

Panama

Continuing the high growth rates it has seen in recent years, the Panamanian economy is likely to grow by 10.5% in 2011, driven mainly by domestic activity. The non-financial public sector deficit is expected to be equivalent to 2.0% of GDP in December 2011, similar to the figure for 2010. The current account deficit reached 7.3% of GDP in June 2011, while external debt stood at 41.8% of GDP. The consumer price index rose by 6.8% through November compared with the year-earlier period. The unemployment rate stood at 4.5% in August 2011, representing a decrease of 2 percentage points in comparison with the same month in 2010.

The strong performance of 2011 was due largely to domestic factors, driven by the current administration's policies that spurred economic growth. The government launched a number of public infrastructure projects, notably the expansion of the Panama Canal, the clean-up of the Bay of Panama, the extension of the coastal strip, the construction of the metro in Panama City and the building of roads and housing.

The non-financial public sector fiscal balance is projected to close 2011 with a deficit of 2.0% of GDP, similar to the previous year, in accordance with the Fiscal Responsibility Act. Total non-financial public sector expenditure through June 2011 grew by 25.5% compared with the same period in 2010, with capital expenditure accounting for most of the increase (77.9%). Total revenues as of June 2011 rose by 15.2% in nominal terms, compared with the year-earlier period. Tax revenues were up by 28.8% compared with the same period in 2010, as a result of recent fiscal reforms and more efficient collection practices.

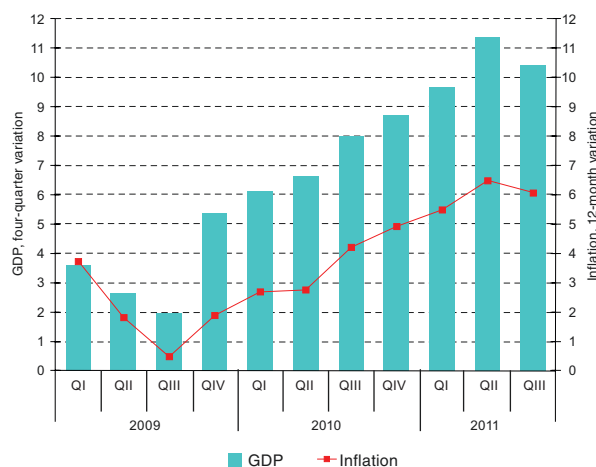
The non-financial public sector deficit was financed partially with contract debt totalling US\$ 12.524 billion (84.3% in external debt and 15.7% in domestic debt), 7.7% more than in December 2010. Given the very high rate of economic growth in 2011, contract debt was equivalent to 41.8% of GDP in June 2011 compared with 43.4% in December 2010.

In 2011, the Panamanian banking sector continued to build on the momentum it had shown in 2010. Domestic credit to the private sector totalled US\$ 27.44 billion in September 2011, representing a nominal increase of 14.5% compared with the same period in 2010. This expansion is

attributable to the solid performance of the main sectors of the economy. Credit to the commerce sector, which represents 28.8% of the banking sector's total loan portfolio, increased by a nominal 24.4% through September 2011. Other sectors that showed vigorous growth were credit to industry (31.1%), livestock production (13.9%), personal consumption (8.4%) and the mortgage sector (9.0%).

Nominal lending rates on credit to commerce and industry and consumer loans were 7.2%, 7.3% and 9.7%, respectively, in August 2011 — a drop of as much as 0.6 percentage points on the figures for the same period in 2010. The fall in real lending rates was much sharper; they

PANAMA: GDP AND INFLATION



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

stood at 1.8%, 1.9% and 4.1%, respectively, in August 2011, compared with 4.2%, 3.9% and 6.1%, respectively, the previous year.

With regard to the factors driving growth, aggregate demand is likely to have expanded by 14.3% in 2011, on the back of an upsurge in goods and services exports (20.9%), total consumption (8.8%) and fixed capital formation (8.7%). Imports of goods and services, in turn, are expected to have risen by 20.2%.

Preliminary figures indicate that most growth in 2011 was concentrated in five sectors that expanded at double-digit rates and that together represent over 50% of GDP. The transport and telecommunications sector, which accounts for 24.3% of total GDP, grew by 15.1% in the first half of 2011, as a result of an uptick in maritime transport service exports (22.7%), an increase in international air transport and the rallying of the communications sector (11.4%). Construction grew by 17.3% owing to a series of projects promoted by the non-financial public sector and the Panama Canal Authority. Other buoyant sectors during the first half of the year were mining and quarrying (16.5%), wholesale and resale trade (11.4%) and financial intermediation (10.3%).

The robust growth characterizing the Panamanian economy in 2011 is expected to continue to a large extent in 2012, when growth of 6.5% is projected.

In November, year-on-year inflation stood at 6.8%. The largest increase was seen in the transport sector owing to higher prices for fuel and public transport; food and beverage prices went up as well.

The unemployment rate and the open unemployment rate stood at 4.5% and 2.9%, respectively, in August 2011, down by 2 percentage points and 1.8 percentage points, respectively, from the same period the previous year. According to figures available from the first half of the year, job creation was centred in the districts of Panamá and San Miguelito (with a 1.9% increase compared with 2010) because of large infrastructure construction projects and the capital city's intense port activity. However, the number of employed persons in the rest of the country fell by 0.2%. During the same period, the average monthly wage was US\$ 802.10, representing a 5.4% nominal increase compared with the same period the previous year. The wholesale commerce sector recorded the highest average monthly pay, at US\$ 989.90, which was 3.2% higher than the previous year.

The current account closed the first half of 2011 with a deficit of US\$ 2.18 billion, 61.2% higher than for the

PANAMA: MAIN ECONOMIC INDICATORS

	2009	2010	2011 ^a
Annual growth rates			
Gross domestic product	3.9	7.6	10.5
Per capita gross domestic product	2.2	5.9	8.8
Consumer prices	1.9	4.9	6.8 ^b
Real average wage ^c	2.7	1.9	-1.8 ^d
Money (M1)	17.0	18.8	19.6 ^e
Real effective exchange rate ^f	-4.6	1.1	0.8 ^g
Terms of trade	4.8	-1.9	-2.2
Annual average percentages			
Urban unemployment rate ^h	7.9	7.7	5.4
Central government			
overall balance / GDP	-1.5	-2.6	-3.0
Nominal deposit rate ⁱ	3.5	3.0	2.4 ^j
Nominal lending rate ^k	8.3	7.9	7.3 ^j
Millions of dollars			
Exports of goods and services	16 652	17 423	22 654
Imports of goods and services	15 446	18 706	26 066
Current account balance	-44	-2 953	-4 746
Capital and financial balance ^l	659	2 605	4 717
Overall balance	616	-348	-30

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Preliminary estimates.

^b Twelve-month variation to November 2011.

^c Workers with social security coverage.

^d January-June average.

^e Twelve-month variation to October 2011.

^f A negative rate indicates an appreciation of the currency in real terms.

^g January to October average, year-on-year variation.

^h Includes hidden unemployment.

ⁱ Six-month deposits rate.

^j January-October average.

^k One-year loans for commercial activities.

^l Includes errors and omissions.

same period in 2010. The wider deficit is the result of a US\$ 3.173 billion merchandise trade deficit, which was about US\$ 1.067 billion higher than in the first half of the previous year. These results were partially offset by a slight 2.7% increase in the balance of services surplus and a significant 17.0% rise in foreign direct investment inflows, totalling US\$ 1.416 billion through June 2011.

After a six-year process, the Congress of the United States of America approved the free trade agreement with Panama, which is expected to bolster trade between the two economies. This agreement will enable Panamanian products to enter the United States market tax-free and will facilitate new investment inflows into Panama. At present, the United States is Panama's main trading partner, accounting for about 50% of all Panama's imports and exports.