

Macroeconomic environment

ECONOMY¹

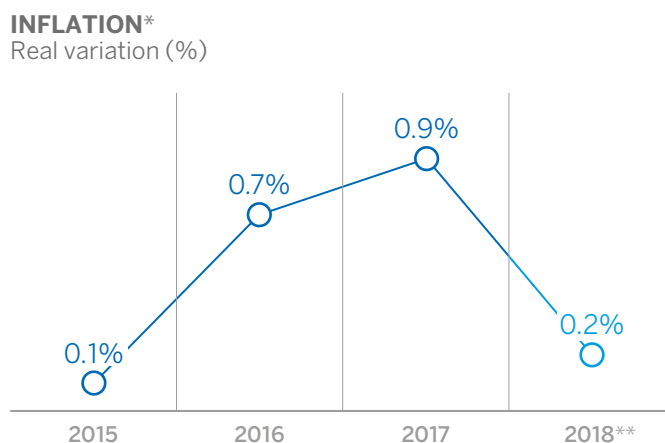
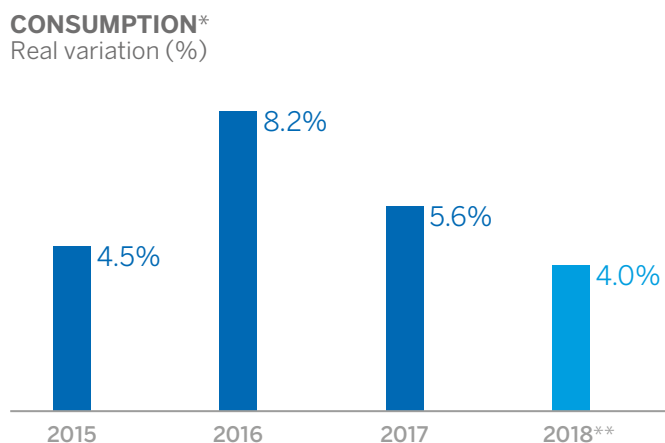
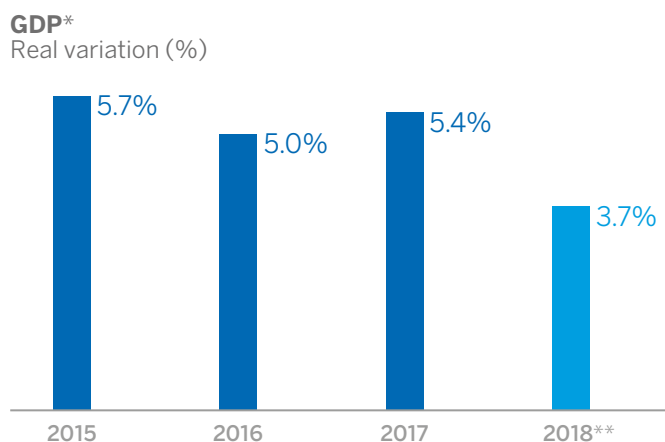
The Panamanian economy grew by 3.7% in 2018, making it one of the countries with the biggest increases in activity in the region. Growth was lower than the year before (having posted at 5.4% in 2017), mainly because of diminished activity in mining and quarrying and, in the construction sector, to the reduction in the area under construction and the effects of a long workers' strike in the second quarter of 2018.

Turning to events in the construction sector, real estate activities were impacted by the reduction in the area under construction and because of the need to register properties in the Public Registry, which translated into lower growth compared to the previous year.

The strike by construction workers –from April 18 to May 18–, had a direct effect on private-sector projects and on business owners' willingness to invest, as well as on some public-sector projects. However, investment in public infrastructure projects enabled the sector to stay in positive growth.

In addition to the problems arising from the stoppage, throughout the year there has been a lack of coordination at several levels of government and state bodies, which has also impacted on economic momentum.

During the quarter the strike took place, GDP growth was 3.1%, with the result that the first semester posted growth of 3.5%, that is, 1.7 percentage points (p.p.) below the same period in 2017.



¹ All data from the National Statistics & Census Institute (INEC). Estimates to end of 2018 by BBVAMF Research.

* National Statistics & Census Institute (INEC).
** BBVAMF Research estimate.

Activity returned to normal in the second semester and growth rose to 3.8%. The most dynamic sectors were transport, storage and communications. The causes were the increase in net tonnage going through the Panama Canal, the rise in the number of passengers transported by air and telecommunications, as well as trade, particularly the rally in wholesale trade and in the Colón Free Trade Zone.

In fact, wholesale activity in the Colón Free Trade Zone surged by 14.6%, mainly accounted for by re-exports of chemical industries products, machinery and electrical equipment.

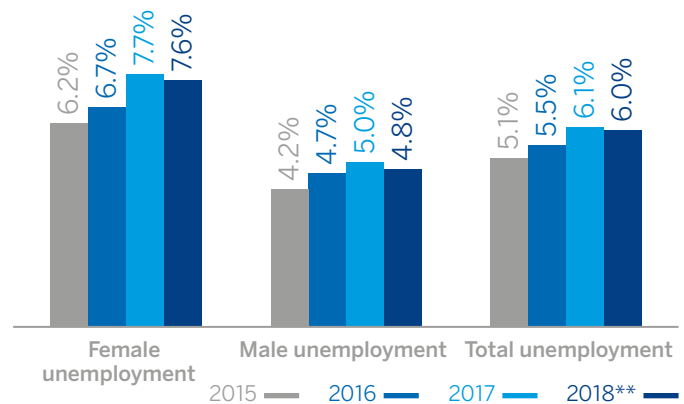
On the demand side, investment continues to be the main economic driver, within a consumption environment that is stable in real terms, bringing it to over 4% in 2018.

Inflation has remained low and steady. In 2018 it closed at 0.2%, slightly down on the 2017 result of 0.9%, although the average over the year posted at 0.8%. This is partly a result of the supply shocks, which pushed up food and fuel prices. However, these shocks were absorbed, mainly in the second semester, by the fall in oil prices, making Panama the country with the lowest inflation in the region.

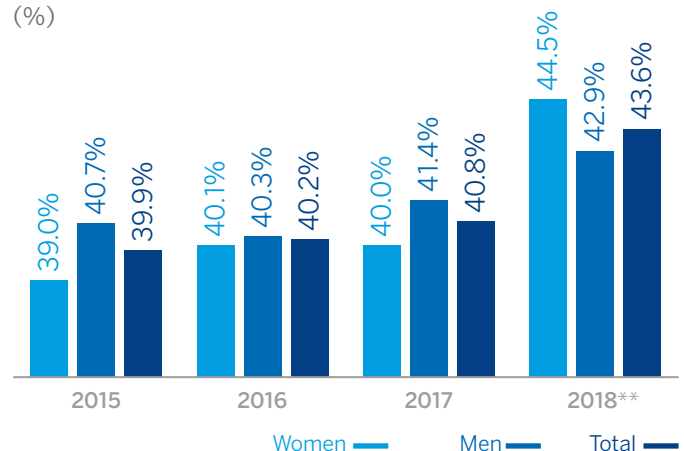
EMPLOYMENT, POVERTY AND WELFARE²

The atypical reduction in economic activity in 2018, essentially a product of the temporary stoppage of activities because of the construction strike, was reflected in the fact that the unemployment rate fell by 0.1p.p. over the year, to 6%. By gender, the unemployment rate among men was 4.8%, whereas for women it was 7.6%.

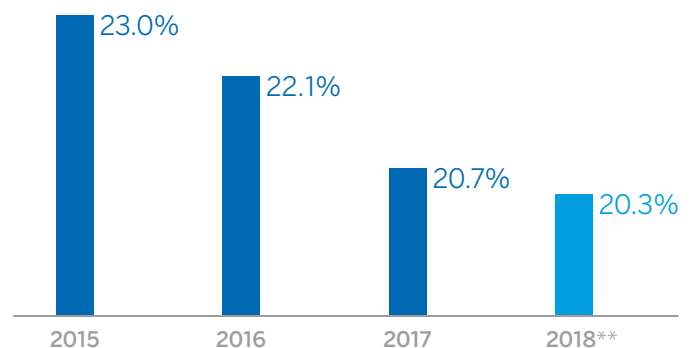
LABOR MARKET* (%)



INFORMAL SECTOR* (%)



MONETARY POVERTY* Population (%)



² Data from the National Statistics & Census Institute (INEC), Economy & Finance Ministry and Cepal. Estimates by BBVAMF Research.

* National Statistics & Census Institute (INEC).
** BBVAMF Research estimate.

Macroeconomic environment

In the 2018 labor market, the economically active population (occupied and unoccupied) rose by 4.4% over the year before. This segment of the population increased in both the urban areas (58,041 more people), and in the rural areas (26,422 people). The national economic participation rate posted at 65.4%, an increase of 1.4p.p. from 2017.

By gender, there was a 1.2p.p. rise for men, and a 1.6p.p. rise for women, putting the participation of men and women this year at 78.8% and 52.8%, respectively, meaning the gender gap is therefore 26p.p.

43.6% of the occupied population, that is, 679,166 people, work in the informal economy, an increase of 2.8p.p. over the previous year. By sex, there was a higher proportion of women occupied in the informal economy than men (44.5% and 42.9% respectively).

Around 20.3% of the Panamanian population, about 844,233 people, are in a situation of poverty, with incomes under the monetary value of the national poverty line per person, per month. Their incomes are insufficient to buy a basket of basic foodstuffs, goods and services. In 2015 the poverty rate stood at 23%. Since then, to the end of 2018, around 70,110 people have escaped poverty. The greatest reduction has occurred in rural areas and in indigenous districts. In the latter, the percentage shrank from 79.6% in 2017 to 77.9% in 2018 (according to own estimates).

Extreme poverty was recorded at 9.7%, which means that around 403,401 people found themselves in this condition. Despite the improvements, principally an outcome of state assistance and social programs, the extreme poverty rate in indigenous communities was still 63.1%, compared to the remaining provinces where the average was 6.1%.

In 2018, the Gini ratio, which has values from between 0 (representing the absence of inequality) and 1 (maximum inequality), in Panama was calculated as 0.509, an improvement on 2016, when it was 0.513. Even so, it is still one of the most unequal countries in the region, only surpassed by Guatemala and Colombia. This lays bare an unequal level of incomes, above all in the provinces, rural areas and indigenous districts, where the standard of living drops because of the difficulties in covering basic needs and a more limited supply of public services.

FINANCIAL INCLUSION

According to World Bank data³, 46.5% of adults in Panama are banked; this is below the average for Latin America (54.4%) and for countries with similar per capita incomes (73.1%), making it one of the countries in the region with low financial inclusion.

The gap between rich and poor has not narrowed since 2011. Possession of an account is 23 percentage points higher among adults living in one of the richest 60% of households in the country than among those living in the poorest 40%. In 2011 this figure was 11p.p., so it has doubled in the last seven years.

42% of adult women are included in the financial system, creating a gender gap of 9p.p., given that 51% of adult men are included. Women are still lagging behind men and as financial inclusion becomes more widespread, this gap widens. In 2011, it was only 3.2p.p., a third of the current figure.

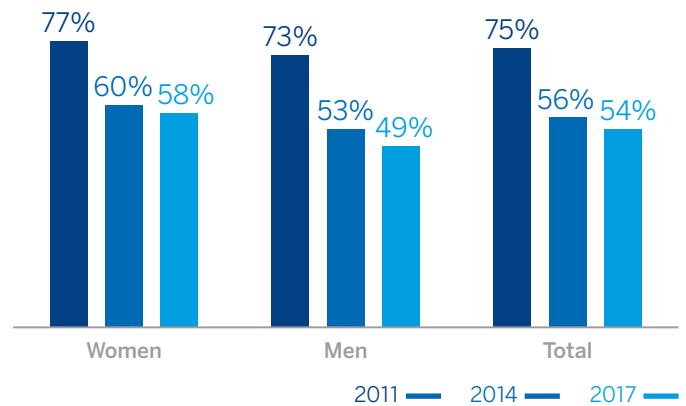
³ Global Findex 2017, World Bank.

Actively working people are less likely to be unbanked. Whereas 35% of all adults in Panama are outside the workforce, among unbanked adults the percentage rises to 40%. And among the unbanked, women are more likely than men to be outside the workforce.

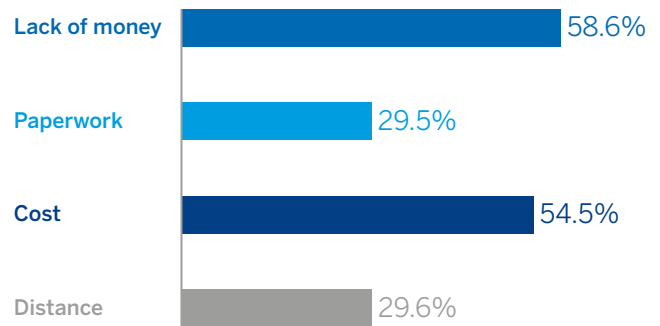
Looking at the factors that determine the condition of being unbanked, 55% cite as the main reason for exclusion that financial services are “very expensive”. 30% have problems with the documents required to open an account, 30% of adults state that the financial institutions are too far away, while 59% indicated that the main reason is lack of funds.

48% of adults have saved money in the last year, of whom 14% did so through a financial institution. 30%, meanwhile, have received a loan, but only 13% have been granted it by a financial institution, a fall of 4.2p.p. in the use of financial institutions compared to 2014. 10% use family members and friends to finance their activities or needs.

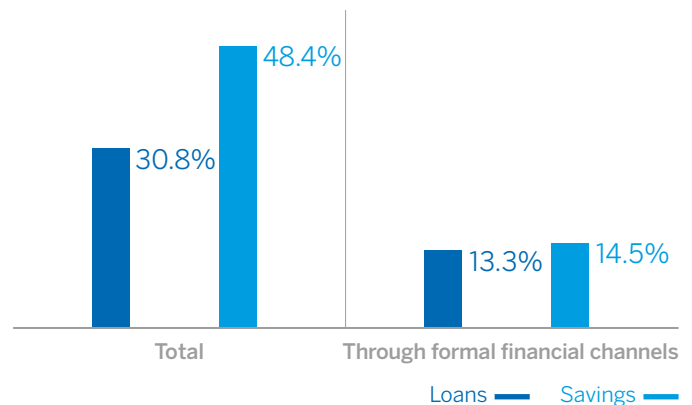
UNBANKED ADULTS*
Total over 15 years old (%)



EXCLUSION FACTORS*
Excluded adults (%)



PRODUCTS IN DEMAND
Adults (%)



* Global Findex, World Bank.