

Panama

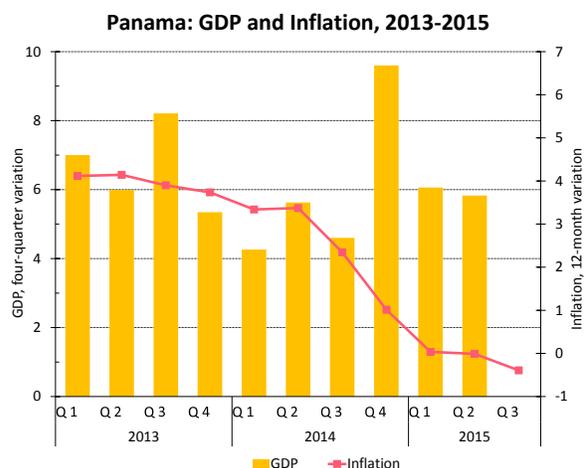
ECLAC estimates that the Panamanian economy will grow by 5.9% in 2015 (compared to 6.1% in 2014), which means that it is still one of the fastest growing in the region. The non-financial public sector (NFPS) is expected run a deficit of around 2% of GDP by the end of the year, significantly lower than the 4.6% at end-2014. Meanwhile, the balance-of-payments current account deficit will be around 6% of GDP (compared to 11.4% in 2014). Year-on-year variation in the consumer price index (CPI) will be close to 1%, similar to the 2014 rate, while unemployment (which was 4.8% in the previous year) will be about 5.1%.

In September 2015, the overall NFPS deficit was a cumulative US\$ 903 million (1.8% of GDP), compared to a deficit of US\$ 2.139 billion in the same period in 2014 (4.6% of GDP). The sharp decrease in the deficit is the result of a 7.5% real reduction in total expenditure combined with a 7.1% increase in total revenues. The dramatic drop in total expenditure reflected a US\$ 1.008 billion contraction in capital expenditure (30.6% in real terms), following the delay in budget implementation of several public projects. Current expenditure increased by US\$ 289 million (4.6% in real terms), owing to an uptick in transfers and payments for personal services and debt interest. Meanwhile, the rise in NFPS revenue stems primarily from additional contributions in the amount of US\$ 220 million (up 10.2% in real terms) to the Social Security Fund, owing to the greater number of contributors and higher wages. However, central government revenues barely edged up —0.2%— since the 2.6% rise in direct tax revenues was offset by a 2.2% fall in indirect tax revenues.

The incoming government brings a shift in public policy focus compared to its predecessor. The current administration proposed a smaller five-year investment plan (US\$ 19.486 billion for the five years from 2015 to 2019), around half the amount invested by the previous government, but with investments more balanced between infrastructure and social areas. The latter now make up 55% of the total investment amount.

Public debt amounted to US\$ 19.966 billion (39.6% of GDP) as of September 2015, a real increase of 12.1% over the prior-year period. External public debt accounts for 78.3% of the total debt and internal public debt accounts for the remaining 21.6%. Most of the debt (US\$ 10.378 billion) is held in long-term global bonds; the rest is held as obligations to international organizations (US\$ 4.127 billion), treasury notes (US\$ 1.923 billion), treasury bonds (US\$ 1.464 billion) and other types of liabilities.

The Panamanian banking system continued to perform well during 2015. The national credit portfolio as of August 2015 amounted to US\$ 43.413 billion, representing year-on-year nominal growth of 9.6%. This increase stems a year-on-year rise of 11.6% in private lending as of August 2015. The main sectors of the Panamanian economy performed particularly well. The mortgage sector, which in August accounted for 29.9% of the total private credit portfolio, was up by 15.5% in nominal terms, mainly as a result of growth in residential projects. Meanwhile, business lending, which accounted for 26.7% of the total private credit portfolio, grew by 5.5% in nominal terms as of



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

August (0.9% in nominal terms over the same month a year earlier), reflecting an upturn in domestic aggregate demand, given stagnating sales in the Colón Free Trade Zone.

The balance-of-payments current account deficit in the first half of 2015 amounted to US\$ 947.3 million, a sharp reduction (54%) compared to the deficit recorded in the year-earlier period. This narrower deficit chiefly reflects a 25.2% decrease in the goods deficit and, to a lesser extent, a 12.6% increase in the services surplus, outcomes that were partially offset by a rise of 22.6% in the income balance deficit. The smaller goods trade deficit was due largely to a 9.2% fall in imports, mainly as a result of lower fuel imports. On the other hand, the larger surplus on the services balance is the result of increased inflows on the travel account and, to a lesser extent, in financial services and shipping. The wider deficit on the income balance was largely the result of an increase in rents paid to non-residents, particularly outflows related to foreign direct investment (FDI), in the form of higher reinvested and retained earnings. Lastly, FDI in the first half of 2015 amounted to US\$ 2.556 billion, an increase of 17.8% over the same period in 2014.

The Panamanian economy remained buoyant during the first half of the year. The construction sector grew by 6.7%, largely thanks to residential projects (up 14.1%) and, to a lesser extent, to new non-residential projects (up 3.4%). These developments helped to drive growth in the mining and quarrying sector, which grew by 6.7%. The supply of electricity, gas and water expanded significantly, by 15.6%, as a result of an increase in the energy consumption of businesses (9.6%) and residential customers (6.2%). The performance of the transport, storage and telecommunications sector, with growth of 4.2% in the first half-year, was down on 2014 owing to only a modest increase in the number of ships transiting through the Panama Canal (3.5%), a 5.1% increase in cargo movements and a 6.3% rise in the number of people travelling through Tocumen International Airport.

The wholesale and retail sector grew by 5.7%, after edging up a mere 0.1% in the first half of 2014. The improved performance is entirely due to rising domestic demand, given that wholesale trade remains stagnant owing to the poor performance of companies operating in the Colón Free Trade Zone, whose sales fell for the third consecutive year (8.0%), although less than in the first half of 2014 (13.4%). Lastly, financial intermediation remained buoyant in the first six months and grew by 11.7%, in line with the increase in the banking sector's credit portfolio.

As of October 2015, interannual variation in the CPI was -0.4%. The product groups with the largest falls and the greatest impact on overall inflation were transport (-3.8%), clothing and footwear (-0.2%), and furniture and household goods (-0.1%). Meanwhile, the national jobless rate as of August 2015 stood at 5.1%, compared to 4.8% at the same date in 2014, while the open unemployment rate climbed to 3.8%, from the 2014 rate of 3.5%.

Panama: main economic indicators, 2013-2015

	2013	2014	2015 ^a
	Annual growth rate		
Gross domestic product	6.6	6.1	5.9
Per capita gross domestic product	4.9	4.4	4.2
Consumer prices	3.7	1.0	-0.4 ^b
Real average wage	0.3	5.5	0.3
Money (M1)	6.9	13.6	1.4 ^c
Real effective exchange rate ^d	-1.7	-1.3	-4.0 ^b
Terms of trade	-0.5	2.0	2.6
	Annual average percentage		
Urban unemployment rate ^e	4.7	5.4	5.8
Central government			
Overall balance / GDP	-3.8	-4.4	-4.2
Nominal deposit rate ^f	2.1	2.2	2.1 ^b
Nominal lending rate ^g	7.4	7.6	7.6 ^b
	Millions of dollars		
Exports of goods and services	26,986	26,095	26,849
Imports of goods and services	28,905	28,242	26,608
Current account balance	-4,920	-5,258	-2,826
Capital and financial balance ^h	5,320	6,480	2,914
Overall balance	401	1,222	88

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

a Estimates.

b Figures as of October.

c Figures as of September.

d A negative rate indicates an appreciation of the currency in real terms. Refers to the extraregional real effective exchange rate.

e Includes hidden unemployment.

f 6 months deposit rate.

g Interest rate on one-year trade credit.

h Includes errors and omissions.

The Panamanian economy is projected to grow by 6.2% in 2016. Construction will remain one of the most dynamic sectors, driven by the start of infrastructure megaprojects, such as the construction of a second metro line. A deficit of 10.2% is projected in the balance-of-payments current account, somewhat smaller than the estimate calculated at the end of financial year 2015, thanks to a slight increase in re-exports from the C lon Free Trade Zone. Lastly, the NFPS deficit is expected to rise, because tax revenues will increase more slowly than expenditure.