PANAMA

1. General trends

The Panamanian economy grew 3.7% in real terms in 2018, significantly less than the 5.3% recorded the previous year. This was due to a slowdown throughout most of the sectors of the Panamanian economy. In particular, the protracted strike by workers in construction, a key industry in the national economy, resulted in the sector having a negative growth of 5.9% in 2018, compared to 8.3% the prior year. Another sector that weakened significantly was hotels and restaurants, which recorded growth of 2.5% in 2017, but contracted by 3.8% in 2018. This was due to more frugal leisure spending by households, together with a stronger dollar that led to a fall in shopping tourism and drove up the cost of air tickets. The unemployment rate was 6.0% in August 2018, 0.1 percentage points higher than the year before.

Year-on-year inflation was 0.2% at December 2018, down on the 0.5% recorded the previous year. The non-financial public sector deficit stood at 2.1% of GDP at year-end 2018 (1.9% in 2017). The current account deficit at December 2018 was equal to 7.8% of GDP, a slight decrease of 0.1 percentage points of GDP compared to the prior year.

ECLAC projects growth of 4.9% in 2019. The construction, transport and communications, and financial intermediation sectors are expected to continue to lead the expansion of the Panamanian economy. This faster growth is due to an expected upturn in the construction sector, as a consequence of normalization of the labour situation and the opening of a copper mine in the Donoso district, which sent out its first exports in June 2019. The balance-of-payments current account deficit is expected to remain stable or even to continue to shrink. Fiscal stability is also expected.

2. Economic policy

Efforts to consolidate the national financial system continued throughout 2018 and early 2019. Two important results have been the announcement by the European Union that the country has been removed from its list of tax havens and the Moody’s rating agency upgrade of Panama’s sovereign debt from Baa2 to Baa1.

(a) Fiscal policy

A number of bills amending fiscal legislation were passed in the last quarter of 2018,which notably: (a) created the Fiscal Council, an independent committee tasked with providing technical analysis of macrofiscal policy; (b) repealed the rule which had been in place since 2015 for calculating the adjusted fiscal balance for the purpose of gauging compliance with the Fiscal Responsibility Act, meaning that the deficit will be calculated in the traditional way; (c) raised the estimate of the non-financial public sector deficit for 2018 from 1.5% to 2.0% of GDP; and (d) established that, from 2019, non-financial public sector expenditure may not exceed potential GDP growth plus inflation, excluding spending on health services provided by the Ministry of Health and the Social Security Fund (CSS), pensions paid out by the Fund and public debt interest.

Central government revenues totalled US$ 9.020 billion (equivalent to 13.9% of GDP), up 3.7% in real terms and equalling the prior year in relation to GDP. This was driven by a rise in tax revenues (3.9% in real terms), and a more moderate increase in non-tax revenues (2.2% in real terms). Direct tax revenues grew significantly, climbing 9.7% in real terms, owing to special payment agreements with the private sector to settle back taxes or any arrears in employer contributions. Direct tax receipts were also bolstered by higher revenues from taxes on dividends and the sale of shares, as a result of major transactions in 2018 such as the sale of Cable Onda and Toyota shares, or the acquisition of Banvivienda by Global Bank. In contrast, indirect tax receipts fell 2.6% in real terms, on account of a decline in revenues from the sales tax on the transfer of movables and services rendered (ITBMS), a fall which gathered pace from May onward, as a result of the strike by construction workers. There was also a general decline in ITMBS on imports, import tariffs and fuel consumption, because of the across-the-board economic slowdown.

Total central government expenditures grew by 1.6% in real terms, standing at 16.7% of GDP, down 0.1 percentage points of GDP on the prior year. Current expenditures rose 4.4% in real terms, owing mainly to increases in personal services (8.1%), spending on goods and services (9.5%), transfers (4.8%) and debt interest payments (6.4%). Capital expenditures were 3.2% lower than at the end of the preceding year. To a large extent, this was because spending on the various public infrastructure projects —including Line 2 of the Metro, the urban renovation of Colón, social housing projects and road widening and rehabilitation— was US$ 93 million lower than in 2017.

At 31 December 2018, the balance of public debt was US$ 25.687 billion (39.5% of GDP), a nominal year-on-year increase of 9.9%, equivalent to 2.0 percentage points of GDP. External public debt represented 80.1% of the total. The average maturity of public debt was 10.3 years, compared to 10 years at the end of 2017. External debt had an average maturity of 12 years, while domestic debt had an average maturity of 3.4 years. The average weighted cost of the debt stock stood at 4.88% in December 2018, a small rise of 8 basis points from the level at the end of 2017. Some 82% of total public debt is fixed-rate, while the remaining 18% is variable-rate.

At the end of the first quarter of 2019, the non-financial public sector deficit was 1.4% of GDP, compared to 0.8% in the same period of the previous year. This rise is due to a 3.2% dip in central government tax revenues, owing to lower income tax revenues in the first quarter of 2019 as a result of the strike in the construction sector the previous year. In tandem with the above, total expenditure climbed 9.0%, mainly because of an 11.8% increase in current expenditure. By the first quarter of 2019, the public debt balance showed nominal growth of 0.8% on the figure recorded at the end of 2018.

(b) Credit policy

The local loan portfolio of the national banking system had grown a nominal 5.0% by December 2018. The sectors with the greatest expansions in loans were finance and insurance (20.9%), industrial (20.9%), personal consumption (8.7%), agriculture (9.5%) and housing (6.0%). In contrast, the loan portfolios of the construction (-3.5%) and mining and quarrying (-5.6%) sectors declined significantly, as a result of the drawn-out workers’ strike that affected the sector.

Loan portfolio quality indicators showed an improvement by December 2018. The proportion of past-due plus non-performing loans in the banking system loan portfolio was 2.9% at December 2018 (3.2% a year earlier). The capital adequacy ratio, defined as regulatory capital over risk-weighted assets, stood at 16.0% in 2018, well above the legally required minimum of 8%.

Nominal annual interest rates on consumer, commercial, construction and industrial loans ticked upwards in 2018. In the consumer credit segment, average interest rates on credit cards, personal loans, car loans and mortgage loans in December 2018 stood at 20.13%, 8.60%, 7.39% and 5.56%, respectively, higher than those recorded in the same month of 2017 (19.96%, 8.45%, 7.22% and 5.51%, respectively). Interest rates on commercial lending also rose and by December 2018 reached 6.37% in wholesale trade and 7.0% in retail, compared to 5.96% and 6.74%, respectively, in the same month of 2017. Interest on lending to the construction sector rose to a rate of 6.74% at December 2018, compared to 6.45% a year earlier, while loans to the industrial sector bore a rate of 6.30% (6.51% in December 2017).

The local banking system's private sector loan portfolio grew 4.3% in the first quarter of 2019 on the same period of 2018. The activities which saw the greatest growth in lending were mining and quarrying (23.4%), finance and insurance (18.8%) and manufacturing (14.9%). In contrast, lending to the construction sector declined 0.9%.

(c) Other policies

At the end of January 2019, the National Assembly passed Law No. 591, which established the possibility of prison sentences for tax evaders, in an effort to prevent the country re-entering international lists of tax havens. The Panama Papers leak in 2016 exposed a tax evasion network that used opaque companies created by a Panamanian law firm, triggering a flood of international criticism of the national financial system. This situation coincided with a number of efforts Panama had been making in order to be removed from the international lists of tax havens issued by the Financial Action Task Force (FATF). These included a ban on bearer shares, the creation of a public agency to prevent money laundering and an agreement with the Organization for Economic Cooperation and Development (OECD) on automatic exchange of tax information with more than 100 countries. In response, in January 2019 the European Union announced the removal of Panama from its list of tax havens. Another important achievement was the announcement by the Moody's rating agency that it was upgrading the country's sovereign debt from Baa2 to Baa1, with a stable outlook.

In November 2018, Panama City hosted the fourth round of negotiations between Panama and China on a trade agreement, with common ground found on rules of origin, customs procedures, market access and trade in services, among other areas. The fifth round of negotiations took place in Beijing at the end of April.

3. The main variables

(a) The external sector

The current account deficit of US$ 5.067 billion, representing a slight decrease of 0.1 percentage points of GDP from December 2017, is the result of an expansion of 0.5 percentage points of GDP in the goods balance deficit, offset by an upturn of 0.4 percentage points of GDP in the services surplus, but accompanied by a decline of 0.2 percentage points of GDP in the income account.

The larger merchandise trade deficit was the result of growth in total exports (6.7%) lagging behind the increase in imports (7.5%). Domestic exports (excluding the Colón Free Zone) grew by 1.9%, including sales of fats and oils, sugars and wood. Meanwhile, re-exports from the Colón Free Zone climbed 3.6% on the back of higher sales of pharmaceutical, electronic, printing and audiovisual products. Domestic imports, excluding companies operating in the Zone, rose by 4.0%, mainly due a sharp upturn of 21.4% in the fuel item, while imports by companies operating in the Zone grew by 6.1%. The larger services account surplus is the result of increases in revenues from the Panama Canal (7.1%), air transport services (5.6%) and the port system (1.7%). Conversely, imports of services fell 5.3%, mainly owing to lower travel expenditure (21.4%) and less spending on business services (12.4%).

Foreign direct investment totalled US$ 5.549 billion in 2018 (8.5% of GDP), representing growth of 21.4% on the previous year, equivalent to 1.2 percentage points of GDP, which helped to finance the current account deficit. This substantial rise was due to greater inflows through sales of shares (an additional US$ 101 million), reinvested earnings (an additional US$ 113 million) and other forms of investment (an additional US$ 765 million). The trend in other forms of investment was due to significant expansion in loans, securities and commercial credit extended by foreign-resident parent companies to their subsidiaries in Panama, predominantly non-financial companies.

Total imports in the first quarter of 2019 were down 1.6% year-on-year. This contraction is due to a 11.1% decline in imports of intermediate goods and a 2.1% drop in imports of capital goods, partly offset by 3.9% growth in imports of consumer goods. In exports, by the first quarter of 2019 there had been a fall of 7.6%, owing to a sharp downturn in exports of shrimp (66.0%), fish (48.1%) and coffee (38.3%).

(b) Economic activity

The growth recorded in 2018 (3.7%) was driven by transport, storage and communications (7.3%), social services and private health (6.5%), education services (4.8%) and private households with domestic service (4.7%). However, a key sector of the Panamanian economy, construction, grew by just 3.2% in 2018 after expanding 8.3% the previous year, beleaguered as it was by the prolonged strike by sector workers. In addition, the fishing and hotel and restaurant sectors contracted by -3.2% and -3.8% respectively in 2018, after recording moderate growth of 1.5% and 2.5% in 2017.

The strong growth in transportation, storage and communications was spurred by Panama Canal operations and especially the passage of Neopanamax vessels. Toll income totalled US$ 2.485 billion, a rise of 11.0%, while 255 million long tons of cargo were shipped through the Canal (5.8%) and net tonnage reached 442.5 million tons (9.4%). Container throughput in the national port system totalled 7 million twenty-foot equivalent units (TEU), a moderate increase of 1.7% on the year before, mainly owing to faster growth in the last four months of 2018. Lastly, air transport maintained its momentum, with a total of 16.2 million national and international passengers, up 4.0% on 2017.

In the construction sector, the sharp slowdown seen in 2018 was partly caused by the aforementioned workers' strike and slower growth in private building. The latter was partially offset by public and private investment in major civil engineering work, including large mining and port projects, Line 2 of the Panama City Metro, urban renovation of Colón, social housing projects, and road widening and rehabilitation. A total of US$ 2.553 billion was spent on public construction projects, an increase of 6.2% compared to the prior year.

In the fishing industry, the dip in activity was the result of both a smaller catch and a lower volume of exports. A total of 7,515 metric tons of marine species were unloaded at national ports, down 5.6% on year-end 2017. In addition, the sector's exports fell by 5.1% in terms of metric tonnage and by 16.8% in monetary terms. Lastly, the contraction in hotels and restaurants was caused by lower sales to domestic consumers, as well as fewer visitors and tourists entering the country.

The average cumulative increase in the monthly index of economic activity, measured according to the original series, was 3.41% as of March 2019, following growth of 3.49% in the same period the previous year.

(c) Prices, wages and employment

The year-on-year inflation rate, measured by the change in the consumer price index (CPI), stood at 0.2% in December 2018, down from 0.5% at year-end 2017. The segments that showed the largest reverses were transport (1.6%), clothing and footwear (1.3%) and communications (1.2%). The main rises were in education (3.8%), restaurants and hotels (2.7%) and health (1.0%).

The August 2018 labour force survey showed that 57.6% of the employed population were in full-time employment, 29.2% were working part-time and 13.3% were underemployed. These results are more downbeat than those from August 2017, reflecting a decrease of 4.2 percentage points in full-time employment, growth of 2.3 percentage points in underemployment and a rise of 1.9 percentage points in part-time work.

The labour force participation rate stood at 65.4% in August 2018, up 1.4 percentage points on the same month of 2017. The August 2018 unemployment rate was 6.0%, 0.1 percentage points lower than in August 2017, while the open unemployment rate rose slightly to 4.9%, up 0.1 percentage points. However, the country's slower economic growth was primarily reflected in a large 12% increase in the number of informal (non-agricultural) workers compared to August 2017, putting their number at 679,166 in August 2018.

In April 2019, the CPI showed a year-on-year decline of 0.1%. The most significant contractions were seen in clothing and footwear (-1.5%), transport and communications (-0.9%) and recreation and culture (-0.6%). In contrast, the areas that showed the largest gains were alcoholic beverages and tobacco (2.0%), restaurants and hotels (1.7%) and health (1.3%).

Table 1

PANAMA: MAIN ECONOMIC INDICATORS

	2010	2011	2012	2013	2014	2015	2016	2017	2018 a/
	Annual growth rates b/								
Gross domestic product	5.8	11.3	9.8	6.9	5.1	5.7	5.0	5.3	3.7
Per capita gross domestic product	4.0	9.5	8.0	5.2	3.4	4.1	3.3	3.7	2.2
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	-6.3	0.6	0.6	4.7	1.9	0.1	0.8	0.6	1.0
Mining and quarrying	35.8	22.1	25.2	22.8	8.9	10.0	8.1	7.7	3.1
Manufacturing	4.2	5.6	8.2	3.9	3.5	3.4	1.1	2.3	0.7
Electricity, gas and water	2.0	21.3	14.7	5.1	11.5	10.3	10.2	4.4	2.6
Construction	9.0	24.1	30.6	26.5	13.9	13.9	8.1	8.3	-5.9
Wholesale and retail commerce, restaurants and hotels	8.1	18.0	11.2	2.6	1.1	3.2	3.9	3.2	2.7
Transport, storage and communications	4.3	10.1	5.1	2.3	1.9	2.7	1.9	9.5	7.3
Financial institutions, insurance, real estate and business services	5.7	6.7	5.6	6.7	5.5	5.4	4.9	3.5	-26.2
Community, social and personal services	2.8	4.6	4.2	1.7	4.6	4.9	...	...	...
Investment and saving c/	**Percentages of GDP**								
Gross capital formation	...	...	...	44.0	44.3	42.8	42.6	39.7	...
National saving	...	...	...	34.4	30.8	34.9	34.6	31.8	...
External saving	9.4	14.4	8.7	9.7	13.5	7.9	8.0	7.9	7.8
Balance of payments	**Millions of dollars**								
Current account balance	-2 765	-4 993	-3 528	-4 401	-6 730	-4 274	-4 634	-4 941	-5 066.7
Goods balance	-4 543	-7 217	-6 415	-9 540	-10 823	-9 721	-9 012	-9 824	-10 613.0
Exports, f.o.b.	12 675	16 926	18 857	17 057	14 972	12 765	11 687	12 474	13 355.6
Imports, f.o.b.	17 218	24 143	25 272	26 597	25 795	22 487	20 699	22 298	23 968.6
Services trade balance	3 490	3 933	4 696	7 783	7 789	9 578	8 057	9 339	10 025.5
Income balance	-1 849	-1 911	-1 897	-2 707	-3 818	-4 025	-3 559	-4 331	-4 407.6
Net current transfers	138	202	88	63	122	-106	-119	-125	-71.6
Capital and financial balance d/	3 072	4 765	2 570	4 292	7 127	3 290	5 961	3 644	4 611.5
Net foreign direct investment	2 363	2 956	3 254	3 612	4 130	3 966	4 652	4 631	5 391.0
Other capital movements	709	1 809	-685	679	2 997	-677	1 309	-987	-779.5
Overall balance	307	-228	-958	-109	397	-984	1 327	-1 296	-455.2
Variation in reserve assets e/	-307	228	-36	-402	-1 222	78	-609	971	632.3
Other financing	0	0	994	511	825	907	-718	325	-177.1
Other external-sector indicators									
Real effective exchange rate (index: 2005=100) f/	102.7	103.9	94.4	92.2	89.0	85.5	84.6	85.4	87.0
Terms of trade for goods (index: 2010=100) g/	100.0	106.6	106.5	98.2	100.1	113.3	115.1	110.3	103.4
Net resource transfer (millions of dollars)	1 223	2 854	1 667	2 096	4 134	171	1 684	-362	26.8
Gross external public debt (millions of dollars)	10 439	10 858	10 782	12 231	14 352	15 648	16 689	18 390	20 574.8
Employment	**Average annual rates**								
Labour force participation rate h/	63.5	61.9	63.4	64.1	64.0	64.2	64.4	64.0	65.4
Unemployment rate i/	7.7	5.4	4.8	4.7	5.4	5.8	6.4	6.9	7.1
Open unemployment rate j/	5.8	3.6	3.6	3.7	4.1	4.5	5.2	5.5	5.8

Table 1 (concluded)

	2010	2011	2012	2013	2014	2015	2016	2017	2018
Prices	**Annual percentages**								
Variation in consumer prices									
(December-December)	4.9	6.3	4.6	3.7	1.0	0.3	1.5	0.5	0.2
Variation in average real wage	7.2	0.1	3.3	0.3	5.5	3.3	3.9	2.5	4.7
Nominal deposit rate k/	2.6	1.9	1.9	1.8	1.9	1.8	1.7	1.8	1.8
Nominal lending rate l/	7.3	7.5	7.7	7.4	6.9	6.5	6.6	6.8	6.9
Central government	**Percentages of GDP**								
Total revenue	17.0	16.1	16.1	15.2	14.2	13.4	13.3	13.9	13.9
Tax revenue	10.5	10.2	10.9	10.7	10.0	9.4	9.7	9.2	9.2
Total expenditure	19.3	19.3	18.6	18.9	18.1	17.2	17.1	17.1	16.7
Current expenditure	12.6	12.0	11.3	10.5	11.4	11.1	10.7	10.9	11.0
Interest	2.4	2.1	1.8	1.8	1.7	1.7	1.7	1.7	1.8
Capital expenditure	6.7	7.2	7.3	8.4	6.7	6.1	6.5	6.1	5.7
Primary balance	0.1	-1.1	-0.7	-1.9	-2.2	-2.0	-2.1	-1.4	-1.1
Overall balance	-2.3	-3.2	-2.5	-3.7	-3.9	-3.7	-3.8	-3.1	-2.9
Central government public debt	38.9	36.4	34.8	34.4	36.2	37.1	37.0	37.3	39.3
Domestic	3.6	5.1	8.2	7.6	7.8	8.2	7.9	7.8	7.7
External	35.3	31.3	26.5	26.8	28.7	28.9	29.1	29.5	31.6
Money and credit	**Percentages of GDP, end-of-year stocks**								
Domestic credit	60.8	61.9	63.8	52.2	62.5	63.7	64.9	66.6	67.4
To the public sector	-6.2	-3.5	-3.4	-5.5	-7.1	-4.9	-6.0	-4.3	-4.1
To the private sector	84.3	82.6	81.9	67.4	83.3	85.3	86.7	87.1	86.7
Others	-19.6	-19.2	-16.6	-11.8	-15.5	-16.8	-15.8	-16.1	-15.3
Monetary base	0.9	1.7	1.0	0.8	1.0	1.2	1.0	1.1	1.1
M2	82.3	75.8	72.3	56.6	69.4	66.9	65.8	64.3	63.4

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 2007 prices.
c/ Based on values calculated in national currency and 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/ Economic Development Division, calculations for Economic Survey of Latin America and the Caribbean, 2019.
h/ Nationwide total.
i/ Urban total. Includes hidden unemployment.
j/ Urban total. Includes an adjustment to the figures for the economically active population for exclusion of hidden unemployment.
k/ Six-month deposits rate.
l/ Interest rate on one-year trade credit.

Table 2

PANAMA: MAIN QUARTERLY INDICATORS

	2017				2018				2019	
	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/	6.6	5.1	5.2	4.4	4.0	3.1	3.6	4.0	...	...
Gross international reserves (millions of dollars)	4 107	4 246	3 713	3 434	2 973	3 203	2528.5	2646	978.17	597.6 c/
Real effective exchange rate (index: 2005=100) d/	84.2	85.7	87.2	87.7	88.3	87.5	86.3	85.9	86.7	86.9 e/
Consumer prices (12-month percentage variation)	1.5	0.7	0.8	0.5	0.6	1.2	0.8	0.2	-0.2	0.0 e/
Nominal interest rates (average annualized percentages)										
Deposit rate f/	1.7	1.8	1.8	1.9	1.8	1.8	1.8	2.0	2.1	2.1 c/
Lending rate g/	6.8	6.8	6.8	6.7	6.8	6.9	6.9	7.0	7.1	7.1 c/
Sovereign bond spread, Embi + (basis points to end of period) h/	153	150	120	112	132	148	115	170	135	145 e/
Risk premiia on five-year credit default swap (basis points to end of period)	120	95	84	67	70	76	58	88	69	59
International bond issues (millions of dollars)	150	1302.4	1569	300	-	1 425	-	1 211	-	1 800
Domestic credit (variation from same quarter of preceding year)	8.9	11.6	10.6	10.0	10.9	9.7	9.1	6.0	4.3	...

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 2007 prices.

c/ Figures as of April.

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

e/ Figures as of May.

f/ Six-month deposits rate.

g/ Interest rate on one-year trade credit.

h/ Measured by J.P.Morgan.

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