



Update from Panama November 2020

Life moves on here in Panama. We have opened nearly everything and we are having guests arrive from all over the world, if in small numbers at present. This will build over time, assuming the pandemic's latest surge in the north will subside. Predicting a pandemic's future course is beyond our capability, but we can still hope for the best result. For now, we see no dramatic upswing in infections. We have been warned to expect one eventually as the winter brings down "snowbirds" from the north and the holiday season opens. Both good points, but we will try to work through them successfully.

In my last Report from Panama, I stressed two factors which I believe are critical to the recovery of any nation during and after the pandemic – access to money and stability.

By "stability", I do not mean the artificial stability provided by a dictatorship, but the genuine stability of a democracy with many opinions, but always a sense of common goals. It is the kind of society that rallies in the face of an external threat like the pandemic and confronts it as one people. Panama continues to be that kind of society.

I had friends visiting from the US recently. They were really surprised to see people walking down the street with facemasks on. On the street! Yes, that is true. I put on my mask whenever I go out because, beyond being 75 with less-than-perfect lungs and with no desire to die of a virus, I know everyone else will be wearing them too and they will expect the same from me. For now, a mask is just a piece of clothing that we all will be happy to give up, but we will be the judge of when that happens and we have judged to leave them on for now.

As for money, no one, including nations, ever feels as if they have enough! However, nations are taking on debt in the drive for recovery. Thankfully, Panama has a much lower debt level than many other nations, including the US, Canada, many European nations, other Latin American nations, and more. Combined with bonds with investment-grade status, Panama has no trouble selling bonds when it needs to raise cash.

As just one example, Panama recently went into the market to raise one and a quarter billion dollars (\$1,250,000,000). The demand was great. As a result, it is paying [precisely 2.252% interest](#) due in 2032. Two and quarter-percent for that kind of money is something most Latin American nations can only dream of!

Our good neighbors in Costa Rica face a dramatically different situation. They lost control of their financial situation several years ago and their bonds are rated as “junk bonds”. Costa Rica’s government spends far more than its income. The pandemic has made this much worse and they are unable to raise money in the open market at any rate they can afford. They were already over 10% on a ten-year bond pre-pandemic.

Recently, they approached the International Monetary Fund, often referred to as the “lender of last resort” for nations in severe financial trouble. In order to get low-interest loans, they had to prepare a financial plan to demonstrate how they would return to financial stability. The current administration prepared a plan, but the legislature and much of society rejected it as too painful. They have been unable to come up with any plan. They have their own currency, the *colon*, along with the US dollar and now they have been reduced to raising money [in colones within Costa Rica](#). It is nowhere near enough and it is dollars or another major currency they need, not the one they print for themselves.

Why do I bother mentioning this? I have been following the Costa Rican situation with concern for years and said nothing. There are no negative impacts for us, other than a possible arrival of our next-door neighbors looking for jobs, but we will do our best for them. They are good people.

However, in recent years, I have been somewhat surprised at the number of expats with extra resources who have put that money into private bonds from Costa Rica sold through some Panamanian banks. They have exceptionally high interest rates. I am speaking to those readers now. Be sure you know exactly what and who “guarantees” your returns on your investment. Be sure there is no clause in the agreement allowing anyone to pay you in *colones* rather than the dollar. Enough said. Your call. For everyone’s sake, I hope all goes well.

Okay, moving along, how is Panama doing?

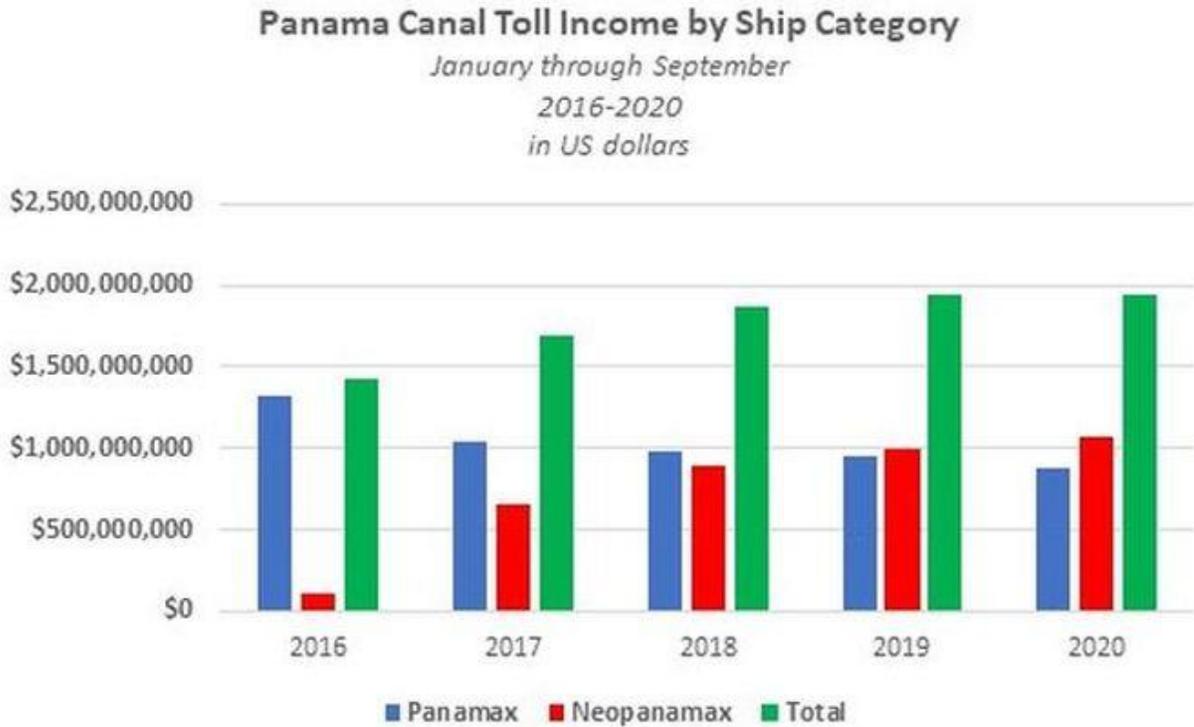
Keeping Body and Soul Together

The title is from three centuries ago. It was based on the soul giving life to the body, but today it typically means simply making a living, “getting by”, surviving. Well, Panama is keeping body and soul together.

As in the last report, here is an update on the Panama Canal’s financial performance. Last time it was through June, now it is through September. “Panamax” refers to the kind of ships that would fit into the original canal. “Neopanamax” ships are the much bigger ships for which the

Canal was expanded. Once again, they remind us that the expansion of the Canal was exactly the right thing to do.

I am also including a “total” column this time. People often assume that trade wars hurt the Canal financially. I simply tell people that Panama does not care whether the soybeans going to Asia are coming from the US or Brazil, just as long as they use the Canal!



[Source: National Institute for Statistics and the Census]

I would not lose any sleep over this at the moment. We can handle “steady” income.

I will briefly mention our free trade zone, the second-largest in the world, surpassed only by Hong Kong’s zone. I am not going to take the space here to explain how a free trade zone works, but it is a good indicator of international trade’s effect on us. One of these days, I will sit down and do a video on this kind of “zone”. There are 5,400 zones like this in the world and another 500 planned. We also have several others in Panama but having the second-largest in the world is a genuine pleasure.

Colón Free Trade Zone
Total Value of Goods
January to August 2020
in US dollars
(dotted line is trend line)

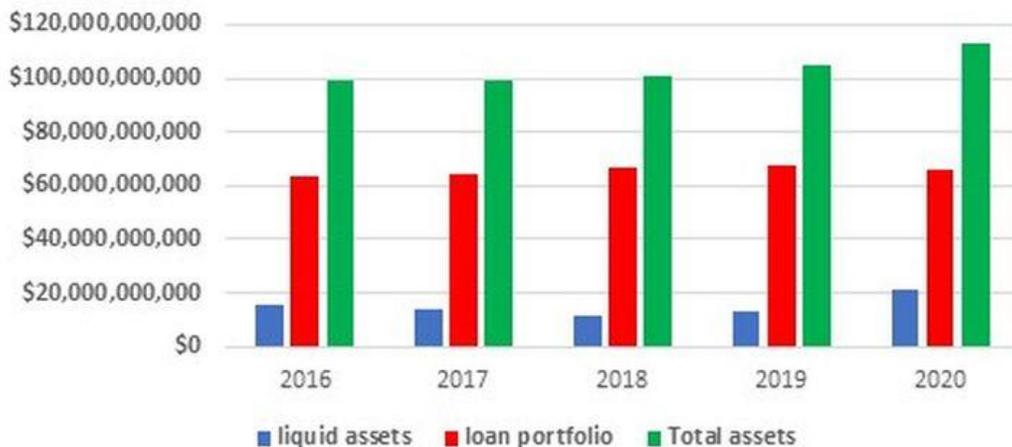


[Source: National Institute for Statistics and the Census]

The Zone’s returns are much more variable than the Canal’s returns, but it provides major income to the nation, as well as employing more people than the Canal and it should be at least mentioned!

People often write me to ask if Panama’s banks are stable. I always smile. Yes, they are stable and very conservatively run. Here is a look at their assets. “Liquid assets” are those that are in cash or are easily converted into cash. The “loan portfolio” represents the primary assets of any private sector banking system. “Total assets” are the combination of the two, plus any other assets held by the banks.

Panama Bank Assets
as of August 2020
in US dollars



[Source: National Institute for Statistics and the Census]

So what does this tell us? If I were you, I would not worry too much about our banking system. The increase in “liquid assets” may indicate the banks are prepared for loan defaults from the pandemic if needed and, if not needed, to fund post-pandemic loans to consumers and businesses. There are many more banking statistics here, but this gives you a sense of the sector’s health.

So Enough About the Nation, How About the Folks?

There are a lot of statistics that are still being booked. The pandemic meant closed government offices and much work piled up. That is being taken care of and more stats are available every week, but not all those I like to have. Nonetheless, here are a couple that will look familiar to some of you.

I love a statistic that changes so dramatically that it does not require a graph to get the point across. Here is one!

Monthly Vehicle Sales	
January - September 2020	
Jan	3,487
Feb	3,526
Mar	2,099
Apr	117
May	96
Jun	631
Jul	1,112
Aug	1,398
Sep	2,403

[Source: National Institute for Statistics and the Census]

This is a good way to put it. Things were okay. Then they were awful. Now they are recovering.

By the way, the drop-off in sales against the same period in 2019 was almost exactly identical for “regular” cars, “luxury cars”, and SUVs. The “damage” was felt across all income levels.

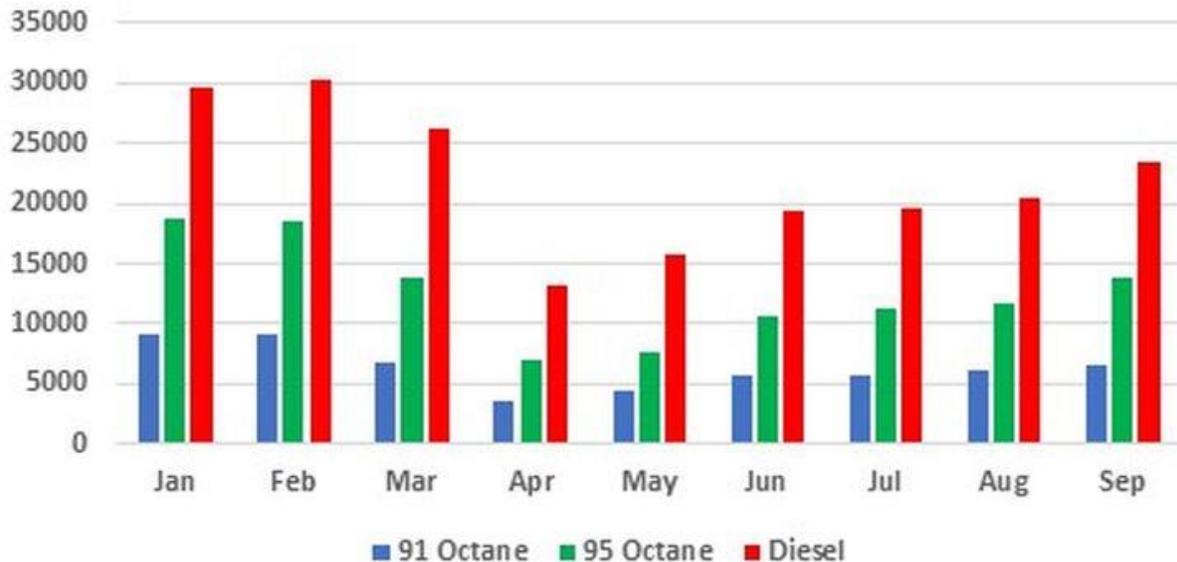
If you have a vehicle, it is not particularly useful if you are not driving it. Below are the consumption figures for the three common vehicle fuels.

Gasoline-Diesel Consumption

Jan-Sep 2020

in thousands of gallons

(one gallon = approx. 3.8 liters)



[Source: National Institute for Statistics and the Census]

It looks pretty familiar now, I suspect – high, low, recovery.

Snapshots

I hear from many of you who appreciate my use of graphs and real statistics, not just text and opinions. I am happy to do that because that is how I do analysis anyhow, so it may be time-consuming, but I do it and do not mind sharing some of it with you, hoping that it is not too much!

*However, I want to remind you that each graph is simply a single “snapshot” of a tiny portion of a dynamic, ever-changing reality. No matter how many snapshots you collect, they are not a movie. But life **is** a “movie”. To fully appreciate it, you have to live it!*

No matter where you go, Panama or somewhere else, or choose to stay where you are, your life will be a series of snapshots, some of them memories you will carry with you forever.

Each of us is making his or her movie and we should never forget that. The time between our snapshots is important too. Some of that time we will be part of someone else’s snapshot. Each of you I meet or with whom I correspond is a snapshot for me. You make my movie so much more interesting and I thank you for that!

Real Estate

I know that many of you hope to get specific information on prices for the purchase or the rental of properties in Panama. Unfortunately, we just are not there yet and it may be a while before we have a better idea. Simply put, there are not enough people like you down here yet for us to get a good idea of what you need and what you want.

There is no question about it. There are people and developments who **must** sell, but they do not advertise that! There are real “deals” to be made here, but you have to know how to find them. If you have cash, you are especially appreciated.

In a market like this which has not “settled down” yet, each buyer or renter has to explore for himself or herself. You work with an agent if you are smart. Why? It is highly time-consuming and difficult to find and contact owners and/or their agents to arrange appointments to visit a property. If you do not have an agent and you respond to an ad, the owner probably does have an agent and you will be talking to the seller’s agent, without your own. I do not recommend that.

A good agent makes life much easier. I know. I am 75 and have used real estate agents all my life. If the ones I have put out a genuine effort, I stick with them. If I think they are playing games, I am polite, but I leave them. But most successful agents understand that the faster they can meet the needs of a client, the faster a sale or rental is completed and the commission paid. Their biggest problem is working with clients who really do not know what they need or what they want.

There is no reason to be frightened of this process. In fact, it is very useful to most buyers or renters because they often discover what they really need early on as they see a few places and learn how the real estate market works. It is as if something clicks in their heads and they start to focus with more confidence. Panama is friendly, not threatening, but you do have to negotiate and that requires knowing what you are doing. Get past the “click” and you and the agent can get business done.

I do not make a big deal about our offer here to help connect you with a licensed agent who I trust from experience to do their job well. I call it Metro Match because it is only available in the Panama City metropolitan area. I work with three licensed agents with different backgrounds, but all of whom are good people, as well as good professionals. We have helped people successfully and we have others coming. *There is no cost to you of any kind, but the key is that you find the right person for you.* We are here if you need us.

When All is Said and Done

Panama is not perfect, of course. We know employment took a serious hit and recovery still has far to go. We need a better grip on exactly what that means and the research is underway on this. We will hear about it in coming weeks.

Despite that, it is sometimes a little astonishing how “normal” things can feel some days. Above all, despite the fears and debates that come with every emergency, I cannot emphasize how important the patience and focus of the Panamanian people have been to bringing us through this. If you ask anyone for an opinion, a maid as much as a business owner, they will give you one! But it is almost always followed by a smile and people get back to being what Panama is – a business nation.

It is also a nation where the family system is still powerful. When things go wrong, the family is there. And friends from school are commonly friends for life. You always look after a relative, but you do not forget the friends you have made along the way. I was talking about a Panamanian lawyer recently with a Panamanian friend and he said, “I know him. We were in karate class together!” That was a couple decades ago, but neither one has forgotten.

That is one of the joys of a small nation. As long as you are all in Panama, you are only hours away from friends and family. In times of stress, that helps.

But that is true of other societies and yet they are not doing as well as Panama. That is when having a “business culture” that is not dominated by political affiliation or religious affiliation or ethnic background or something else that has nothing to do with business can be very healthy for everyone.

Whatever the case may be, I remain as positive about Panama’s future as in the past. It is an experience like the pandemic that reminds me of why I feel that way. Every dark cloud has its silver lining. In Panama, it is the Panamanian people.

And now most of you know what comes next. I will end with the same words I have used in every report I have sent out in the last 16 years.

“No one knows the future. Free markets go up and free markets go down. The future is not a simple extrapolation of the present. Anything can happen. Everyone has an opinion and those words above are just opinions.”

Thank you once again for your friendship and many kind messages.

Bob