

Automobile Market Outlook

Panama

April 2011
Economic Analysis

- **The outlook for the Panamanian automobile sector is positive in terms of revenue and economic activity.** Over the next four years, annual average sales of 42 thousand vehicles are expected.
- **The supply of automobiles and automobile parts in Panama is determined by the level of imports.** Recent progress in liberalizing foreign trade in the country, together with restrictions on trade in used vehicles, will result in increased supply of new vehicles.
- **The factors that will drive demand over coming years are: increased average income for the population;** high degree of urbanization; lower expected price of vehicles, and better provision of roads in the country.
- **Through the Panamanian financial system is financed around 40% of all vehicle purchases.** The development of banking, low interest rates, higher financing terms and coverage of a greater amount of the vehicle value are key factors in boosting business for the banking sector.

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Closing date: April 15, 2011

1. Automobiles in Panama

There is a relatively large and new pool of vehicles in the country, which is mostly concentrated in Panama City. This has grown consistently over recent years supported by a very liberal foreign trade regime and strong growth in income per capita. Both factors lead us to expect positive performance of the sector in the coming years, resulting in increases in the vehicle fleet with a faster rate of renewal. The automobile sector consists mainly of import and distribution activities, with hardly any assembly work.

Table 1
Relevant indicators for the Panamanian automobile market

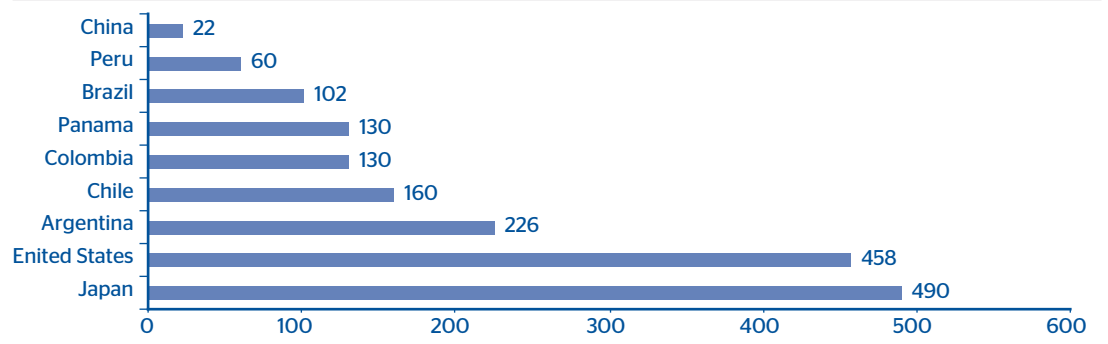
Population (thousands, 2010)	3,405.8
Per capita GDP (USD 2010)	7,712.0
Size of territory (thousands of square km)	770.8
Road network (thousands of km, 2009)	13,973.9
Asphalt and concrete road network (% of road network, 2009)	42.0
Vehicle fleet (thousands, 2009)	442.5
Vehicles per 100 inhabitants, 2009	13.0
Age of the vehicle fleet (years, 2007)	9.2
Sales of new automobiles (units per year, 2010)	37,459
Average vehicle price (USD, 2010)	20,873.1
Average financed balance (2010)	80.0%
New vehicles financing (% of new car sales)	38.4%

Source: INEC, ADAP, IMF, CEPAL, BBVA Research

Composition of the Automotive Fleet

There are 13 vehicles in circulation for every 100 inhabitants in Panama (See Table 1); this is above the regional average, but is below that of countries with similar income levels (Chart 1). Despite this, the major country's trade openness since the 1990s has enabled this indicator to rise from 10.7 to the current 13. At present there are 442.5 thousand vehicles in the country, compared to 303.5 thousand at the end of the previous decade, with an annual average growth of 3.4%.

Chart 1
Vehicle fleets in selected countries 2008 (Vehicles per 1000 inhabitants)

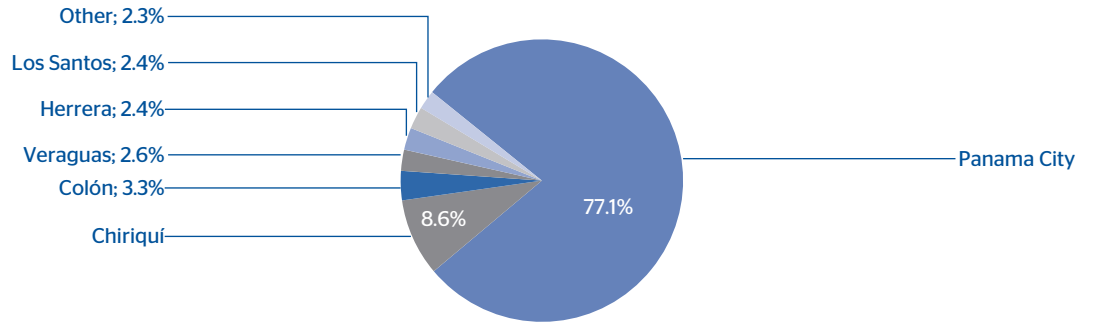


*Figures for Panama are for 2009.
Source: INEC and BBVA Research

We can use the official statistics to divide the vehicle fleet into official, commercial and private vehicles. Official vehicles only represent 1% of the total fleet. A further 19% relates to vehicles for commercial activities, of which 75% are for cargo transport; 14% for passenger transport; and the remaining 19% are for business use. Sedans, vans and pick-ups account for 80% of all vehicles, and 91% of private vehicles.

By geographic zone, 77% of the vehicle fleet is in Panama City, whilst of the remainder, the province of Chiriquí stands out with 8.6% (Chart 2). This distribution correlates with a major concentration of the population and businesses in these urban areas. These three regions account for 70.6% of the total population of the country.

Chart 2
Distribution of the vehicle fleet by province (Percentage)



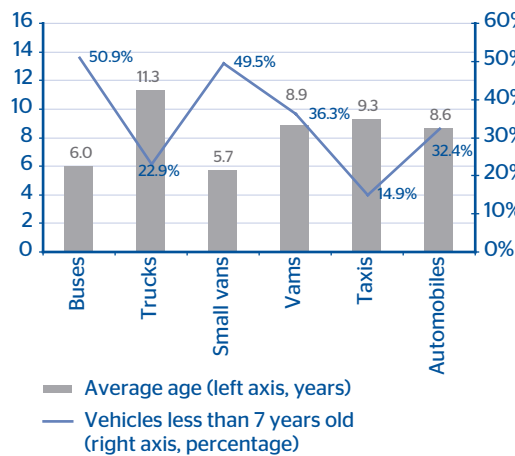
Source: INEC and BBVA Research

Unlike other countries in the region (particularly, El Salvador, Guatemala, Honduras and Nicaragua), growth of the vehicle fleets in Panama and Costa Rica has been lower than the average increase in GDP over the last 10 years (GDP increased by 6.0% in Panama). The elasticity of the vehicle fleet to GDP in Panama over the last decade has been around 0.5%.

Age of vehicle fleet

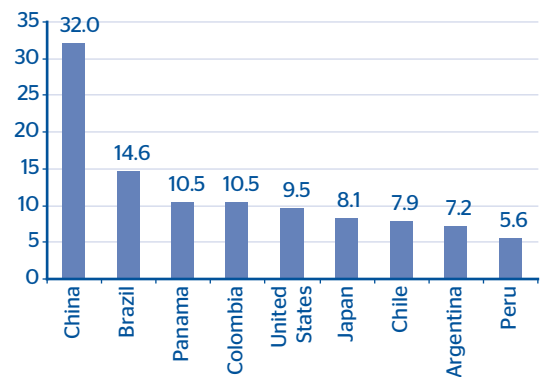
The average age of Panama's vehicle fleet is 9 years, with a particularly modern fleet of busses and vans, which had an average age of only just over six years in 2007. The average age of automobiles, taxis and vans is around nine years. The truck fleet is the only one to have an average age in excess of eleven years (Chart 3). Furthermore, the rate of renovation of the fleet (sales of new vehicles as a proportion of the total fleet) stood at 7.2% in 2009; this was lower than the rate in 2008 due to a major slowdown in sales, but still higher than the 6.5% in 2000. This is higher than the average for Latin America and even for some developed countries (Chart 4).

Chart 3
Average age and percentage of vehicles less than 7 years old in 2007



Source: CEPAL (2009) and BBVA Research

Chart 4
Renewal rate of the vehicle fleet in 2008 (Percentage)



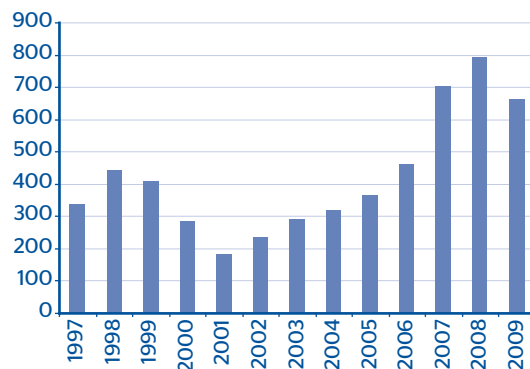
Source: INEC and BBVA Research

Potential growth in the automobile sector is linked to the improved performance of the economy, which will boost demand for commercial vehicles, and by the continuing renewal of the private vehicle fleet. As we shall see, the exceptional performance of the sector over coming years is explained by a combination of demand and supply factors.

2. Supply of vehicles

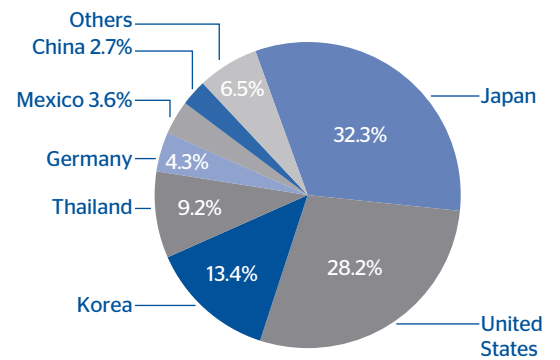
Supplies of new and used vehicles in Panama come from imports. As a result, the dynamics of domestic supply are determined by a combination of local conditions for vehicle imports and international vehicle prices. In effect, following the major reduction in the annual value of external purchases by the sector at the end of the 1990s, over the last decade purchases in the sector recovered strongly to USD 794 million in 2008, although this number decreased with the global slowdown in 2009 (Chart 5). In terms of tons, performance is similar: current values are equivalent to those seen eleven years ago.

Chart 5
Vehicle imports 1997-2009 (million dollars, CIF)



Source: INEC and BBVA Research

Chart 6
Sources of imports (Percentage of total CIF value)



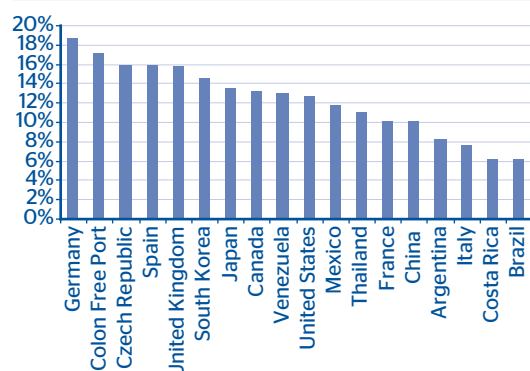
Source: INEC and BBVA Research

60.5% of Panama's vehicle imports come from Japan and the United States. These are followed by imports from South Korea (13.4%) and Thailand (9.2%). Other countries, including Germany, Mexico, China, Brazil and the UK, contribute only small percentages of the total (Chart 6). Over coming years we expect an increase in the penetration of Chinese makes, of which there are already 34 in Panama; these are using a strategy of low prices, in line with the rest of the region.

Purchases from Japan and the United States are usually of used vehicles. According to figures for 2009, 62% of vehicles from Japan and 85% of those from the United States are used ones. This has led to the development of a re-export market for used commercial vehicles through the Colón Free Zone. However, this trade is a tiny percentage compared to imports of used vehicles, with local consumption being by far the main destination for such vehicles.

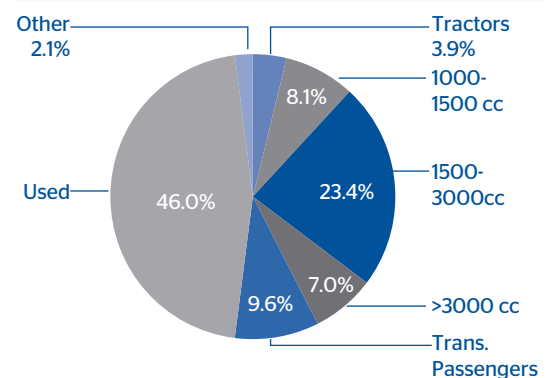
The effective average tax rate paid on vehicles imports was 13.3% in 2009. By country, vehicles from Germany pay the highest average effective tax, at 18.7%. Furthermore, among the countries with the lowest share of the total, vehicles from Thailand and the United States have the lowest effective tax rates, at 11.0% and 12.7% respectively. These percentages are related to the average price of the vehicles imported. The most expensive vehicles come from Germany, and the cheapest come from North America, mainly due to the larger share of used vehicles (Chart 7).

Chart 7
Effective tariff by country of origin (Percentage)



Source: INEC and BBVA Research

Chart 8
Imports by vehicle type (Percentage of total CIF value)



Source: INEC and BBVA Research

By vehicle type, the largest share of imports is used vehicles, which account for 46% of total purchases in the country. Among new vehicles, the largest number is smaller capacity vehicles of between 1,000 and 3,000 cc, which account for around 60% of total imports, followed by passenger transport vehicles, which account for 18% (Chart 8). These figures show a change in the composition of demand in Panama, as lower capacity vehicles have increased from 37% in 2000, in detriment to diesel-motor vehicles, which have fallen by around 17% compared to the previous decade.

The main vehicle dealers are RPSA (Ricardo Pérez S.A.), Petroautos, Grupo FASA (Panamotor, Bavarian Motors, Motores Franceses and Mini), Grupo Q - Supermotores, Motores Japoneses, Bahía Motors and Grupo Excel. The best-selling makes in Panama, in order, are Toyota, Hyundai, Nissan, Kia, Honda, Mitsubishi, Suzuki, Isuzu, Chevrolet and Ford (Table 2). 50% of the market is concentrated on the three leading automakers, which correspond to the first three dealerships listed above.

Table 2
Vehicle distributors in Panama

Dealership	Automakers
Bahía Motors	Honda
Consúltenos	AUDI
Copama	MG (Morris Garages), Isuzu, FIAT
Distribuidora David	FORD, Lincoln, Mercury
Grupo Excel	Chevrolet, KIA, Mitsubishi and BMW
FASA Group	
Panamotor	Nissan
Bavarian Motors	BMW
Motores Franceses	Renault
Mini	Mini
Grupo Q -Supermotores	Mazda, Chrysler, Jeep, Dodge, SangYong and Mercedes Benz
Grupo Sílabas	Chevrolet, Pontiac, Cadillac, KIA, CHERY, WULING, HUMMER
Motores Japoneses	SUZUKI
Petroautos	Hyundai
Ricardo Pérez S.A.	Toyota, Hino, Daihatsu and BYD

Source: BBVA Research

Marketing activity in Panama, particularly for luxury vehicles, has been promoted in recent years by the annual Panama Motor Show, which is organized by the Asociación de Agencias Distribuidoras de Automóviles de Panamá (ADAP - Panama Automobile Distribution Agencies Association) in October. This Fair brings together agencies from the sector, in addition to insurers and banks. This strategy of integrating the automobile and financing businesses increased vehicle sales by around 60% in October compared to the 2010 average.

Another important automobile sector activity in Panama is the transfer of vehicles through the country's ports. There are three port terminals in the country which are used for vehicle transfers: two in Colón (Manzanillo International Terminal and Cristóbal) and one in Panamá City (Balboa). In addition to administering the country's automobile imports, these ports are used for transit to other destinations. For example, in 2010 these ports combined handled over 140 thousand vehicles, an increase of 49.9% on 2009; however, this was below the figure for 2008 of over 202 thousand vehicles.

As a result, Panama has the necessary trade regulations and infrastructure to increase supply at the same rate as the forecast increase in demand.

Auto parts

The auto-parts business in Panama currently has sales of around USD 80 million per year, up from USD 50 million in 2000 as a result of the strong performance of the sector over the last decade. However, this business has been slightly affected by the 2008 financial crisis. Prior to 2008, this business area had been growing at average nominal annual rates at around 6%, whilst in 2009 it grew by 3% yoy. However, this slowdown in the auto-parts business was lower than that in the economy as a whole. This was explained by the effect of the reduced funding supply on decisions to buy new vehicles, leading households to require repair and maintenance services for their automobiles.

This activity grew at an annual rate of around 8% in 2010. During this year, this performance was driven by sales of tires. On average, around 500 thousand tires are imported, an investment of over USD 50 million.

The growth in imports into the country reflects internal dynamics, as internal production is very small. The most-imported products are shock-absorbers, bodywork, tires, clutches and fenders, which mainly come from Japan, South Korea and Taiwan, whilst lubricants are mostly imported from the United States.

Table 3
Imports of auto parts (USD Million)

Auto parts	2007	2008	2009
Shock absorbers	4.5	5.2	6.3
Bodies and parts	3.3	5.2	6.3
Tires	4.8	4.3	4.5
Clutches and their components	2.9	3.1	3.6
Fenders and their parts	1.9	2.2	2.2
Radiators and their parts	1.3	1.6	1.8
Brakes	1.9	1.1	1.7
Gear boxes	1.0	1.1	1.1
Axles	0.6	1.0	0.7
Silencers and exhaust pipes	0.5	0.7	0.4
Steering columns and their components	0.2	0.3	0.4
Seat belts	0.0	0.0	0.0
Chassis	0.1	0.3	0.0
Carpeting	0.1	0.0	0.0
Other*	42.6	47.9	47.3
Total	65.9	74.1	76.2

* The "others" heading includes entries for imports of tires
 Source: INEC and BBVA Research

An additional element behind the growth in the sector is the offer of complementary after-sales services. For example, every month Toyota, Nissan, BMW, Audi, Porsche and Mercedes Benz deal with an average of 15 thousand vehicles requiring a range of services from oil changes to changing the whole engine. After-sales service has therefore developed into an important marketing tool which is used by some automakers to drive sales; however, it has also generated increased demand for auto spares by dealerships and their subsidiaries, and increased investments in the sector to prepare the physical locations and technology required for these new services.

Auto-part import companies in Panama have a dual role in supplying the local market and acting as a hub for exports to Central and South America. Some of the largest auto-part importers and exporters have established themselves in the Colón Free Zone because of its strategic locations: Japan International Parts, S.A., Autopiezas Casa Japon S. A., Auto Center Zona Libre S.A. and Benitomo.

The companies which serve the domestic market include Tambor (Firestone and Bridgestone tires), SUMRO (bearings, motors, couplings, and hoses), AG Auto Partes S.A. (air filters, shock absorbers, spark plugs, body parts, oil filters, brake shoes, silencers) and MultiPartes S.A. (all spares for Chrysler, Plymouth, Dodge, Jeep, Chevrolet, Pontiac, Ford, Buick, GMC, Oldsmobile and Mercury).

Over coming years the dynamics of the auto-parts sector will be determined by the increased supply of vehicles in the country and the improving positioning of the Colón Free Zone as a focal point for business in Latin America once the Panama Canal has been expanded. In particular, the entry of new vehicles into the market should increase demand for spares and tires, enabling the sector to maintain high growth rates.

The tax regime for the sector and the outlook for supply

Panama currently has free-trade agreements with Chile, Costa Rica, Guatemala, El Salvador, Honduras, Nicaragua, Singapore, Taiwan and the Dominican Republic. Only the signed agreements with Chile, Guatemala, Nicaragua and Costa Rica include vehicle imports, gradually decreasing tariffs on passenger and cargo vehicles, and eliminating them over a period of between 10 and 12 years depending on the country. The only exceptions to this agreement are, in the case of Costa Rica and Nicaragua, passenger vehicles in the EXCL category, on which merchandise is still paying most-favored nation customs tariffs.

Treaties are currently being negotiated or awaiting approval with the United States, Colombia, Canada and Peru. These agreements will be an effective measure for increasing the market for imported vehicles, particularly in the case of the United States as the second-largest supplier of new and used imported vehicles. It is expected that when these treaties come into effect they will increase the supply of automobiles in the country and the range of available makes.

In terms of fiscal matters, the tax reforms approved by Law 8 of 2010 eliminated the tariff on importing motor vehicles and modified the Selective Consumption Tax (SCT) on the sector. The SCT applies to transport vehicles and to hybrid and/or electronic automobiles for the transport of people and commercial use. This varies between 5% and 25% depending on the CIF value (in Balboas) of each vehicle (Table 4).

Table 4
Selective consumption tax rates by vehicle type

Goods	SCT
Vehicles with CIF less than B/ 8,000	15%
Vehicles with CIF from B/ 8,000.00 to B/ 20,000	18%
Vehicles with CIF from B/ 20,000 to B/ 25,000	23%
Vehicles with CIF higher than B/ 25,000	25%
Electric and/or hybrid vehicles until 2012	0%
Electric and/or hybrid vehicles until 2013	5%
Vehicles for the disabled	5%
Goods transport vehicles	12%
Commercial transport vehicles	10%
Passenger transport vehicles	10%

Source: Deloitte and BBVA Research

A tax on vehicle use was recently introduced which is collected annually from land vehicles which use Panamanian territory, based on the value of the vehicle (Table 5). In addition, Draft Law 51, which is currently being debated in the National Assembly, includes regulations on the sale of used vehicles. This draft law establishes that vehicles can only be imported which are three years old or less, in order to protect the consumer, the environment and road safety. On being approved, we expect an immediate effect from this law on the rate of renewal of the vehicle fleet and a change of consumption preferences towards new vehicles and the maintenance of current vehicles.

Table 5

Tax on vehicle use

Price range	Annual tax
Up to B/ 19,000	B/ 28
From B/ 20,000.00 to B/ 49,999	B/ 38
From B/ 50,000.00 to B/ 75,000	B/ 50
Higher-value vehicles	B/ 150

Source: National Assembly and BBVA Research

3. Demand for vehicles

Driven by strong economic growth averaging 8.3% yoy, vehicle sales grew rapidly in Peru between 2003 and 2008. 2008 was a record year for vehicle sales, with 2.5 times more transactions than in 2003. During this period, the annual increase in sales was around 21%. This trend reversed in late 2008 and through 2009: sales only grew by 4.5% yoy in 2008 (having grown by around 20% yoy in the first six months), whilst they fell by 26.0% yoy in 2009.

The new sales trend in the sector in 2010, with a 171% increase in the total number of transactions, has resulted in a significant change in the composition of vehicle types. Whilst sales of automobiles reduced as a share between 2008 and 2010 -from 43.5% to 37.4%- SUVs increased from 27.0% to 35.8%. This increase in the share of SUVs shows a change in preferences over recent years in favor of vehicles with dual rural-urban functionality. However, the recent trend in oil prices may change this trend. In fact, prior to 2008, higher fuel prices inclined demand in Panama towards vehicles with lower fuel consumption.

The ten top selling makes in Panama accounted for 89.9% of all the units sold in 2010. Toyota has the largest share, 23.1%, followed by Hyundai and Nissan, with 19.8% and 17.6% of total sales respectively (Table 6)¹.

Table 6

Automobile sales by makes

MAKE	2009	2010	2011*
Toyota	7,573	8,659	1,516
Hyundai	5,212	7,413	1,264
Nissan	6,445	6,605	1,422
Kia	1,987	3,469	693
Honda	1,963	2,216	505
Mitsubishi	1,604	1,646	265
Suzuki	1,447	1,392	222
Isuzu	743	874	160
Chevrolet	902	783	229
Ford	448	616	115
Other	3,661	3,783	762
Total	31,985	37,456	7,153

* (Accumulated January-February)

Source: ADAP and BBVA Research

Sales of passenger transport vehicles (minivans and busses) and cargo vehicles (lorries), which increased rapidly during the first part of the last decade, reduced their total market share after 2008: whilst they accounted for 12.2% of total vehicle sales in 2003, they now account for just 7.5% following an average yoy contraction of 17% in 2009 and 2010.

1: By models, the best-selling small vehicles (segments A to E) in 2010 were: Kia Picanto Hatchback (459 units), Toyota Yaris Hatchback (288), Hyundai Accent GL (1.0: 908), Nissan Almera (1.0: 107), Honda Civic (268) and Honda Accord (111). The large-SUV market was led by the Toyota Prado with 613 vehicles sold in 2010. The best-selling smaller SUVs were the Hyundai Tucson IX (2,242 units), the Kia Sportage (1,169) and the Honda CRV (1,113). The most popular compact pick-ups were the Toyota Hi Lux (2,599 units), the Nissan Frontier (1,056) and the Nissan Navara (1,001).

This is in part explained because renewal of the passenger transport vehicle fleet advanced rapidly around the middle of the decade, as owners of collective transport vehicles who had bought their fleets in the second-hand market in the USA decided to buy new busses. This renewal process has slowed over recent years, reducing demand for such vehicles.

By provinces, the capital city has the highest percentage of sales and is the most dynamic market. Although there was growth in some of the other regions in 2010, in general sales performance was worse than the national total. In particular, sales of vehicles in Chiriquí, at 2,349 (6.3% of the total), increased by 7.4% yoy; in Veraguas 735 units were sold (2.0%), an 11.2% yoy increase; and there was a 3% increase in sales in Los Santos. However, sales fell by 10% yoy in Colón and Coclé, and by 31% in Bocas del Toro.

Determining factors in demand for automobiles in Panama

A balance of various factors enables us to establish a positive outlook for automobile purchases in Panama. The first factor supporting increasing demand for vehicles is the increase in household income. Household income in Panama has increased substantially over the last 20 years. Whilst around 67% of the population earned less than USD 100 per month in 1990, this has now fallen to 56% (Table 7). In addition, the proportion of the population with income in excess of USD 600 per month increased from 4.2% to 12.3% in the same period.

Table 7

Distribution of monthly earnings in Panama (Percentage of total population)

Range of monthly earnings (USD)	1990	2000	2010
Under 100	66.7	64.9	55.7
100-124	3.1	3.1	3.9
125-174	3.9	3.3	2.7
175-249	5.2	6.8	4.2
250-399	6.6	8.4	8.0
400-599	4.0	5.6	10.4
600-799	1.6	2.4	4.5
800-999	0.8	1.3	2.5
1000-1499	0.9	1.3	2.5
1500-1999	0.4	0.6	1.0
2000-2499	0.2	0.3	0.6
2500-2999	0.1	0.2	0.3
3000-3999	0.1	0.2	0.4
4000-4999	0.0	0.1	0.2
5000 and over	0.1	1.6	0.4

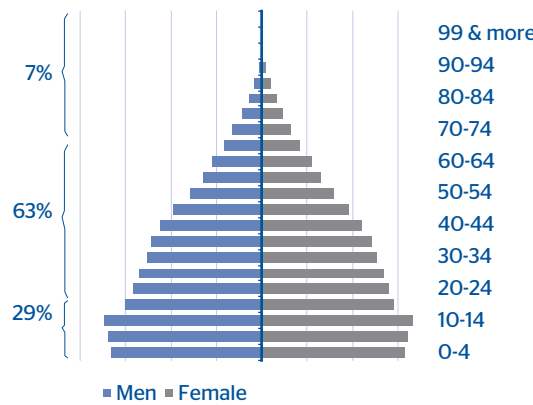
Source: INEC-Census and BBVA Research

This was made possible by higher economic growth in the previous decade, which enabled the unemployment rate to fall from 13.5% to 6.5% between 2000 and 2010. In turn, during the same period, employment increased by 55.6% (520 thousand jobs), higher than the growth in the supply of labor, 31.4%. For the future, we expect that the performance of the economy and additional improvements in the labor market will increase average income in the economy even further, which will have a positive impact on demand for automobiles in the country.

According to our calculations, a person can obtain credit for a vehicle in Panama if they have gross average income of USD 650 or more, providing that they do not have any other outstanding credit. As a result, based on 5.0% per capita GDP growth over the 2011-2014 period, we can predict that demand for private vehicles will increase in line with average income. The simulation assumes that the cheapest vehicle on offer in Panama costs USD 7,000, of which up to 90% is financed at a rate of 8.0% APR over 60 months. This results in a forecast that an average of 30.2 thousand additional people may be able to obtain credit to buy a vehicle over the next four years.

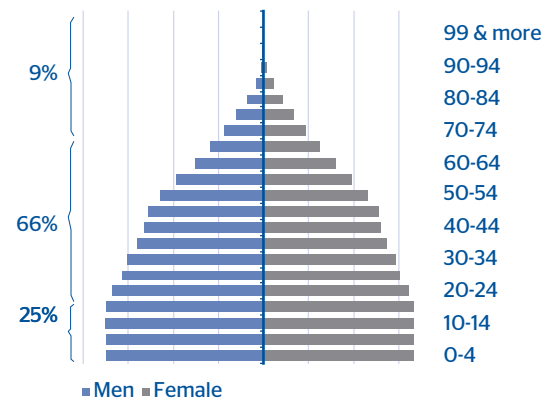
This analysis is also supported by population trends over the coming years (Charts 9 and 10). Over the coming decade, which is a relatively short period of time in terms of demographic trends, the working-age population will increase as a share of the total population by 3 percentage points as a result of 23% growth over the period. In addition, Panama has the highest rate of urbanization (around 69%) in Central America, with 50% of the population concentrated in the capital city (Chart 11).

Chart 9
Demographic pyramid for Panama, 2010



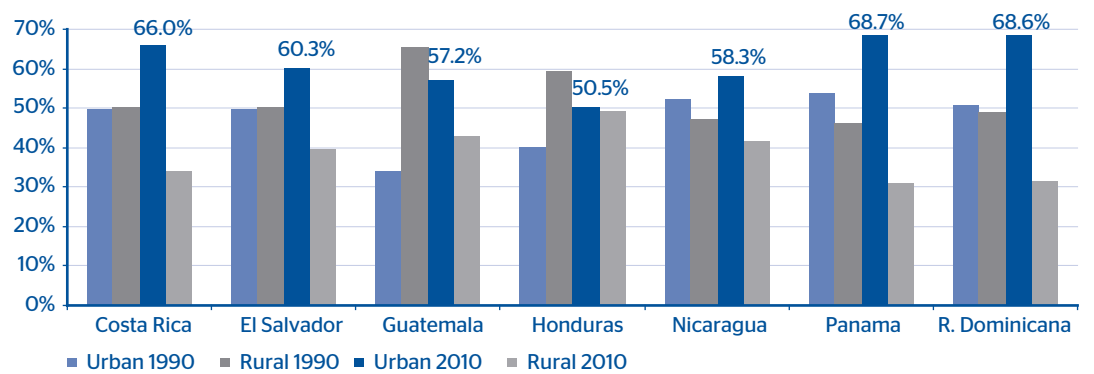
Source: INEC and BBVA Research

Chart 10
Demographic pyramid for Panama, 2020



Source: INEC and BBVA Research

Chart 11
Population of Central America, urban and rural



Source: CEPAL and BBVA Research

This trend in vehicle sales will extend to commercial vehicles. In fact, during the recent phase of economic growth from 2004 to 2008 sales of vehicles apparently for commercial purposes (minivans, panel trucks, pick-ups, busses and lorries) increased by 23.9% on average and gross fixed capital formation in the economy grew at a similar rate. In the coming years, investment in the Panama Canal and the impact of this on the country's trade, together with the Panama City mass-transport system coming into operation, will have a positive influence on demand for such vehicles. In total, including private and commercial vehicles, BBVA Research expects annual sales of 42 thousand vehicles on average over the next four years.

Another factor which will support demand is price. The trend in vehicle prices has been downwards over recent years. The entry of new Chinese makes into the Panamanian market, backed by companies in the sector with long experience in the country, has created new segments of demand, especially among young professionals who have recently joined the labor market and can now buy their first vehicle. For example, whilst the average price of Japanese, Korean and American automobiles is above USD 17,000, the Chinese BYD brand sells for prices between USD 7,300 and USD 8,400. However, the recent tax reform which increased tax rates for

vehicles with a value in excess of USD 15,000 and for four-wheel drive vehicles with a price in excess of USD 18,000 will in part offset the reduction in the price of such vehicles.

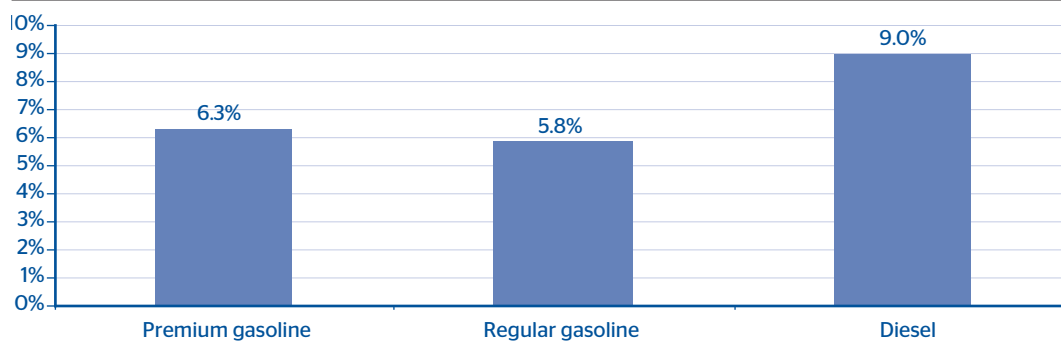
An additional factor which may encourage demand for lower-value automobiles is the possibility of restrictions on used vehicles if the Draft Law to this effect currently going through Congress is approved. In this case, the price of used vehicles could increase by between USD 2,000 and USD 5,000 in the domestic market, depending on their age, promoting sales of new vehicles of an equal or slightly higher value².

Meanwhile, the price of fuel has moved in line with the international oil price, except for some Government intervention in prices in order to affect consumption. The effect of this fuel pricing policy has been to increase the price of diesel substantially, which particularly increased the costs of cargo and passenger transport (Chart 12). In this regard, a scenario of high oil prices could encourage demand for smaller cars which are more fuel-efficient.

Consumers have responded to the increase in fuel prices by converting to gas. Over recent years, in addition to taxis (the main market) gas has been used in corporate busses and private vehicles. Even so, demand for liquefied petroleum gas (LPG) has not increased by more than demand for other types of fuel, in particular gasoline (Chart 8).

Nevertheless, this should intensify over the longer as a result of the decision by Panama's government to promote the creation of a liquefied natural gas (LNG) power station and a receipt, storage and re-gasification plant. The objective of this project, which involves investment of USD 300 million in the power station and USD 130 million in the LNG plant, is to introduce natural gas as a new fuel in Panama and to substitute a major part of the use of diesel, fuel oil and liquefied petroleum gas.

Chart 12
Fuel price increases 2001-2009



Source: CEPAL and BBVA Research

Table 8
Domestic consumption of oil derivatives 1990-2009 (Thousand barrels)

	Total		Final consumption						Electricity output		
	Consumption	Subtotal	LPG	Gasoline	Kero/Jet	Diesel	Fuel Oil	Other	Subtotal	Diesel	Fuel Oil
1990	6,398	5,503	737	1,788	609	1,973	353	43	895	222	673
1995	10,562	8,264	909	2,587	911	3,141	595	121	2,298	1,077	1,221
2000	11,036	10,061	1,152	3,326	1,450	3,589	331	214	974	513	462
2005	14,279	11,580	1,339	3,489	1,472	4,729	336	216	2,699	205	2,494
2006	15,063	12,074	1,450	3,541	1,719	4,737	323	305	2,988	271	2,717
2007	17,277	12,944	1,513	3,909	2,053	4,841	330	299	4,333	1,745	2,588
2008	17,554	14,547	1,569	4,062	2,368	5,884	348	315	3,007	904	2,103
2009	18,092	16,163	1,609	4,711	2,611	6,524	381	328	1,929	281	1,649

Source: CEPAL and BBVA Research

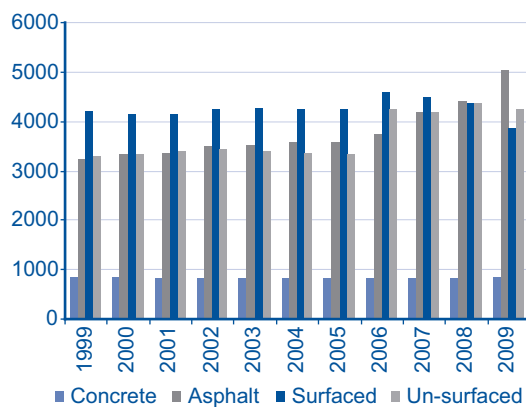
²: According to a 2008 study by Dichter and Neira, the resale value of used vehicles is 80% in the first year; 73% in the second year; 67% in the third year; and 63% in the fourth year.

Thirdly, the implementation of a new mass transport system in Panama City -Metrobús– may make public transport more efficient and increase demand for it. The way in which this develops will have an impact on sales of private vehicles over coming years, as it has shown its importance in purchasing decisions over the last two decades. The volume of users of public transport has fallen from 75% in 90s to 54% at present as a result of problems with provision of the service and the lack of an integrated transport-interchange system, resulting in disjointed journeys. This has promoted the purchase of private vehicles over recent years.

Finally, Panama’s road network increased by 21% over the last decade, particularly asphalted roads, which increased from 28% to 38% of the total between 1999 and 2009 (Chart 13). This is higher than any other country in South America (the highest being in Venezuela at 34%), but is lower than Mexico (50%) and the USA (65%). Furthermore, surfaced roads (thin-layer of asphalt or compacted gravel) account for 28% of the total, although they have been gradually replaced by asphalt. This progress over the last decade in connecting rural and urban roads largely explains the increased demand for SUVs in Panama over the last decade.

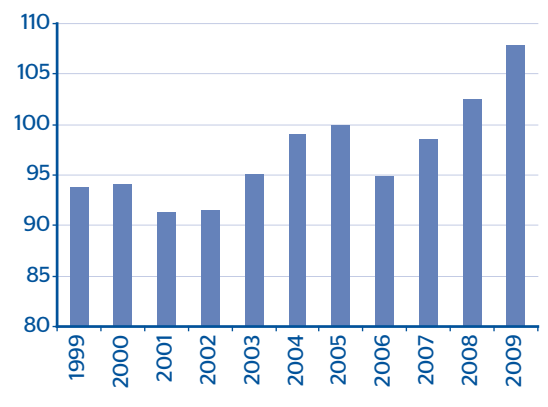
In 2009, Panama had around 14,000 km of roads and a vehicle fleet of 442.5 thousand vehicles, a vehicle flow intensity (vehicles/km) of 31.7; this is below the rate in other countries (for example, Argentina where the rate was 231 veh/km in 2008). Furthermore, this rate grew gradually over the last decade at a rate of just 15%, in part because strong growth in vehicle sales was accompanied by more road building (Chart 14).

Chart 13
Total length roads by surface type



Source: INEC and BBVA Research

Chart 14
Panama vehicle flow index



Source: INEC and BBVA Research

In summary, the factors affecting demand described above will promote purchases of light, compact vehicles, both as a result of the increase in fuel prices and the numbers of young professionals seeking their first vehicle. Furthermore, heavier vehicles will continue to be in demand for commercial use to the extent that high rates of growth in economic activity and investment are expected. In addition, the expected favorable performance of prices over coming years, the arrival of new Chinese models competing at lower price levels and the limitations on importing second-hand cars will reduce the income threshold required for a person to purchase a new vehicle.

4. Financing

Panama has a level of financial depth (lending to residents/GDP) equivalent to 92.3% of GDP, and one of the most developed banking sectors in the region. Given the expected expansion in the vehicle sector, both private and commercial, there is an opportunity for the banks to continue to become more involved in vehicle finance and in the development of the supply side of the business. In other words, there is a significant opportunity to increase the volume of vehicle sales financed through the financial system. In particular, according to figures from Panama's Superintendency of Banks, the proportion of vehicles financed by the banks is around 40%, with loans covering up to 90% of the value of the vehicle when it is used as collateral.

The amounts financed are concentrated in lower price ranges. Loans with a value of less than USD 15 thousand represent 82% of the total number of customers and 65% of the balance owed; meanwhile, loans with a value of over USD 50 thousand only account for 0.4% of clients and 4% of the total balance (Table 9). The average amount of each loan has been around USD 15 thousand over recent years, with the highest average value being at the end of 2010 at an average of USD 16.4 thousand. The average term of the loans has been increasing over recent years: in 2005, the average term of new loans for vehicles was five years, 24 months less than the average term offered now.

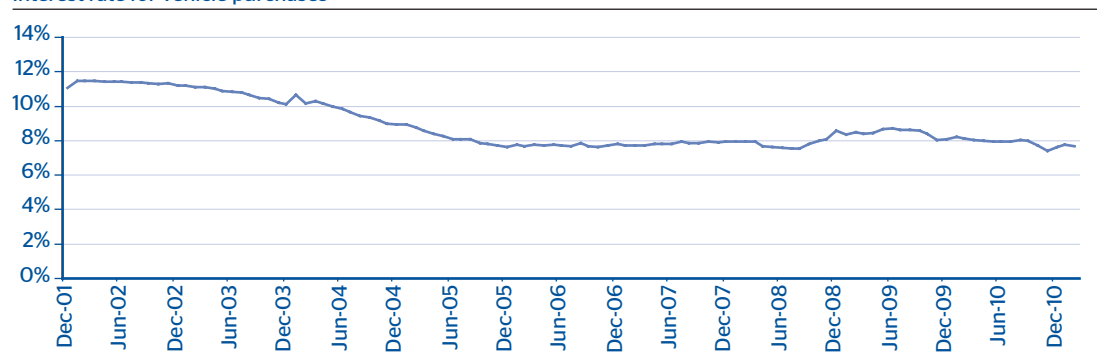
Table 9
Vehicle loans by value

Range	Clients		Balance	
	Number	% of total	USD millions	% of total
<= 15,000	37,780	82%	334	65%
< 20,000	4,917	11%	84	16%
< 25,000	1,820	4%	40	8%
< 30,000	803	2%	22	4%
< 35,000	372	1%	12	2%
< 40,000	160	0%	6	1%
< 45,000	104	0%	4	1%
< 50,000	41	0%	2	0%
< 55,000	32	0%	2	0%
< 60,000	31	0%	2	0%
> 60,001	79	0%	9	2%
Total	46,139	100%	516	100%

Source: Bank Superintendency and BBVA Research

Demand for loans for vehicle purchases has also been driven by lower interest rates. This interest rate fell by 340 basis points between 2001 and 2011, the second largest fall behind commercial loans to companies not located in the Colón Free Zone (Chart 15). Furthermore, excluding mortgage loans, this interest rate is the lowest offered by the banks for loans to households.

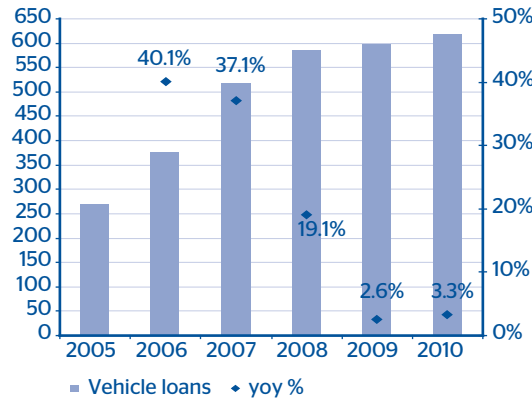
Chart 15
Interest rate for vehicle purchases



Source: Bank Superintendency and BBVA Research

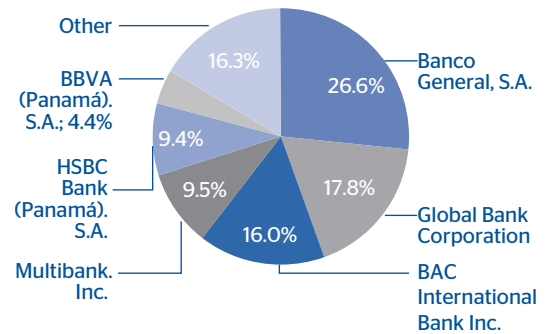
The current balance of vehicle loans is USD 626.5 million, accounting for 11.7% of total lending to households (8.3% in 2001, maximum of 12.6 in October 2008, Chart 16). This lending portfolio is currently concentrated with six banks, which account for 84% of total loans (Chart 17). The bank's current strategies are focusing on improving procedures for approving loans; offering low interest rates (and even lower rates when the vehicle is used as collateral); and linking the sale to insurance services for the vehicle.

Chart 16
Balance of total vehicle loan portfolio and annual change (USD million and yoy, %)



Source: Bank Superintendency and BBVA Research

Chart 17
Vehicle lending by bank



Source: Bank Superintendency and BBVA Research

The quality of the vehicle loan portfolio deteriorated significantly between 2005 and 2008. During this period, the non-performing portfolio increased from levels of around 2% of the total portfolio to over 5%. The latest available figures show the quality of the portfolio has improved, though it has not returned to pre-crisis levels.

In summary, the development of Panama's banks over the coming years will enable an increase in vehicle lending, particularly due to the current strong competition between banks in the country. Furthermore, the continuation of low interest rates and the extension of financing terms will enable a larger number of people to access credit, particularly for financing vehicle purchases. Finally, the increase in the average earnings of the population, and the proportion of the population with earnings above the threshold of USD 650, will be key variables for the finance sector in terms of increasing its penetration of the sector.

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