

Panama

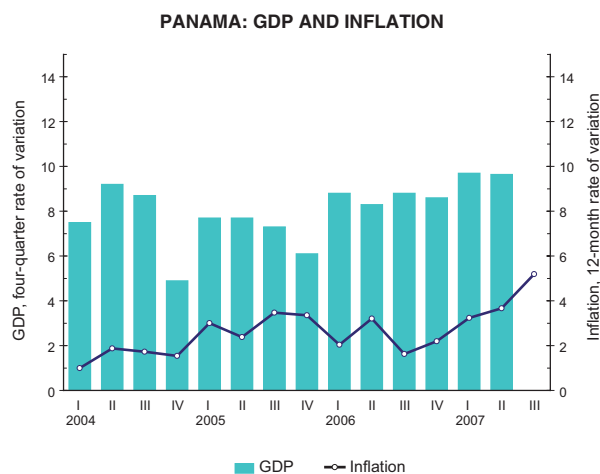
In 2007, Panamanian GDP grew by 9.5% thanks to burgeoning domestic and external demand. For the fourth year running, per capita GDP rose substantially (7.7%). The balance-of-payments current account deficit widened to the equivalent of 3.9% of GDP due to increased imports, while the central government deficit represented 0.5% of GDP. Consumer prices climbed by 5.8%, which was more than double the growth seen in 2006 and the highest rate in over 20 years. This was attributable to high import prices and delays in several production sectors. Unemployment fell significantly on the strength of high economic buoyancy, and some wage adjustments were also introduced.

For 2008, strong economic growth is expected to continue but at a slightly slower rate (8.5%), in the light of lower projected external demand for goods and services, and despite the fact that investment will remain extremely buoyant and works to extend the Panama Canal will be stepped up. The public deficit is expected to be below 1% of GDP.

The government maintained fiscal discipline and continued to reduce public debt in 2007. The authorities also promoted public investment, poverty reduction programmes and measures to ease the impact of inflation on the cost of the basic basket by subsidizing some items therein. In the second half of the year, work began on extending the Panama Canal, with almost 25% of 2007 GDP invested for the period 2007 to 2012.

Tax revenues rose thanks to stronger economic growth, higher tax revenues resulting from the 2005 fiscal reform and improved efficiency in tax collection. The 23% increase in tax collection exceeded expectations and was the result of higher receipts from direct and indirect taxes, especially tax on external trade. There was also a rise in transfers from decentralized enterprises (particularly the Panama Canal Authority) to the central government.

Current expenditure expanded moderately and priority was given to social health and education programmes such as technical training and nutritional support programmes in primary schools. Greater public investment was channelled into health, housing and education infrastructure; sanitation in Panama City and the Bay of Panama;



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

and improvements to the Pan-American Highway and various domestic roads.

Public debt is expected to represent US\$ 10.4 billion by the end of the year, which constitutes a reduction from 61% of GDP to 54%. External debt stood at around US\$ 8.2 billion, while domestic debt fell to US\$ 2.2 billion.

Trade negotiations were completed with Nicaragua and the United States, with approval by the United States Congress still pending. Progress was also made in negotiations with Chile and Guatemala, as well as advances towards joining the Central American integration scheme.

Prevailing high liquidity continued to drive credit, while interest rates remained low and stable. Deposit-taking soared thanks to the Latin American boom. On the domestic market, credit expanded by almost 15% in response to the country's impressive economic growth, with increases of around 20% in commerce, construction (particularly mortgages) and personal consumption. External demand for credit rose by 27%. Following increases observed the previous biennium, on a par with the London interbank offered rate (LIBOR), local lending and borrowing rates remained practically unchanged, except for a slight upturn in lending rates for personal loans.

Domestic and external demand continued to exert varying degrees of pressure on physical and urban infrastructure, the installed capacity of some production sectors and the supply of skilled labour. Although these issues have not visibly hampered production growth, the resolution of such tensions is undoubtedly one of the main challenges facing the administration.

Productive activity climbed dramatically in the transport and communications sector, with significant increases in freight handling in ports, as well as on rail and air transport. Although the level of transit and freight transported on vessels through the Panama Canal did increase, but the significant rise in revenues (15%) was mostly a result of amended and higher charges. The commercial sector was boosted by growing re-exports from the Colón Free Zone. Hotels, bars and restaurants posted increased buoyancy thanks to high inflows of tourists, while banking and insurance activity multiplied its domestic and foreign operations.

The ongoing construction boom was based on luxury apartment buildings over 60 floors high and middle-class housing, partly supported by subsidized mortgages for low-income groups. Other projects included ports, shopping centres and hotels. Production costs shot up and the revitalization of urban land and some rural areas continued. Domestic demand boosted retail commerce and manufacturing activity. In the

PANAMA: MAIN ECONOMIC INDICATORS

	2005	2006	2007 ^a
Annual growth rates			
Gross domestic product	7.2	8.7	9.5
Per capita gross domestic product	5.4	6.8	7.7
Consumer prices	3.4	2.2	5.5 ^b
Average real wage	-1.2	2.3	2.5 ^c
Money (M1)	9.6	23.9	33.9 ^d
Real effective exchange rate ^e	2.0	1.3	1.7 ^f
Terms of trade	-1.9	-2.9	-0.5
Annual average percentages			
Unemployment rate ^g	9.8	8.7	6.3
National administration overall balance / GDP	-3.9	0.2	-0.5
Nominal deposit rate	2.7	3.9	4.8 ^h
Nominal lending rate	8.2	8.1	8.3 ^h
Millions of dollars			
Exports of goods and services	10 808	12 415	14 848
Imports of goods and services	10 688	11 928	14 685
Current account	-759	-552	-743
Capital and financial account	1 434	728	1 093
Overall balance	675	176	350

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

^a Preliminary estimates.

^b Twelve-month variation to October 2007.

^c Estimate based on data from January to June.

^d Twelve-month variation to July 2007.

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

^f Year-on-year average variation, January to October 2007.

^g Includes hidden unemployment.

^h Average from January to October, annualized.

agricultural sector, some products (rice, dairy products and seafood) were scarce, while production expanded in terms of fruit for export, beef and pork.

The unusual level of inflation (estimated to stand at 5.8% by the end of the year) reached worrying levels by Panamanian standards, pushing up the price of the basic basket in the wake of higher prices for oil and other imports. The largest increases were for food (8.8%) (especially bread and cereals, meat, milk and cheese), transport (8.8%) (due to high fuel prices), new vehicles and vehicle maintenance.

Employment improved considerably thanks to buoyant demand. The nationwide open unemployment rate dropped to 4.6% in August, while visible and hidden underemployment also fell. In some production sectors, certain wage adjustments were introduced, while preparatory consultations were opened on adjusting the minimum wage in 2008.

The balance-of-payments current account deficit weighed in at US\$ 743 million, on account of the merchandise trade imbalance generated by the surge in imports, while the surplus on the services account continued to widen.

As for exports, sales from the Colón Free Zone (mainly medicines, televisions, perfume and footwear) grew by nearly 15%, driven by buoyant demand from the Bolivarian Republic of Venezuela, Central America and Ecuador. Local exports also posted rapid growth of almost 11%, especially sales of fruit (melon, watermelon and pineapple), coffee and sugar. Bananas posted a smaller increase, while fish and seafood were in decline. There was an upturn in the demand for imports, both in terms of manufactures in the Colón Free Zone (with growth of over 18%) and from the domestic market (up almost 35%). Purchases of capital goods rose, particularly for construction, as

did purchases of inputs, fuels and lubricants, consumer durables and consumer non-durables.

Service exports continued to fare extremely well, with increased movement of merchandise in ports (mainly containers), railways, the Panama Canal and international flights. Visitor arrivals were up 16% on the previous year, with average tourist spending climbing by 14%.

Inflows of foreign direct investment (FDI) stood at US\$ 1.0 billion, which was less than half the amount recorded in 2006 (when two major national banks were sold). The main recipients were the real estate and hotel sectors.