

Panama: Technical Assistance Report-Macroprudential Policy Frameworks



PANAMA

TECHNICAL ASSISTANCE REPORT— MACROPRUDENTIAL POLICY FRAMEWORKS

February 2023

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TECHNICAL REPORT

PANAMA

Macroprudential Policy Framework

June 2022

Prepared By

Machiko Narita (Mission Chief, MCM)

Attila Csajbok (MCM)

Authoring Departments:

**Monetary and Capital Markets
Department**

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GLOSSARY

CCoB	Capital Conservation Buffer
CCSBSO	Central American Council of Superintendents of Banks, Insurance, and other Financial Entities (Consejo Centroamericano de Superintendentes de Bancos, de Seguros y de Otras Instituciones Financieras)
CCyB	Countercyclical Capital Buffer
DSTI	Debt Service to Income
FCC	Financial Coordination Council (Consejo de Coordinación Financiera)
FSD	Financial Studies Division (Dirección de Estudios Financieros)
FSR	Financial Stability Report
GEFR	Regional Financial Stability Committee (Grupo de Estabilidad Financiera Regional)
LTV	Loan to Value
RMD	Risk Management Division (Dirección de Riesgos)
SBP	Superintendency of Banks of Panama (Superintendencia de Bancos de Panamá)
TA	Technical Assistance
TC	Technical Committee

PREFACE

At the request of the Superintendency of Banks of Panama (SBP), an IMF technical assistance (TA) mission took place virtually during August 3–9, 2021 to evaluate the macroprudential policy framework in Panama and develop a roadmap to strengthen it. The virtual mission was provided by Machiko Narita and Attila Csajbok (both MCM) and a follow-up virtual mission is planned for later this year to assist in the preparation of additional tools. This mission was part of a multi-topic MCM TA project comprising two other workstreams, on Basel II/III standards and the stress testing framework. Anastassiya Marina and Jose Roberto Effio (MCM TA project managers) joined the mission for the opening and concluding meetings. Messes. Joyce Denton and Hilda Tejada (IMF’s interpreter team) provided interpretation services during the mission.

The mission held virtual meetings with a joint team from the SBP’s Financial Studies Division (FSD, *Dirección de Estudios Financieros*) and Risk Management Division (RMD, *Dirección de Riesgos*). This team consisted of Mr. Javier Motta (Director of FSD) and Ms. Nahila Melgar (Director of RMD), as well as Ms. Ingrid Arboleda, Ms. Delia Cuan, and Mr. Patricio Mosquera (all FSD). Mr. Amauri Castillo (Superintendent of Banks) also joined part of the opening and concluding meetings.

We would like to thank the SBP staff for their excellent collaboration, their responses to the questionnaire, helpful presentations, and productive meetings. We would also like to thank them for collecting and sharing the relevant materials as needed during the mission.

EXECUTIVE SUMMARY

The mission assisted the Superintendency of Banks of Panama (SBP) in developing a roadmap to strengthen the macroprudential policy framework in Panama. This mission was the third workstream under the multi-topic MCM TA project that the SBP requested in October 2020 to enhance its capacity to safeguard financial stability. This macroprudential policy mission was built on the findings from the diagnostic missions of the other two workstreams, on Basel standards and stress testing respectively, as well as the Article IV team's analyses. A follow-up virtual mission is planned for later this year to assist in the preparation of additional macroprudential tools.

The mission found that the SBP has adequate capacity to conduct macroprudential policy. The SBP has broad powers to direct macroprudential policy tools and to collect information. It also has an effective internal process to conduct systemic risk assessments for policy decisions, supported by a dedicated unit—the Financial Studies Division (FSD)—using a rich set of analytical tools and data. Information sharing with other supervisory agencies has been done through the mutual representation of some directors at the Boards of the Superintendencies of Banks, Insurance, and Securities, respectively, and at the Financial Coordination Council (FCC).

The mission's main recommendation is to tighten the link between policy objectives, assessments, and tools (Table 1). The mission recommends preparing and publishing a macroprudential strategy document to clarify the set of indicators and tools corresponding to the policy objectives. This will help the SBP take timely actions with the policy tools tailored to emerging systemic risks. Communication should also be enhanced by making more use of the Financial Stability Report (FSR) to explain policy decisions and to provide the underlying analysis. The mission also made recommendations on other aspects, such as the expansion of the policy toolkit, in particular to include borrower-based measures (e.g., caps on the loan-to-value and debt-service-to-income ratios), which will be followed up on in the second mission.

Table 1. Key Recommendations

Recommendation	Priority	Timeframe^{1/}
Institutional Arrangements		
1. Set up terms of reference (TOR) for the Technical Committee (TC) to regularly discuss macroprudential issues, or establish a dedicated macroprudential committee with a clear TOR; while in either option, the TOR for the TC should be clearly set up, the frequency should be at least quarterly, the FSD should be responsible for setting the meeting agenda, and meeting minutes should be kept when policy proposals are discussed (¶11, 12)	Medium	Medium
2. Hold regular meetings (quarterly or semiannually) dedicated to macroprudential policy issues at the SBP Board (¶11, 12)	Medium	Medium
3. Draft a macroprudential strategy document that explains objectives, indicators, and how they are mapped into policy instruments (¶13; please also see recommendations 9, 10, and 11)	High	Short
4. Publish the macroprudential strategy document (¶13)	Medium	Long
5. Make more use of the Financial Stability Report (FSR) to explain policy decisions and to provide the underlying analysis (¶14)	Medium	Medium
6. Enhance the external communication of the FSR, complementing its press conference with a press release and an expert-level presentation, as well as publishing the FSR in English in addition to Spanish (¶15)	Medium	Medium
7. Form a working group of technical-level staff from the FCC member agencies to assess relevant systemic risks for policy discussions. (¶16)	Low	Long
8. Consider adding to the Internal Rules and Regulations (Resolución #1) of the FCC, or its underlying Law as needed, a clause to issue recommendations to its members with a “comply-or-explain” mechanism (¶16)	Low	Long
Macroprudential Policy Analysis and Tools		
9. Specify core and additional indicators as well as associated analyses in the macroprudential strategy document for each type of systemic risk (e.g., as listed in Figure 1) (¶22)	High	Short
10. Develop a strategy for addressing household sector risks by specifying the main risk indicators and designing borrower-based tools, preparing for the second TA mission of this macroprudential policy workstream (¶23)	High	Short
11. Refine the strategy for existing tools, reflecting the planned addition of the Basel III capital and liquidity tools (¶24, 25)	Medium	Medium
12. Evaluate the intended effects of any measures taken, using the main indicators specified in the strategy, and any unintended side effects (¶26)	Medium	Long
13. Establish a clear definition of “income” for the purpose of borrower measures, collect income data of borrowers, and make further efforts to collect data on commercial real estate prices (¶27)	High	Medium
14. Expand analyses, if feasible, by launching a quarterly lending survey of banks and by constructing a contemporaneous financial stress index from market-based indicators (¶28)	Medium	Long

1/ Short term: less than 12 months; Medium term: between 12 and 24 months; Long term: more than 24 months. The indicated timeframes must be considered relative and administered with discretion by the SBP, taking into account the negative impacts on the financial system caused by the COVID-19 pandemic. The SBP is the authority responsible of implementing all recommendations, except for the seventh and eighth items, whose responsible authority is the FCC.