

Panama

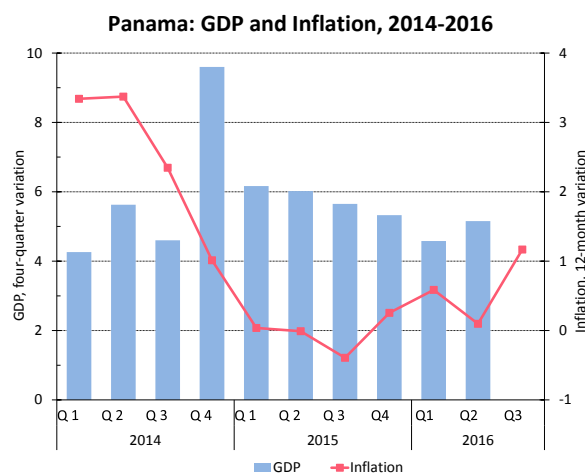
The GDP of Panama is expected to grow by 5.2% in 2016 (as compared to 5.8% in 2015), making it still one of the fastest-growing economies in the region. The adjusted deficit of the non-financial public sector (NFPS) is projected to be around 1% of GDP by the end of the year, as against 2.0% in 2015. The balance-of-payments current account deficit will be below 5% of GDP, as against 6.5% in 2015. The year-on-year change in the consumer price index (CPI) will be about 1.5%, similar to the 2015 rate, while unemployment was 5.5% in August 2016, up from 5.1% the previous year.

The overall NFPS deficit totalled US\$ 911 million (1.7% of GDP) by September 2016, as compared to a figure of US\$ 1.013 billion (1.9% of GDP) in the same period of 2015. This outcome accorded with a fiscal stance whose priority has been to put the public finances in order within the framework of the Fiscal Social Responsibility Act governing the public sector. The reduction in the deficit resulted from a large nominal increase in total revenue (8.6%) and a somewhat smaller increase in total expenditure (6.4%). Tax receipts rose by 9.1%, with growth in both direct taxes (12.9%) and indirect taxes (5.0%). This increase in receipts was due to improvements in information cross-referencing and billing operations, the sending out of payment requests to taxpayers and the opening of a new payment centre, among other factors. In the case of direct taxes, the biggest increase was in corporation tax revenues (39.6%). The increase in indirect tax receipts was due to a rise of 26.6% in revenue from the real estate and services sales tax (ITBMS), chiefly owing to the implementation of a new rule applying to withholding agents. This growth was reinforced by a substantial increase in revenues from fuel duty (44.3%), partially offset by a drop in receipts both from the ITBMS on imports (-9.5%) and from import tariffs (-18.2%). Increased NFPS expenditure overall was due to rises in both current expenditure (4.4%) and capital expenditure (11.7%).

Public debt totalled US\$ 21.412 billion (39.7% of GDP) as of October 2016, an increase of 1.4 percentage points of GDP over the same period the year before. External public debt accounted for 76.9% of the total and domestically held public debt for the remaining 23.1%. Most of the debt (53.4%) was in the form of long-term global bonds.

Commercial bank lending to the private sector continued to show considerable vigour in 2016. The local loan portfolio of the country's banking system totalled US\$ 47.726 billion as of August 2016, a nominal year-on-year increase of 9.9% over the same period the previous year. Lending to most sectors of the Panamanian economy was buoyant, with particular strength in mortgage credit, which, according to figures from August 2016, accounted for 29.6% of the total private credit portfolio and was up by 11.4% year on year in nominal terms, mainly as a result of growth in residential projects.

In April 2016, Panama and the United States signed the Foreign Account Tax Compliance Act (FATCA), a legal tool mandating automatic sharing of financial information through the two countries' tax administrations. In April it was announced that a double taxation agreement would be signed with Colombia, to include a



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

clause mandating sharing of tax information on request, in accordance with Organization for Economic Cooperation and Development (OECD) standards. Finally, it should be noted that the so-called “Panama Papers” case had only a marginal impact on economic and financial activity in the country.

The balance-of-payments current account deficit at the end of the first half of 2016 was US\$ 1.236 billion (4.6% of GDP), a reduction of 20.7% on the year-earlier period. This evolution was due to a 12.5% decrease in the goods deficit, partially offset by an increase of 11.0% in the income deficit and a small reduction of 0.8% in the services surplus. The smaller goods trade deficit was due mainly to a 13.2% fall in imports (equivalent to US\$ 1.461 billion, of which US\$ 817 million was accounted for by lower imports into the Colón Free Trade Zone). This development was accompanied by a decrease of 13.7% in exports (equivalent to US\$ 880.4 million), explained by a drop in both re-exports and locally produced exports. The wider deficit on the income balance was largely the result of an increase in rents paid to non-residents, particularly those representing returns on foreign direct investment (FDI) (dividends and reinvested earnings). FDI had totalled US\$ 3.019 billion by the end of the first half of 2016, a 6.5% increase on the same period in 2015.

The Panamanian economy remained buoyant over the first half of the year, but grew more slowly (4.9% year on year) than in the same period of 2015 (6.1%). The highest growth was in construction and in mining and quarrying (9.4% in both cases), chiefly driven by public infrastructure projects, including Line 2 of the Panama City Metro (the metropolitan railway system of the country’s capital), water supply and sanitation projects and ongoing construction of power transmission lines. Another sector that performed well was financial intermediation, which grew by 6.8%, in line with the increase in the banking sector’s credit portfolio. Wholesale and retail trade grew by 4.2% in the first half of the year, less than in the same period the year before (5.7%), owing to diminished activity in the Colón Free Trade Zone as a result of the economic difficulties afflicting the country’s main trading partners. The sectors that contracted most were fisheries (-11.5%) and manufacturing (-2.1%).

The cumulative change in the consumer price index (CPI) between January and September 2016 was 1.4% (while the year-on-year change was 1.2%), since oil prices remained low. The product and services groups with the highest year-on-year inflation were restaurants and hotels (3.8%), health (3.6%), education (2.7%) and alcoholic beverages and tobacco (1.9%). Meanwhile, the national jobless rate was 5.5% in August 2016, as compared to 5.1% in the same month of 2015, while the open unemployment rate climbed to 4.4% from 3.8% in 2015.

The Panamanian economy is projected to grow by 5.9% in 2017. Construction will remain one of the most dynamic sectors, driven by infrastructure investment projects. The balance-of-payments current account deficit is expected to be below 5%, thanks to a continuation of relatively low oil prices and some

Panama: main economic indicators, 2014-2016

	2014	2015	2016 ^a
	Annual growth rate		
Gross domestic product	6.1	5.8	5.2
Per capita gross domestic product	4.4	4.1	3.6
Consumer prices	1.0	0.3	1.2 ^b
Real average wage	5.5	3.3	4.4
Money (M1)	13.6	0.9	0.1 ^c
Real effective exchange rate ^d	-1.8	-4.9	-1.5 ^b
Terms of trade	2.0	3.9	0.5
	Annual average percentage		
Urban unemployment rate ^e	5.4	5.8	6.4 ^c
Central government			
Overall balance / GDP	-4.0	-3.9	-2.9
Nominal deposit rate ^f	2.2	2.1	2.1 ^b
Nominal lending rate ^g	7.6	7.6	7.6 ^b
	Millions of dollars		
Exports of goods and services	27,626	27,319	25,674
Imports of goods and services	30,663	26,991	24,157
Current account balance	-5,544	-3,377	-3,084
Capital and financial balance ^h	5,941	3,377	3,514
Overall balance	397	-78	430

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

a/ Estimates.

b/ Figures as of September.

c/ Figures as of August.

d/ A negative rate indicates an appreciation of the currency in real terms. Refers to the global real effective exchange rate.

e/ Includes hidden unemployment.

f/ 6 months deposit rate.

g/ Interest rate on one-year trade credit.

h/ Includes errors and omissions.

increase in re-exports from the Colón Free Trade Zone. Additionally, a slight rise in inflation is expected. Lastly, the adjusted NFPS fiscal deficit is expected to be 1% of GDP, within the limits set by the Fiscal Social Responsibility Act.