

## Panama

Despite deteriorating conditions in the world economy, Panama's real GDP is expected to rise by 9.2%, completing five consecutive years of growth in excess of 7%. Per capita GDP will be up by 7.5%. The balance-of-payments current account deficit will be close to 10% of GDP owing to the impact of rising food and oil prices, and the central government deficit will remain below 1% of GDP. The year-on-year rise of the consumer price index peaked at 10% in September, but began to decline from October onwards.

Under existing agreements, public and private investments of about US\$ 20 billion will continue to be executed in 2008-2010. These projects include the construction of a third set of locks for the Panama Canal, road works to expand and improve the coastal highway, and the second stage of the toll highway known as the North Corridor. In 2009, these projects are expected to make up to some extent for the slowdown in growth caused by the expected fall in housing construction and the slowing demand for services resulting from the international crisis. Consequently, economic growth is forecast at 4.5% for 2009, a fairly robust level despite the worldwide situation.

Central government spending crept up slightly in 2008 as a result of measures taken to hold back the rising cost of living, while tax revenue in real terms showed no significant variation. In response to high food and oil prices, the government launched a US\$ 100 million plan to support the crop-growing sector, including soft loans, purchases of inputs at wholesale prices, subsidized sale prices and tax exemptions for low-income households. The aims of these measures, reflected in an increase in the areas sown and in swelling crop volumes, include an end to rice imports in 2009. The government has also strengthened its programme of transfers to low-income sectors.

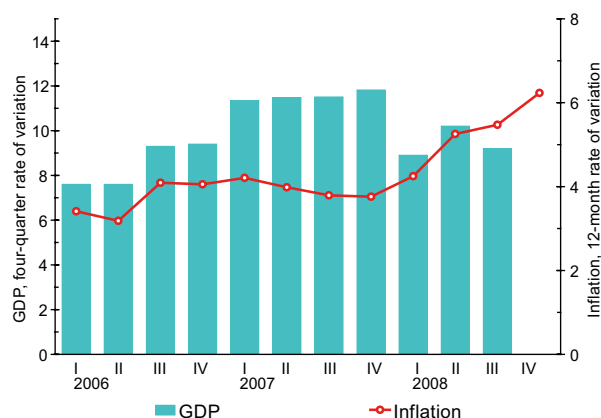
In the first 10 months of 2008, public debt rose by about US\$ 500 million, two thirds of which corresponded to the increase in internal debt. Since public debt increased at a lower rate than output, it once again showed a decrease as a proportion of GDP.

With the United States Congress having not yet ratified the free trade agreement (FTA) with Panama signed in 2007, and given the economic slowdown in the United States, there will be few chances of expanding bilateral trade in 2009. Nonetheless, exploratory talks with the government of Canada towards a bilateral trade treaty

have been fruitful and the open-skies agreement for the two countries' airlines has been implemented.

The financial sector suffered little from the worldwide crisis in 2008 because it had little exposure to high-risk financial instruments. Still, by the end of the year the nominal interest rate had risen to an average of 18% for credit cards and 8.25% for motor-vehicle loans. The rate of growth of total banking-sector credit fell to 12% compared with 19.6% in 2007. Up to August 2008 the interest rate had been fluctuating between 80 and 150 basis points above the LIBOR, but thereafter, it rose to the LIBOR plus 300 basis points. This interest-rate trend, together with relatively high levels of indebtedness among the population, may become a problem in future if the world economic situation deteriorates further.

PANAMA: GDP AND INFLATION



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

Although the expansion of economic activity in 2008 was more than two percentage points down on that of 2007, while GDP was up 11.5%, the economy of Panama performed remarkably well despite the worsening world economic situation.

The main engines of its growth in 2008 were the construction, commerce and transport sectors. The expansion of internal demand reflected consumption growth in real terms of about 6.5%. The rate of gross fixed capital formation is expected to stand at 22% by the end of the year, thanks to a number of major infrastructure projects still under way. The construction sector enjoyed growth of 22.7%, compared with 20.3% in 2007, owing to strong gross investment in housing construction by the private sector. An indicator of the upswing in this sector is the production of premixed concrete, which exceeded the indices for 2007 in every month in 2008. Despite layoffs at the end of 2008, employment in the construction sector remained above 75,000 jobs.

Traffic on the Panama Canal showed no significant downturn, and the daily average for ship transits was still around 36. In income terms, increased toll prices made up for a fall in tonnage. The Panama Canal Authority, jointly with the Government of Panama, is planning to implement projects to enhance the value of the route and take advantage of economies of scale, consolidating freight handling, storage, packing and logistics services; these improvements should maximize the economic benefits spilling over into related sectors.

Inflation shot up during the early months of the year to its highest levels in 20 years, with a peak of 10% in September 2008. With petrol prices now on the decline, however, the year-on-year increase in the consumer price index (CPI) started to moderate in October.

The open unemployment rate fell from 6.4% in 2007 to 5.6% in August 2008. Owing to the high inflation rate, average real wages in the urban sector declined by 0.9% in the first half of the year. Nonetheless, labour intermediaries and international businesses continue to experience bottlenecks in recruiting skilled labour.

#### PANAMA: MAIN ECONOMIC INDICATORS

	2006	2007	2008 <sup>a</sup>
<b>Annual growth rates</b>			
Gross domestic product	8.5	11.5	9.2
Per capita gross domestic product	6.7	9.7	7.5
Consumer prices	2.2	6.4	7.7 <sup>b</sup>
Real minimum wage	2.0	1.0	-0.8 <sup>c</sup>
Money (M1)	36.9	17.0	35.8 <sup>d</sup>
Real effective exchange rate <sup>e</sup>	1.3	1.5	-0.5 <sup>f</sup>
Terms of trade	-2.9	-1.0	-1.1
<b>Annual average percentages</b>			
Unemployment rate <sup>g</sup>	8.7	6.4	5.6
Central government			
overall balance / GDP	0.2	1.2	-1.0
Nominal deposit rate	3.8	4.8	3.6 <sup>h</sup>
Nominal lending rate	8.1	8.3	8.2 <sup>h</sup>
<b>Millions of dollars</b>			
Exports of goods and services	12 416	14 263	16 193
Imports of goods and services	11 918	14 627	17 007
Current account	-527	-1 422	-2 121
Capital and financial account	699	2 044	2 775
Overall balance	172	622	654

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

<sup>a</sup> Preliminary estimates.

<sup>b</sup> Twelve-month variation to November 2008.

<sup>c</sup> January-June average.

<sup>d</sup> Twelve-month variation to August 2008.

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

<sup>f</sup> Year-on-year average variation, January to October.

<sup>g</sup> Includes hidden unemployment.

<sup>h</sup> Average from January to October, annualized.

The current account is expected to show a deficit of some US\$ 2.1 billion, around 10% of GDP, which is mainly due to an increase of over 15% in the import bill resulting from higher prices for foodstuffs, oil and other construction inputs, while total goods exports will be up 10%, with almost 12% growth in sales from the Colón Free Zone. As a result, the trade gap was expected to widen to almost 4% of GDP by late 2008. Despite the worldwide slowdown, the tourism sector saw an increase of around 12% in tourist arrivals in 2008. The financial account would reach a US\$ 1.8 billion surplus by the end of the year.