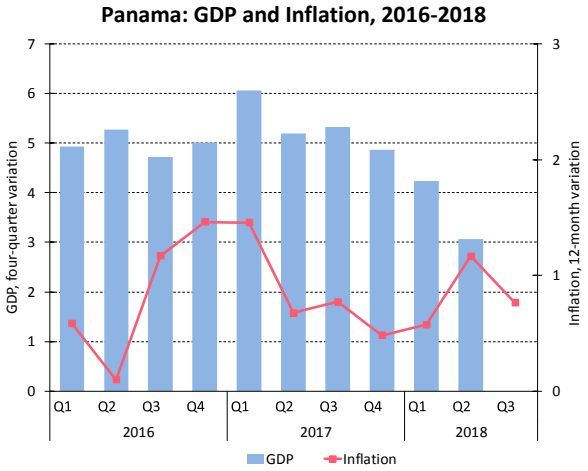
Panama

The Panamanian economy is expected to grow by 4.8% in 2018, as against 5.4% in 2017. Growth has been lower than expected because of a general loss of momentum in different sectors of the country's economy such as telecommunications, commerce and tourism and hotels owing to the effects of higher energy costs and a strengthening dollar, compounded by a prolonged construction workers' strike. It is estimated that the non-financial public sector will have a deficit equivalent to 2.0% of GDP at year's end, consistent with the requirements of the Fiscal Responsibility Act. The balance-of-payments current account deficit will carry on declining and will come in at about 4% of GDP. The average annual change in the consumer price index (CPI) will be just under 1%, a level similar to the previous year's, while the unemployment rate will come in at about 5.8%, slightly above the previous year's (5.6%).

Bill No. 565, which introduced changes to fiscal legislation, was passed in October 2018. The new law: (a) created the Fiscal Council, an independent committee tasked with providing technical analysis of macrofiscal policy; (b) abolished the rule that had been applied since 2015 to calculate the adjusted fiscal balance for the purpose of gauging compliance with the Fiscal Responsibility Act, meaning that the deficit will be calculated in the traditional way; (c) raised the estimate of the non-financial public sector deficit for 2018 from 1.5% to 2.0% of GDP; (d) provided that from 2019 non-financial public sector expenditure may not exceed potential GDP growth plus inflation, excluding spending on health services provided by the Ministry of Health and the Social Security Fund, pensions paid out by the Fund and public debt interest.

As of September 2018, the non-financial public sector deficit totalled US$ 2.488 billion (equivalent to 3.8% of GDP), as compared to 1.5% of GDP in the same period the year before. The large increase in the deficit is the result of a real-term reduction of 2.7% in total revenues accompanied by a large increase (13.8% in real terms) in expenditure. Tax revenues dropped by 3.1% in real terms, an effect that was accompanied by a real-term reduction of 3.2% in non-tax revenues. The drop in tax revenues was due mainly to a lower take from indirect taxes right across the board. Overall revenues from these declined by 6.7% in real terms, with the most important being the movable goods and services transfer tax (ITBMS) on sales (-9.0%), ITBMS on imports (-9.4%), import tariffs (-7.6%), fuel duty (-12.6%) and selective consumption taxes (-3.0%). This situation came about because of a loss of momentum in economic activity and particularly consumption, plus a prolonged strike in the construction sector and its repercussions for the rest of the economy, which reduced household income.

Where spending is concerned, the strong growth recorded has been due to increases in both current spending (6.9% in real terms) and capital spending (33.6%). The rise in current spending has mainly been accounted for by increases in household transfers and personal services, while



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

the rise in capital spending has been the result of the various infrastructure projects financed by the public sector.

Outstanding public debt was US$ 24.938 billion (38.1% of GDP) as of September 2018, an increase of 0.3 percentage points of GDP on the same period the year before. Of this total, 54.8% was in the form of global bonds, 21.6% debt owed to multilateral organizations and 17% treasury bonds and notes. In July 2018, the Standard & Poor's rating agency upgraded the outlook for Panama from stable to positive and confirmed its BBB risk rating.

Commercial bank lending to the private sector carried on growing in 2018, although it lost momentum compared to the previous year. The local private sector lending portfolio of the country's banking system totalled US$ 67.76 billion as of August 2018, a year-on-year increase of 4.8% in nominal terms over the same period the previous year, with the most dynamic products being personal loans (8.9%) and mortgage loans (6.3%).

Panama: main economic indicators, 2016-2018

	2016	2017	2018 [a]
	Annual growth rate		
Gross domestic product	5.0	5.3	4.2
Per capita gross domestic product	3.3	3.7	2.6
Consumer prices	1.5	0.5	1.1 [b]
Real average wage	4.4	2.5	5.1 [c]
Money (M1)	0.2	0.5	1.1 [d]
Real effective exchange rate [e]	-1.0	2.0	2.5 [c]
Terms of trade	-3.6	5.2	-1.4
	Annual average percentage		
Urban unemployment rate [f]	6.4	6.9	7.1 [d]
Central government			
Overall balance / GDP	-3.8	-2.9	-3.9
Nominal deposit rate [g]	1.7	1.8	1.8 [h]
Nominal lending rate [i]	6.6	6.8	6.9 [h]
	Millions of dollars		
Exports of goods and services	24 511	26 476	28 969
Imports of goods and services	25 466	26 961	28 177
Current account balance	-4 634	-4 941	-3 671
Capital and financial balance [j]	5 961	3 644	2 952
Overall balance	1 327	-1 296	-719

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

a/ Estimates.
b/ Figures as of Octubre.
c/ The figure correspond to the average of the first semester.
d/ Figures as of August.
e/ A negative rate indicates an appreciation of the currency in real terms. Refers to the extraregional real effective exchange rate.
f/ Includes hidden unemployment.
g/ 6 months deposit rate.
h/ Figures as of September.
i/Interest rate on one-year trade credit.
j/ Includes errors and omissions.

In September 2018, one-year nominal lending interest rates for loans to the wholesale, retail and industry sectors were 6.31%, 6.90% and 6.23%, respectively. In the cases of wholesale and retail trade, these represented increases of 31 and 6 basis points, respectively, while the industry rate was down by 75 basis points. The cost of consumer credit card loans was up 25 basis points to 20% as of August 2018.

The balance-of-payments current account deficit totalled US$ 1.826 billion in the first half of 2018, a reduction of 8.4% on the deficit in the same period the previous year. This development occurred because an increase of 9.9% in the services surplus easily outweighed higher deficits on the goods balance (up 4.6%) and the income balance (up 5.5%). Where the goods balance is concerned, a 10.3% increase in exports was mainly due to higher re-exports from the Colón Free Trade Zone (10.3%) and increased purchases of goods in ports (31.4%). An 8.2% rise in imports was due to increased purchases of goods for local use, goods purchased in ports and imports by the Colón Free Trade Zone. As for the services balance, exports rose by 4.7% as a result of increases of 11.5% in air passenger and cargo transport, 8.7% in Panama Canal toll receipts and 4.1% in tourist spending. Foreign direct investment totalled US$ 2.45 billion, a reduction of 12.7% on the same period the previous year.

The pace of growth in the Panamanian economy slowed in the first semester to 3.7% from 5.8% in the same period of 2017. The sectors that remained dynamic were transport, storage and communications (7.3%), owing to a rise of 10.3% in the operations of the Panama Canal and 15.9% in passenger transport; fisheries (15.2%), thanks to substantial growth in shrimp exports and commerce (3.9%), mainly because of a rise in wholesale trade (5.1%); and the activities of the Colón Free Trade Zone (4.9%). Conversely, the construction sector grew by just 2.0% (8.2% in the same period the previous year) because of the general strike in the second quarter. As a result, growth in the mining and

quarrying sector was also down substantially (2.0%, as compared to 8.1% in the first half of the previous year).

As was also the case the year before, the year-on-year rise in the CPI to October 2018 remained low, at 0.8%. The sectors with the largest price rises were education (3.7%) and alcoholic beverages and tobacco (1.3%). The sectors in which prices fell were wearing apparel and footwear (-0.9%), communications (-0.8%) and food and non-alcoholic beverages (-0.9%). Lastly, the national unemployment rate was 5.8% as of March 2018, as compared to 5.6% the same month the previous year, while the open unemployment rate held steady at 4.6%.

The Panamanian economy is forecast to grow by 5.4% in 2019. The construction sector is expected to recover, driven by a variety of infrastructure investment projects, most of them public, that include the building of the fourth bridge over the Panama Canal, widening of the Panama City–Arraiján highway, extension of line two of the metro to Tocumen and the start of operations at the copper mine in Colón (Donoso district), which is estimated to be capable of producing over 320,000 tons of copper a year once fully operational.

Expectations of stable oil prices and a modest pick-up in re-exports from the Colón Free Trade Zone mean that the balance-of-payments current account deficit is forecast to be low. The inflation rate is also expected to remain low, at around 1%. Lastly, the fiscal deficit is estimated at 2.0%, within the limit set by the Fiscal Responsibility Act.