

## Panama

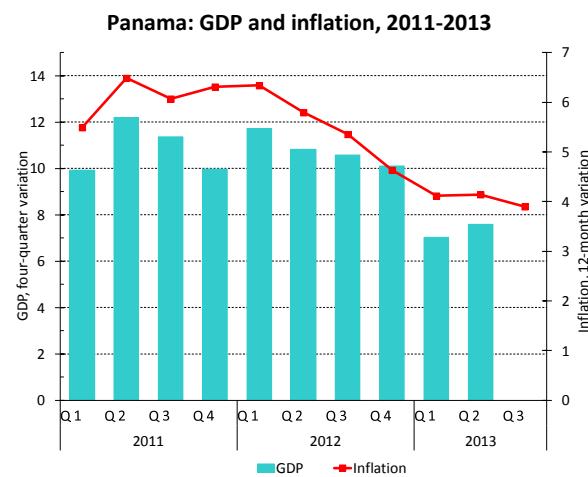
Panama's economy is expected to grow by 7.5% in 2013, down from the double-digit growth the country has seen in recent years but still on a par with the fastest-growing countries. Growth of 7% is forecast for 2014. In June 2013, the non-financial public sector (NFPS) posted a deficit of 2.0% of GDP, and the balance-of-payments current account deficit stood at US\$ 3.137 billion, an increase of US\$ 1.326 billion on 2012. Public debt totalled US\$ 15.880 billion in September 2013, a 9.8% year-on-year rise in nominal terms. In October 2013, the consumer price index was up 3.9% on levels recorded 12 months earlier, while in August 2013, rates of unemployment and open unemployment stood at 4.1% and 3.1%, respectively.

In the first half of 2013, the overall NFPS deficit stood at 2.0% of GDP—as against 1.2% of GDP in the same period of 2012—and thus remained below the limit of 2.8% of GDP set in the Fiscal and Social Responsibility Act. Total NFPS income, again in the first half of the year, was up 5.5% in nominal terms over the same period in 2012, while tax revenues increased by 3.7% in nominal terms, compared with a rise of 23.1% in the first half of 2012. This sluggish growth in the rate of tax collection is a result of a dramatic slowdown in growth in direct tax receipts, which rose a nominal 1.6% year-on-year in the first half of 2013, compared with 35.3% in the same period the year before. That phenomenal growth was, however, chiefly the result of a change in tax law in 2011, making figures for the first half of 2012 something of an anomaly. Meanwhile, in June 2013, total NFPS expenditure had grown by 12.9% compared with the same period the previous year, owing to increases in both general government current expenditure (12.7%) and capital expenditure (13.1%).

Total public debt stood at US\$ 15.880 billion in September 2013, a nominal increase of 9.8% on figures from the same month in 2012. However, given the high growth rate, total debt as a percentage of GDP will continue to decline and is projected to be around 39% by the year's end. Of total public debt, US\$ 12.145 billion (76.5%) was foreign, and US\$ 3.736 billion (23.5%) was domestic.

The strong momentum seen in Panama's banking sector in previous years continued into 2013, with its domestic private-sector lending portfolio reaching US\$ 35.918 billion in July 2013, year-on-year growth of 13.6% in nominal terms (9.1% in real terms), in line with the rate of expansion seen in the other major sectors of Panama's economy. Loans to the commercial sector (30.3% of the total private lending portfolio) grew by 10.7% in nominal terms; mortgage lending (27.7% of the total) by a nominal 15.1%; consumer credit (19.4% of the total) by a nominal 12.0% and credit to the construction sector (10.4% of the total) by 23.5%.

In the first half of 2013, the current account deficit reached US\$ 3.137 billion, as against US\$ 1.326 billion in the same period of 2012. This reflected a US\$ 1.123-billion increase in the trade deficit in goods, a result of a fall of US\$ 704 million in exports, owing to lower sales in the Colón Free Zone together with an increase in



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

imports of US\$ 244 million, reflecting growing demand for national imports over the year. Meanwhile, the trade deficit in services grew by US\$ 218 million, mainly as a result of lower income from the business, professional and technical service sectors. The income account deficit reached US\$ 1.839 billion in the first half of 2013, an increase of US\$ 451 million over the same period in 2012, primarily as a result of higher interest payments on public debt. Foreign direct investment totalled US\$ 2.037 billion in the year to June 2013, an increase of US\$ 322 million on June 2012.

In September 2013, Panama and Colombia signed a free-trade agreement, marking the culmination of negotiations that had begun in March 2010. This paves the way for Panama's accession to the Pacific Alliance, a trade bloc made up of Chile, Colombia, Peru and Mexico. Panama has already entered into free-trade agreements with the first three countries and, in May 2013, agreed to open trade negotiations with Mexico.

Various sectors of the economy continued to perform strongly in the first half of the year. These include mining, which recorded year-on-year growth of 27.8%, construction (25.9%), financial intermediation (10.3%) and transport, storage and telecommunications (7.2%). The continuing boom in mining (which accounted for 2.1% of GDP as of June 2013) was driven by increased demand for raw materials, chiefly stone and sand, which are used as inputs in the construction industry. The impressive dynamism of the construction sector is due to the large number of ongoing public and private infrastructure projects, notably the widening of the Panama Canal, the construction of Panama City's first metro line and numerous electric-power, hotel and logistics projects. Growth in the transport, storage and telecommunications sector was spearheaded by the air transport sector, which expanded by 19.4% in the second half of 2013, reflecting the increased number of passengers passing through Tocumen airport, and by the telecommunications industry, which grew by 12.0%, mainly due to increasing demand for mobile telephones. Total income received in tolls from the Panama Canal, meanwhile, registered a year-on-year contraction of 1.5% in September 2013, and the amount of commercial cargo moving through the canal reduced by 5.0% owing to a fall in marine traffic.

The commercial sector bucked the trend observed in the wider economy, contracting by 0.4% in the first half of 2013. This is explained by falling sales in the Colón Free Zone, which saw a year-on-year fall of 10.6% over the period as a result of various problems besetting its main trading partners, with falls seen in re-exports to the Bolivarian Republic of Venezuela (43.6%) and Puerto Rico (22.5%).

Inflation in the year to September 2013 stood at 3.9%, with the greatest price increases in food and beverages (6.0%), education (5.3%), health care (4.9%), garments (3.8%) and water, electricity and gas (3.8%). The high growth rate, meanwhile, led to a rise in the rate of employment, from 63.6% in August 2012 to 64.1% in August 2013, which was accompanied by a similar increase in the rate of economic participation, with unemployment and open unemployment standing at 4.1% and 3.1%,

#### Panama: main economic indicators, 2011-2013

	2011	2012	2013 <sup>a</sup>
<b>Annual growth rate</b>			
Gross domestic product	10.9	10.8	7.5
Per capita gross domestic product	9.0	9.0	5.7
Consumer prices	6.3	4.6	3.9 <sup>b</sup>
Real average wage	0.1	3.4	1.8 <sup>c</sup>
Money (M1)	21.5	17.1	10.2 <sup>d</sup>
Real effective exchange rate <sup>e</sup>	0.1	-4.2	-2.5 <sup>b</sup>
Terms of trade	-2.2	0.4	2.5
<b>Annual average percentage</b>			
Open urban unemployment rate <sup>f</sup>	5.4	4.8	4.7
Central government			
Overall balance / GDP	-3.5	-3.5	-4.4
Nominal deposit rate	2.3	2.1	2.1 <sup>b</sup>
Nominal lending rate <sup>g</sup>	7.3	7.0	7.3 <sup>b</sup>
<b>Millions of dollars</b>			
Exports of goods and services	24 190	27 791	27 090
Imports of goods and services	26 329	28 483	30 122
Current account balance	-3 826	-3 267	-6 521
Capital and financial balance <sup>h</sup>	3 597	3 249	6 531
Overall balance	-228	-18	10

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

<sup>a</sup> Estimates.

<sup>b</sup> Figures as of October.

<sup>c</sup> Figures as of July.

<sup>d</sup> Figures as of September.

<sup>e</sup> A negative rate indicates an appreciation of the currency in real terms.

<sup>f</sup> Includes hidden unemployment.

<sup>g</sup> Interest rate on one-year trade credit.

<sup>h</sup> Includes errors and omissions.

respectively, in August 2013, similar levels to those recorded 12 months earlier. Real wages increased by 1.9% on average in the first half of 2013.