in 2023.

Job creation in the decade 2024-2023 is the lowest since the 1950s.

In Peru, according to the 2023 edition of the Rolling Survey of National Employment [Encuesta Permanente de Empleo Nacional (EPEN)], 71.1% of workers were in informal employment. In urban areas this falls slightly, to 68.5%, while in rural regions it is as high as 95.4%. In companies with between 1 and 10 employees, 88.4% of workers are doing so informally.

The informal employment rate in Chile in 2023 stood at 27.5%, having inched up by 0.1 pp from 2022. The number of people informally employed expanded by 3.6%, especially among women (6.8%), less so men (1.0%); and depending on the economic sector, as most of the expansion was in other service activities (15.2%) and commerce (4.2%). The self-employed and privately waged accounted for 85.0% of all those in informal work, with that percentage breaking down between the two groups into 68.0% and 15.4%, respectively.

5 Informal employment



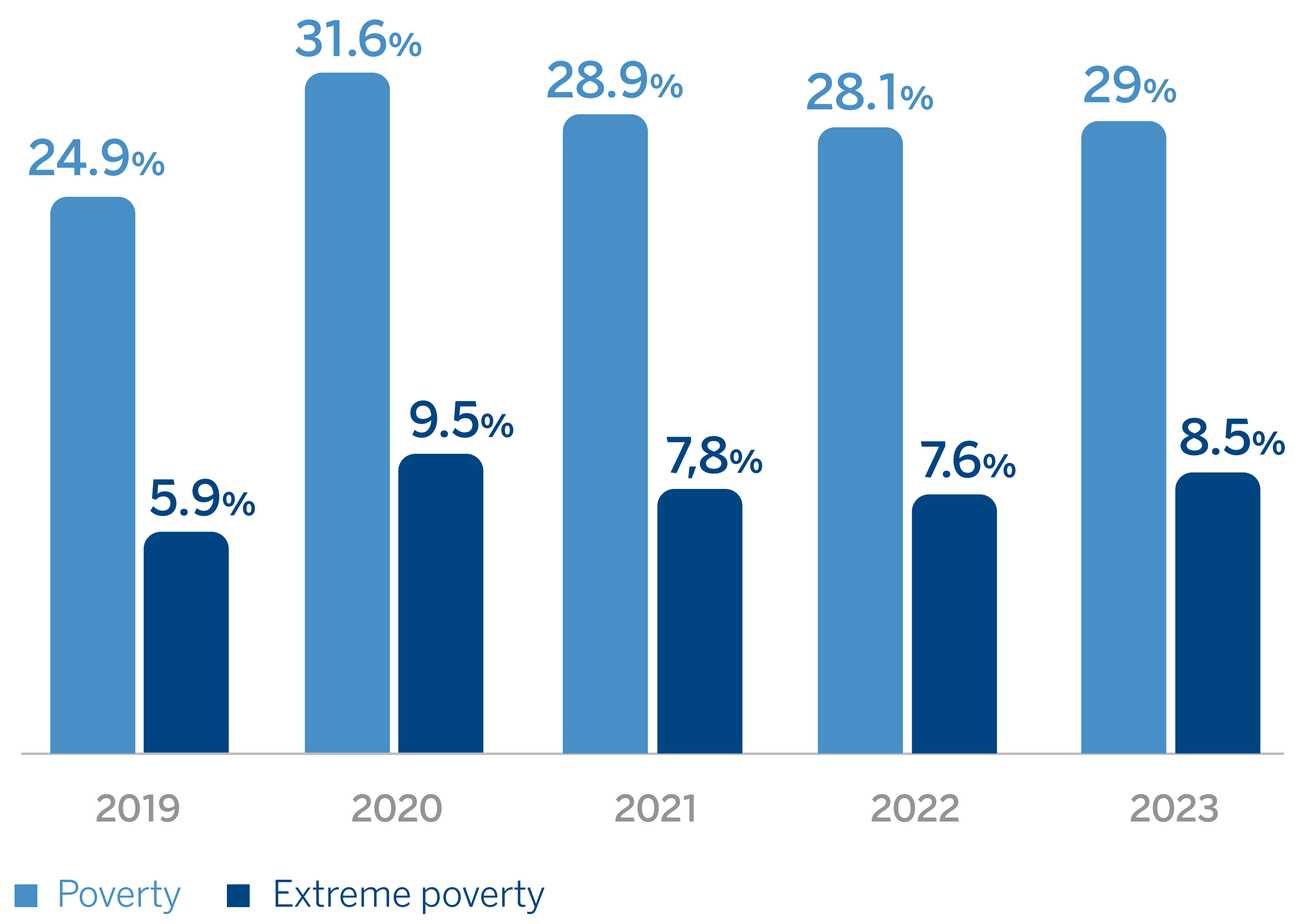
In the Dominican Republic the proportion of informally employed workers came to 56.8% in 2023, representing a small increase of 0.6 pp from the year before. In absolute terms, the generation of new jobs (178,219) during the year was marked by an expansion of 128,057 jobs that are completely informal, while formal job creation came to 50,163 workers more, year on year. As far as performance in the informal sector is concerned, there were an additional 35,050 jobs for women, and among men another 82,171 more jobs than in 2022.

In Panama, 47% of those in work do so informally. When this figure is compared with the year before, in absolute terms, there has been an increase of informal employment in the working population of 3.7%. By gender, a higher percentage of men were employed in informal jobs compared to women (56.5% and 43.5%, respectively). Indigenous territories have the highest proportion of informal employment: Kuna Yala, Emberá, and Ngäbe Buglé with informality rates of 91.4%, 71.8%, and 71.7%, respectively. In the most populous regions such as Panama and Panama Oeste, the proportion of informal employment is 43.7% and 47.9%, respectively. Of the total number of people in informal employment, 59.2% were self-employed, 26.4% were waged workers, 8.1% were domestic workers, 3.3% were domestic workers, and 3.0% were employers.

This significant burden of informal employment heavily influences the structural levels of poverty and welfare in these countries. Informal workers often endure low wages, precarious working conditions, and little or no social protection. This can contribute to a cycle of poverty as unstable and low incomes make it difficult for individuals and their families to meet basic needs such as food, housing, education, and healthcare.

The high incidence of informal employment may indicate a structural problem in the economy of a country, such as insufficient economic growth to absorb all workers into formal employment. This can perpetuate poverty by limiting opportunities for decent and well-paid employment. Informality and poverty may be intertwined in a perpetual cycle where people in poverty are forced to work in the informal sector due to a lack of opportunities in the formal sector. In turn, informality can hinder poverty alleviation by limiting opportunities for education and training, as well as access to credit and other financial resources.

6 Poverty



Poverty and welfare[6]

Across the footprint around 34 million people, 28.2% of the population, live in poverty, of whom 30%, or 10.2 million, are in extreme poverty, representing 8.5% of the population.

Approximately 22% of the working population lives in poverty, with 7% living in extreme poverty, and more than five out of ten workers are in the informal economy. In many cases, they transition to inactivity because they are in poverty even when active within the labor market.

In all countries, we should point out that since 2021, average labor poverty has been higher than before the pandemic. All countries have adjusted relative to the worst poverty level reached in the second quarter of 2020. In Peru, average in-work poverty was 4.6 pp higher than before the pandemic, followed by Chile, at 2.8 pp higher, Colombia with 2.3 pp, 2.4 pp in Panama, and 1.4 pp in the Dominican Republic.

It is important to note that in-work poverty and monetary poverty are closely related, as unstable or poorly paid employment can be a significant cause of monetary poverty. However, it is also possible for a person to have a job with an adequate salary but who still experiences poverty due to other factors such as illness, disability, temporary unemployment, or lack of access to basic social services.

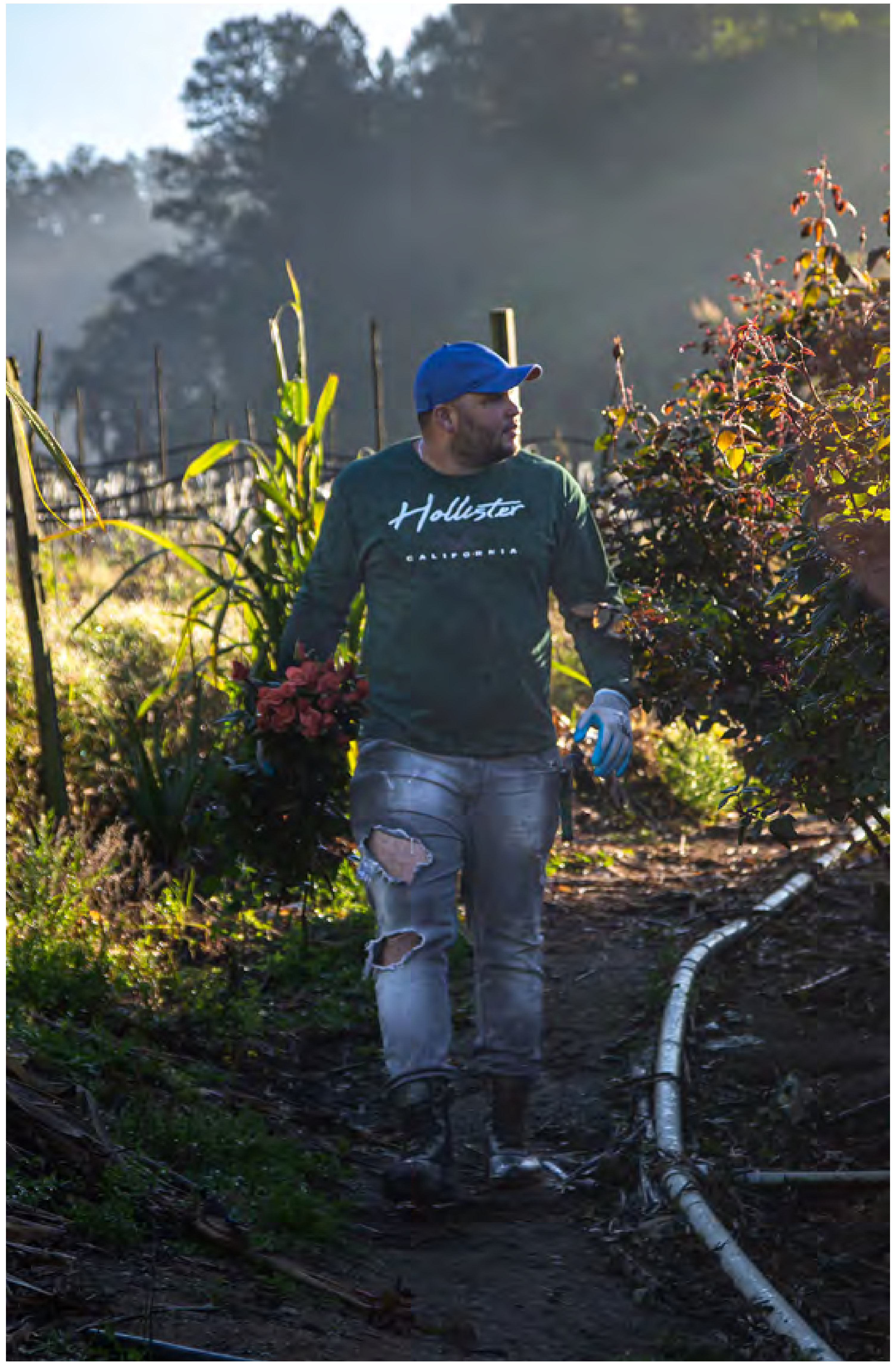
In Colombia, monetary poverty increased from 36.6% to 37.5%, meaning that 470 thousand people entered poverty nationwide. Extreme poverty worsened slightly, rising from 13.8% to 13.9% nationwide. Higher food inflation has impacted the most vulnerable segments, with 37.2% of poor people suffering extreme poverty in 2023. Nationwide, 19.5 million people are in monetary poverty, of whom 7.2 million are extremely poor.

6. Several national sources. Estimates to the end of 2023 by BBVAMF Research.

In Peru, during the period from 2009 to 2019, there was a notable reduction in monetary poverty, decreasing from 33.5% to 20.2%, as well as extreme poverty, which fell from 9.5% to 2.9%. However, it was one of the countries in the region most affected by the pandemic in terms of poverty levels, which rose to 30.1% and extreme poverty to 5.1%. In 2023, monetary poverty affected 28.8% of the country's population, increasing by 1.3 pp from 2022 and by 8.6 pp compared to 2019. The extremely poor represent 5.4% of the population. The population in poverty in 2023 is estimated to be 9 million 619 thousand people, increasing by 435 thousand people since 2022.

In Chile, according to official data in 2022, poverty stood at 6.5%, its lowest historical level, implying a decrease compared to 2020 (10.7%) of 4.2 pp and compared to 2017 (8.6%) of 2 pp. In 2023, due to lower growth and greater labor market weakness, poverty levels increased by 0.4 pp, reaching 6.9%, meaning that around one million 385 thousand people are in monetary poverty, of whom 31.9% are in extreme poverty, representing 2.2% of the population.

Since 2021, average labor poverty has been higher than before the pandemic



In the Dominican Republic, according to official data in 2023, national monetary poverty significantly decreased from 27.7% in 2022 to 23.0% in 2023. Extreme poverty also experienced a reduction, decreasing from 3.8% in 2022 to 3.2% in 2023. Poverty in rural areas decreased from 30.9% to 24.6%. Poverty in urban areas also decreased, from 27.0% in 2022 to 22.7% in 2023.

The number of women in monetary poverty fell from 29.4% in 2022 to 24.1% in 2023, representing a reduction of 5.2 pp. This reduction for men was 4.0 pp, decreasing from 25.8% in 2022 to 21.8% in 2023. The poverty gap between men and women decreased from 3.5 pp in 2022 to 2.3 pp in 2023. Approximately 2 million 463 thousand Dominicans are in poverty.

In Panama, monetary poverty stood at 24.1% in 2023, 1.1 pp below the figure recorded in 2022, when it was 25.2%. This affected a total of 1.06 million people, whose incomes did not reach the minimum required to acquire a basket of food, goods, and basic services, while extreme poverty afflicted 10.4% of the population, accounting for 43.2% of the total poor. Despite consistent economic growth, poverty and income inequality have persisted, disproportionately affecting indigenous and rural territories. Currently, around 980 thousand Panamanians are in poverty, of whom 422 thousand are in extreme poverty.

Financial Inclusion

According to the latest data available from the World Bank[7], from a financial standpoint, 37.5% of adults are excluded by not having a bank account or financial product. Of the adults excluded, 65% belong to the poorest 40% of households, while for the wealthiest 60%, the percentage is 37%, meaning there is a 28-pp gap between these two groups.

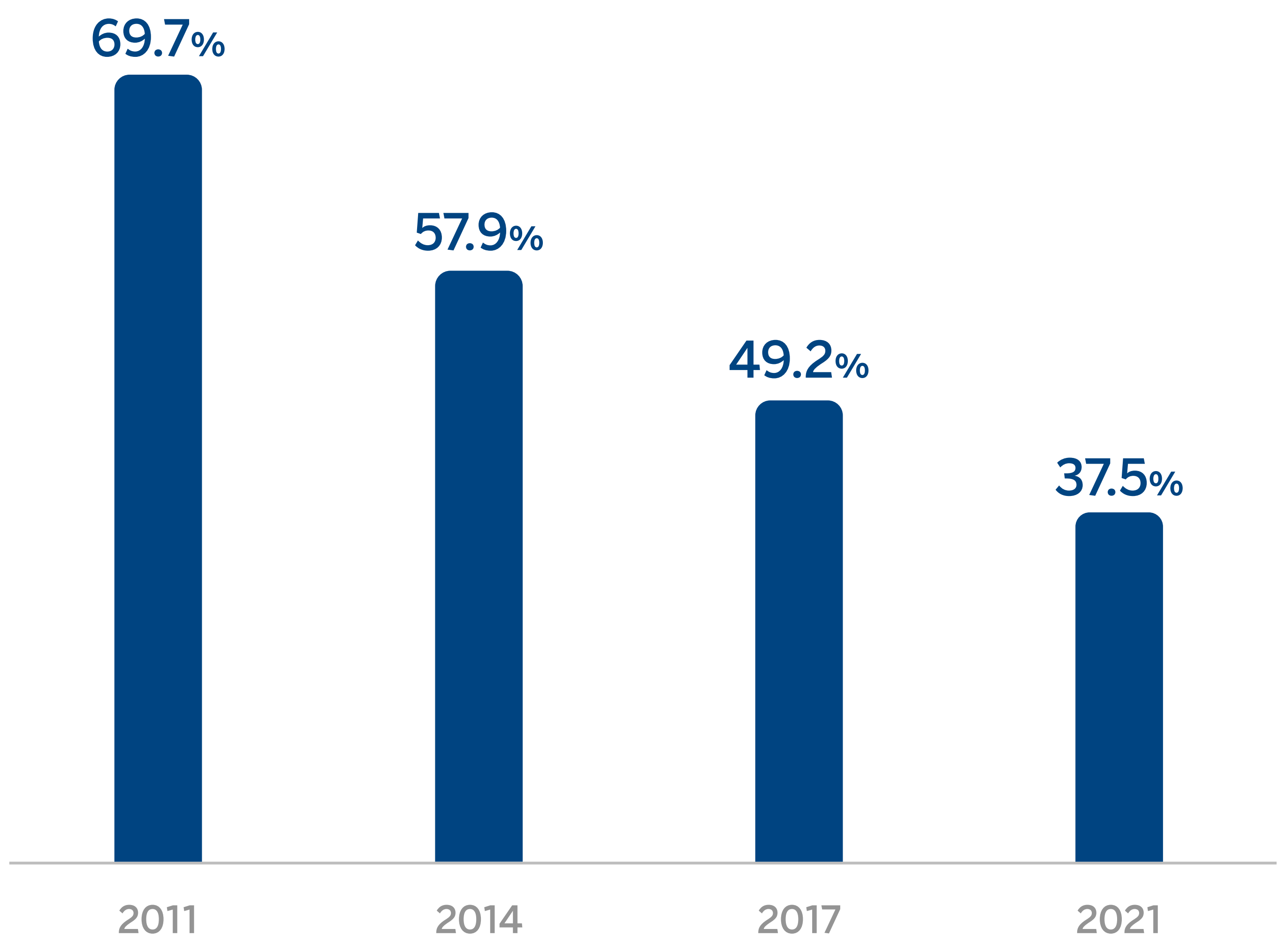
Turning to the gender gap in financial inclusion, men surpass women by 6.4 pp, with women's inclusion standing at 59.4% on average in the footprint. In other words, 4 out of 10 adult women do not have a bank account.

While there has been progress in financial inclusion when measured in terms of having a bank account, there is still room for improvement in its usage beyond merely serving as a means for transactions or receiving money. Only 37.8% of adults have engaged in any form of savings in the last year, with just 15.8% doing so in a financial institution, indicating that the majority rely on other, more informal savings mechanisms.

On the other hand, 44.7% have received some form of loan, although only 20.7% have obtained it from a financial institution, with the rest coming from other informal sources of financing, as well as from family and friends.

Based on this information and using some available indicators, 34.9% of adults are excluded from the financial system in the footprint for 2023[8], showing an improvement of 2.6 pp compared to the last available measurement conducted by the World Bank in 2021.

7 Adults suffering financial exclusion



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7. Global Findex 2021, World Bank. Calculations for the footprint by BBVAMF Research.
8. BBVAMF Research estimate.