Panama

1. General trends

In 2010, the Panamanian economy grew by 7.5%, returning to the characteristically high growth rates observed since 2004 but suspended in 2009 (3.2%) by the international financial crisis. The non-financial public sector (NFPS) posted a deficit equivalent to 1.9% of GDP, in comparison with the 1.0% of 2009. The current account deficit showed a deficit equivalent to 11.0% of GDP, compared with 0.2% in 2009. Inflation rose to a historically high level of 4.9%.

In 2010, domestic demand expanded by 8.9%, led by gross domestic investment, up by 9.8%, and exports of goods and services, up by 4.0%. The most significant rebound has been in gross fixed capital investment in machinery and equipment (18.1%), following a 16.1% fall in 2009. Driven by private consumption (9%) and, to a lesser extent by general government consumption (6%), total consumption expanded by 8.5% in 2010 compared with 0.8% in 2009.

The strong performance of 2010 was due largely to steps taken by the current administration to revitalize the domestic economy. Indeed, 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 hydroelectric plants.

These projects generated a sharp increase in public capital expenditure (up 29.5%), while central government current expenditure grew by 8.7%. This result was due to the significantly higher transfers, since existing social programmes have been continued, including the "100 para los 70" programme, which gives US$ 100 per month to older persons who receive no pension, while others have been launched, notably the universal scholarship programme, which provides US$ 20 per month to each school-age student. In addition, the subsidies for electricity and liquefied petroleum gas consumption have been continued. The higher expenditure was partly offset by an increase in tax revenues (15.3%).

At the beginning of 2010, the credit rating agencies Fitch Ratings, Standard and Poor's and Moody's gave Panama an investment grade rating, which will make it easier for the country to obtain financing on international markets at lower cost.

The Panamanian economy is expected to grow by 8.5% in 2011, driven by stronger investment in public infrastructure. The additional capital goods imports, including machinery and inputs, required for these projects, together with the higher interest payments due to the issue of more debt, will cause some pressure on the current account. Notwithstanding the projected increase in tax collection, the fiscal deficit will probably remain at its current level as fiscal expenditure is expected to go up.

2. Economic policy

(a) Fiscal policy

The NFPS closed the year 2010 with a deficit of US$ 511.7 million, which is equivalent to 1.9% of GDP, up from 1.0% in 2009. This deficit is in compliance with the Fiscal Responsibility Act No. 32, promulgated in June 2009, which sets the maximum limit for the 2010 deficit at 2.0% of GDP, barring any extraordinary circumstance as described in the Act.

The primary balance (fiscal balance not including public debt payments) in December 2010 was a surplus of US$ 204.4 million (0.8% of GDP), compared with the surplus of 1.9% of GDP in 2009.

Tax revenue in 2010 totalled US$ 3.227 billion (12% of GDP), 15.3% higher in nominal terms than in 2009. This reflected a 24.4% increase in indirect tax revenue (basically from the Tax on the Transfer of Movable Property and Services (ITBMS)), attributable to improved efficiency, a better collection capacity and the more robust economic activity. At the same time, total NFPS expenditure rose by 13.3% over the earlier period to stand at US$ 7.385 billion (27.6% of GDP). This result stems mainly from an expansion in central government expenditure, with current expenditure up by 8.7% and capital expenditure up by 29.5%.

The rise in current expenditure may be attributed to the establishment and consolidation of conditional social transfer programmes promoted by the current administration: the Universal Scholarship Programme provides US$ 20 per month to each student of school age and in 2010 resulted in the disbursement of US$ 24.8 million; the “100 para los 70” programme, which provides US$ 100 per month to older persons who have no social pension, was continued and paid out US$ 82.5 million in 2010. Capital expenditure was higher, reflecting the continuation of a number of public road, hospital, urban and penitentiary infrastructure projects among others.

In 2010, total public debt amounted to US$ 11.629 billion (43.4% of GDP), compared with US$ 10.972 billion (45.6% of GDP) in 2009 and a change in its composition is to be noted. In December 2009, 92.5% of the debt was external and the remaining 7.5% domestic. By December 2010, the percentage of external debt had edged down to 89.8% and the internal debt accounted for 10.2%. The US$ 288 million increase in the external debt comes mainly from multilateral agencies (US$ 181 million) and bilateral and official creditors (US$ 101 million).

A fiscal deficit similar to that of 2010 is projected for 2011, owing to further increases in infrastructure expenditure, social spending and interest payments, which will be partly offset by higher tax receipts.

(b) Thonal banking centre and credit policy

Domestic credit to December 2010 showed considerable activity with a 12.1% expansion in the credit portfolio over the previous period, which has helped to boost local GDP. This dynamic was led by manufacturing, which consumed 31.9% more domestic credit. This was followed by commerce (22.7%), construction (22.7%), the mortgage sector (9.8%) and personal consumption (8.7%). The composition of domestic credit to the private sector at the end of December 2010 remained stable, the main sectors being mortgages, with 28% of the market, commerce (27%), personal consumption (21%), construction (10%) and industry (6%).

Total deposits in the international banking centre stood at US$ 44.202 billion in December 2010, reflecting a 5.5% rise with respect to December 2009. The bulk of the deposits were concentrated in deposits of private individuals (77.3%), with the balance consisting of bank deposits (12.6%) and official deposits (10.1%). Most of the deposits of private individuals consisted of term deposits (44.3%), savings (18%) and sight deposits (15%).

Quality indicators for local and external credit portfolios show that the banking centre in Panama was able to weather the crisis without any major hitches and that in 2010 its portfolio was sounder. The arrears rate of the local banking system was 3.4% in December 2010, down from 4.2% in December 2009. The external credit portfolio represented 0.8% in December 2010, lower than the percentage of 1.1% recorded in December 2009.

Panamanian banks continue to be sound and profitable. Profits within the banking system amounted to US$ 1.067 billion in December 2010, which represents an increase of 16.1% in relation to December 2009. The return on capital was 13.9% to December 2010, compared with 12.0% in the previous period. The return on assets totalled 1.6% to December 2010, compared with 1.4% in December 2009.

Nominal lending rates for one year were reduced by 0.4 percentage points, from 8.3% in 2009 to 7.9% in 2010, as a result of the one percentage point decline in the rate for consumer loans. The fall in real lending rates was sharper, by around 1.5 percentage points, since inflation was higher in 2010 than in 2009. Also with respect to nominal deposit rates, there was a slight dip of between 0.2 and 0.5 of a percentage point, depending on the term.

(c) Trade policy and other policies

One of the government's main trade policy priorities for 2010 was to promote the necessary conditions so that Panama might be removed from the list of tax havens. Thus, the new administration implemented an agenda for the conclusion of double taxation treaties, mainly with member countries of the Organization for Economic Cooperation and Development (OECD). By May 2011, treaties had been signed with Luxembourg, Mexico, the Netherlands, Portugal, Qatar, Republic of Korea, Singapore and Spain. Treaties negotiated with Belgium, France, Ireland and Italy are still awaiting signature. Lastly, treaties are being negotiated with the Czech Republic, Hungary, Israel and the United Arab Emirates.

In April 2011, the National Assembly of Panama adopted law 40 relating to the agreement on fiscal cooperation and the exchange of tax information and interpretive memoranda between Panama and the United States of America. The agreement establishes a legal framework for the exchange of information on the administration and application of the internal legislation of each country, information concerning the determination, assessment, enforcement and collection of taxes with respect to taxpayers, prosecution of tax offences and others. An important aspect of the agreement is that it attests to the Government of Panama's commitment to eliminating corporations with bearer shares, which will enhance transparency and improve fiscal control. The entry into force of the international agreement referred to in law 40 is subject to the exchange of instruments of ratification.

The trade facilitation treaty, a second agreement with the Government of the United States, was at the ratification stage in June 2011, which brings to fruition a negotiation process started since 2004. The agreement also consolidates access by Panamanian products to the market of the United States, the country's principal trading partner.

3. The main variables

(a) Economic activity

The more buoyant growth in 2010 reflects an upturn in most economic sectors. The transport, storage and communications sector, which accounts for 22% of GDP, showed robust activity and 15.5% growth stemming from the strong expansion of the port operations (26.5%) due to brisk container movement. Telecommunications recorded strong growth (17.7%), due mainly to the rise of prepaid mobile phones, mobile plans, Internet services and international calls. The wholesale and retail commercial sector expanded by 11.1% in December 2010, after having experienced 1.7% growth during the same period of the previous year. The more vigorous activity in this sector is attributable to the widespread increase in sales of household goods, motor vehicle accessories, machinery, textiles and pharmaceuticals. Other sectors enjoying vigorous growth were hotels and restaurants (11%), owing to the surge in tourist arrivals; construction (6.7%), thanks to the substantial investment in ongoing public projects, such as the expansion of the Canal, the clean-up of the Bay, the construction of the metro and different residential and non-residential public investments; and, lastly, the mining and quarrying sector (6.1%); and electricity, gas and water (6.5%). By contrast, activity in the fishing sector slumped (by 43.4%) owing to restrictions on access to member countries of the European Union, which ruled that Panama had failed to comply with standards for avoiding illegal fishing; weather conditions; and the increase in operating costs triggered by escalating oil prices.

The significant rise in private consumption (9%) was driven by factors that boosted demand. First, during 2010, various social programmes targeting low-income families continued apace. Second, in January 2010, the minimum wage was increased significantly to compensate for the sharp rise in inflation in 2008. Third, new credit flows to the private sector surged by 13.3%, with consumer credit up by 8.7%. Lastly, shopping tourism expanded strongly. The number of visitors up to October 2010 stood at 1.35 million, up by 10.3% compared with the same period in

Table 1
PANAMA: MAIN ECONOMIC INDICATORS

	2002	2003	2004	2005	2006	2007	2008	2009	2010 [a]
				Annual growth rates [b]					
Gross domestic product	2.2	4.2	7.5	7.2	8.5	12.1	10.1	3.2	7.5
Per capita gross domestic product	0.4	2.3	5.6	5.3	6.7	10.2	8.3	1.6	5.8
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	3.3	9.3	1.4	2.6	4.2	0.6	8.3	-7.2	-15.3
Mining and quarrying	18.1	35.4	12.5	0.1	17.2	24.0	30.9	4.4	6.1
Manufacturing	-2.6	-3.4	2.1	4.2	3.9	5.6	3.9	-0.4	0.9
Electricity, gas and water	6.9	1.4	6.1	5.6	3.3	8.2	3.8	7.5	6.5
Construction	-7.1	32.5	13.9	1.0	18.4	21.8	30.7	4.5	6.7
Wholesale and retail commerce, restaurants and hotels	-0.9	2.4	11.9	9.2	11.2	11.3	7.3	1.7	11.1
Transport, storage and communications	2.0	10.9	14.9	11.8	13.7	17.0	15.5	6.6	15.5
Financial institutions, insurance, real estate and business services	-0.2	0.5	3.3	10.0	9.1	12.1	9.6	3.4	5.4
Community, social and personal services	4.5	1.8	3.3	0.9	3.3	6.5	4.7	3.2	3.7
Gross domestic product, by type of expenditure									
Final consumption expenditure	7.3	7.3	3.9	8.1	4.2	1.4	-1.4	0.8	8.5
Government consumption	9.1	0.4	1.9	4.1	3.1	4.1	2.6	6.4	9.0
Private consumption	6.9	8.7	4.3	8.8	4.4	0.9	-2.1	-0.2	6.0
Gross capital formation	-5.4	19.0	9.9	2.8	13.5	38.9	24.2	-6.2	9.8
Exports (goods and services)	-2.5	-10.1	18.5	11.3	11.1	22.0	17.8	-5.6	4.0
Imports (goods and services)	0.7	-3.5	14.4	11.2	7.4	18.1	12.2	-12.2	6.0
				Percentages of GDP					
Investment and saving [c]									
Gross capital formation	15.7	19.0	18.7	18.4	19.5	24.1	27.6	25.6	28.5
National saving	15.0	14.8	11.6	11.8	16.8	17.3	15.8	25.5	16.7
External saving	0.8	4.1	7.1	6.6	2.6	6.9	11.8	0.2	11.9
				Millions of dollars					
Balance of payments									
Current account balance	-96	-537	-1 003	-1 022	-448	-1 361	-2 722	-44	-2 953
Goods balance	-1 035	-1 202	-1 537	-1 558	-1 715	-3 190	-4 546	-2 123	-4 615
Exports, f.o.b.	5 315	5 072	6 080	7 375	8 475	9 334	10 323	11 133	11 330
Imports, f.o.b.	6 350	6 274	7 617	8 933	10 190	12 524	14 869	13 256	15 946
Services trade balance	968	1 240	1 337	1 420	2 273	2 840	3 155	3 329	3 333
Income balance	-272	-809	-1 020	-1 126	-1 258	-1 264	-1 570	-1 460	-1 861
Net current transfers	244	234	217	242	253	253	238	210	191
Capital and financial balance [d]	241	269	608	1 697	620	1 982	3 307	659	2 605
Net foreign direct investment	99	818	1 019	918	2 547	1 899	2 196	1 773	2 363
Other capital movements	143	-548	-411	779	-1 927	84	1 111	-1 114	243
Overall balance	146	-267	-395	675	172	621	585	616	-348
Variation in reserve assets [e]	-138	267	396	-521	-162	-611	-579	-616	348
Other financing	-8	1	-1	-154	-10	-10	-5	0	0
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) [f]	101.3	103.2	108.4	110.9	112.7	114.3	113.3	108.1	109.3
Terms of trade for goods (index: 2005=100)	108.7	103.9	101.9	100.0	97.1	96.2	91.8	96.3	94.4
Net resource transfer (millions of dollars)	-39	-539	-414	418	-648	709	1 732	-801	744
Gross external public debt (millions of dollars)	6 349	6 504	7 219	7 580	7 788	8 276	8 477	10 150	10 439
				Average annual rates					
Employment									
Labour force participation rate [g]	62.6	62.8	63.3	63.6	62.6	62.7	63.9	64.1	63.5
Unemployment rate [h]	16.5	15.9	14.1	12.1	10.4	7.8	6.5	7.9	7.7
Visible underemployment rate [i]	…	…	4.4	4.6	3.4	2.7	2.1	2.1	1.8
				Annual percentages					
Prices									
Variation in consumer prices (December-December)	1.9	1.4	-0.2	3.4	2.2	6.4	6.8	1.9	4.9
Variation in real minimum wage	-1.2	0.7	0.9	-2.8	3.4	-1.7	2.7	-2.4	6.4
Nominal deposit rate [j]	5.0	4.0	2.2	2.7	3.8	4.8	3.5	3.5	3.0
Nominal lending rate [k]	9.2	8.9	8.2	8.2	8.1	8.3	8.2	8.3	7.9
				Percentages of GDP					
Central government									
Total revenue [l]	16.8	15.4	14.4	15.2	18.6	19.2	19.8	18.5	20.1
Current revenue	16.1	15.2	14.3	15.1	18.5	18.9	18.4	18.2	19.5
Tax revenue	8.6	8.7	8.5	8.7	10.3	10.6	10.6	11.0	12.2
Capital revenue	0.7	0.3	0.1	0.0	0.1	0.1	1.1	0.2	0.5
Total expenditure	18.8	19.2	19.8	19.1	18.4	18.0	19.5	20.0	22.8

Table 1 (concluded)

	2002	2003	2004	2005	2006	2007	2008	2009	2010 [a]
Current expenditure	16.1	16.1	16.6	16.6	15.9	14.0	13.9	13.6	14.8
Interest	4.1	4.3	4.2	4.4	4.2	3.4	3.1	2.9	2.8
Capital expenditure	2.7	3.1	3.2	2.5	2.5	4.0	5.6	6.4	7.9
Primary balance	2.2	0.5	-1.2	0.5	4.4	4.6	3.4	1.4	0.1
Overall balance	-1.9	-3.8	-5.4	-3.9	0.2	1.2	0.3	-1.5	-2.7
Central government debt	69.0	66.6	69.6	65.1	60.3	52.3	44.8	44.9	46.0
Domestic	17.7	16.7	18.9	16.8	15.0	10.6	8.0	2.9	4.3
External	51.3	49.9	50.6	48.4	45.3	41.7	36.7	42.0	41.7
Money and credit [m]									
Domestic credit	91.1	88.8	90.3	90.3	90.6	87.8	86.1	83.8	94.3
To the public sector	-6.4	-3.9	-0.0	-3.7	-3.2	-7.7	-9.0	-9.0	-7.4
To the private sector	90.4	87.1	85.1	87.1	88.4	90.6	90.1	88.0	98.0
Others	7.1	5.6	5.2	6.9	5.5	5.1	5.0	4.8	3.7
Liquidity (M3)	80.9	79.5	78.3	78.0	86.1	87.5	85.2	…	…

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 1996 prices.
[c] Based on figures in dollars at current prices.
[d] Includes errors and omissions.
[e] A minus sign (-) denotes an increase in reserves.
[f] Annual average, weighted by the value of goods exports and imports.
[g] Economically active population as a percentage of the working-age population; nationwide total.
[h] Percentage of the economically active population; nationwide total. Includes hidden unemployment.
[i] Percentage of the working population; total of urban areas.
[j] Six-month deposits in the local banking system.
[k] Interest rate on 1-year trade credit.
[l] Includes grants.
[m] The monetary figures are end-of-year stocks.

2009, bringing in foreign-exchange inflows of US$ 1.368 billion (not including international transport). This was 14.2% more than a year earlier.

The number of vessels transiting through the canal in 2010 was 14.230, down by 0.8% from the 14,342 recorded in 2009. A total of 300.3 million net tons was transported in 2010, that is 0.4% more than in 2009. This tonnage, together with the selective increase in the rates applicable to some of the movements, resulted in a 3.1% nominal rise in income from tolls in nominal terms over the previous year.

The Panamanian economy is expected to grow by 8.5% in 2011. Construction and tourism are expected to be the most dynamic growth sectors, given the significant number of public infrastructure projects that are under way and the increase in tourism projects.

(b) Prices, wages and employment

The rate of inflation measured as the variation in the consumer price index (CPI) between December 2009 and December 2010 was 4.9% while the average month-by-month rate was 3.5%. The significant difference between these two rates is due to the high monthly fluctuation in the CPI in 2010. Irrespective of the methodology used, these rates were above historic levels in the Panamanian economy. This stems from various factors. Fuel prices soared following the sharp rise in petroleum prices on international markets. In addition, the depreciation in the dollar against the currencies of most of Panama's trading partners pushed up the average cost of imports. Lastly, extreme weather events, such as droughts and floods, which slashed agricultural output, resulted in higher food prices. The categories with the steepest price rises were fuels (17.3%), transport (6.0%) and various goods and services (5.2%). A resurgence in inflation to over 5.0% is predicted for 2011. This indicator was 6.3% higher in April 2011 than in the same month of 2010, basically because of the rise in petroleum prices.

The decree law which adjusts the hourly minimum wage and seeks to compensate for the high rate of inflation recorded in 2008 entered into force on 1 January 2010. The monthly minimum wage for small enterprises, based on 208 working hours and depending on the occupational category, was raised by between US$ 20.8 and US$ 29.1 per month, that is by 4.6% and 7.5% in real terms with respect to 2008. For the major enterprises the adjustment was US$ 54, that is 14% more in real terms than in 2008.

The jobless and open unemployment rates reached 6.5% and 4.7%, respectively, in 2010, compared with 6.6% and 5.2% in the previous year. New job creation stood at 14,971 posts, mainly in the construction not only of hotel, tourism and commercial projects but also of various public infrastructure projects. The economically active population of young people under the age of 19 years and of adults over the age of 70 years fell in 2010, probably as a result of the "100 para los 70" and universal scholarship social programmes, both of which were promoted by the present administration.

Table 2
PANAMA: MAIN QUARTERLY INDICATORS

	2009				2010 [a]				2011 [a]	
	I	II	III	IV	I	II	III	IV	I	II [b]
Gross domestic product (variation from same quarter of preceding year) [c]	3.6	2.3	1.4	5.4	6.1	6.5	8.3	8.7	9.7	…
Gross international reserves (millions of dollars)	2 758	2 606	2 346	2 836	2 781	2 446	2 287	2 524	2 180	2 396 [d]
Real effective exchange rate (index: 2000=100) [e]	105.7	107.3	108.7	110.7	109.7	109.0	108.6	110.1	110.1	110.9
Consumer prices (12-month percentage variation)	3.7	1.8	0.5	1.9	2.7	2.8	4.2	4.9	5.5	6.4
Nominal interest rates (annualized percentages)										
Deposit rate [f]	3.6	3.6	3.5	3.3	3.3	3.2	3.0	2.8	2.7	2.3 [d]
Lending rate [g]	8.3	8.2	8.3	8.3	8.3	8.1	7.8	7.4	7.4	7.4 [d]
Domestic credit (variation from same quarter of preceding year)	7.6	7.6	2.2	1.9	4.8	11.2	13.0	16.5	18.2	…
Non-performing loans as a percentage of total credit [h]	2.6	2.7	2.9	2.6	2.7	2.6	2.3	2.5	2.2	…

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Data to May.
[c] Based on figures in local currency at constant 1996 prices.
[d] Data to April.
[e] Quarterly average, weighted by the value of goods exports and imports.
[f] Six-month deposits in the local banking system.
[g] Interest rate on 1-year trade credit.
[h] Includes credit in arrear.

(c) The external sector

In 2010, the current account recorded a deficit of US$ 2.953 billion (11% of GDP), compared with the zero balance of the previous period. This trend reflects a huge increase (US$ 2.493 billion) in the merchandise trade deficit as a result of the surge in imports. Exports remained stable in 2010 recording 1.7% nominal growth with respect to the previous year. The expansion in imports reflected the increase in national imports (up 16.8%) as well as in imports through the Colón Free Zone (23.8%), originating mainly in the People's Republic of China (21.9%), Singapore (21.8%), Taiwan Province of China (10.1%), Hong Kong (Special Administrative Region of China) (10%) and the United States (8.1%).

The services surplus remained stable at US$ 3.333 billion, similar to that of the previous year and consistent with the steady traffic passing through the Canal. The income balance to December 2010 was a deficit of US$ 1.861 billion, compared with one of US$ 1.450 billion in the preceding period. The wider income deficit was due to a US$ 418 million increase in repatriations of profits and dividends and, to a lesser extent, to a fall of US$ 47 million in portfolio income.

The financial account ended the year 2010 with a surplus of US$ 1.811 billion, compared with US$ 853.5 million in 2009. This balance was fuelled basically by a wider foreign direct investment surplus, which expanded from US$ 1.772 billion in 2009 to US$ 2.362 billion in 2010.

Further pressure will be brought to bear on the current account in 2011, because of a surge in capital goods imports for infrastructure works to meet the demand of the buoyant economy and an increase in interest payments on the higher sovereign debt incurred in order to finance them.