

PANAMA

1. General trends

After several years of sustained economic growth, including growth of 3.0% in 2019, GDP in Panama fell sharply (–17.9%) in 2020. Economic activity contracted significantly as a result of physical distancing measures to address the coronavirus disease (COVID-19) pandemic in Panama and worldwide. Second quarter 2020 was particularly complicated for the Panamanian economy, because GDP fell by 38.2% compared to the same period in 2019. In the third and fourth quarter, the contraction was less marked as restrictions were gradually relaxed: –23.6% and –10.9%, respectively.

The central government deficit increased by the equivalent of 5.1 percentage points to 9.2% of GDP (4.1% in 2019), mainly owing to the sharp decline in current income. The non-financial public sector deficit was 10.1% of GDP (2.9% in 2019). External trade flows plummeted, but, because imports declined by more than exports, the current account balance posted, for the first time since 1994, a surplus equivalent to 2.3% of GDP (a deficit of 5.0% in 2019). As a result of the decline in domestic demand and the lower international oil price, the national consumer price index in December posted a decline of 1.6%, exceeding the decline registered at end-2019 (–0.1%). The labour market survey conducted by phone in September revealed the steep increase in unemployment in 2020: 18.5% compared to 7.1% in August 2019.

The government took steps to restructure the budget in order to address the health emergency and provide for execution of an emergency and social assistance plan, known as the *Panamá Solidario* plan. This involved redirecting fiscal revenue in 2020 equivalent to almost 3% of GDP. Most of that came from adjustments to public investment, although government current expenditure was also reduced. Of the total adjusted amount, 43.8% affected central government entities, 35.8% State-owned enterprises, 19.4% decentralized institutions, and 0.9% financial intermediaries. In April 2020, Law No. 139 was promulgated, to allow use of the Panama Savings Fund to finance various emergency measures and to establish grounds for a more flexible fiscal deficit ceiling for that year.

In July 2020, the government embarked on the Economic Recovery Plan, which envisages both short- and medium-term actions. The reactivation measures being implemented are mainly focusing on investment, encouraging consumption, and employment generation.

The Economic Commission for Latin America and the Caribbean (ECLAC) estimates that Panama's GDP will post growth of around 12.0% in 2021, which would constitute a major recovery but would fall short of reaching pre-pandemic levels. Economic activity has gradually recovered, as demand has increased and global trade has expanded, along with sea-borne trade, which is especially important for Panama. Nevertheless, another important sector for the country, tourism, will recover much more slowly. The non-financial public sector deficit is projected to be between 6.5% and 7.0% of GDP. The balance of payments current account is projected to post a deficit of approximately 2.5%, mainly due to the recovery of imports. Inflation is projected at between 1.5% and 2%, while the unemployment rate is expected to be close to 12%.

In accordance with the Our World in Data¹ portal, by July 19, 2021, 28.3% of the Panamanian population had received at least one dose of the COVID-19 vaccine, with 15.2% fully vaccinated. On July 22, the Ministry of Health reported that, by then, 1,911,404 doses had been administered as part of the expanded immunization programme. The authorities estimate that steady progress will be made with vaccination over the coming months, triggering greater certainty amongst economic agents regarding full restoration of face-to-face activities in the short term.

2. Economic policy

(a) Fiscal policy

To address the economic impacts of the health crisis, the central government announced a series of tax measures intended to mitigate economic pressure on both companies and households. For example, it granted extra time to pay tax debts and overdue payments of income taxes, taxes on dividends and the transfer of goods and services, and other taxes. Those measures, in addition to the decline in economic activity, severely reduced total central government revenue: by 20.8% in real terms (-5.4% in 2019). As a percentage of GDP, total revenue fell from 12.7% in 2019 to 12.5% in 2020.

Total central government expenditure increased by 3.9% in real terms; an increase of 4.8 percentage points of GDP (from 16.9% in 2019 to 21.7% in 2020). The Government redirected part of expenditure in order to transfer resources to the Ministry of Health. Current expenditure increased by 7.3% in real terms, owing mainly to an 11.1% increase in wages and a 14.3% increase in interest payments on the public debt.

At end-2020, the outstanding balance on the total public debt was US\$ 36.956 billion (equivalent to 69.8% of GDP, or 23.4 percentage points more than in 2019), compared to US\$ 31.015 billion at end-2019. The share of external debt in the country's total debt increased to 80.1% (78.1% in 2019).

In first quarter 2021, as the economy gradually recovered, total central government revenue grew at a year-on-year rate of 4.2% in real terms. The decline in tax revenue (-7.2%) was offset by the increase in non-tax revenue (49.2%). The central government deficit was 2.1% of GDP.

In first quarter 2021, total central government expenditure posted a year-on-year increase in real terms of 3.9%, with a marked difference between current and capital expenditure. Owing primarily to the dynamic of expenditure involved in addressing the pandemic, the former increased by 14%, while capital expenditure fell by 20.6%. In March 2021, the outstanding balance on the public debt totalled US\$ 38.401 billion, an increase of 3.9% over the balance registered at end-2020.

(b) Financial and credit policies

The national banking system credit portfolio balance at the end of 2020 contracted by 2.2% compared to the previous year, compared to 1.1% growth in 2019. The industrial portfolio declined most (-16.2%). Conversely, the mortgage loan and mines and quarries portfolios were the only private sector portfolios to post growth (1.1% and 0.6%, respectively). In December 2020, the credit quality indicator, which is the share of past-due and delinquent loans in the total portfolio, stood at 3.55%: an improvement over 3.75% in December 2019. To mitigate the effects of the pandemic, the Government of Panama

¹ See [online] <https://ourworldindata.org/>.

declared a debt payment moratorium, which initially was to end on the last day of 2020, but was extended to June 30, 2021.

In general, 2020 saw a reversal of the upward trend in interest rates over the past few years. The nominal three-month deposit rate averaged 1.50%, compared to 1.63% one year earlier, but the real-terms rate increased on average by 3.10%, compared to 2.0% in 2019. Nominal lending rates remained stable vis-à-vis the previous year, in both commercial and consumer loans as well as loans to the productive sector, with differences of less than 0.20 percentage points in each category, except credit cards, where the rate fell from 20.21% in 2019 to 19.97% in 2020.

In real terms, owing to the deflation registered in 2020, lending rates increased in all categories. Those applied to personal loans and for the purchase of vehicles increased most in terms of percentage points, to 10.41% (9.07% in 2019) and 9.23% (7.90% in 2019), respectively.

At April 2021, the balance of national banking system net liquid assets posted 12.7% year-on-year growth. The net loan portfolio fell by 2.8%. The loan quality indicator in April stood at 3.47% (3.55% in December 2020).

In the first months of 2021, nominal interest rates continued the previous year's downward trend. The nominal three-month deposit rate stood at 1.16% (1.57% in June 2020). As for lending rates, that applied to retail trade was 6.94% (7.00% in June 2020), while the consumer loan rate was 10.46% (10.50% in the same month in 2020). For its part, the commercial reference rate, established at the beginning of each year and applied to loans contracted with the State and to those that the State contracts with third parties, declined from 7.11% in 2020 to 6.97% in 2021.

3. The main variables

(a) The external sector

Measures taken to address the pandemic in Panama and its principal trade partners negatively impacted international trade in goods and services.

The balance of payments current account posted a surplus in 2020 equivalent to 2.3% of GDP (compared to a deficit of 5.0% in 2019). This was mainly the result of the sharp fall in imports, increased copper exports, and higher revenues from the Panama Canal in the second half of the year. Although it still posted a surplus, the balance on the services component of the current account fell by 33.0% in 2020.

Exports of goods fell by 22.2% (-1.4% in 2019), especially those from the Colón Free Zone. National exports of goods posted a 14.7% increase in value terms, essentially thanks to the marked increase in exports of copper and its by-products in value terms (34.4%; in terms of volume, they increased by 14.8%). In contrast, among Panama's main export products, there were sharp declines for shrimp (-47.7%) and fish meal and fish oil (-30.2%).

Not counting Colón Free Zone figures, imports in 2020 fell by 37.1% in value terms, because of the drop in domestic demand related to restrictions imposed in order to address the pandemic and extra caution on the part of the population with respect to the consumption of non-essential items. Imports of capital goods were hit hardest and posted a drop of 46.0%, but imports of consumer and intermediate goods also fell sharply (-36.4% and -28.8%, respectively). Imports from the Colón Free Zone declined, in value, by 23.0%.

Far fewer foreign direct investment flows were received in 2020: US\$ 588.7 million, compared to US\$ 4.320 billion in 2019. The pandemic also affected remittances: at end-2020 there were marked year-on-year declines in both remittances sent (-37.9%) and those received (-19.2%).

Panama's external sector data in the first months of 2021 reflect the recovery of international trade. Exports of goods, without counting the Colón Free Zone, posted an increase of 80.3% in real terms in the first five months, compared to the prior year period. Especially notable was the 130.2% increase in the value of copper exports. In terms of volume, they increased by 37.7%. Both the demand for, and price of copper are expected to continue to increase over the rest of the year. Exports from the Colón Free Zone grew by 32.0% in the first four months of 2021.

After several months of decline, cumulative imports (not counting the Colón Free Zone) posted year-on-year growth of 22.7% between January and May. Imports of consumer goods increased most (24.6%), largely owing to the marked expansion of household appliances (56.9%) and of fuels and lubricants (47.7%). Capital goods imports posted 21.5% growth, thanks to the increase in agricultural goods (35.1%) and other capital goods imports (31.2%). The 20.2% increase in imports of intermediate goods was above all the result of the increase in construction materials (27.1%), matching the recovery expected for that sector in 2021.

(b) Economic activity

The economic activities hardest hit in 2020 were hotels and restaurants (-55.8%), construction (-51.8%) and the group of activities known as community, social, and personal services (-46.2%). The decline in that group of activities reflected the closure of casinos, the lottery, bingo and racetracks as a result of the confinement measures established by the government in response to the COVID-19 pandemic. The construction sector was hit by the restrictive measures imposed by the government to address the pandemic, especially by the mandatory closing of works in progress and of projects that had been scheduled to begin.

The activities that posted increases were mining (34.1%), government services (9.9%), and agriculture (4.1%). Mining registered strong growth for the second consecutive year (41.3% in 2019), driven principally by copper concentrate produced by Cobre Panamá.

The transport, storage and communications sector declined by 6.2%. This sector includes Panama Canal operations, which included year-on-year growth in toll revenue (2.7%), and in net tons transported (1.1%), despite declines in the number of vessels using the Canal (-3.0%).

On the expenditure side, cumulative data at constant prices for third quarter 2020 show that domestic demand fell by 32.6% compared to the first three months of the previous year. Gross fixed capital formation (-49.5%) and private consumption (-19.3%) posted steep declines, while government consumption rose by 12.2%, mainly as a result of the increased expenditure on addressing the pandemic.

In 2021, the global economic recovery is having a beneficial impact on logistical activities and those relating to foreign trade, such as exports, the passage of ships through the Panama Canal, and container movements in the national port system. Nevertheless, services account for more than three quarters of the economy and those that largely depend on face-to-face activities, such as tourism, will recover more slowly.

Construction will stage a major recovery in the second half of the year, driven by public investment and the reactivation of private sector projects. Mining is also projected to grow strongly, thanks to increased copper output.

In its original series, the monthly economic activity index (IMAE) posted a year-on-year increase of 20.8%. However, the cumulative figure for the first five months still shows a decline (-1.9%) over the prior-year period. Some of the economic categories posting growth in those first months were mining, fishing, commerce, private health services, and public administration.

(c) Prices, wages and employment

The December–December national urban consumer price index (CPI) posted a decline (-1.6%), larger than that registered in December 2019 (-0.1%). Year-on-year, the only positive indicator was in January (0.4%), and in February it was zero. As of March, inflation declined as a result of contracting demand and the fall in international fuels prices.

Annual average inflation in 2020 also fell (-1.6% compared to -0.4% the year before). Four sectors posted slight annual average increases: restaurants and hotels (0.5%), health (0.3%), furniture and household items (0.2%), and sundry goods (0.2%). The rest showed deflation with the largest declines being in transport (-5.6%), and housing, water, electricity, and gas (-4.1%).

The workforce participation rate stood at 63.0% in 2020, 3.5 percentage points below the figure for August 2019. The unemployment rate was 18.5%, significantly greater than the rate in August 2019 (7.1%). The gross employment rate, which measures the employed population as a share of the total working-age population, fell by more than 10 percentage points between 2019 (61.8%) and 2020 (51.3%). Owing to constraints on the gathering of data, there is no up-to-date information on wages in 2020; the most recent figure is for August 2019, when the median monthly wage for the employed population was 721.90 balboas.

Cumulative inflation between January and June 2021 was 0.6%, year-on-year inflation in June was 1.6%. The most salient increase was in the transport sector (12.1%), while inflation was 1.5% in food and non-alcoholic beverages, 0.6% in health, and 0.6% in hotels and restaurants. After two years of deflation, cumulative inflation at end-2021 is expected to be between 1.5% and 2.0%, as economic activities and household consumption pick up. This year's unemployment rate is projected to be around 12%.

Table 1
PANAMA: MAIN ECONOMIC INDICATORS

	2012	2013	2014	2015	2016	2017	2018	2019	2020 a/
	Annual growth rates b/								
Gross domestic product	9.8	6.9	5.1	5.7	5.0	5.6	3.6	3.0	-17.9
Per capita gross domestic product	7.9	5.1	3.3	3.9	3.2	3.8	1.9	1.4	-19.2
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	0.4	4.9	2.4	0.0	0.1	1.1	2.4	4.8	4.3
Mining and quarrying	25.2	22.8	8.9	10.0	8.1	8.1	2.8	41.3	34.1
Manufacturing	8.2	3.9	3.5	3.4	1.1	2.6	1.0	-1.1	-22.0
Electricity, gas and water	14.7	5.1	11.5	10.3	10.2	7.3	2.1	4.6	-5.8
Construction	30.6	26.5	13.9	13.8	8.0	8.3	3.3	0.1	-51.8
Wholesale and retail commerce, restaurants and hotels	11.1	2.6	1.1	3.3	3.7	3.4	2.4	1.7	-25.3
Transport, storage and communications	5.1	2.3	1.9	2.7	1.8	11.4	5.6	6.3	-6.2
Financial institutions, insurance, real estate and business services	5.6	6.7	5.5	5.3	4.7	3.2	3.0	2.2	-10.7
Community, social and personal services	4.1	1.9	4.4	5.1
	Percentages of GDP								
Investment and saving c/									
Gross capital formation	43.7	44.0	44.3	42.8	40.5	41.7	41.5	39.3	27.2
National saving	35.0	34.4	30.8	34.9	32.5	35.8	33.8	34.3	29.6
External saving	8.7	9.7	13.5	7.9	8.0	5.9	7.6	5.0	-2.3
	Millions of dollars								
Balance of payments									
Current account balance	-3 528	-4 401	-6 730	-4 274	-4 634	-3 692	-4 967	-3 333	1 233.1
Goods balance	-6 415	-9 540	-10 823	-9 721	-9 012	-9 822	-10 614	-9 047	-4 107.1
Exports, f.o.b.	18 857	17 057	14 972	12 765	11 687	12 470	13 353	13 214	10 240.0
Imports, f.o.b.	25 272	26 597	25 795	22 487	20 699	22 291	23 966	22 261	14 347.1
Services trade balance	4 696	7 783	7 789	9 578	8 057	9 297	9 553	9 551	6 396.4
Income balance	-1 897	-2 707	-3 818	-4 025	-3 559	-3 043	-3 836	-3 804	-1 187.5
Net current transfers	88	63	122	-106	-119	-124	-70	-31	131.2
Capital and financial balance d/	2 570	4 292	7 127	3 290	5 961	2 399	4 512	5 291	4 409.9
Net foreign direct investment	3 254	3 612	4 130	3 966	4 652	4 314	4 917	3 686	627.3
Other capital movements	-685	679	2 997	-677	1 309	-1 915	-406	1 605	3 782.6
Overall balance	-958	-109	397	-984	1 327	-1 293	-455	1 958	5 643.0
Variation in reserve assets e/	-36	-402	-1 222	78	-609	971	632	-1 227	-5 550.3
Other financing	994	511	825	907	-718	322	-177	-731	-92.7
Other external-sector indicators									
Real effective exchange rate (index: 2005=100) f/	94.1	91.9	88.5	84.7	83.7	84.3	86.6	86.6	88.2
Terms of trade for goods (index: 2010=100)	106.7	98.4	98.3	115.8	114.7	112.2	103.0	106.5	123.5
Net resource transfer (millions of dollars)	1 667	2 096	4 134	171	1 684	-322	498	755	3 129.8
Gross external public debt (millions of dollars)	10 782	12 231	14 352	15 648	16 902	18 390	20 575	24 223	29 817.4
	Average annual rates								
Employment g/									
Labour force participation rate	63.4	64.1	64.0	64.2	64.4	64.0	65.4	66.5	63.0
Unemployment rate h/	3.1	3.2	3.5	3.9	4.4	4.9	4.9	5.8	18.6
Visible underemployment rate	2.4	2.5	2.0	2.5	2.3	2.5	3.7	4.4	...

Table 1 (concluded)

	2012	2013	2014	2015	2016	2017	2018	2019	2020
Prices	Annual percentages								
Variation in consumer prices (December-December)	4.6	3.7	1.0	0.3	1.5	0.5	0.2	-0.1	-1.6
Variation in average real wage	3.3	0.3	5.5	3.3	3.9	3.9	4.0	2.4	-2.9
Nominal deposit rate i/	1.9	1.8	1.9		1.7	1.8	1.8	2.2	2.0
Nominal lending rate j/	7.7	7.4	6.9	6.5	6.6	6.8	6.9	7.1	7.0
Central government	Percentages of GDP								
Total revenue	16.1	15.2	14.2	13.4	13.4	14.0	13.9	12.7	12.5
Tax revenue	10.9	10.7	10.0	9.4	9.7	9.2	9.1	8.2	7.5
Total expenditure	18.6	18.9	18.1	17.2	17.2	17.1	17.1	16.9	21.7
Current expenditure	11.3	10.5	11.4	11.1	10.7	10.9	11.2	11.3	15.1
Interest	1.8	1.8	1.7	1.7	1.7	1.7	1.8	1.9	2.7
Capital expenditure	7.3	8.4	6.7	6.1	6.5	6.1	5.9	5.5	6.7
Primary balance	-0.7	-1.9	-2.2	-2.0	-2.1	-1.4	-1.4	-2.3	-6.6
Overall balance	-2.5	-3.7	-3.9	-3.7	-3.8	-3.1	-3.2	-4.1	-9.2
Central government public debt	34.8	34.4	36.2	37.1	37.0	37.3	39.3	46.4	69.8
Domestic	8.2	7.6	7.8	8.2	7.9	7.8	7.7	10.2	13.5
External	26.5	26.8	28.7	28.9	29.1	29.5	31.6	36.2	56.3
Money and credit	Percentages of GDP, end-of-year stocks								
Domestic credit	63.8	52.2	62.5	63.7	65.0	66.7	67.5	63.8	69.6
To the public sector	-3.4	-5.5	-7.1	-4.9	-6.0	-4.4	-4.1	-6.7	-11.1
To the private sector	81.9	67.4	83.3	85.3	86.7	87.2	86.9	86.9	108.0
Others	-16.6	-11.8	-15.5	-16.8	-15.8	-16.1	-15.3	-16.3	-27.2
Monetary base	1.0	0.8	1.0	1.2	1.0	1.1	1.1	1.1	1.3
M2	72.3	56.6	69.4	66.9	65.8	64.4	63.5	63.3	86.2

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 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/ Nationwide total.

h/ Open unemployment rate includes an adjustment for workforce figures due to exclusion of hidden unemployment.

i/ Six-month deposits rate.

j/ Interest rate on one-year trade credit.

Table 2
PANAMA: MAIN QUARTERLY INDICATORS

	2019				2020				2021	
	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/	3.1	2.9	2.8	3.4	0.4	-38.2	-23.6	-10.9	-8.5	...
Gross international reserves (millions of dollars)	2 685	2 908	3 711	4 037	3 314	5 882	8 133.7	9 212	9 881.7	...
Real effective exchange rate (index: 2005=100) c/	86.4	86.6	86.5	87.0	87.2	86.7	88.7	90.2	90.6	90.3 d/
Consumer prices (12-month percentage variation)	-0.2	-0.5	-0.6	-0.1	-0.8	-1.6	-1.9	-1.6	0.3	1.9 d/
Nominal interest rates (average annualized percentages)										
Deposit rate e/	2.1	2.2	2.2	2.2	2.2	2.1	2.0	1.9	1.9	1.9 f/
Lending rate g/	7.1	7.1	7.1	7.1	7.1	7.0	7.0	6.9	6.9	6.9 f/
Sovereign bond spread, Embi + (basis points to end of period) h/	145	139	139	114	283	212	193	149	155	170
Risk premiia on five-year credit default swap (basis points to end of period)	68	57	55	41	144	113	87	48	82	66
International bond issues (millions of dollars)	-	1 800	2 100	1 900	2 500	350	5 355	663	2 450	2 400
Domestic credit (variation from same quarter of preceding year)	4.3	4.0	-2.6	-2.4	-3.2	-8.2	-8.4	-10.0	-11.0	...

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

d/ Figures as of May.

e/ Six-month deposits rate.

f/ Figures as of May.

g/ Interest rate on one-year trade credit.

h/ Measured by J.P.Morgan.