

Panama

Panama's economy will have grown by 6.3% in 2010, spurred above all by domestic activity. This strong performance has been the trend over the past few years and was interrupted only briefly in 2009, when the international financial crisis held growth at 2.4% for the year. The non-financial public sector is expected to post a small surplus equivalent to 1.0% of GDP, compared with a 1.0% deficit in 2009. The current account deficit for 2010 is expected to come in at 3.5% of GDP. Estimates are that inflation for 2010 will be 3.5%, versus 2.4% in 2009. Unemployment, at 6.5%, should be slightly lower (by 0.1 percentage points) than in 2009.

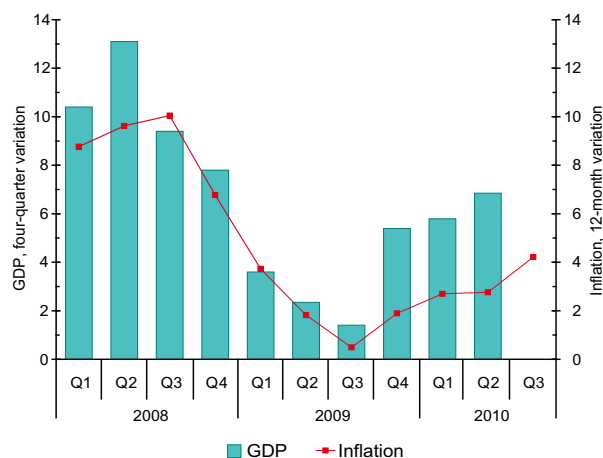
In 2011 Panama's economy is expected to grow by 7.5%, boosted by massive public and private projects under way. These include widening the Panama Canal, building the first subway system, upgrading the metropolitan transport system, building a copper mine in the Donoso district, continuing work on hydropower plant projects and investing in numerous infrastructure projects. Among them are hotels, social housing, city sanitation, cleaning up the Bay of Panama and building the government city. These projects are expected to translate into high rates of the growth for the country in the coming years.

Preliminary figures indicate that most of the growth in 2010 will have been in three sectors. Transportation and telecommunications, the primary sector of economic activity, expanded by 14.0% during the first half of the year, driven by telecommunications, port and airport services and road freight. Commerce rose by 10.2% as both wholesale and retail operations increased. The hotel and restaurant sector expanded by 9.6% thanks to increasing visitor arrivals and rising domestic demand. The fishing sector did not perform as well; it contracted by 18.1% as captures of commercial species and shrimp larvae declined. Industrial fishery and shrimp exports were also down sharply.

The fiscal balance of the non-financial public sector posted a deficit of 0.3% of GDP for the first half of 2010, completely in line with the fiscal responsibility act that went into effect in January 2009. The act caps the fiscal deficit at 2% of GDP in 2010, barring exceptional circumstances

provided for in Act No. 32.¹ The fiscal accounts as of December 2010 are expected to show a slight surplus in the area of 1.0% of GDP. These projections are based on measures that led to an increase of approximately 12.7% in central government nominal current revenue in 2010—outpacing the 4.0% rise forecast for total spending during the same period. Among the factors behind the

PANAMA: GDP AND INFLATION



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

¹ The deficit ceiling for 2010 was set at 2% of GDP; it will decrease by 0.5 percentage points each year until reaching 1% in 2012. There are exceptions for sluggish growth domestically and in the United States.

rise in central government current revenue were the increase in the tax rate on transfers of goods and services (ITBMS) from 5% to 7% as of July 2010, more efficient tax collections, better tax collector staffing and training and a higher level of taxation thanks to greater economic activity. Under a tax reform act taking effect in March 2011, expenses will be deductible for corporate income tax purposes only in proportion to the income generated in Panama, giving a further boost to the tax take.

Increased tax revenues will help fund the many public projects planned for the next few years. Along with the expected high rates of growth, this should push the debt down to below 40% of GDP in 2011 compared with 42.4% in 2010.

Inflation measured by the consumer price index was 4.1% higher in October 2010 than in October 2009, driven by food and fuel prices. The largest increases were in transportation, tobacco, recreation, health and clothing. The current rate of inflation is expected to hold both at year-end 2010 and over the next two years as oil and international food prices rise.

Unemployment, at 7.7% for 2010, was similar to the 7.9% recorded in 2009. Many of the factors that will fuel economic growth in Panama from 2011 are linked to investment and capital-intensive activities (like infrastructure and widening the Panama Canal), so the underemployment and unemployment rates will lag behind the pick-up in economic growth. These indicators are therefore not expected to improve in 2011.

The national banking system rallied in 2010 and should perform even better in 2011. Domestic credit to the private sector totalled US\$ 23.258 billion as of July 2010—a nominal 8.0% year-on-year increase. Credit to the mortgage sector, which had the largest share at 28.8% of the total, jumped by a nominal 13.6% as of July 2010. Credit to the construction sector also picked up, expanding by 16.9% as of July 2010. Consumer and automobile loans accounted for 9.7% and 7.9%, respectively, as of July 2010—down by 1.26 percentage points and 0.67 percentage points compared with the same period in 2009. The credit card interest rate fell to 16.1% as of July 2010, representing a year-on-year decrease of 0.56 percentage points.

PANAMA: MAIN ECONOMIC INDICATORS

	2008	2009	2010 ^a
Annual percentage growth rates			
Gross domestic product	10.1	3.2	6.3
Per capita gross domestic product	8.3	1.6	4.7
Consumer prices	6.8	1.9	4.1 ^b
Real minimum wage	-0.6	-0.4	2.2 ^c
Money (M1)	23.2	5.0 ^d	...
Real effective exchange rate ^e	-0.9	-4.2	1.2 ^f
Terms of trade	-4.5	4.8	-2.9
Annual average percentages			
Unemployment rate ^g	6.5	7.9	7.7
Central government			
overall balance / GDP	0.3	-1.5	-1.1
Nominal deposit rate ^h	3.5	3.5	3.1 ⁱ
Nominal lending rate ^j	8.2	8.3	7.9 ⁱ
Millions of dollars			
Exports of goods and services	16 111	16 652	17 874
Imports of goods and services	17 502	15 446	17 439
Current account	-2 722	- 44	- 866
Capital and financial account ^k	3 307	659	- 134
Overall balance	585	616	-1 000

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

^a Preliminary estimates.

^b Twelve-month variation to October 2010.

^c Estimate based on data from January to June.

^d Twelve-month variation to August 2009.

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

^f Year-on-year variation, January to October average.

^g Includes hidden unemployment.

^h Six-month deposits in the local banking system, annualized.

ⁱ Average from January to October.

^j One-year loans for commercial activities, annualized.

^k Includes errors and omissions.

The current account ended the first half of 2010 with a deficit of US\$ 1.336 billion (5.0% of GDP). This is approximately twice the deficit recorded for the same period in 2009. The reason is two-fold. The balance of goods deficit of US\$ 2.077 billion (7.8% of GDP) was some US\$ 446 million higher than for the first half of 2009 as total imports of goods rose by 11.4% and total exports increased by only 6.1% owing, above all, to an 8.2% drop in domestic exports. And the income balance deficit rose by some US\$ 183 million.

Both effects were offset by an increase in the financial account surplus, due mainly to a US\$ 236.4 million rise in foreign direct investment for a total of US\$ 1.144 billion as of June 2010.