

Panama

Panama is projected to achieve growth of 6.0% in 2014, retaining its position as one of the fastest-growing economies in the region. The non-financial public-sector deficit stood at 3.2% of GDP as of June 2014, while the cumulative balance-of-payments current account deficit as of that month was US\$ 2.294 billion, down 4.4% on the same period in 2013. Public debt totalled US\$ 17.64 billion at the end of the first half of the year, up 12.5% year on year in nominal terms. The consumer price index posted a year-on-year increase of 2.1% as of October 2014, while in March 2014 the jobless and open unemployment rates stood at 4.3% and 3.1%, respectively.

The overall non-financial public sector (NFPS) deficit was a cumulative US\$ 1.511 billion as of June 2014 and was equivalent to 3.2% of GDP, compared with 2.0% of GDP in the same period in 2013. A fiscal deficit of 4.0% of GDP is projected by the end of 2014, exceeding the 2.7% limit established by the Fiscal Responsibility Act for the year's end. On 28 October, the National Assembly responded by raising the 2014 deficit limit to 4.1% of GDP.

The widening deficit was the result of a 1.5% uptick in total revenue being overwhelmed by a 13.6% surge in total expenditure. Faced with these figures, in September the Cabinet Council adopted administrative and fiscal measures to rein in spending by US\$ 549 million.

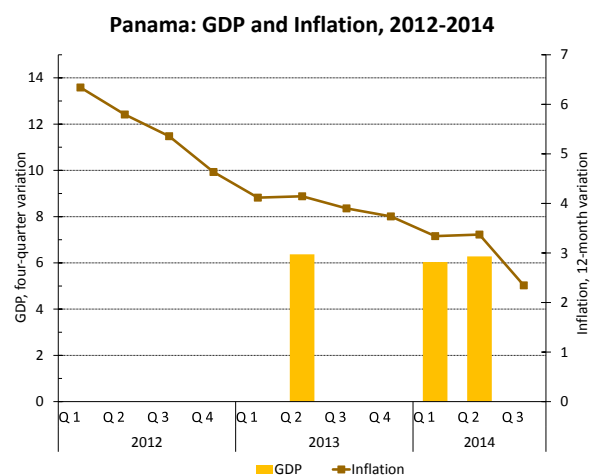
Tax revenues up to June 2014 amounted to US\$ 2.36 billion, down 0.9% on the figure for the same period in 2013, as a 5.6% increase in indirect tax revenues was fully neutralized by a 6.4% fall in direct tax revenues. In view of the weak revenue generation of the preceding months, the new administration that took office in July granted an amnesty on the payment of overdue taxes, which would be exempt from surcharges, fines or interest. The amnesty period was due to expire at the end of 2014.

Non-tax revenues totalled US\$ 770.9 million as of June 2014, a year-on-year increase of 38.5% driven by non-recurring income from the renewal of telecommunications and casino concessions.

The surge in overall NFPS spending reflected rises in both current expenditure (7.4%) and capital expenditure (13.3%). Most of the increase in current expenditure was due to transfers disbursed by the central government for social programmes, while rising capital expenditure reflected the financing allocated to the many infrastructure projects implemented in recent years.

Public debt amounted to US\$ 17.64 billion at the end of the first half of 2014, a 12.5% increase on the same period in 2013. Its composition also changed, with external debt growing by 8.2% to US\$ 13.236 billion, while domestic debt rose 27.6% to US\$ 4.403 billion.

The Panamanian banking sector continued to grow in 2014, albeit more slowly than in previous years owing to the reduced level of economic activity. In July 2014, the local credit portfolio stood at US\$ 39.014 billion, a nominal increase of 8.6% year on year (compared with a 13.6% year-on-year increase in July 2013).



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

Mortgage lending expanded by 13.2% in nominal terms on the back of a positive performance in residential and commercial construction. Lending to the commerce sector, however, recorded only 0.9% nominal growth, largely owing to the continued decline in exports from the Colón Free Zone to Panama's main trading partners. Consumer credit expanded at a nominal rate of 11.2%, thanks to low interest rates and the extension of debt repayment deadlines, especially on loans for new vehicle purchases. Credit for the construction sector grew by 12.7%.

The current account deficit was US\$ 2.294 billion as of June 2014, compared with US\$ 2.401 billion in the same period in 2013. The narrower deficit reflected a US\$ 642 million increase in the surplus on the services account, partially offset by increases of US\$ 250 million and US\$ 224 million on the goods trade deficit and the income account deficit, respectively. The services surplus increased owing to higher income from exports in the travel, air transport and sea transport categories, while the higher goods trade deficit was due to a drop in the surplus posted by the Colón Free Zone coupled with a sharper contraction in the country's exports (down 12.4%) than in its imports (down 6.6%). Lastly, the deficit on income transfers between residents and non-residents totalled US\$ 1.719 billion, up 15.0% on the figure reported in June 2013. Foreign direct investment amounted to US\$ 2.575 billion, a 26.0% increase on the June 2013 figure, thanks to reinvestment of earnings totalling US\$ 1.644 billion and equity purchases totalling US\$ 780 million.

Panama's economy continued to grow briskly during the first half of the year, albeit more slowly than in 2013. The construction sector posted year-on-year growth of 15.5% in June 2014 (compared with 25.9% in June 2013) on the back of home building and non-residential infrastructure projects. The mining sector grew by 12.0% amid strong demand for non-metallic minerals from the construction sector. The transport, storage and telecommunications sector remained buoyant, with growth of 7.7% reflecting a 6.8% increase in the volume of commercial cargo shipped through the Panama Canal and a 12.6% year-on-year rise in air transport, with a total of 3.5 million passengers travelling up to June 2014. After contracting for several years, the fisheries sector grew by 36.0%, a rally driven by increased shrimp exports and an upturn in non-industrial fishing. The commerce sector expanded by 3.3% in the period to June 2014 (compared with 1.0% to September 2013), spurred by faster growth in retail trade, which more than compensated for the continued decline in activity at the Colón Free Zone, where sales continued to drop over the year, with a 12-month decline of 13.4% in the period to June. This pattern reflects falling exports to Panama's main trading partners, including the Bolivarian Republic of Venezuela (down 36.1%), Puerto Rico (down 27.5%), Ecuador (down 10.8%) and Guatemala (down 7.8%).

In October 2014, the consumer price index (CPI) posted an increase of 2.1% year on year, thereby continuing the downward trend in inflation observed since mid-2012. The jobless rate stood at 4.3% and the open unemployment rate at 3.1% in March 2014, broadly in line with the year-earlier figures. Where job quality is concerned, a rise of 5.3% in formal employment was accounted for mainly

Panama: main economic indicators, 2012-2014

	2012	2013	2014 ^a
	Annual growth rate		
Gross domestic product	10.2	8.4	6.0
Per capita gross domestic product	8.4	6.6	4.3
Consumer prices	4.6	3.7	2.1 ^b
Real average wage	3.3	0.3	4.4 ^c
Money (M1)	17.1	6.9	11.3 ^d
Real effective exchange rate ^e	-4.5	-3.0	-1.1 ^b
Terms of trade	0.4	-0.5	0.9
	Annual average percentage		
Urban unemployment rate ^f	4.8	4.7	5.4 ^b
Central government			
Overall balance / GDP	-2.7	-4.2	-3.1
Nominal deposit rate	2.1	2.1	2.1 ^d
Nominal lending rate ^g	7.0	7.4	7.7 ^d
	Millions of dollars		
Exports of goods and services	28,160	27,010	26,228
Imports of goods and services	29,878	28,928	27,262
Current account balance	-3,528	-4,920	-4,138
Capital and financial balance ^h	2,570	4,810	4,821
Overall balance	-958	-109	683

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 June.

d/ Figures as of September.

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

f/ Includes hidden unemployment.

g/ Interest rate on one-year trade credit.

h/ Includes errors and omissions.

by specific task contracts. The average wage as of June 2014 was US\$ 1,013.90, which was 7.9% higher than in the first half of 2013.