

## PANAMA

### 1. General trends

The Panamanian economy continued on its growth path of recent years, posting 10.7% expansion in 2012, mainly as a result of the widening of the Panama Canal and many other national public infrastructure projects.

In line with its strong economic performance, Panama's jobless and open unemployment rates remained low. The national open unemployment rate was similar to the previous year at 3.0%, while the broad unemployment rate was 4.0%, half a percentage point below the 2011 figure and the lowest in more than 30 years.

Year-on-year inflation as of December 2012 stood at 4.6%, down from 6.3% the previous year.

The non-financial public-sector deficit was 2.1% of GDP (as against 2.2% the previous year), in line with the limits established by the Fiscal Responsibility Act. In this context, total public debt amounted to US\$ 14.265 billion, equivalent to 39.3% of GDP, slightly lower than the 40.9% recorded in 2011.

The current account deficit narrowed to 9.0% of GDP, from 12.2% the previous year. Foreign direct investment inflows were equivalent to 8.4% of GDP, 0.4 percentage points lower than in 2011.

The United States-Panama Trade Promotion Agreement entered into force on 31 October 2012 and the Canada-Panama Free Trade Agreement took effect on 1 April 2013.

In February 2013, the monthly index of economic activity rose by 6.54% with respect to the previous year (6.99% adjusted for the trend-cycle effect). ECLAC estimates that growth will reach 8% in 2013, driven by the continuation of major public and private infrastructure projects. Unemployment is expected to remain low.

In April 2013, the consumer price index (CPI) was up 3.7% compared with the same month in 2012.

The non-financial public sector deficit widened to 2.3% of GDP in the first quarter of 2013, compared with 1.4% in the year-earlier period. Public debt was 8.7% higher in April 2013 than at year-end 2012.

### 2. Economic policy

#### (a) Fiscal policy

In 2012, the central government deficit was unchanged from the previous year at 3.5% of GDP. Both revenue and total expenditure remained at very similar levels to 2011, at about 18.0% and 21.5% of GDP, respectively.

Tax revenue totalled US\$ 4.690 billion (equivalent to 12.9% of GDP) in 2012, a nominal increase of 26.4% on 2011, when it had represented 11.8% of GDP. This trend reflects a sharp rise in direct tax receipts (up 45.6%), owing to stricter and more efficient oversight regarding the breakdown of allowances

on tax returns, as well as to the change in tax legislation between 2011 and 2012, which contributed to atypical performance in the first quarter of 2012. The jump in direct tax receipts was partially offset by more modest growth in indirect tax receipts, which rose by 10% in nominal terms to US\$ 2.212 billion in 2012, but grew more slowly in relative terms (representing 6.1% of GDP at the end of 2012, compared with 6.4% in 2011).

Although the level of total central government spending remained similar to the previous year, at 21.5% of GDP, there was a change in its composition. While current expenditure slipped by the equivalent of 0.8 percentage points (from 13.3% of GDP in 2011 to 12.5% in 2012), capital expenditure edged up by 1.0 percentage point (from 8.0% of GDP in 2011 to 9.0% in 2012), mainly as a result of large-scale public infrastructure projects, including Line 1 of the Panama metro system, the clean-up of the Bay of Panama and highway construction.

Total public debt stood at 39.3% of GDP in 2012, compared with 40.9% in 2011. In a continuation of the trend observed in recent years, the proportion of external public debt decreased in favour of domestic public debt. External public debt was equivalent to 29.8% of GDP in 2012, a fall of 5 percentage points compared with the previous year, while domestic public debt was up 3.5 percentage points on the 2011 figure, at 9.6% of GDP.

Twenty-three auctions were held under the “Market makers” programme in 2012, with total issuance of US\$ 1.364 billion. By means of these auctions, external sources of financing were substituted with internal sources, and the government sought to develop the national capital market and diversify the public debt portfolio.

At the end of the first quarter of 2013, the central government deficit was US\$ 1.059 billion, equivalent to 2.6% of GDP (compared with 2.1% in the first quarter of 2012). This widening of the fiscal deficit in the first quarter of 2013 basically reflects a sharp reduction in direct tax revenues (down 25.4%) compared with the first quarter of 2012, when performance was atypical owing to the change in tax legislation between 2011 and 2012. Public debt totalled US\$ 15.504 billion as of April 2013, a nominal increase of 8.7% compared with the December 2012 figure.

In June 2012 legislation was enacted to create the Panama Savings Fund (FAP), a long-term savings instrument for the Panamanian State to be funded with resources from additional income from the operation of the Panama Canal. Under the law, FAP will accumulate assets through contributions made by the Panama Canal Authority to the national treasury that exceed 3.5% of nominal GDP in the respective year, starting with fiscal year 2015. At December 2012, the Fund's assets were worth US\$ 1.300 billion, of which 65% were equity investments and 28.5% term deposits in foreign banks.

## **(b) The international banking centre and credit policy**

Domestic lending remained brisk in 2012. The domestic credit portfolio stood at US\$ 33.095 billion (equivalent to 91.6% of GDP), a nominal increase of 14.1% on the previous period, driven by the solid performance of the main sectors of the Panamanian economy. Commercial credit expanded by 22.7% in nominal terms, while mortgage, consumer and construction lending moved up by 14.6%, 10.0% and 5.8%, respectively.

Credit portfolio quality indicators remained solid. Non-performing loans stood at 2.6% of the total domestic loan portfolio in 2012, slightly down on 2011. In the case of the external credit portfolio, the non-performing loan ratio was 0.5% in 2012, as compared with 0.7% the previous year. The capital

adequacy ratio (capital as a percentage of risk-weighted assets), an indicator used to measure banking solvency, stood at 16.2% in 2012, some 0.7 percentage points higher than in 2011, and well above the 8.0% required by law.

Buoyant lending also boosted the profitability of the banking system. The return on equity was 15.9% in December 2012 (as against 15.1% the previous year), while the return on assets was 1.74% (compared with 1.69% in 2011).

At December 2012, annual nominal lending rates for the commerce, industry and consumer sectors were similar to 2011 levels, at 7%, 7.2% and 9.9%, respectively. The nominal six-month deposit rate remained unchanged from the 2011 level at around 3.4%.

At the end of February 2013, the international banking centre reported a 14.8% nominal increase in lending compared with the year-earlier period, with particularly strong growth in commercial loans (22.7%), followed by mortgage lending (14.4%) and consumer credit (10.5%).

### **(c) Trade policy and other policies**

On 31 October 2012, the Trade Promotion Agreement between Panama and its main trading partner, the United States, entered into force. A special feature of this agreement is that it covers market access for all agricultural and industrial products, rather than for a specific group of goods. As well as setting out rules dealing with access to services, investments, non-tariff barriers and other regulations needed to increase the flow of trade between the two countries, it is also an instrument that delivers stability and legal certainty. To set up the free trade area between the two countries, the parties undertook to gradually remove import duties on each other's goods, and to eliminate other non-tariff measures that restrict trade, thus enhancing competitiveness.

The Free Trade Agreement (FTA) between Panama and Canada came into force on 1 April 2013, when Canada became Panama's thirteenth trading partner under an agreement of this kind. The FTA sets forth the preferences granted to goods originating in the two countries, as well as provisions on the elimination of tariffs, the temporary admission of goods, tariff-free imports, and the re-import of goods after repairs or alterations. It also establishes provisions regarding the multilateral elimination of agricultural export subsidies, and cooperation in World Trade Organization (WTO) agricultural negotiations, among others. The FTA provides for the removal of import duties on more than 90% of Canada's exports to Panama, while also eliminating 97% of duties on exports to Canada from Panama. Canada is the second largest destination for Panamanian exports, gold being the main product exported to this market.

## **3. The main variables**

### **(a) The external sector**

The current account deficit stood at US\$ 3.267 billion in 2012, equivalent to 9.0% of GDP, a little lower than the 12.2% recorded in 2011. This performance was attributable to a reduction in the goods trade deficit (to 15.9% of GDP in 2012, compared with 19.2% the previous year), and the wider surplus on the services account (14% of GDP in 2012 against 12.4% in 2011), which amply offset the increase in the income account deficit.

The narrowing of the goods trade deficit was mainly driven by 11.5% growth in exports, notably those from export processing zones (up 58.6%), goods procured in ports (up 46.5%) and re-exports from the Colón Free Zone (up 5.8%). Growth in imports was more modest (7.3%).

The reduction in the goods trade deficit was complemented by a 30.4% increase in the services surplus to US\$ 5.058 billion in 2012, attributable to a sharp upturn in air transport revenues (48.3%) on the back of greater demand for tickets from non-residents and an expansion in the number of air routes. Increased visitor arrivals were reflected in higher foreign currency levels (up 17.4%), revenues from financial services (43.4%), exports of international call services (55.1%) and revenues collected by ports (20.2%).

The income account deficit widened by 43.3% to US\$ 2.656 billion (7.3% of GDP) in 2012, mainly owing to a 37.1% rise in non-resident income from direct investment returns.

The capital and financial account remained in surplus in 2012. However, the positive balance narrowed by 8.4% to US\$ 3.681 billion (equivalent to 10.2% of GDP, compared with 12.8% of GDP in 2011). This performance reflected several factors. On the one hand, foreign direct investment (FDI) jumped 9.6% to US\$ 3.020 billion (8.4% of GDP), largely as a result of foreign capital raised for infrastructure investment projects. On the other, portfolio investment fell by US\$ 393 million compared with the previous period, as a result of increased public debt repayments.

## **(b) Economic growth**

Robust growth in 2012 reflected the buoyancy of many areas of the economy. The sectors that expanded the most were construction (29.3%), mining (30.0%), electricity, gas and water (11.7%), transport and communications (11.2%), hotels and restaurants (10.6%) and financial intermediation (10.2%). An increase in the number of residential and non-residential projects delivered significant growth in the construction and mining industries. Constructed surface area and investment expanded by 8.8% and 15.7%, respectively, in residential projects, and by 18.0% and 24.2% in non-residential projects, which included the widening of the Panama Canal, the clean-up of the Bay of Panama, the extension of the coastal strip, the construction of the Panama City metro and the expansion of the international airport.

Strong growth in the electricity, gas and water sector was chiefly attributable to an increase in hydroelectric power generation (up 27.9%), while thermal generation declined by 12.4%.

The transport and telecommunications sector performed vigorously, boosted by 21.4% growth in air traffic, thanks to a substantial rise in passenger and freight movements at Tocumen International Airport, and a 12.8% expansion in the telecommunications segment, owing to the increased use of pre-pay mobile telephones, international calls and the Internet.

Hotels and restaurants and financial intermediation both kept up the pace of activity seen in recent years, thanks to continuous growth in tourist arrivals and their spending levels. Visitor numbers were up 2.4%, while tourist spending surged by 17.5% to US\$ 2.262 billion. Most visitors came from South America (51.2%), especially Colombia and the Bolivarian Republic of Venezuela; North America (24.3%), mainly the United States and Canada; and Central America (8.3%).

During 2012, a total of 14,544 ships passed through the Panama Canal, down 1.0% on the 14,684 that did so in 2011. Nevertheless, there was a 3.6% rise in net tons transported, and toll income grew by 7.1%. Aside from the increase in net tonnage, this was the result of higher tariffs for cargo ships.

Port services activity was up 5.4% and container traffic increased by 3.4% year-on-year, with 6.8 million TEUs (twenty-foot equivalent units) handled in 2012.

In February 2013, the monthly index of economic activity was up 6.54% compared with the previous year (6.99% higher adjusted for the trend-cycle effect). The most dynamic sectors in first few months of 2013 were construction and mining. These sectors were also the standout performers in 2012 and are projected to drive the economy for the rest of 2013. A major copper mining project in Colón province, which is set to receive more than US\$ 7.0 billion in private investment, should provide a particular boost. The hotels and restaurants sector is also booming, thanks to the steady increase in visitor numbers, and the transport and financial intermediation sectors are buoyant.

### **(c) Inflation, wages and employment**

Year-on-year inflation, measured by the change in the consumer price index at December 2012, was 4.6% (compared with 6.3% in 2011). The biggest price rises were recorded in food and beverages (8.1%), transport (5.5%) and household furnishings and appliances (5.4%). In the food sector, price growth was strongest for meals outside the home (12.5%) while vehicle repair and maintenance showed the largest increase (11.1%) in the transport category. Under household items, utensils posted the biggest gain (8.6%).

The broad unemployment rate continued to fall in 2012, reaching 4.0%, the lowest level recorded in more than 30 years. This was thanks to an improvement in the employment rate (from 59.1% to 61.0%), which more than offset the increase in the participation rate. According to the quarterly survey of formal establishments with five or more employees, the number of workers swelled by 4.7%, equivalent to an additional 230,905 people in employment in 2012. The largest rises in employment were recorded in retail trade (up 10.4%) and wholesale trade (5.8%).

In 2012, the average monthly wage jumped by 8.4% in nominal terms to US\$ 918. The wholesale trade sector paid the highest average wage (US\$ 1,135), although this figure was down slightly, by 1.0%, on the previous year. By contrast, the average monthly wage rose fastest —by 15.5% to US\$ 705— in the hotels and restaurants sector. Average wage growth for all workers in these businesses was 2.6% in real terms.

The CPI posted a 3.7% year-on-year increase in April 2013. The steepest rises were in food and beverages (6.2%), education (5.6%), health (5.1%) and housing, water, electricity and gas (4.4%).

Table 1  
**PANAMA: MAIN ECONOMIC INDICATORS**

	2004	2005	2006	2007	2008	2009	2010	2011	2012 a/
	<b>Annual growth rates b/</b>								
Gross domestic product	7.5	7.2	8.5	12.1	10.1	3.9	7.5	10.8	10.7
Per capita gross domestic product	5.5	5.2	6.6	10.1	8.2	2.1	5.6	9.0	8.8
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	1.4	2.6	4.2	0.6	8.3	-7.8	-14.2	-0.6	4.4
Mining and quarrying	12.5	0.1	17.2	24.0	30.9	4.6	7.3	21.6	30.1
Manufacturing	2.1	4.2	3.9	5.6	3.9	-0.6	1.1	3.2	3.6
Electricity, gas and water	6.1	5.6	3.3	8.2	3.8	7.5	6.4	6.2	11.7
Construction	13.9	1.0	18.4	21.8	30.7	4.5	7.0	18.9	29.1
Wholesale and retail commerce, restaurants and hotels	11.9	9.2	11.2	11.3	7.3	1.7	10.0	13.6	8.7
Transport, storage and communications	14.9	11.8	13.7	17.0	15.5	8.2	14.5	14.1	11.2
Financial institutions, insurance, real estate and business services	3.3	10.0	9.1	12.1	9.6	4.5	6.4	7.7	8.2
Community, social and personal services	3.3	0.9	3.3	6.5	4.7	3.5	4.3	6.0	6.7
Gross domestic product, by type of expenditure									
Final consumption expenditure	3.9	8.1	4.2	1.4	-1.4	-1.7	22.4	8.3	11.1
Government consumption	1.9	4.1	3.1	4.1	2.6	4.1	12.2	4.5	11.5
Private consumption	4.3	8.8	4.4	0.9	-2.1	-2.8	24.4	9.0	11.1
Gross capital formation	9.9	2.8	13.5	38.9	24.2	-5.7	11.2	16.2	14.7
Exports (goods and services)	18.5	11.3	11.1	22.0	17.8	-1.0	1.7	12.0	11.9
Imports (goods and services)	14.4	11.2	7.4	18.1	12.2	-9.9	15.1	13.0	14.3
Investment and saving c/	<b>Percentajes of GDP</b>								
Gross capital formation	18.7	18.4	19.5	24.1	27.6	25.6	25.5	27.2	28.2
National saving	11.6	11.8	16.8	16.2	16.7	24.9	15.3	15.0	19.3
External saving	7.1	6.6	2.7	7.9	10.9	0.7	10.2	12.2	8.9
Balance of payments	<b>Millions of dollars</b>								
Current account balance	-1 003	-1 022	-463	-1 560	-2 513	-179	-2 765	-3 826	-3 267
Goods balance	-1 537	-1 558	-1 715	-3 189	-4 049	-2 181	-4 543	-6 017	-5 751
Exports, f.o.b.	6 080	7 375	8 475	9 648	12 025	12 038	12 675	16 929	18 872
Imports, f.o.b.	7 617	8 933	10 190	12 837	16 074	14 218	17 218	22 946	24 623
Services trade balance	1 337	1 420	2 273	2 247	2 511	3 324	3 490	3 878	5 058
Income balance	-1 020	-1 126	-1 301	-1 254	-1 507	-1 449	-1 849	-1 854	-2 656
Net current transfers	217	242	280	636	532	126	138	167	81
Capital and financial balance d/	608	1 697	113	2 189	3 074	785	3 072	3 597	3 249
Net foreign direct investment	1 019	918	2 547	1 899	2 147	1 259	2 363	2 755	3 020
Other capital movements	-411	779	-2 434	290	927	-475	709	842	229
Overall balance	-395	675	-350	629	562	606	307	-228	-18
Variation in reserve assets e/	396	-521	360	-619	-556	-606	-307	228	18
Other financing	-1	-154	-10	-10	-5	0	0	0	0
Other external-sector indicators									
Real effective exchange rate (index: 2005=100) f/	98.1	100.0	101.7	103.2	101.5	97.0	98.1	98.2	94.1
Terms of trade for goods (index: 2005=100)	101.9	100.0	97.1	96.2	91.8	96.3	94.4	92.4	92.7
Net resource transfer (millions of dollars)	-414	418	-1 198	925	1 562	-664	1 223	1 744	593
Gross external public debt (millions of dollars)	7 219	7 580	7 788	8 276	8 477	10 150	10 439	10 800	10 782
Employment	<b>Average annual rates</b>								
Labour force participation rate g/	63.3	63.6	62.6	62.7	63.9	64.1	63.5	61.9	63.5
Unemployment rate h/	14.1	12.1	10.4	7.8	6.5	7.9	7.7	5.4	4.8
Open unemployment rate i/	11.4	9.8	8.4	5.8	5.0	6.3	5.8	3.6	3.6

Table 1 (concluded)

	2004	2005	2006	2007	2008	2009	2010	2011	2012 a/
<b>Prices</b>	<b>Annual percentages</b>								
Variation in consumer prices (December-December)	-0.2	3.4	2.2	6.4	6.8	1.9	4.9	6.3	4.6
Variation in average real wage	-0.8	-1.2	2.0	1.3	-4.1	2.7	7.2	0.2	...
Nominal deposit rate j/	2.2	2.7	3.8	4.8	3.5	3.5	3.0	2.3	2.1
Nominal lending rate k/	8.2	8.2	8.1	8.3	8.2	8.3	7.9	7.3	7.0
<b>Central government</b>	<b>Percentajes of GDP</b>								
Total revenue l/	14.4	15.2	18.6	19.2	19.8	18.5	18.5	17.8	17.7
Tax revenue	8.5	8.7	10.3	10.6	10.6	10.9	11.4	11.3	12.1
Total expenditure	19.8	19.1	18.4	18.0	19.5	19.9	21.0	21.3	21.2
Current expenditure	16.6	16.6	15.9	14.0	13.9	13.6	13.7	13.3	12.4
Interest	4.2	4.4	4.2	3.4	3.1	2.9	2.6	2.3	2.0
Capital expenditure	3.2	2.5	2.5	4.0	5.6	6.3	7.3	8.0	8.8
Primary balance	-1.2	0.5	4.4	4.6	3.4	1.4	0.1	-1.2	-1.5
Overall balance	-5.4	-3.9	0.2	1.2	0.3	-1.5	-2.5	-3.5	-3.5
<b>Central government public debt</b>	69.6	65.1	60.3	52.3	44.8	44.7	42.3	40.3	38.4
Domestic	18.9	16.8	15.0	10.6	8.0	2.9	3.9	5.6	9.1
External	50.6	48.4	45.3	41.7	36.7	41.8	38.4	34.7	29.3
<b>Money and credit</b>	<b>Percentages of GDP, end-of-year stocks</b>								
Domestic credit	63.2	64.0	67.9	63.4	62.0	57.9	60.7	63.6	64.1
To the public sector	0.0	-3.7	-3.2	-7.7	-9.0	-9.0	-6.8	-3.9	-3.8
To the private sector	85.1	87.1	88.4	90.6	90.1	87.7	90.2	89.9	88.6
Others	-21.9	-19.5	-17.2	-19.5	-19.1	-20.8	-22.7	-22.5	-20.7
<b>Monetary base</b>	1.1	1.0	1.0	1.0	1.0	1.0	1.0	1.1	1.1
M2	79.2	78.9	87.2	88.6	86.0	90.3	89.6	83.9	79.7

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

a/ Preliminary figures.

b/ Based on figures expressed in 1996 dollars.

c/ Based on figures expressed in current dollars.

d/ Includes errors and omissions.

e/ A minus sign (-) indicates an increase in reserve assets.

f/ Annual average, weighted by the value of goods exports and imports.

g/ Nationwide total.

h/ Urban total. Includes hidden unemployment.

i/ Urban total. Includes an adjustment to the figures for the economically active population for exclusion of hidden unemployment.

j/ Six-month deposits rate.

k/ Interest rate on one-year trade credit.

l/ Includes grants.

Table 2  
**PANAMA: MAIN QUARTERLY INDICATORS**

	2011				2012				2013	
	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2 a/
Gross domestic product (variation from same quarter of preceding year) b/	9.9	12.2	11.4	10.0	11.4	10.8	10.5	10.0	7.0	...
Goods exports, f.o.b. (millions of dollars)	3 315	3 796	4 573	4 211	4 244	3 999	4 294	4 427	2 333	...
Goods imports, c.i.f. (millions of dollars)	2 485	2 898	2 909	3 047	2 877	3 042	3 472	3 242	2 028	...
Gross international reserves (millions of dollars)	2 482	2 650	2 099	2 514	2 010	2 518	1 971	2 441	2 122	2 794 d/
Real effective exchange rate (index: 2005=100) e/	98.8	99.5	98.8	95.9	95.4	93.8	93.4	93.7	92.9	92.0 d/
Consumer prices (12-month percentage variation)	5.5	6.5	6.1	6.3	6.3	5.8	5.4	4.6	4.1	3.7 d/
Nominal interest rates (annualized percentages)										
Deposit rate f/	2.7	2.3	2.2	2.2	2.2	2.1	2.1	2.1	2.1	2.2 d/
Lending rate g/	7.4	7.2	7.2	7.2	7.0	6.9	7.0	7.1	7.2	7.1 d/
Sovereign bond spread, Embi + (basis points to end of period) h/	150	127	252	201	153	187	148	129	169	218
Risk premia on five-year credit default swap (basis points to end of period)	91	99	195	150	112	144	102	98	96	143
International bond issues (millions of dollars)	502	-	395	-	300	-	800	-	-	750 d/
Domestic credit (variation from same quarter of preceding year)	17.6	15.2	21.1	20.8	19.8	21.0	15.7	16.4	20.5	17.0 i/
Non-performing loans as a percentage of total credit	2.2	2.0	1.8	1.8	1.8	1.8	1.7	1.7	1.4	1.5 i/

**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/ Figures as of February.

d/ Figures as of May.

e/ Quarterly average, weighted by the value of goods exports and imports.

f/ Six-month deposits rate.

g/ Interest rate on one-year trade credit.

h/ Measured by J.P.Morgan.

i/ Figures as of April.