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Influence of banks in Panama on the performance of its GDP in the period 2015-2019

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Abstract

The Panamanian economy has shown over the years a sector that generates an important influence on results, the financial sector.

This paper focused on the influence that the financial industry, through the bank, represented at the “GDP” of Panamá, all this based on the results that the bank threw in financial intermediation, meaning, and the results that the bank obtained from that savings and loan cycle.

Originally for the construction of the text, background information was consulted based on statistics, provided by official sources like, the bank superintendence of Panamá and the National Institute of Statistics and Census, as no other research was found that addressed the issue in a timely manner. These sources allowed the development of graphic tools that helped to develop more clearly the relationship between Panama's banks and GDP results.

The methodological elements used were mixed with descriptive and comparative tools and the investigation of facts that seek to explain the movement that both the banking sector in Panama and the GDP of the nation in the period of time covered between 2015 and 2019, which comprises the same administration and is that of the president Juan Carlos Varela Rodriguez.

As a final result it was possible to dimension the economic scope that it has had between the years 2015 and 2019 the Panama's bank and the influence that its behavior has had on the positive or negative results of the GDP, besides understanding finally if the financial sector, is really an indispensable sector for the Panamanian economy.

Keywords:

Financial sector, Bank, GDP, Influence, Panamanian Economy, Economic Scope, Financial Intermediation, Economic Performance

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Introduction

In the last 5 years Panama's performance in terms of GDP has been somewhat positive; in fact the World Bank highlights it as one of the fastest growing emerging economies in Latin America in the last 10 years. Likewise, the behavior of this indicator (GDP) has shown different changes related to different factors, one of them undoubtedly, the financial system, however, it is not clear the role that this represents and the relationship that the banks have with their results in terms of GDP, however, there is no support at present to say that it is good or bad strategy that Panama devotes part of its effort to strengthen banking. In addition to this, although approximately 50 years ago Panama took measures to potentiate its economic results, it is not clear the impact that the financial system has in obtaining the figures (positive or negative) that the Panamanian economy shows.

On the other hand, the statistics consulted in official sources such as the Superintendence of Banks of Panama and the National Institute of Statistics and Census (INEC), allowed to demonstrate in the first place that as far as banking is concerned, the composition of the International Banking Center in the period of time 2015-2019, went from 91 to 70 banks respectively and in second place, as far as GDP is concerned, it was allowed to demonstrate that the percentage of the GDP in the same period of time corresponded to 5.7% and 3.0% respectively, that is to say, the relation between both was not directly proportional.

Therefore, the objective of this research is to identify the influence that banking has had in Panama and the relation that it has with the economic behavior measured with the GDP in the period of time 2015 and 2019. To find the different findings, mixed methods were used with descriptive and comparative tools and the investigation of facts that seek to explain the dependence that Panama's GDP has on each of the sectors of its economy, with a focus on the financial sector.

Meanwhile, it was possible to identify that the increase or decrease behavior of banking entities in Panama, as well as the percentage of financial intermediation in this nation, have an evident impact on their results in terms of GDP. However, it was evident that while in some years the financial sector is a protagonist, in others it is not very relevant, which allows us to conclude that in the period of time in which this research was focused, the

Panamanian economy did not depend 100% on this sector for good results in terms of GDP. The research highlights other sectors with an important influence on the nation's GDP, such as the construction sector, which played an important role due to all that the operation of the Panama Canal means and the role that this nation represents as an international logistics center, without forgetting the economic and logistical upheaval that the canal expansion work in 2016 represented for Panama.

In the course of the present investigation, it is possible to evidence in first instance the evolution that has had the banking in Panama, making a brief review of its history, the birth of this one and its present state as far as the number of banking organizations pertaining to its International Banking Center. Likewise, concepts such as public and private banking were addressed, which allowed us to understand which of these had the greatest participation in the Panamanian market. Next, an analysis of the behavior of the GDP in Panama, in the period of time 2015-2019, was made, identifying its ups and downs, and reviewing the reason for these. Finally, a correlation is shown between the number of banking entities in Panama, their results in terms of GDP and the percentage of financial intermediation in the same period of time, which allowed understanding the influence that the banking exercised in the economic results of Panama, measured by its GDP. The period of time selected for the investigation was taken because it represents the same administration during that five-year period, which was that of President Juan Carlos Varela Rodríguez. This was done with the intention of decoupling in some way, the influence that politics has on the economy, since it would be more difficult to find relevant findings in different presidential administrations.

1. Project formulation

According to data consulted on the web portal of the Superintendence of Banks of Panama, as of May 2019, Panama has 2 (two) official banks (Banco Nacional de Panama and Caja de Ahorros), 30 (thirty) foreign banks and 16 (sixteen) private Panamanian banks. The national banking system is made up of 134 branches throughout the national territory, with an increase of 11 offices with respect to May 2018. The growth of these branches and the stability of foreign banks and international licenses to operate in Panama (from 2018 to 2019 have not increased, but neither have they decreased) is related to the growth of foreign direct investment (FDI) in the country. (Superintendencia de Bancos de Panamá, 2019).

In recent years, as expressed by the Central America Data Portal, in its article of Friday, June 21, 2019, it headlines: "Panama: FDI grows 18% to the I Quarter. During the first three months of the year, foreign direct investment flows into the country amounted to \$1.648 billion, 18% more than reported for the same period in 2018" (CentralAmericaData, 2019).

The importance of support from the banks as strategic allies for the management of international payments and the timely application of these when doing business with another country is evident. After all, exports and imports must be supported by the banks, which are in turn fundamental in providing the financing that a certain sector may need. Banks promote reliable and stable relationships with partners all over the world, so it is necessary for them to establish their own relationships with banks in other countries, seeking to "weave" those ties in a solid and effective way. Bearing in mind that this network is the one that promotes the development of international business, the idea of identifying the influence that banking in Panama has had on the behavior of its GDP from 2015 to 2019 was born.

1.1 State of the art

It is clear that one of the basic roles of banking in a country is its function as a financier of enterprises and the direct relationship that this sector has with the economic development of a nation. For this reason, and to deepen the idea of research, there are several studies through which the authors analyze and show different facets of banking, for example, issues such as: the role of regional banks in a process of economic integration, taking Central America as a base. This is followed by a look at the beginnings of banking and its history, especially that of the Latin American central bank, as well as the functioning of the supply and demand of banking entities throughout the Panamanian territory, the regulations governing the financial system in Panama and, last but not least, the economic analysis carried out by ECLAC on the results and challenges facing the economy of Latin America and the Caribbean.

In the first instance, the thesis "Regional Integration Banking: the role of regional banking in the economic integration process" by (Méndez Rojas, 2015) in which, the author states that the states constantly seek to strengthen their economic integration processes and, in turn, that these are consolidated over the years. For all this to materialize, it is necessary to create financing funds, projects that focus more on the search for regional interest, leaving aside the search for individual interest. Through a comparative methodology, between the formal and informal economic integration processes and the functioning of the banking system in the region, the research analyzes the characteristics of a true development bank. In conclusion, the document bases its research on the scientific analysis of the different banking forms of regional integration, in order to strengthen the integration process itself.

On the other hand, it found an article written by (Posso Ordóñez, 2016) entitled "History of the creation of the Latin American central bank", through which, the author mentions that without a doubt, in order to carry out an in-depth analysis of banking, more precisely, of the Latin American central bank, one must take a look at its beginnings (around 5. 000 years ago), in order to exemplify the movements and procedures of the banks of that time in that sense, this document describes what happened with Spain and England, relating how the central banks of these nations were created, the influence they had in Latin America and applies a comparative method between the central banks of these two countries and those of

Argentina, Colombia, Ecuador, Panama and Peru. In summary, reviewing the history of the creation of banks in the above-mentioned regions shows the relationship between an economic and financial crisis in a region, which are closely related and that the same can be seen in the globalization of the economy that, over time, becomes more evident.

At the same time, it found a (Lujan Jaramillo, López, & Meléndez Rizo, 2017) Entitled: "High supply of Banking entities in the Republic of Panama" in which the authors describe how the Republic of Panama has been strengthened in recent years, showing itself as a financial center with a solid banking system, in fact the most important in Latin America, causing a significant movement in the country's economy, due to the legal facilities for a bank to be installed, this due to the lack of a central bank to regulate each of the processes that are part of the banking system . In this report, the authors provide a detailed description of the reason why there is a high volume of financial entities in the Republic of Panama, despite the existence of the Superintendence of Banks of Panama as a regulatory entity that can decide the number of banks and banking groups authorized to operate in the Panamanian plaza. It should be noted that the Superintendence of Banks does not have legal powers and that is where a bump occurs in the operation of financial entities. Likewise, it is shown that there is no impediment for the finances of this country to be affected or to function properly due to the fact that it does not have an entity that regulates its banking operations, on the contrary, it is a country that is little affected by the crises economic factors and that many other countries see as an example their way of obtaining better results in financial matters. In conclusion, the flexibility that exists in this sector has allowed the number of bank providers to grow, which are having an impact on the Panamanian economy.

Then, (Martínez de Berrio, 2019) through its article entitled "Typology of the financial risk and Panamanian banking regulations", mentions that at the end of the sixties, there were a high number of banking entities in Panama (around 100), which could operate without any restriction, consequently, by the end of that same year, the need to create a national banking legislation was born, which over time has been modified, seeking to comply with international standards. In this article, there is no specific methodology, but the author reviews different concepts related to financial risk. He also shows that by February 1998,

the Superintendence of Banks was established as the regulatory body for the entire banking sector, in charge of ensuring the stability of the banking system, which in turn can decree corrective measures with respect to the banks. In conclusion, Panamanian banking regulations have undergone constant evolution which, when known, will allow the various financial risks to be mitigated.

Finally, the Economic Commission for Latin America and the Caribbean (ECLAC), through its report of economic study of Latin America and the Caribbean 2019 and using a mixed methodology (qualitative and quantitative), maintains that the year 2019, is a year in which an economic slowdown will be maintained due to the bad performance of investment, exports and a fall in public spending, which represents a challenge for all the nations of Central America, including Panama, which registers a general loss of economic dynamism in most of the sectors that compose it (CEPAL, 2019). However, the local credit policy performance of the banking system increased and it was the sector that represented the greatest dynamism.

1.2 Problem Statement

Banks in Panama are considered among the most stable banks in the international orbit, and are even home to the second largest banking center in the world, after Switzerland. Not for nothing is it an attractive market for banks around the world. There are many advantages and many challenges that come with being Panama, in terms of financial results. Among its advantages are: "dollarized economy, security and reliability of the system, stability in the rules of the game, confidentiality, free flow of capital, reasonable operating costs, growth of the assets of the International Banking Center (IBC) in recent years and the adoption of international standards in banking" (Panamá Account, 2020). However, the challenges and problems that Panama is experiencing cannot be ignored and that without a doubt affects its results in terms of, for example, GDP. According to the digital magazine Panama America, one of the big problems that affected Panama's economic results in 2016 was exports due to low production within that country. "Bureaucratic paperwork, lack of good production paths and a cold chain are some of the drawbacks faced by the country's exporters," said Juan Bulnes, president of the Panamanian Association of Exporters (Apex)." (Panamá América, 2016). The focus of this research seeks to solve the unknown regarding the

relationship that banks in Panama have with the results in terms of the nation's GDP, specifically between the years 2015 and 2019.

In order to make the statement of the problem of this research, the report of Banking Activity 2017 - 2018 shared by the Superintendence of Banks of Panama in December 2018 can be taken as an example. This report highlights the growth of the economy in general in Panama "3.7% in real terms with respect to the same period of the previous year" and also breaks down, without going into detail, the activities that contributed to this growth (Superintendencia de Bancos de Panamá, 2018).

The following table shows how financial intermediation had positive results in 2017 and 2018, contributing 0.4 and 0.3 respectively to the contribution to GDP. It should be clarified that financial intermediation refers precisely to the role of banks operating in Panama, with respect to their intermediation of receiving funds from savers through the formalization of deposits that are subsequently channeled to those who require financing, through loan operations (see table N°1)

Table 1. Supply-side components of GDP (2017-2018)

Actividad	Variación anual (%)		Contribución (p.p.)	
	2017	2018	2017	2018
PIB	5.3%	3.7%	5.3	3.7
Gobierno General	8.6%	8.4%	0.6	0.6
Transporte y comunicaciones	9.5%	7.3%	1.2	1.0
Intermediación financiera	5.1%	4.2%	0.4	0.3
Comercio	3.3%	3.6%	0.6	0.6
Construcción	8.3%	3.2%	1.3	0.5
Actividades inmobiliarias	2.7%	2.8%	0.4	0.4
Electricidad, gas y agua	4.4%	2.6%	0.2	0.1
Otras actividades	4.4%	2.1%	0.5	0.2
Sector primario	0.4%	1.8%	0.0	0.0
Industrias manufactureras	2.3%	0.7%	0.1	0.0
Pesca	1.5%	-3.2%	0.0	0.0
Hoteles y restaurantes	2.5%	-3.8%	0.1	0.1

Source: Superintendence of Banks of Panama (2018).

The growth in this sector is largely due to the growth of national accounts and the report argues that these results allow for a sustained maintenance of capital strengthening capacity by banks. The question that arises from the information collected is: Why is there such variation between the years observed? What is the bank doing or not doing so that the results in terms of financial intervention do not vary over time?

In the case of Panama, it is said that the emergence of banking activity is closely related to events at various times in its history, for example, the discovery of gold mines in California in 1848, where Panama was part of the best transport route to get there. It was the place where the miners ended their journey by land and began their journey by ship. In many cases they guarded the gold extracted in what is now Panama City, so they began to form enclosures to safeguard the money and/or gold (they were not properly banks). At the same time, the need for investment in this territory began to emerge, for example, investment for the construction of the transisthmian railroad in what is now known as Colon (Panama). Also influenced positively in the banking activity, the works of creation of the Panama Canal, initiated by the French in 1881, since it was there where the first offices that took care of

banking and credit matters in Panama began to settle down, offering to the foreigners (in this case, the Chinese and French that was the labor force that built the canal) the alternative to store part of their salaries.

Going to informative sources as the news "Evolution of the banking in Panama" in the digital edition of the newspaper "La Estrella de Panama", it is found that due to the stimulation of the mercantile activity that crossed Panama in 1860, it was seen the necessity of the opening of the first Agency of the West Fargo Bank, it would originate of the United States, in fact, the first agency that operated outside the North American territory. Therefore, this is the evidence that we have so far as the beginning of the banking activity in the Panamanian territory (La Estrella Panamá, 2010). However, the historical review of the website of the Superintendence of Banks of Panama states that "the banking activity in Panama dates back to 1904 when two important banks were formally consolidated; the International Bank Corporation, today Citibank, which is part of Citigroup, the largest financial conglomerate in the world, and the Banco Nacional de Panama" (Superintendencia de Bancos de Panamá, 2019). This is due to the fact that the Superintendence of Banks of Panama did not recognize the West Fargo Bank Agency as a bank, since at the time it was not regulated by any control body, and furthermore it was not governed by the laws or regulations of the country at that time. It is important to mention, the precision made by the Superintendence of Banks of Panama, in its web site, where it states that it is not until 1970, sixty years later, when Cabinet Decree N°238 of July 2, 1970 was approved, the first Banking Law that created the National Banking Commission as a regulatory entity of the banking activity in Panama. It is from that moment that the prestigious international banks begin to have a physical presence (duly regulated) in Panama, all this due to the approval of the Decree, which sought to promote the arrival of different banks from all over the world offering unique conditions for the creation and development of an International Banking Center specialized in external operations. The tools offered in the search for the construction of this "International Banking Center" were to have a flexible tax system, a bilingual plaza, a modern telecommunications system and a dollarized system.

Expressed the above, it is evident how approximately 50 years ago Panama took measures in the search of potentiate its economic results, however, it is not clear the impact that the financial system has in obtaining the figures (positive or negative) that the Panamanian economy shows, for example, in terms of GDP (gross domestic product). Nor are there any significant studies that reveal whether there is a direct or indirect relationship between GDP and the behavior of the banks in a nation.

In that order of ideas, in Panama it is not clear the role that represents the financial system and the relation that it has with the results as for GDP, there is not support at the present time to affirm that it is good or bad strategy that Panama dedicates part of its effort in strengthening the banking. In the last 5 years Panama's results in terms of GDP are positive, however, they have been changing over the years but does it have anything to do with the results obtained by the banks in that same period of time? Is the growth between both inversely or directly proportional?

Taking into account the above, a possible solution to the unknowns raised would be to investigate the relationship between the banks and the Panamanian economic results, in order to correlate the results obtained by the banks and their results in terms of GDP.

Taking this as a basis, the following question is posed: What influence has the banking sector in Panama had on the behavior of its GDP in the period 2015-2019?

1.3 Objectives

1.3.1 General Objective

Identify the influence that banking has had in Panama in relation to the behavior of the GDP between 2015 and 2019, in order to know the relationship with the Panamanian economic growth.

1.3.2 Specific Objectives

- Characterizing the evolution that has had the banking in Panama since its birth, growth until its consolidation.
- Identifying the behavior of the annual GDP in Panama during the period 2015-2019.
- Correlating the results obtained by the banks with the results in terms of GDP in Panama in the last 5 years.

1.4 Theoretical Framework

1.4.1 History of banking

Undoubtedly, to make an account on the history of the banking and its origins, is relevant in as much as it is a sector that fulfills an important function in the processes of economic development of a country, nevertheless, the importance of this sector in a region was acquired from the appearance of the notes and brought different problems related to the transactions that daily were made.

"The deposit as an advance of a payment, is a proven fact that can be considered as a banking activity in places like: Mesopotamia, in the Red Temple of Uruk, in the year 3,400 B.C and Babylon in the year 2,250 B.C" (Martínez, 2002, pág. 4). In the same way, there are different findings found by man where it is evidenced the realization of banking activities long before the currency will take part in some places, likewise, barter, played an important role in relation to banking, since during a long period of time, it was the activity that supported commerce in many of the regions of the world and in spite of not being considered a banking activity, it served as an incentive to generate other ways of carrying out negotiations.

On the other hand, the monarchs and priests, had quite solid physical spaces (temples and palaces) which, as they were holy places, were constantly monitored and they should be respected in every way by people who came there with the intention of keeping their crops and other goods with which they had, likewise, their intention was that all the time, what was kept there, was protected and, to make effective this protection and custody of such assets, people should leave a deposit as an advance payment.

In the same way, Ordoñez (2016) in his article "History of the Creation of the Latin American Central Bank" illustrates that "in royal palaces and temples, they offered safe places to store grain and other goods"; for example, the Temple of Uruk, which owned land and received donations or offerings, which it produced by granting loans. This statement supports the beginnings of banking as a guarantee to safeguard products in exchange for a deposit as a form of payment.

Continually, "Assyria and Babylon are noted for the creation of activities and documents that they used to address banking activities, mainly in Babylon in the seventh century BC," (Martínez, 2002, pág. 4) This allowed the implementation of a better structure for the administration of the assets and the banking system took hold, with the creation of the bank certificate, the bills of exchange and the payment orders. In the same way, the development of activities based on the handling of money began, where people had to be specialized to carry out this activity, who received the name of "Trapezita". Likewise, the "Krematistas" and "Kolobistas" appeared, both dedicated to the exchange of currencies and, consequently, the "Daneistas" appeared, with a primary function of making cash or placing the deposits that were captured from the "Trapezitas".

Many were the changes that were emerging around the banking activity and therefore the control of it was increasingly rigorous and complex. The appearance of different figures that shaped this sector and the leaps during the 5th century B.C. and 6th century B.C., were key to continue in a more formal and less clandestine banking construction. That is why, during the different transitions between time periods, some facts are mentioned that directly affected the economic development at that time, among which they stand out: The fall of the Roman Empire and the prohibition of interest bearing loans for churches and Islamic invasions. This caused the disappearance of people and places dedicated to banking activities, but in the same way reappearance of new activities in terms of banking, due to the need for money that was required to solve each of the events that were presented. Then, there were many changes that occurred continuously during the V century B.C. and VI B.C.; among them ,different advances such as the creation of new laws, specialized people and professionals dedicated to the banking sector, new formal institutions under a difficult and complex regulation, which gave way to a modern and technological banking vision.

- **History of banking in Panama**

It is evident how banking activity in the world has been going on for many centuries; however, it is indispensable to delve into the history of banking, especially in Panama, since it has been a significant sector since its beginnings as a Republic. In that sense, the banking activity in this country takes part after the establishment of two important banks in the year 1904. First, the International Bank Corporation, which later changed its name to First National City Bank (Citibank), becoming part of the largest financial conglomerate in the world (Citigroup), followed by the Banco Nacional de Panamá (known since 1911 as the Banco Hipotecario y Prendario de la Republica).

This marked a milestone in Panamanian financial history and over the years, both Panamanian and international banks set their interest in operating in support of financing activities in different sectors (industrial, commercial and agricultural). Therefore, by the year 1934, "La Caja de Ahorros" was created, which had as a fundamental characteristic to specialize in mortgage financing; the Banquete National de Paris in 1948 (the same that changed its name to BNP Paribas) and specialized in financial markets and infrastructure financing, last but not least, the Banco General for the year 1955, incorporated as the first private bank with Panamanian capital. Thus, the growth of banking activity in Panama through the unrestricted development of the banking business became evident, so much so that by the end of the sixties, more than 100 entities with a banking license plate were operating in the country.

By 1970 (sixty years later), specifically on July 2, Cabinet Decree No. 238 was approved as the first Banking Law created by the National Banking Commission (the entity that regulates banking activity in Panama), which among other things, had as its main objective, to encourage the presence of international banks, that would allow the creation and development of an International Banking Center (IBC) specialized in international operations that would have a flexible tax system, a bilingual plaza and a modern communication system, taking into consideration comparative advantages in geographic, legal and infrastructure matters of the country, that would allow the centralization from

Panama, the registration of a great number of international financial transactions, as well as a dollarized system. Despite the establishment of this law (Banking Law of 1970), many "bronze plate" banks disappeared and by the end of 1970, 21 banks began operations in an orderly manner, representing a total of 898 million dollars in assets.

It should be noted that within the responsibilities of the Comisión Bancaria Nacional, there was the creation of a set of policies, which in some way favored the advancement of banking activity, likewise, it became important to set bank interests for certain types of deposits (levels of liquidity and capital reserves for local operations).

However, the creation and development of a CBI, allowed the formation of a specialized human resource with exemplary international banking practices, so, it became bigger as it showed a significant growth, specializing in financing to Latin America as its target market. By 1982, the International Banking Center reached its maximum level, with the operation of 106 banks with general and international licenses, which had assets, estimated at 49 billion, in addition to 12 representative offices, allowing the number of banking licenses to increase to 118 for that same year.

Finally, in spite of the political crisis of 1988 (during the military government) which caused, among other things, an excessive fall in assets and the closure of the banking system for nine and a half weeks, the growth of assets from 1990 to 1999 was significant and the solidity of Panamanian private banking stands out (Superintendencia de Bancos de Panamá, 2019).

1.4.2 Financial system

A financial system is approached from various points of view, for example, the text "Banking Management; Key Factors in a Competitive Environment" of (Pascual & González, 2008) mention that "a financial system is a set of institutions, instruments and markets through which savings are channeled to investment". Based on this, we can also take a look at the function of the financial system, as expressed by Canalejo, Caro, &

Carmona (2019) In his research work "Introduction to Financial Systems", the financial system therefore fulfils the fundamental mission in a market economy of capturing surplus from savers (surplus spending units) and channeling it to public or private borrowers (deficit spending units). In effect, whoever deposits a sum of money in a bank for savings purposes must take into account that this money will be made available to someone to whom it is necessary to lend it in order to assume a payment of any nature, so, this is one of the cycles it contributes to the movement of financial systems.

Therefore, the financial system has great importance within the economy, because it generates more income for those who lend and also encourages the creation of companies, something that is indispensable for the economy and the growth of a nation's gross domestic product (GDP). Although banks are a very important actor within the financial system, acting as intermediaries between those who have excess money and those who need it, it must be ensured that these intermediaries function properly, through regulation or standards in the countries where they operate.

- **Banking regulation**

Through the web publishing platform "Calameo", Valdés (2017) mentions that the banking activity is undoubtedly one of the most regulated and supervised in any country, this is because such activity entails the fact that banks manage considerable resources whose property does not belong to the owners of these institutions, but to the community where they carry out their operations. Therefore, the main objective of banking regulation and supervision is to affirm that banking institutions have the necessary solvency to cover the risk of loss of their operations and allow their depositors to maintain confidence, thus promoting the stability of the banking system. It is necessary to mention that banking regulation and supervision must also promote an efficient and competitive banking system, which is a necessary condition for the proper functioning of the financial system. In this sense, the author mentions that the main institutions that issue international standards in terms of regulation and supervision of financial entities are mainly three (3): the Basel Committee on Banking Supervision (Basel Committee), established in 1975 for all matters related to the supervision of banks and capital requirements, the International Organization

of Securities Commissions (IOSCO), created in 1974, for matters related to the issuance of standards for the securities market, and the International Association of Insurance Supervisors (IIS), established in 1994, which acts in a similar way to the Basel Committee, but especially for companies operating in the insurance sector.

- **Banking participation**

To illustrate the contribution of the banking activity and therefore the importance of the participation of the banks in a nation, there is a definition in the economy section of the newspaper "El País" about the role of the banks for the prosperity of the countries, because this has been accepted for a long time in the economic analysis. Thus, the banking activity is fundamental for the general evolution of an economy, being its mission to carry out an efficient allocation of economic resources to achieve both monetary and financial stability and to provide maximum security in the payment systems. Therefore, banks play a central role within the institutions that make up the financial system, which is why their high participation is indispensable to achieve influence on the economic activity of countries. Their participation fulfils a very specific function in the economy, such as acting as financial intermediaries between providers and demanders of funds, which, among other things, makes it possible to carry out consumer and investment activities (Béjar, 2012).

1.4.3 Importance of banks in the economy

According to the World Bank (2019) "Good access to financing improves the general well-being of a country, since it allows the population to prosper and better manage their needs, expand their opportunities and improve their living standards." In this way, banks play an important role in the economy of a country, since they have the capacity to provide and collect savings in a society, so that it is distributed among people, sectors and / or companies that need a capital to carry out some economic activity. In this sense, banking systems allow for a more effective flow of money and for it to be made available for better productivity, as well as speeding up payments to be made around the world in a secure manner.

In the same way, Romero expresses it (2008, pág. 22) in his article "The role of the banking sector in modern economies" when he states that "banks play a crucial role in determining the living standards of modern economies. They have the ability to stimulate and collect savings from a society and distribute it among companies and sectors". This shows without a doubt that the functioning of banking is directly related to the economic development of a nation. The role of banks is not replaceable by any other figure since fulfilling the role of collecting money and distributing it is not an easy task. The contribution of banks can be measured in a certain way, in how companies in the creation stage have access to banking and how this in turn drives growth in different sectors of a country.

- **Public banking**

According to the document "Some reflections on the role of public banking", public banking is shown from two different perspectives: as a tool that stimulates development and neutralizes the different failures that arise in the market. In the first instance, the perspective focused on the failures presented in the market concentrates a problem of segmentation of the markets in a financial system, likewise, a particular error that affects credit rationing, for which the intervention of institutions and regulations that minimize the different imperfections presented in the system. On the other hand, the role that public banking plays, as a development tool, is affirmed by having a priori sectors of the economy that are not seen by a conventional financial system, that is, those who are in a state of maturity and that, due to productivity, profitability or risk, are not seen as a solid figure (Kampel & Rojze, 2004). In this sense, the government can be directly involved in the financial intermediation process, taking part in the different regulations to minimize the flaws that arise, as well as making decisions to promote sectors that can stimulate the growth of an economy.

Therefore, you live (2005) mentions that there are different justifications for banking to be in the hands of the public sector (government), which is due to the easy access to information, first line knowledge regarding the country's needs and therefore, adequate incentives for loans to be made.

In the case of Panama, it has two official banks, the Banco Nacional de Panama, founded in 1904, which performs some functions of the central bank (although it cannot issue banknotes, since the legal currency in Panama is the U.S. dollar) (Banco Nacional de Panamá, 2020) and the Caja de Ahorros "El Banco de la Familia Panameña", founded by Executive Decree N°54 of June 15, 1934, initiating operations on July 5 of the same year and consolidating itself as a high level bank that makes the desires and projects of more than one million clients a reality, through diverse products and services that adjust to their financial needs (Caja de Ahorros, El Banco de la Familia Panameña, 2020). However, the banking operations of the Caja de Ahorros and the Banco Nacional de Panamá are governed by private law and not by public administration rules, and only those operations that are necessary for the administrative functioning of both banks will be subject to public administration rules, that is, only when they are administrative operations (Chanis, 2018).

- **Private bank**

Vives (2005), through its report "Development Banking - Conditions for Efficient Management" states that "private banking tends to be better managed, through competition. The efficiency of the system is stimulated, the tendency is to reduce the intermediation margins, and the resources are assigned to institutions that show more security to return the money". This reflects the fact that private banks are a little more aware of the responsibilities they must fulfil not only with their shareholders but also in the financial system and before society.

In the case of Panama, its banking system is mainly made up of private banks, a large part of which are of international capital, which has strengthened its position as one of the most important financial centers in Latin America.

1.5 Methodological Framework

This research applied a non-experimental methodology, worked with real events and statistical data from official sources such as: the Superintendence of Banks of Panama, the Panama Banking Association and the National Institute of Statistics and Census (INEC). These information portals provided the necessary tools for the application of a correlation method between the study variables, which made it possible to clear up the idea of the relationship between the banking sector in Panama and the results in terms of GDP.

For the development of the research, a mixed study methodology was used, since financial, legal and statistical information was obtained from the different reports, documents and databases offered by the web portals described above. In addition, since they are official sources, the information on these portals is updated and brought closer to reality; with these components the intention was to develop a solid base that would support with arguments, the data and ideas expressed in this text.

In addition, in order to obtain the information in this work, academic repositories at the University of Panama, Esumer University and the press in the different countries (Colombia and Panama) were consulted, with the aim of providing this work with a research and analytical focus that would allow the reader to elucidate the panoramas presented here.

Finally, with regard to the search for information, it was essential to use key words on the web, which allowed the obtaining of all the information related to the development of the research.

1.6 Justification

This research will focus on studying the relationship between the banking sector in Panama and the results in terms of GDP in the period 2015-2019, in order to identify what relationship exists between both variables. Panama is chosen as the focus of the research for several reasons, one of which is because as the World Bank describes (in a review of Panama on its website): "Over the past decade, Panama has been one of the fastest growing economies in the world. The average annual growth was 5.6 percent in the last five years" (Banco Mundial, 2019). Based on this significant average of the last 5 years, given by the World Bank and considering that the financial sector has had significant growth internationally thanks to the economic openness that exists between countries, it is important to investigate whether banking, considered As one of the key sectors of the economy, it has some influence (positive or negative) with respect to the economic results of this nation, evaluating whether in Panama the role of banking is exploited to the maximum as a potential ally in obtaining of the increasing economic results shown in its last 5 years. In this sense, it seeks to gather elements that contribute positively to the decision-making of companies and people who want to enter the Panamanian market, leaving at their disposal, consolidated information on the role that banking plays in the economic development of this nation. , which among other things, will allow the modification or realization of new strategies that must be implemented to successfully correspond to this market.

Another of the reasons that gives rise to this research is to obtain our university degree in International Business, opting to carry out this study as a degree work modality.

1.7 Scopes

This research aims to provide elements or tools that contribute to the decision-making of companies and people who want to enter the Panamanian market. Likewise, it is desired to expose a panorama where the influence that banking in Panama has on its GDP results can be glimpsed.

The period of time on which this research will be based will be in the range of years 2015 to 2019, based on the strategic plan of government of Panama 2015-2019, led by President

Juan Carlos Varela Rodríguez. This government plan bases its ideal on inclusion and competitiveness, including, in addition, five issues of importance to work in that period of time: Boost productivity and diversification of growth, improve the quality of life, strengthen human capital, develop infrastructure and support environmental sustainability.

Addressing the 2015-2019 Panama strategic government plan in more depth, the analysis of the country's situation at the end of 2015 is evident as a basis, taking as a measurement the 12 pillars of competitiveness. This in order to work on their strengths and weaknesses for this research the focus will be the pillar "Development of the Financial Market". According to the government plan of President Juan Carlos Varela Rodríguez, this pillar receives a good international rating and stands out for its market efficiency, solidity and reliability. Additionally, for this sector, the government plan of President Varela indicates that the financial sector deserves a strengthening work in aspects such as the problem of money laundering and the entry into force of a law that merges public and private participation in mainly seeking to strengthen public infrastructure for the provision of public services (Gobierno de la República de Panamá, 2014).

2. Evolution of Banking in Panama from its birth to its consolidation

It is well known that banks play a fundamental role in the allocation of a country's economic resources, and their participation in providing funds and stimulating economic development is therefore essential. Therefore, in this section, we will characterize the evolution of the banking sector in Panama since its birth, growth and consolidation. Thus, this chapter is divided into three essential moments. First, it shows the birth of banking in Panama, which was represented from 1904 to approximately 1998. Followed by this, with the interest of the banks to participate in the financing of large works and real estate and electrical projects in Panama, the growth of private banking is evident, showing an accelerated increase until 2008 with respect to previous years, and finally shows the consolidation of the International Banking Center of Panama and the strengthening it has acquired since its birth until today.

2.1 The birth of banking in Panama

The birth of the banking activity in this country is represented by different events that marked two differentiable stages in the history of the Panamanian banking system. First, by the year 1904 two important banks were established there, 1) the International Bank Corporation, which changed its name to First National City Bank (Citibank), becoming part of the largest financial conglomerate in the world (Citigroup) and 2) the Banco Nacional de Panama (known since 1911 as the Banco Hipotecario y Prendario de la Republica). However, in the mid-1970s, specifically on July 2, 1970, began with the enactment of Cabinet Decree No. 238 (the first Banking Law), in response to different commitments that had been agreed upon between the main banks in New York and General Omar Torrijos, known as the maximum leader of the Panamanian Revolution and who occupied a special place in the economic history of this country, since the enactment of this Decree, the aim was for Panama to be transformed into an International Banking Centre, i.e. a platform for transnational services that would encourage the presence of international banks, and that would have, among other things, a flexible tax system, a bilingual marketplace and a modern communications system, which

was of great importance in the era of transnationalization of the Latin American economies that began in the mid-1970s (Superintendencia de Bancos de Panamá, 2019).

Now, within these events, which certainly marked the two most crucial moments of a real birth of banking in Panama, there are also other facts that are undoubtedly part of that birth, such as the creation of the Caja de Ahorros in 1934, focused on mortgage financing, followed by the Banquete National de Paris, today BNP Paribas in 1948 and the Banco General in 1955. This made evident the strength of the banking activity in the country through the unrestricted development of the banking business, so much so that before the approval of Cabinet Decree No. 238, which created the International Banking Commission as a regulatory entity for banking activity, attached to the Ministry of Planning and Economic Policy, there were 21 banks in Panama, a figure that had increased to 99 banks by January 1, 1980: 60 with a general license (two official and 58 private), 28 with an international license and 9 with a representation license.

Then, at the end of 1998, the number of incorporated banks reached 96: 58 with a general license, 26 international and 10 with a representation license (see Table No. 2). It should be mentioned here that Decree 238 brought about the establishment of three types of banking licenses: "1) general license", which authorizes banks to carry out business both abroad and in Panama, "2) international license", which authorizes banks to carry out external business exclusively from Panama, and "3) representation license", granted to banks incorporated under foreign legislation, to establish their representative offices exclusively in Panama. Thus, those with a general license should, among other things, maintain a minimum capital, a capital reserve, contingency credit, legal reserve and banking liquidity; however, it was not required to hold a reserve on funds deposited by foreign accounts. However, those with an international license would not be subject to Panamanian taxes or to reserve and reserve requirements (Ábrego, 2016).

Table 2. Number of banks, according to year of installation and type of license (1904-1998)

Años de instalación	Total	Licencia General	Licencia Internacional	Licencia de Representación
1998	96	58	26	10
1990	110	60	30	18
1980	99	60	28	9
1970	23	17	3	1
Antes de 1970	21	17	3	1

Source: Superintendence of Banks of Panama, cited by Ábrego (2016)

On the other hand, Ábrego (2016) mentioned that by early 1971, the Council on Foreign Relations - a body specializing in United States foreign policy and international affairs, dominated by Rodman Rockefeller, Douglas Dillon and William P. Rogers, was focusing its attention on the Panama Canal, an element that represented a symbol of Latin and anti-American nationalism, which allowed, among other things, different arrangements and reorganizations in terms of banking laws in Panama, so much so that the country was becoming a paradise, free of taxes and ties for foreign financial institutions. In that sense, in addition to the Bahamas and the Cayman Islands, characterized as an international haven for the world's largest banks, Panama was already part of this list.

Thus, the number of foreign banks, which by 1979 amounted to 81, was from 25 countries in the Americas, Europe and Asia, and among those largest transnational banks in the world that arrived in the country were the following (see Table No. 3)

Table 3. Foreign banks arrived in Panama in 1979 and origin

	Bank	Origin
1	First National City Bank	America
2	Chase Manhattan Bank	America
3	Bank of America N.T. & S.A	America
4	Bank of London & Montreal Limited	America / Europa
5	Pacific Atlantic Bank, Inc	America
6	First National City Bank of Chicago	America

7	Algemene Bank Nederland N. V	Europa
8	Trade Development Bank International, Inc	Europa
9	Deutsch Sudamerikanische Bank, Ag	Europa
10	Bank of Tokyo, Ltd	Asia
11	Marine Midland Bank N. V	America
12	First National de Boston	America
13	International Bank of Finance Corp	America
14	Security Pacific Interamerican Bank, S.A	America
15	International Comercial Bank of China	Asia
16	Bank of Nova Scotia	America
17	Tower International Bank, Inc	America
18	Bankers Trust, S.A	America
19	Banco Suramericano de Desarrollo, S.A	America
20	Banco Real, S. A	America
21	Union Bank of Switzerland-Panamá, S. A	Europa
22	Banco de Iberoamerica, S. A	America
23	Banque Anval, S.A	America
24	The Royal Bank of Canadá	America
25	Merrill Lynch International Bank	America
26	Banco Latinoamericano de Exportaciones, S.A	America
27	Sociedad de Banca Suiza (Panamá), S. A	Europa
28	Banco Comercial Transatlántico, S.A	Europa
29	The Dai-Ichi Kangyo Bank. Ltd	Asia
30	The State Bank of India	Asia
31	Bank of Credit and Commerce International (Overseas), Ltd	Europa
32	Korea Exchange Bank	Asia
33	The Sanwa Bank, Ltd	Asia
34	Banco Do Estado de Sao Paulo, S.A	America
35	The Sumitomo Bank, Ltd	Asia
36	The Mitsui Bank, Ltd	Asia
37	Banco Río de la Plata (Panamá), S.A	America / Europa
38	Bank Leumi Le Israel, B.M	Asia
39	Credit Suisse	Europa
40	Banco Latinoamerica, S.A	America
41	Banco de Bilbao (Panamá), S. A	Europa
42	Swiss Bank Corporation (Overseas), S.A	Europa
43	Banque Indosuez	Europa

Source: Own construction, with data from Ábrego (2016)

2.2 Growth of banking in Panama

As seen above, since the birth of banking in Panama, there was a great interest on the part of banks to concentrate on an International Banking Center, so an important part of the growth of the banking system in Panama, was reflected by the participation or existence of international banking in this country (private banking), as this allowed the formation of a human resource with the best international banking practices (Superintendencia de Bancos de Panamá, 2019); nevertheless, the interest on the part of the banks to participate in the financing of great works and real estate and electrical projects in Panama, meant that the national and international economic and financial panorama faced a set of changes, so much so that, during the 80's and 90's there was already greater economic interaction at a global level, the banking systems could transcend their borders and the appearance of new services by financial entities of credit intermediation, had allowed, among other things, the success of the Panamanian Banking Center, which in effect, increasingly provoked the appearance of other banks (Paredes & Morales, 2007).

However, due to the political crisis that the country went through in 1988, which caused a significant fall in assets of around B /14,776 million and the closure of the banking system for nine and a half weeks (Superintendencia de Bancos de Panamá, 2019), And added to that, the problem of drug trafficking at that moment and its aftermath such as money laundering, as reported by the newspaper El Tiempo;

Without finding borders in almost any country in the world, the Colombian drug cartels have the best route for cocaine trafficking to the United States and Europe to Panama and Central America, also converted in the last decade into good markets for drug traffickers. The cartels of Cali and Medellín transfer the drug to Panama by land, sea or air and from there to Costa Rica, Nicaragua, Honduras, Guatemala and Belize with the exception of El Salvador, the only country in the area that has practically been left out of the coca route (El Tiempo, 1991).

A radical shift was introduced into the philosophy of self-regulation that had been sustained by the International Banking Center for decades. Thus, thanks to the support of a group of banking experts, made up of bankers and lawyers, on February 26, 1998, the enactment of Decree Law 9 (new banking law) began, which would allow for more banking control. Effective and modern legislation is achieved based on the rules and principles of the Basel Committee on Banking Supervision, an entity that provides guidance on financial regulation and establishes worldwide banking policies and sound practices.

Thus, administrative and financial autonomy was provided to the Superintendence of Banks of Panama (SBP) and a framework of powers and powers was established to regulate, which among other things would allow institutional strengthening, assigning to the SBP its own budget. However, from the point of view of bank supervision, Decree Law 9 of February 26, 1998, brought about significant advances, such as the expansion of The power of the Superintendence to regulate both banks and companies that made up the Banking Group, likewise, the power to supervise the activities of non-financial companies that could represent a risk for the Banking Group is extended (Ábrego, 2016).

Finally, with regard to the extension of banking supervision, all banks conducting banking business in Panama would be subject to inspection and supervision by the SBP, in order to ascertain their financial stability and compliance structure. However, as a result of the regulatory and supervisory standards arising from Decree Law 9, based on the Basel principles, the list of banks in the Panamanian Banking Center changed substantially. Thus, Paredes & Morales (2007), In their study entitled "Competition and regulation in banking: the case of Panama", they mention that by 2006 the number of banks operating within Panama was significant compared to other banking centers in the region, since the number of banks with a general license had decreased over the last decade as a result of economic concentrations (see Table No. 4).

Table 4. Growth of the International Banking Center by number of banks and type of licenses granted (1996—2006)

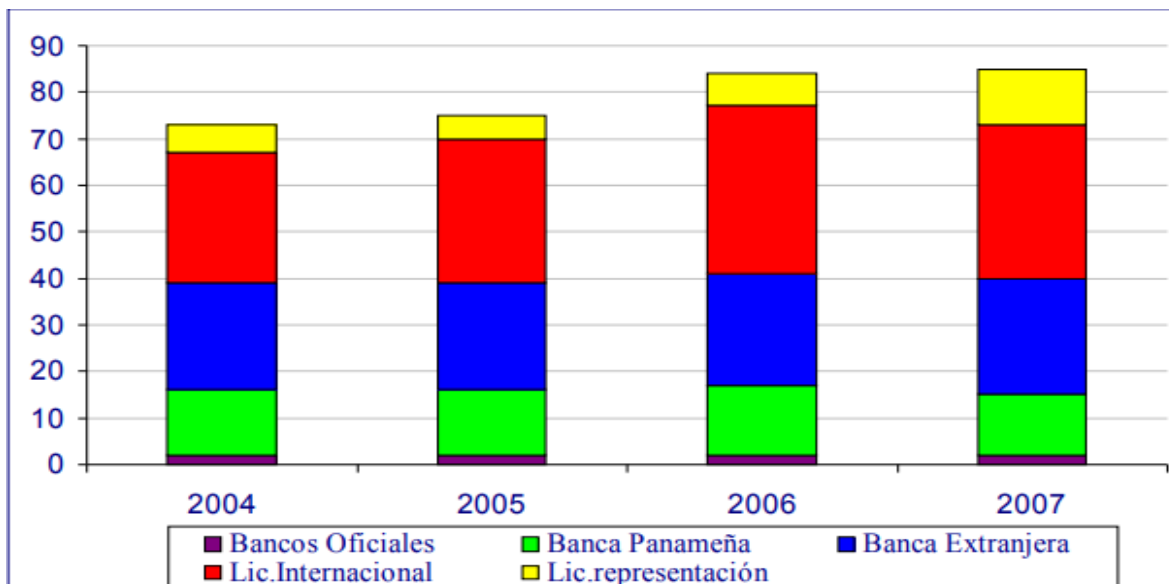
Años	Total	Bancos oficiales	Licencia general	Licencia internacional	Licencia de representación
1996	108	2	59	29	18
1997	103	2	58	28	15
1998	96	2	58	26	10
1999	86	2	52	23	9
2000	83	2	48	25	8
2001	81	2	47	25	7
2002	77	2	41	28	6
2003	77	2	39	30	6
2004	73	2	37	28	6
2005	75	2	37	31	5
2006	78	2	37	34	5

Source: Superintendence of Banks of Panama, quoted by Paredes & Morales (2007)

It is evident how the number of banks, which in 1998 reached 96, gradually decreased by 2006 to 78 banks, leaving 2 official banks, 37 with a general license, 34 with an international license and 5 with a representation license. The above, then, allows us to understand that, in developing countries, in this case Panama, bank consolidation is cross-border, that is, banks from developed countries can acquire banks from developing countries, since regulatory reforms, privatization processes and crisis resolution mechanisms can be the result of this.

However, by 2007, cross-border bank consolidation continued to prevail, since the growing wave of being able to finance mega-projects in the country was getting bigger, therefore, the number of foreign banks, and with international license, was above the total of official and licensed banks (see Chart No. 1).

Graph 1. International Banking Center - number of banks to 2007

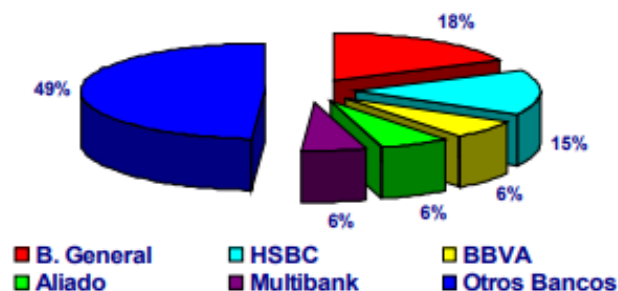


Source: Superintendencia of Banks of Panama (2007)

Meanwhile, a 2007 report by the Superintendencia of Banks, entitled: "The Banking Center: 2007 Results and its Perspectives in a New Financial Environment and Realities", highlights the participation of banks in each of the credits (commercial, consumer and mortgage). In the first instance, as regards credit to commerce, which covers credit to the Colon Free Zone, wholesale, retail, communications, tourism and other services, Banco General (a bank with a general license), was the second with the greatest market positioning (18%), and although the greatest percentage was occupied by "other banks", (49%) (see Chart No. 2), the participation of Banco General stands out, since 2002, this bank has received recognition from different international magazines of great trajectory and experience, which have ratified its positioning and commitment in the financial market. Among these recognitions we can mention (-Best bank in Panama, by Global Finance magazine, Euromoney, Latin Finance and The Banker; -Best local bank in private banking and asset management, by Euromoney magazine; -Leading company in Central America and the Dominican Republic, by Summa magazine and Hay Group; -Best bank in foreign trade in Panama, by Trade Finance magazine; -Bank of the year in Central America, by

LatinFinance magazine; finally and not less important, an acknowledgement by Global Finance magazine, as -Best digital bank) (Banco General, 2020).

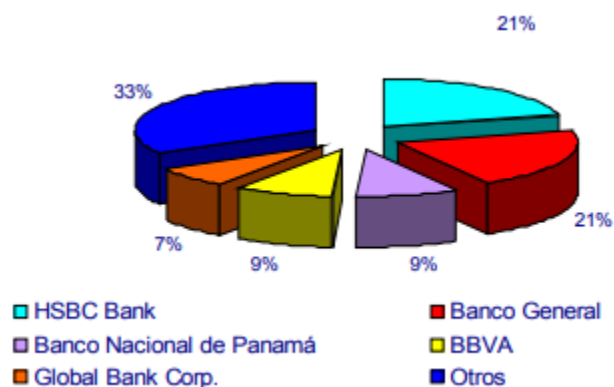
Graph 2. Positioning of banks in the Panamanian market according to credit to trade



Source: Superintendencia of Banks of Panama (2007)

In terms of consumer credit, which covers car loans, credit cards and personal loans, Banco General and HSBC Bank were the second most positioned in the market (21%) (see graph No. 3), which means that Banco General continued to have a qualified positioning, allowing it to be above banks such as BBVA, Banco Nacional de Panamá and Global Bank Corp, occupying a significant position in the Panamanian financial market share. An important part of this qualified behavior of Banco General in terms of consumer credit is due to the fact that this bank, in search of expanding the development potential of the credit card processing business, has made a strategic alliance with the company Processing Center S.A (PROCESA), currently First Data, S.A, the largest credit card processor in the world. Thus, Banco General establishes the basis to become an important focus for credit card processing at a regional level (Banco General, 2014).

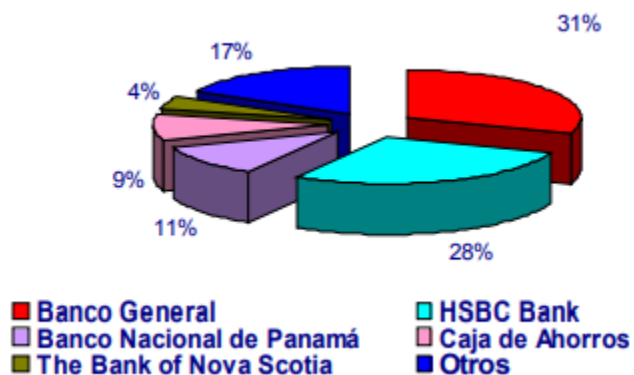
Graph 3. Positioning of banks in the Panamanian market according to consumer credit



Source: Superintendence of Banks of Panama (2007)

Finally, in terms of mortgage credit, which covers the mortgage loan with preferential and non-preferential interest, Banco General occupied the highest position in the market (31%), followed by HSBC Bank (28%) -general license- (see graph No. 4), which among other things allows us to understand that the strategy of Banco General was to strengthen its position as Panama's leading private bank in terms of participation in the credit market, consumer banking and mortgage banking, showing capital and financial strength compared to other banks that could offer similar banking services.

Graph 4. Positioning of banks in the Panamanian market according to mortgage credit



Source: Superintendence of Banks of Panama (2007)

It is continuously important to mention a relevant fact that made remarkable the transformation of the ownership structure of the regional bank (Central America) from 2008, showing a strong growth within it, the investments of three Colombian financial groups: Aval, Bancolombia and Davivienda. The trend was set when the Bancolombia group took over 100% of the share capital of HSBC Panama and, in the same way, displaced the United States, which had the largest share in 2008 and 2010. Thus, the total participation of Colombian banking groups in the region increased from 10.1% in 2008 to 9.9% in 2010 and 35.7% in 2013 (Secretaría Ejecutiva del Consejo Monetario Centroamericano (SECMCA), 2015). However, despite the fact that the year 2008 was full of turbulence for the international financial systems, due to the financial crisis originating in the United States, because of the mortgage lending practices of the largest world economy, which caused, among other things, In the wake of the collapse of large, traditional investment banks (Lehman Brothers, Sear Stearns and Merrill Lynch), Panama continued to have a sound banking system, since the sound business practices used by its executives allowed them to maintain a conservative and cautious management of their credit and investment portfolios.

Thus, the total assets of the International Banking Center, totaled B/.64 billion, during 2008, which meant an increase of 13.7% over 2007, therefore, the assets of the

International Banking Center included assets of the general license banks, which carry out their operations in the local and foreign markets; as well as, the assets of the international license banks, which carry out operations only abroad.

The above allows us to evidence that the confidence and good reputation maintained by the International Banking Center until 2008, would achieve the consolidation of a qualified banking system, in addition, and not less important, the entry of new banking institutions to the Panamanian market, so much so that, different banks began their operation there, among them: Banco Financia S. A, with capital from Central America and authorized to develop micro-finance banking, Credit Suisse, with capital from Switzerland and authorized to operate under a representation license, Banco Panamá S.A, with Panamanian capital and authorized to operate under a general license, Cayman National Bank Ltd, from Cayman Island and authorized to operate under a representation license, SAFRA National Bank of New York, from the United States of America and authorized to operate under a representation license and finally, Credit Andorra (Panama) S.A, from Andorra and authorized to operate under an international license. (Ministerio de Economía y Finanzas de la República de Panamá, 2008).

2.3 Consolidation of banking in Panama

It is evident that during the last few years, the development of banking in Panama has increased and in the same way the complexity of its operations, because with the significant increase of banking entities that offer their financial services, the way to regulate the high demand must be visible. Therefore, since the creation of the Superintendence of Banks, it has contributed to minimize the risks, and of course, guarantee the security and firmness of the International Banking Center, which among other things, generates solid bases of credibility, stability and professionalism, by showing a modern and reliable banking center.

In that sense, the development of the International Banking Center of Panama has been strengthened and consolidated as one of the main ones in the Latin American region and

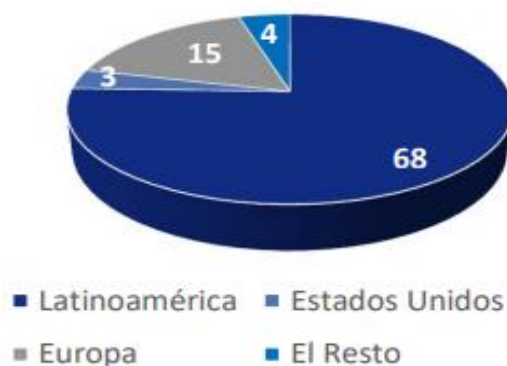
has gradually become more regional and less international, so much so that when comparing the geographical distribution of banks with presence in Panama for 2008, the year in which the International Banking Center was consolidated and the year 2017; the participation of regional banks in the 2 years was similar, reflecting 61% and 68% respectively of Latin American banks with participation in Panama (see graph No. 5 and No. 6).

Graph 5. Geographical distribution of banks in Panama in 2008



Source: Ministry of Economy and Finance of the Republic of Panama (2017)

Graph 6. Geographical distribution of banks in Panama 2017



Source: Ministry of Economy and Finance of the Republic of Panama (2017)

Additionally, from 2008 to 2017, Panama continued to consolidate itself as an international banking center. Firstly, by the year 2012, a total of 90 banks were registered with licenses of three types: 47 banks had a general license (29 foreign

banks and 18 Panamanian private banks) which allowed them to develop the banking business in any part of the country and carry out transactions abroad; 29 had an international license; and the rest, 14, had a representation license, which promoted relations with financial and banking institutions, providing support for the development of commercial and economic relations (La Estrella de Panamá, 2012). However, although by 2013, the number of banks with a general license (foreign banks) rose to 31, in the following years (2014, 2015, 2016, and 2017) the composition of the International Banking Center remained consolidated, with a similar number of banks in each category (see Chart No. 7).

Graph 7. Composition of the International Banking Centre 2008-2017



Source: Ministry of Economy and Finance of the Republic of Panama (2017)

Meanwhile, the president of the Board of Directors of the International Center for Economic Development, Nicolas Barletta, mentioned that this consolidation was due to the fact that the country by 2012 and 2013 had 90 banks with assets of 90 billion dollars, with foreign deposits - which corresponded to 40% of the total - and with foreign credits that were managed from Panama, which were very significant because the Banking Center complemented all service activities of the conglomerate that was sprouting strongly around the Panama Canal (La Estrella de Panamá, 2012).

It is worth mentioning that since 2014, ten banks belonging to four Colombian conglomerates operate in the International Banking Centre as follows: Bancolombia conglomerate operated under Bancolombia Panamá and Banistmo; then, Corpbanca does the same with Helm Bank Panamá; Grupo Aval operates under Bac Bank Inc, Bac International, Banco BAC de Panamá, Banco Corficolombiana Panamá, Banco de Bogotá and Banco de Occidente; finally, Grupo Bolívar controls Davivienda activities. Thus, as of June 2014 the ten banks had assets for more than USD 23 billion, liabilities for almost USD 20 billion and equity close to USD 4 billion (see Table N°5)

Table 5. Banks belonging to Colombian conglomerates in Panama, June 2014

Conglomerado Financiero	Controlante	Entidad	Activo	Pasivo	Patrimonio
Bancolombia	Bancolombia S.A.	Bancolombia Panamá S.A.	4.921,1	4.010,2	911,0
	Bancolombia S.A.	Banistmo S.A.	8.275,0	7.469,7	805,3
Corpbanca	Helm Bank S.A.	Helm Bank Panamá	1.030,1	948,3	81,8
Grupo Aval	Banco de Bogotá S.A.	Bac Bank Inc.	308,0	278,2	29,7
	Banco de Bogotá S.A.	Bac International Bank Inc.	4.354,1	2.795,9	1.558,2
	Banco de Bogotá S.A.	Banco BAC de Panamá (BBVA)	1.754,1	1.545,2	208,9
	Banco de Bogotá S.A.	Banco Corficolombiana Panamá S.A.	121,7	112,0	9,7
	Banco de Bogotá S.A.	Banco de Bogotá S.A. Panamá	738,3	670,1	68,2
	Banco de Occidente S.A.	Banco de Occidente S.A.	956,5	937,7	18,7
Grupo Bolívar	Banco Davivienda S.A.	Banco Davivienda S.A.	1.321,4	1.188,8	132,7
			23.780,4	19.956,2	3.824,2

Source: Fedesarollo (2014)

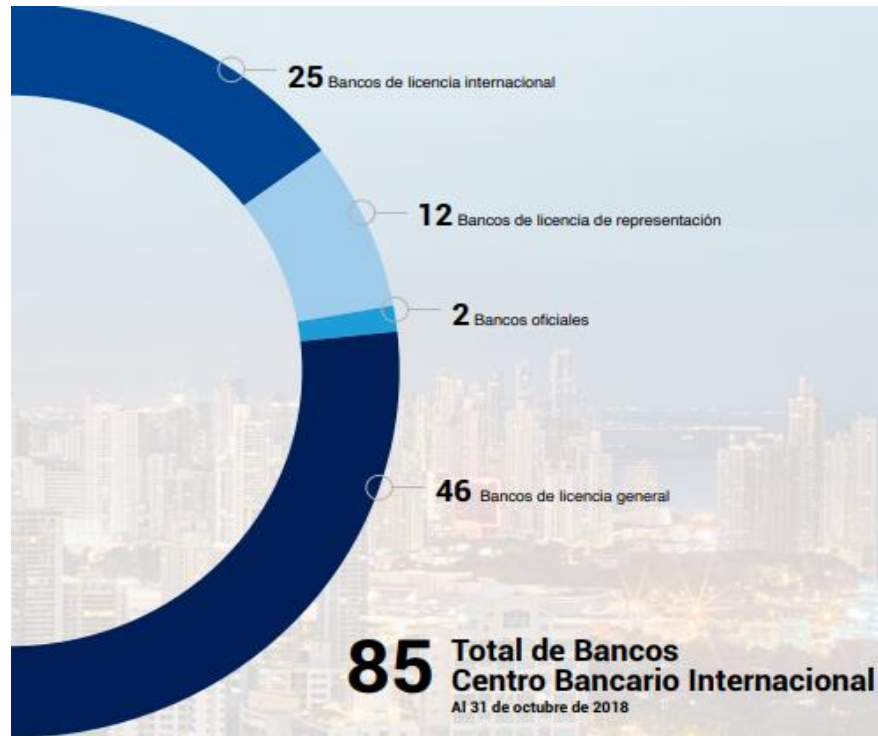
However, as initially mentioned, the increase in banking activity forced the banking supervisor (Superintendence of Banks) to remain at the forefront of the business developed by the banks and to face the different challenges that could arise and therefore, the continuous updating of supervisory techniques was fundamental. In this regard, the Superintendence of Banks of Panama, in order to meet these challenges, for the year 2010, began the implementation of a Strategic Plan, which was carried out during the following five years. Thus, the development of this roadmap, which among other things, included standards and parameters to strengthen financial systems, achieve greater security in banking operations, have greater transparency, truthfulness and accuracy of financial information, was essential to meet the challenges of the new era. Then, by June 2015, once

the first five-year period of the roadmap implemented by the Superintendence of Banks was completed, the comprehensive design of what would be its new Strategic Plan, implemented during the period 2015-2019 and based on four basic objectives: -To be a local and international reference for the quality of risk-based supervision, -To update the regulatory framework in accordance with international standards, -To strengthen the competitiveness and positioning of the International Banking Center, -To strengthen institutional management.

The above allowed the Superintendence of Banks of Panama to continue in its work of regulating and supervising the Panamanian Banking Center, achieving a greater consolidation of the International Banking Center (Superintendencia de Bancos de Panamá, 2019).

Finally, the International Banking Center for October 2018, reflected total assets of B/.119, 393 million, equivalent to an increase of 0.8% compared to the previous year (October 2017), when it registered total assets of B/.118, 428: 46 banks with general license (30 foreign banks and 16 Panamanian private banks); 25 had international license; 2 official banks, and the rest, 12, had representation license (see Graph No. 8).

Graph 8. Composition of the 2018 International Banking Centre



Source: Superintendence of Banks of Panama (2018)

3. The behavior of the GDP in Panama during the period 2015-2019

As evidenced in graph N ° 9, the path that Panama has traveled in terms of GDP results, from 2015 to 2019 has been full of ups and downs. The administration of Juan Carlos Varela was in effect from July 1, 2014 to July 1, 2019. This study takes as a basis, as mentioned in the scope, the period of time from 2015 to 2019 to identify the behavior it had GDP in Panama, said study period comprises a large part of the administration of former President Varela.

Graph 9. GDP growth (annual %) - Panama



Source: Own elaboration with data taken from the World Bank (2019)

Graph N ° 9 shows that although the first year (2015) of the Varela administration had a rebound compared to 2014, with a growth of 5.7%, 0.6% more than the immediately previous year; On the contrary, it is the rest of the years that make up the period of the Varela administration, it could not exceed those figures and on the contrary, the years 2018 and 2019 had results that experts mark as negative, with a growth of 3.7% and 3.0 % respectively.

The challenges that President Varela assumed in political, economic and international relations matters were complex. To dimension the context, it is worth noting that Panama from 2009 to 2014 increased an average of 7% per year (Banco Mundial , 2020). This was mainly the result of a large fiscal stimulus resulting from the expansion of the canal. In contrast, the country in 2014 suffered a fiscal deficit condition of around 4% of its GDP, including more than \$ 1.9 billion in additional credits approved in the first half of 2014 (Dulcideo, 2019). This fiscal deficit was irreparable and represented a threat to the financial stability of the country, much more given the transitional period that manifests itself in a change of mandate. The collateral damage caused by the fiscal deficit and the “economic disorder”, which according to the Varela government, was caused by decisions made by its predecessor, triggered an increase in inflation, exceeding 4.3% on average versus historical inflation less than 2% annual.

3.1 The beginning of the Varela era

In 2015, with the positioning of Panamanian President Juan Carlos Varela, the country took a different rhythm and approach than it had with its predecessor Ricardo Alberto Martinelli. It is so much so that the media and the BBC, in its May 5, 2014 edition, headline: "Panama elects Juan Carlos Varela, President Martinelli's worst enemy... The fight broke out by Varela's opposition to various measures by Martinelli in order to control the Legislative and Judicial powers. For Martinelli, Varela was an unfair vice president." (BBC Mundo, 2014).

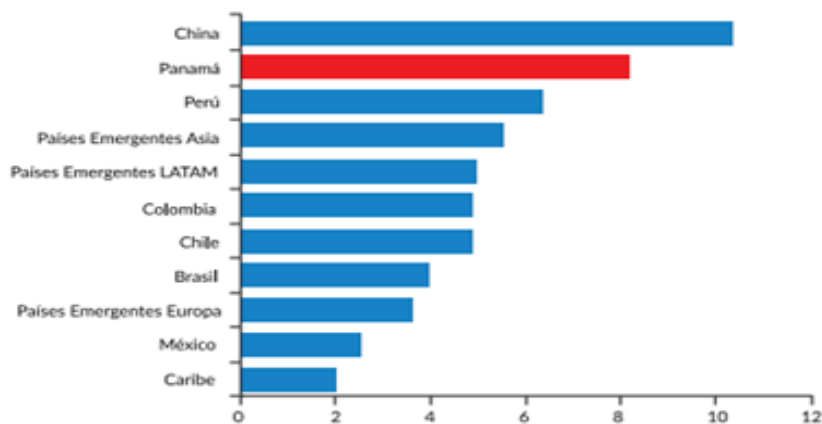
In the midst of a political fluctuation, which has no place to deepen given the focus of this text, President Varela focused his candidacy on facing the corruption problems that, according to him, flooded Martinelli's mandate, also giving rise to that speech political to avoid a possible nomination of Martinelli for presidential reelection. Regarding economics, the government plan of the already elected President Varela posed challenges such as "... achieving a substantial improvement in GDP per capita, the reduction of poverty and a more inclusive country where almost the entire population counts with drinking water, access to health and education..." (Gobierno de la República de Panamá, 2014).

The position of the Varela government vis-à-vis the GDP and the mechanisms to impact this indicator can be analyzed from several fronts, such as investment and decision-making, for which it is pertinent to review its government plan, and subsequently identify it based on the data, the results that the country had in terms of GDP.

In the first place, the Varela government presents the position that Panama is viewed internationally from two positions, that of the economy in transit in general and that of “Panama, which with 79% of the territory and 41% of the population, it only represents 18% of the GDP” (Gobierno de la República de Panamá, 2014). It is proposed in the text of President Varela that territorial balance is one of the challenges that his administration, seeking for there to be more equity and less poverty, that is, that the economic results that may occur in his presidential term, be represented in all the national territory and not in a part of the population as described above. For this, it is important to carry out a strong work against corruption.

The administration of the Varela government assures in its government plan that Panama from 2004 to 2013 reflects significant growth in terms of GDP due to some secondary works to expand the Canal, due to expansionary fiscal policy, and with the support of investment private.

Graph 10. Real GDP Growth Percentage. 2004-2013



Source: Gobierno de la República de Panamá (2014) with data recovered from the World Bank

In terms of the percentage of real growth, Panama stands out worldwide with an average growth of 8.2% from 2004 to 2013, 2007 being the year with the best results with 11.9% and the worst in 2009 with 1.2% growth (Banco Mundial , 2020).

On the World Bank website, for example, "Panama has been one of the fastest growing economies in the world, with an annual average of 4.6% in the last five years". (Banco Mundial , 2020).

As evidenced in graph No. 10, from 2004 to 2013 the results in terms of GDP for Panama were very positive, being the country with the best results in America with an average growth of 8.2%, exceeded only at the level worldwide by the super power China, which has an average growth of 10.5% in the same period of time.

It is clear that for this year 2020 the results will vary significantly due to the pandemic of COVID-19 (Coronavirus), where in the particular case of Panama sectors of important influence for obtaining good results, such as the service sector and the construction, are the sectors most affected by the pandemic, however, this research specifically addresses the period of years from 2015 to 2019.

At the end of 2015, the Varela government reflected an increase of approximately 0.5 percentage points compared to the previous year (see Table N ° 6)

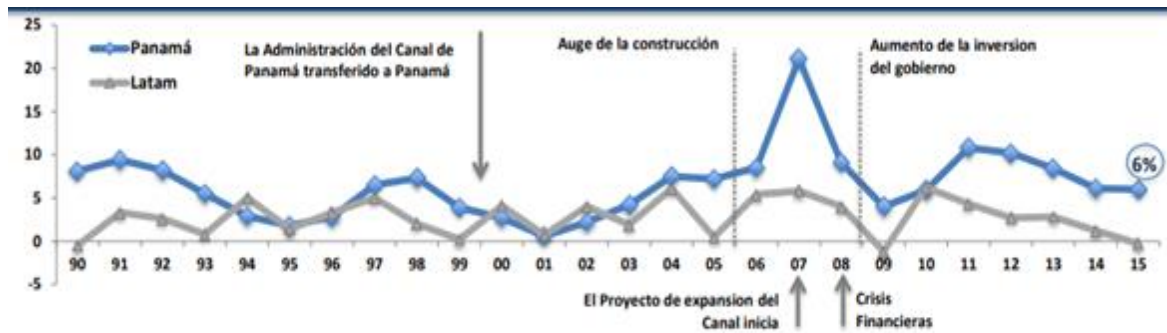
Table 6. Real GDP Growth Percentage. 2004-2013

PANAMÁ: PRINCIPALES INDICADORES ECONÓMICOS							
	2009	2010	2011	2012	2013	2014	2015
	Tasas de variación anual b/						
Producto interno bruto total	1,6	5,8	11,8	9,2	9,6	5,1	5,6
Producto interno bruto por habitante	-0,1	4,0	9,9	7,4	7,8	3,4	3,9

Source: Economic Commission for Latin America and the Caribbean (2018)

In Panama's economic balance sheet for that year (2015), the government of Panama, headed by the Ministry of Economy and Finance, highlighted the positive economic results. The balance sheet included data such as "The Panamanian economy is among the leaders of Latin America since 2004 including 2008 when there was a world crisis, grew to 4.5%." The report also states that for that year unemployment levels fell and inflation has been controlled. The report begins with a comparative review between the GDP of Panama and Latin America, the last 25 years, where clearly the Panamanian results in terms of GDP are much higher than those of Latin America (Gobierno de la República de Panamá, 2016). It can be seen how while the Panamanian economy obtained results of 6 positive points, the curve of the results of Latin America is in negative balances, showing in the graph below zero (see Graph No. 11).

Graph 11. Panama's growth vs. Latin America's GDP growth, last 25 years



Source: Panama's Economic Balance for 2015 and Outlook for 2016 - Superintendence of Banks of Panama (2015)

The government in its balance sheet highlighted the activities that had the greatest growth and impact on the results of the year 2015, the four most outstanding activities were:

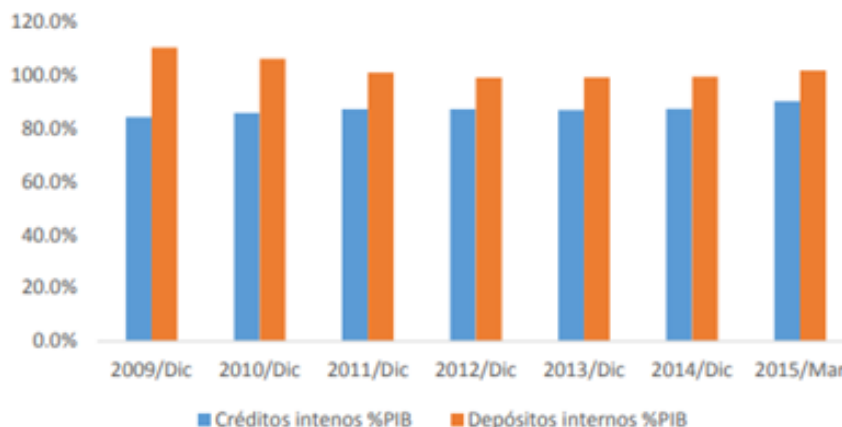
- Electricity, gas and water supply grew by 14.1% over the previous year.
- Financial intermediation with 10.4%,
- Real estate, business and rental activities with 7.4%.

Construction 6.3% Comparing these results shown in the economic balance of the Ministry of Economy and Finance with Varela's government plan, that is, the projects proposed versus the achievements of the first year of government, there are important particularities.

- a. The government's plan includes among its goals the export of services such as water, gas and electricity; however, these services are positioned as the fastest growing activities within the nation by 2015. In other words, the coverage of these resources was expanded in the national territory, possibly to vulnerable areas as found in the government plan, many of them indigenous reservations. It can be interpreted as a success in the government plan, contributing significantly to the equity that is so emphasized in the text.

- b. The aim was to apply a joint strategy for the construction sector to grow thanks to the support of the financial sector and to have a positive impact on the country's infrastructure, in order to meet the requirements of international trade; given that Panama is such an important country for the traffic of goods. The above data reflects that the construction sector reflected a growth of 6.1% and highlights during the year 2015 milestones such as the adaptation and implementation of better Panama Diamond Exchange, approved August 2013 as a free zone regime and the South Park approved August 2012 as a free zone regime in addition to the construction of new logistics assets in Tocumen as the Panama Logistics Park, Industrial Park of the Americas and the Global Business Terminal (Cámara Panameña de la Construcción, 2015).
- c. In the text, the financial sector is referred to as a strong sector, which must be empowered to obtain business growth in terms of financing for small and medium enterprises, especially in sectors such as manufacturing. However, in the economic balance of 2015 we see that the gap between the growth of the financial sector (10.8%) is large compared to business activities, which together with real estate and rental activities barely reach 7.4%. It should also be clarified that the achievements in the financial sector occur through financial intermediation, that is, the movement of economic resources by banks between savers (depositors) and loans granted (borrowing). As reflected in the graph of the Superintendence of Banks of Panama, by 2015, as in previous years, deposits will exceed credits in almost equal proportion, which allows us to deduce that there was no significant change in the Varela government's proposal to increase access to the financial system by emerging companies.

Graph 12. Evolution of deposits and credits as % of GDP Years 2009 - 2015

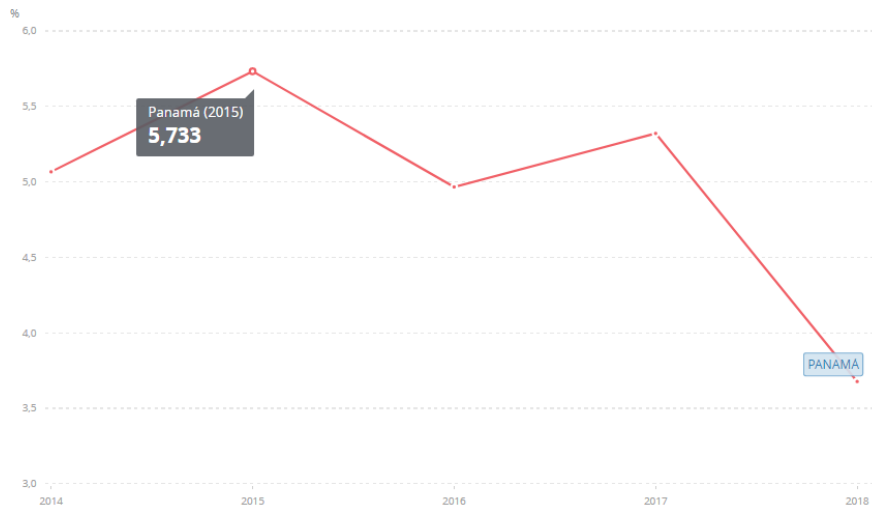


Source: Banking Supervision Report 2015 - Superintendencia of Banks of Panama (2015)

Despite having other investment options, people in Panama continue to have confidence in banking, this undoubtedly leverages the excellent results that Panama obtains from financial intermediation and this in turn contributes to the country's GDP results.

Another important aspect to be mentioned is that the positive results of the financial system are also due to the transformation that banking has undergone in the last decade, processes such as mergers, absorptions and acquisitions of stock packages of local entities. In other words, small banks, most of them local, have been absorbed by leading banks. "Of the 108 financial entities that existed in 1997, before the Asian crisis, the number has now been reduced to 91 entities. (Superintendencia de Bancos de Panamá, 2015)

Graph 13. Annual growth rate in Panama 2014



Source: World Bank (2019)

Based on graph No. 13 and the economic and commercial report prepared by Spain's economic and commercial office in Panama, it is clear that the challenge facing President Varela's administration and previous administrations is to modernize their infrastructures in order to take advantage of their geographical position and continue to leverage their economic results (Oficina Económica y Comercial de España en Panamá, 2015). Evidence of this is the ambitious program of public investment. In 2014, the investment program for the five-year period amounted to nearly \$20 billion, equivalent to 50% of GDP. The Varela government, for its part, approved a strategic plan for infrastructure for the period 2015-19, which is equally ambitious, with an allocation of \$20 billion.

Panama with the title of international center of commerce and logistics also takes advantage of its competitive advantages, that is evident in its GDP when noting that the transport sector generates an important impact in the economic results of the nation since it is favored by the existence of the Panama Canal, free zone of Colon and free zones of other uses, like those of oil and gas, the port infrastructure and the increase of the air traffic to this adds the accelerated rate of consumerism that takes the present society, which evidently increases the world-wide commerce adding also to the geographic position of the country.

The years 2015, 2016 and 2017 marked the beginning of the Varela era since they represent the adaptation stage (2015), execution (2016) and some of the consolidation (2017) of its government plan (see Graph No. 14).

Graph 14. GDP growth (% year-on-year) - Panama



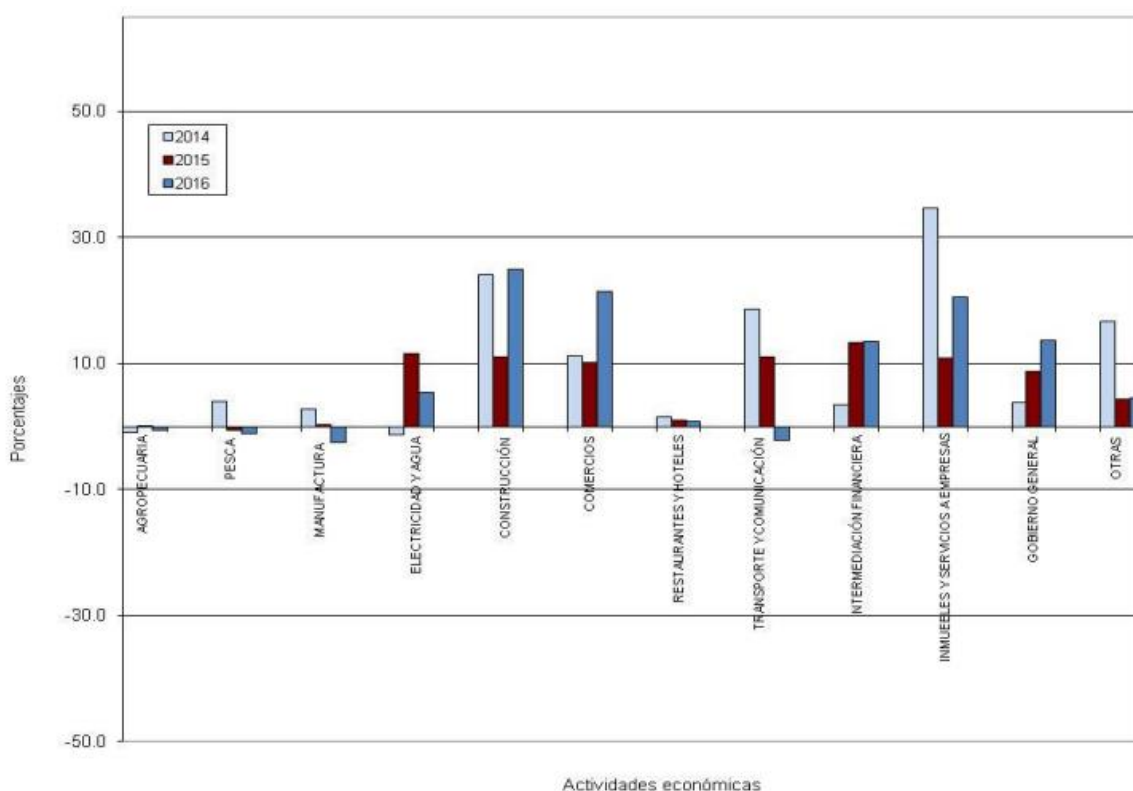
Source: Own elaboration with data taken from the World Bank (2019)

The results in terms of GDP growth in these years, as shown in graph No. 14, are clearly irregular. In 2015, with a growth of 5.7% (0.6% more than in 2014), the result was driven by the growth of sectors such as construction, finance, real estate and electricity, gas and water companies. All these sectors of the economy represented 38.6% of Panama's GDP growth in 2015 (Gobierno de la República de Panamá, 2016). The adaptation that the Varela government had in 2015 is redeemable and this is shown in the positive results (0.6% higher than the immediately previous year) that it achieved despite coming from a year (2014) with a different administration and a government that according to the Panamanian dam was surrounded by several corruption scandals, such as the scandal in 2013: "For a contract of \$13.5 million for the purchase of equipment to intercept communications, through the National Aid Program (PAN) of Panama. (Telesurtv, 2015).

By 2016, Panama grew by 4.9%, below what was expected by organizations such as the World Bank, which projected 5.2%. The decrease with respect to 2014 is based on "the 7.9% decrease in wholesale activities in the Colon Free Zone," which was affected by the re-export of textiles and chemical industry products, said the National Institute of Statistics

and Census (INEC) of the Comptroller General's Office. (Instituto Nacional de Estadística y Censo, 2016).

Graph 15. Percentage contributions of the economic activities, to the absolute quarterly variation of the GDP of the Republic of Panama



Source: General Comptroller of the Republic of Panama- National Institute of Statistics and Census (2016)

Precisely one graph that illustrates the reality experienced in 2016 is graph No. 15 "Percentage contributions of economic activities to the absolute quarterly variation of the GDP of the Republic of Panama", where it can be seen that from 2015 to 2016 there was a variation in growth in sectors such as construction, which more than doubled from 11% to 25%, this thanks to the budget injection given by the Varela government to projects of infrastructure improvements and restructuring of distribution centers and free zones. However, sectors such as transport and communication, which in 2015 played an important role with percentage contributions of 11%, fell abruptly in 2016 to negative figures of -3%,

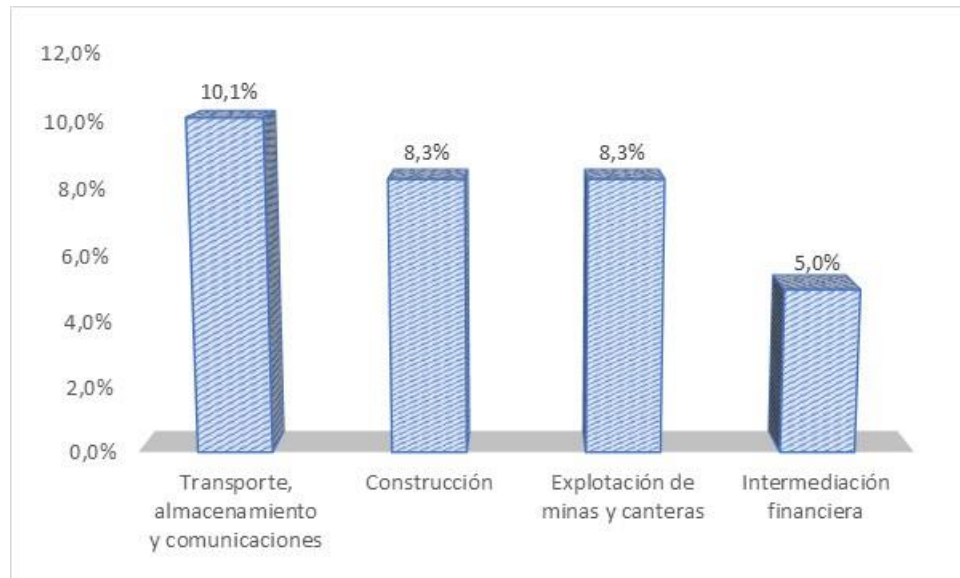
which can explain how the National Institute of Statistics and Census (INEC) mentions it due to the effect of sectors such as textiles and chemical industry products, which were added to sectors such as manufacturing and agriculture in terms of the sectors affected by the supremacy of the Chinese market. Another aspect that affects the sectors mentioned above and explains the decline curve in terms of their percentage contribution to the Panamanian economy from 2015 to 2016, is smuggling. Panama is recognized in the region as an important source of contraband, due to the important role that Panama has in the transit of goods, it is more vulnerable to illegal trafficking of these, which affects not only sectors of the Panamanian economy, but also extends to South America, affecting countries like Colombia and Ecuador, because of its geographical distance. In the case of Colombia, for example, there is a dispute over the imposition of tariffs on footwear and textile products. The perception of the Panamanian government regarding this determination of the Colombian government is not well received, since they think that: "they affect the binational trade and the exports of the Colon Free Zone; they quarrel with the agreements established before the WTO and it does not serve as a measure to fight contraband". (Legiscomex, 2020).

In 2017, (see Graph No. 14), there was a rebound in GDP growth, which went from 4.9% in 2016 to 5.3% in 2017. The rise in GDP growth is due to the dynamism achieved by transport and logistics activities, which went from a tepid 2.5% in 2016 to a considerably high 10.1% in 2017. The main reason for this is related to the expansion of the Panama Canal, which was inaugurated on 26 June 2016 and whose results were clearly reflected in 2017. In addition, the contribution of the national port system and air transport services had a positive influence on the growth of this indicator. (CEPAL, 2018).

The fiscal deficit also represented a clear difference between the results of 2016 and 2017, as it was reduced by 4.6% with respect to the previous year (equivalent to 0.2 percentage points of GDP). The fiscal deficit also made a significant contribution to the improvement in Panama's GDP (CEPAL, 2018).

The following graph explains more clearly, the pillars that had the year 2017 to increase 0.4 percentage points of its GDP:

Graph 16. Sectors with the highest growth and impact on Panama's GDP in 2017



Source: Own preparation with data from the annual report of the Economic Commission for Latin America and the Caribbean (2018)

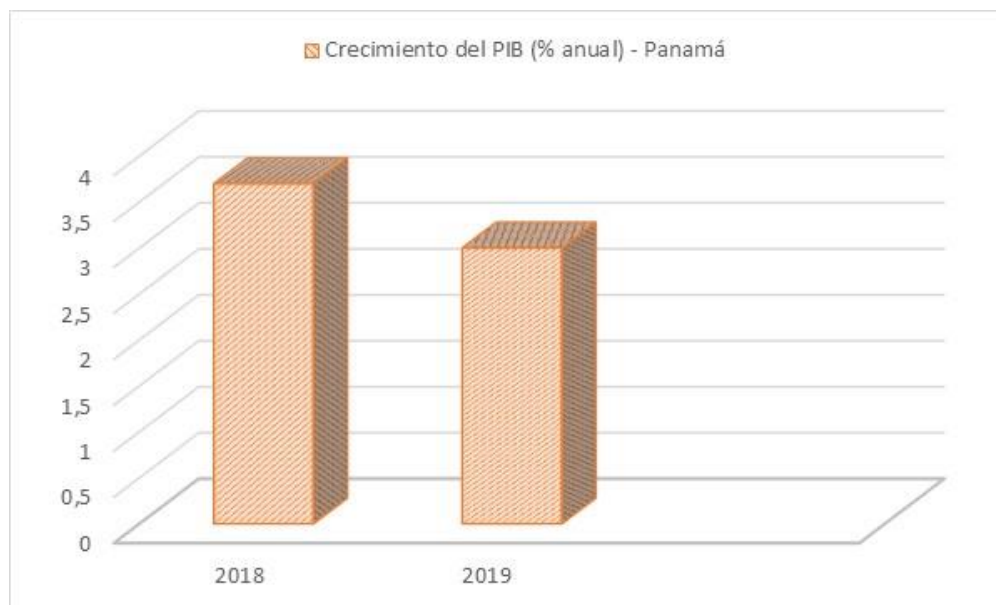
Graph 16 helps to understand in a more detailed way the importance that the logistics sector represents for the Panamanian economy. Specifically, the fundamental bases are reflected in the Canal and land transportation, in addition to public and private investments in infrastructure, in other words, by 2017 the good results of the construction sector, reflected in the graph with a growth of 8.3%, significantly leveraged the results of the logistics, transportation and communications sector, which obtained a growth of 10.1% for the same year.

3.2 What did the Varela administration leave Panama in terms of GDP?

The years 2018 and 2019 represented the closing of the Varela administration with an important milestone, both years the economy grew in very similar proportions and with a tendency to decrease, which undoubtedly represented a forceful blow in the general framework in terms of economic results of the Varela government.

As can be seen in Graph 9 at the beginning of this chapter, the end of the Varela government in 2018 and 2019 was marked by a decrease in terms of the percentage growth of the nation's GDP with respect to its three previous years (2015, 2016 and 2017)

Graph 17. GDP growth (% per year) - Panama in 2018 and 2019



Source: Own elaboration with data recovered from the World Bank (2019)

It can be seen in Figure 17, the behavior of the GDP in Panama for the years 2018 and 2019 in percentage terms was with a tendency to decrease, marking a figure of 3.7% for 2018 and 3.0% for the year 2019, these results were given by certain conditions that will be mentioned below:

- One factor that influenced the economic slowdown is undoubtedly due to a general loss of dynamism in sectors such as manufacturing, which is increasingly dominated by China and from which it becomes very complex to "stand out" at a regional level, due to the impossibility of competing with Chinese labor.
- Unlike the time period from 2015 to 2017 where the clear protagonists were sectors such as transport, financial intermediation and construction, by 2019 for example, a milestone that made a difference, was that the sector that recorded the highest growth was the mining sector, which represented 45.4%, according to figures from the National Institute of Statistics and Census (INEC), published by the Comptroller General's Office (Mirta, 2020); This is mainly due to the prolonged unemployment of approximately one month of construction workers, one of the key sectors of the national economy, which resulted in the sector having a negative growth of 5.9% in 2018 (CEPAL, 2019).
- Another sector that suffered a considerable weakening was the hotel sector, which for example in 2017 had grown by 2.5% but in 2018 fell by 3.8%. This was the result of a strengthening of the dollar, which in potential tourist countries causes greater caution when traveling, because costs increase, for example, in air tickets.
- Last but not least, by 2018, laws were passed that modified tax legislation, the most important of which, or at least the most economically significant, and which is worth highlighting given the focus of this text, was the expansion of the non-financial public sector deficit from 1.5% to 2.0% of GDP from 2018 (CEPAL, 2019). This represents an opportunity to increase the financial muscle for the public sector, but represents a high risk in issues such as corruption, as many of the resources designated may be diverted to other purposes. It is worth noting that by 2019, according to data from the NGO Transparency International (TI), Panama is the fifth country in Latin America with the highest perception of corruption (Transparency International, 2020).

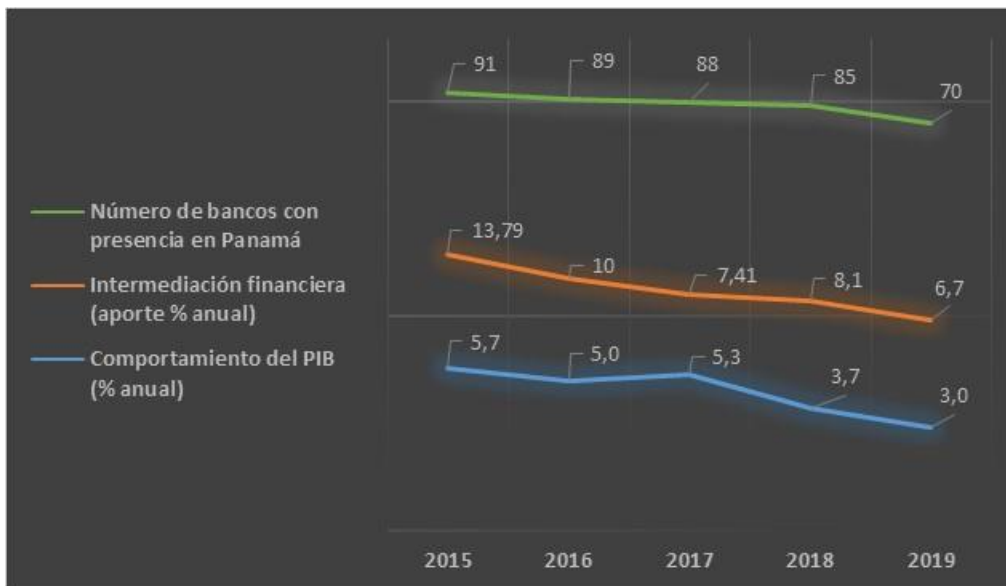
4. What is the relationship between the banking sector in Panama and its results in terms of GDP in the period 2015-2019?

In the first instance, it is pertinent to mention that financial stability in Panama is focused on the financial intermediation sector, which is mainly driven by the solidity of the nation's banking sector. In addition, it is necessary to point out that "in Panama, financial stability is defined as that situation in which the financial system manages to intermediate economic savings, redistributes risks efficiently and thus contributes to macroeconomic stability" (Superintendencia de Bancos de Panamá, 2012)

In that sense, in order to see more clearly the analysis of this section, it is indispensable to link financial intermediation, as a key factor in the relationship that banks have in Panama, with the behavior of its GDP, since as initially mentioned, the presence of banks in a country contributes greatly to the reception of deposits from savers, and therefore, to the granting of loans or credits to the demanders (financial intermediation).

However, Graph 18 is constructed precisely with the intention of landing the idea embodied in the previous paragraph. It reflects the behavior of the GDP in Panama and the contribution that financial intermediation in terms of percentage has with this economic indicator in the five-year period 2015-2019. At the same time, it is necessary to measure the behavior of the number of banks in that same period, to understand if said number is directly proportional to the results obtained by the banks in Panama, or if on the contrary it becomes an indicator without relevance in the economic machinery of the country.

Graph 18. Correlation of banking results in Panama and the performance of its GDP in the period 2015-2019



Source: Own elaboration with data taken from the 2015-2019 reports of the Superintendence of Banks of Panama

Based on Graph 17, we will define the points that seek to conclude the correlation between Panama's economic results in terms of GDP and the role played by the banks in that country.

Therefore, from the reading of the graph and the study that covers the research of this text, the following points are defined:

- Firstly, by 2015, banking in Panama was strengthened thanks to the significant increase in the number of banking entities that offered their financial services, so much so that, by that year, a total of 91 banks were operating in the nation. A milestone that is worth noting was that for that year the Panamanian financial market was attractive to banks in the region, as well as in Europe, the United States and Asia, which meant that ten banks belonging to four Colombian conglomerates (Bancolombia, Corpbanca, Grupo Aval and Grupo Bolivar) began to operate in the International Banking Center. In the same way, the contribution of financial intermediation for the same year corresponded to 13.79% of the country's GDP,

which means that for that year, thanks to the strengthening of the International Banking Center, the reception of deposits from savers and the granting of loans or credits to the plaintiffs was the one that leveraged that result. In turn, within the nation for that year the population kept an important confidence with the banking of their resources, used banks for the deposit of their money, but had other options where to invest their resources, so the cycle of financial intermediation (savings-loan), developed smoothly. For the same year, financial intermediation, with an important participation of the banks, obtained a characteristic behavior, which even contributed to other important sectors in the nation such as construction, thanks to the investment made in infrastructure projects.

This meant that the result in terms of GDP for that year was 5.7%, the most significant percentage for the five-year period (2015-2019). Thus, it can be concluded that by 2015, the banking sector in Panama influenced its results in terms of GDP, since it represented more than 10% of GDP and was among the three most influential sectors in that year (construction, transport, financial intermediation).

- For the year 2016, Panama continued to be attractive for the installation of national and international banking entities, however, despite the increase in this activity, the banking supervisor (Superintendence of Banks of Panama) was forced to remain at the forefront in terms of business developed by the banks, as well as, faces the different challenges that this activity presented. Therefore, the supervision and updating of regulatory techniques in banking matters became more exhaustive, which generated, among other things, that by that year the International Banking Center was made up of a total of 89 banks, reducing their number with respect to the previous year. In the same way, for this year there was a decrease in the variable of financial intermediation, however, the decrease presented in both variables is not considered directly proportional, since the proportions in decrease are not the same, that is, the decrease in number of banks was very reduced (2), but on the other hand, the decrease in financial intermediation was of -3.79% in terms of GDP. In that sense, the behavior of the GDP for this year was 5.0%, meaning a decrease of -0.7

with respect to the previous year, which allows us to understand that not necessarily a decrease in the number of banks, drastically affects the indicators regarding financial intermediation (a fact that will be reflected in the section on 2018).

- By 2017, the Superintendence of Banks of Panama continued with its work of regulating and supervising the Panamanian Banking Center in order to achieve further consolidation of the International Banking Center. Likewise, the participation of regional banks became notorious, so much so that, little by little, the International Banking Center was becoming more regional and less international, since of the 88 banks with participation in the Panamanian market for that year, 68% of them corresponded to Latin American banks.

Thus, this trend of regional banking participation allowed the Superintendence of Banks to continue with the integral design of its new Strategic Plan. Although the number of banking entities for this year did not undergo a significant change thanks to the good performance recorded by the International Banking Center, financial intermediation represented a greater proportion of -2.59%. Although the number of banks in Panama and financial intermediation showed a decrease in different proportions from the previous year, the percentage of GDP for this same year was 5.3% or 0.3 points more than in 2016. It can therefore be concluded that, although the banking sector, through financial intermediation, contributes positively to the performance of the GDP, the Panamanian economy does not depend on the positive or negative performance of these two variables, since it has other sectors that are much more consolidated and that can contribute in greater proportion to the results in terms of GDP, which are the construction and transport sectors, which for this year, represented 25.92% and 24.07% of the total GDP of the nation, respectively.

- For the year 2018, the composition of the International Banking Center, reflected a decrease of 3 banks with respect to the year 2017, which means that for this year the number of banks that were part of the IWC was 85. Similarly, the pyrams proposed by the Superintendence of Banks of Panama in its strategic plan 2015-2019,

continued to guide the banking sector to provide an efficient and effective financial intermediation to achieve further consolidation. This year is a clear example that the decrease in the number of banks from one year to another is not directly related to the results in financial intermediation, because for this year this variable represented an increase of 0.69% over 2017. This year two relevant facts were presented that explain the behavior of the figures, which are important to mention:

- "Financial intermediation in national accounts reflected a growth of 4.2%, due to the performance registered in the International Banking Center, which showed during the period, an increase of 3.7% in financial services". (Superintendencia de Bancos de Panamá, 2018). This result makes financial intermediation one of the most dynamic activities in the country's economy this year.
- Despite the disagreements on salary issues, a strike by construction workers was carried out with an approximate time of 1 month and although the transport sector was one of the most representative in 2017, for this year, due to the problems this sector was going through, it reflected a negative growth of 5.9% and made room for other sectors that did not represent a greater participation, Among them, the financial intermediation, which in an indirect way was benefited since Panama for being a country of such small dimensions, the crisis hit the market more significantly, increasing the uncertainty and causing a stagnation in the investment, that is to say, the people prefer to deposit their money in the bank accounts, that to carry out any type of investment. Likewise, the unemployment rate is increasing, which has repercussions on the increase of the population's indebtedness (requests for credit).

Having said that, it is worth reiterating that for this year the banking sector in Panama, through financial intermediation, did not have a major influence on its

results in terms of GDP, since it is evident how the economy of a country is hit when such influential sectors go through some crisis; thus, the GDP for this year, represented a decrease of 1.6% over the previous year and not precisely because of the decrease in the number of banks in the International Banking Center, nor the significant increase in financial intermediation, rather, part of this decrease may be due to the fall in the results of other sectors that have more influence on the country's economy.

In the last year of the five year period (2019), the presidential term of Juan Carlos Varela was ending, precisely, at that time the country was showing a problem of corruption, social instability and political governability, which undoubtedly affected the behavior of each of the economic variables illustrated in graph No. 17. One of the problems that most affected Panama for the year in question was corruption, it should be remembered that for this, as highlighted by the data from the NGO Transparency International, Panama was ranked as the fifth country in Latin America with the highest perception of corruption. As a consequence of the above, other problems arose in the country in the health services, the educational system and the Panamanian security apparatus. Economically, the lack of planning in different sectors of the economy, including education, health, finance, etc, generated waste and more corruption.

The above explains the results of the different variables cited in graph No. 17, which show a downward trend. Therefore, the composition of the International Banking Center in Panama for this year was 70 banks, with a significant decrease of 15 banks compared to 2018. Likewise, financial intermediation reflected a decrease of 1.4% and the same Thus, GDP showed the lowest result of the entire five-year period (3.0%).

In conclusion, corruption is one of the most representative variables to demonstrate that the positive results of economic growth interpreted through annual GDP do not depend on a single sector, but on a host of factors that comprise a country. Therefore, banking in Panama and the results in terms of GDP in that country are

not closely related, although this sector, through financial intermediation, has represented an important contribution to the country's economy in the five-year period 2015- 2019.

5. Conclusions and recommendations

5.1 Conclusions

- The lack of regulation in the financial system in the last 10 years in Panama, opens the possibility of an increase in banking entities, since this way, this country becomes more attractive for investors from different parts of the world.
- A phenomenon that was evidenced in the investigation, in the period of time analyzed, is the significant increase of the participation of the regional banking in Panama, since each time, the number of banking entities that integrated the International Banking Center, belonged to Latin American conglomerates and not to other regions like Europe, United States or Asia.
- The number of banking entities with presence in Panama does not have a direct influence with the results of financial intermediation, that is to say, that there are less or more banks, does not mean that people save or get more indebted.
- Currently, the banking activity in Panama is one of the most attractive in Latin America, due to the ease of participation of banks in infrastructure works, demand for consumer credit, trade and not least, mortgage loans, all this being represented in the consolidation of its International Banking Center, and formally created in 1970 by Cabinet Decree No. 2,051. This International Banking Centre has made some progress in terms of increased regulation of banking activities, improved standards and parameters for strengthening financial systems, greater security in banking operations and greater transparency, truthfulness and accuracy of financial information.
- Panama has not been spared from the world problem of corruption, so much so that the most recent data on the perception of corruption shared by the NGO "Transparency International" in the year 2019, places Panama within the five (5) countries where corruption is perceived to be greatest in that same year. In conclusion, it is an economy with a lot of potential and in rapid growth, which demands a more responsible management of public resources by the Government and the different organizations that have interference in the management of these.

- By the year 2015, the banking sector in Panama influenced its results in terms of GDP, since it represented more than 10% of the GDP and was among the three most influential sectors in that year (construction, transport, financial intermediation). By 2016, it even represented an important figure in the process of expanding the Panama Canal, since it contributed to the increase of public resources for the fulfillment of this goal.
- The year 2018, was a great example to understand that not necessarily when there is a decrease in the number of banks, the indicators in terms of financial intermediation will be significantly affected. In that year it is evident how, despite the fall of other sectors with greater influence, the country's economy is being hit.
- The influence of the banking sector in Panama, in the behavior of the GDP in this nation in the period of time selected for the investigation, is important but not decisive, because this country has the participation of other sectors that can perfectly leverage the positive results in terms of GDP, however, being a sector that has had good results over time, it is important not to leave it aside in the government plans of the various leaders who come to power, since the picture would undoubtedly be much better if the different sectors that have been protagonists, positively influence the GDP. A clear example of this is the results obtained in 2015, where sectors such as construction and financial intermediation stood out positively, allowing for a result of 5.7%, the highest result in the last five years.

5.2 Recommendations

- In banking matters, it is recommended that the Superintendence of Banks of Panama, as a regulatory entity of the banking system, continue to stimulate the sectors that are part of it, through the continuous regulation of banking activities, the improvement of the norms and parameters that allow the strengthening of the financial systems and the offering of a greater security in the banking operations, which ensure greater transparency, veracity and accuracy of the financial information.
- Panama has an important advantage such as the Canal; therefore, economic sectors such as logistics and transportation are clearly favored by this comparative advantage. Due to the above, Panama should focus its efforts on sectors such as manufacturing, agriculture or real estate, so that the positive results of these sectors add value to the annual result in terms of GDP. These stimuli could be provided by means of a fiscal or tax policy, which in turn would represent better results in terms of employment for society.
- One problem that undoubtedly has a devastating effect on a country's economy is corruption. No matter what efforts are made by a nation to stimulate an emerging economy, if at the end of the day, the results will not be reflected equally among its inhabitants. Corruption is a problem that not only affects the economy of a country, but also the quality of life of the people who live there. Therefore, fighting against this problem becomes indispensable for Panama and the different nations on the way to progress...

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