Panama

The Panamanian economy continued to perform robustly in 2012 and is likely to grow by 10.5% for the year overall. The non-financial public sector posted a deficit of 2.4% of GDP in the first nine months of the year, below the limit set under the Fiscal Responsibility Act, and public debt continued to fall in relation to GDP. The consumer price index was up 5.3% year-on-year in October, while the unemployment rate and open unemployment stood at 4.0% and 3.0%, respectively, in August 2012. The current account deficit was 3.3% of GDP to June 2012, down from the 6.9% deficit in June 2011.

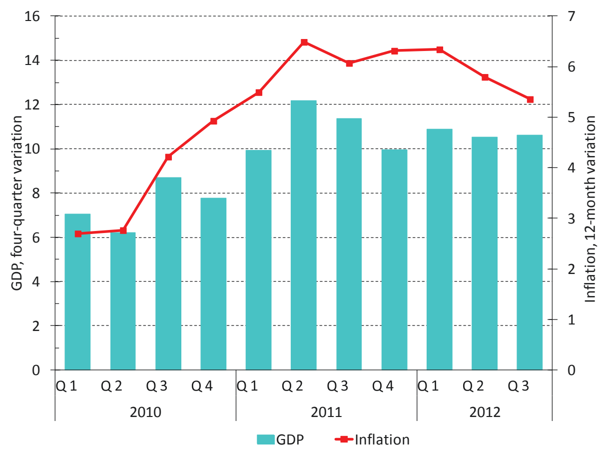
A number of macroeconomic policies were implemented during the year. On the fiscal front, a law was passed creating the Panama Savings Fund (FAP) and the range of house prices benefiting from the preferential interest rate was widened. As well, the quarterly payment of tax on estimated corporate revenues was reinstated, as opposed to the monthly advance tax payments in place until August.

Total non-financial public sector revenue was up 18.9% to September 2012 compared with the prior-year period. Tax receipts surged by 26.5%, driven by direct taxation (45.8%), on the back of a buoyant economy and more efficient collection practices. Total non-financial public sector spending, meanwhile, increased by 12.3% to September 2012 over September 2011, reflecting a rise in both current expenditure, including debt interest (11.9%), and capital spending (13.1%). Overall, the non-financial public sector deficit totalled 2.4% of GDP to September (versus 3.5% in September 2011) and by December is forecast to be well below the 2.9% ceiling laid down by the Fiscal Responsibility Act.

Total public debt stood at US$ 14.449 billion as of October 2012, of which US$ 14.247 billion corresponded to the central government (75.7% to external debt and 24.3% to domestic debt) and the remaining US$ 202 million to decentralized institutions. Although this represents an 11.4% increase in public debt over the year-earlier period in nominal terms, rapid economic growth has meant that debt has continued to fall as a percentage of GDP, and it is expected to stand at 39.6% by December 2012, below the level of 2011 (40.9%).

The Panama Savings Fund (FAP), created under Act 38 of June 2012, was set up to establish a long-term government savings mechanism, using the surplus revenues generated by Panama Canal operations. Existing assets in the Development Trust Fund were used to constitute the initial capital of the FAP. With effect from 2015, payments by the Panama Canal Authority to the Treasury in excess of 3.5% of current nominal GDP will be channelled to FAP. The Act also specifies the conditions under which funds will be transferred from FAP to the Treasury, including states of emergency, economic slowdown and pre-payment of sovereign debt. Under the same law, the maximum limits of the adjusted fiscal balance of the non-financial public sector were redefined (modifying the Fiscal Responsibility Act of 2008): 2.9% for 2012, 2.8% for

PANAMA: GROSS DOMESTIC PRODUCT AND INFLATION



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

2013, 2.7% for 2014, 2.0% for 2015, 1.5% for 2016 and 1.0% for 2017.

Also in June 2012, Standard and Poor's raised Panama's sovereign rating to BBB (stable outlook). A month earlier, Fitch Ratings, too, had again rated Panama as BBB (stable outlook), based on its sound economic and financial performance.

The Panamanian banking sector showed no signs of losing momentum in 2012. Domestic lending to the private sector amounted to US$ 31.354 billion to September, representing year-on-year growth of 14.3% in nominal terms (8.4% in real terms). This expansion is attributable to the solid performance of the economy's main sectors. Lending to the commerce sector, which represents 29.0% of the banking sector's total loan portfolio, grew by 23.2% in nominal terms. Mortgage lending, representing 26.0% of the credit portfolio, was up by a nominal 15.5%. Construction sector and consumer lending were also buoyant (10.5% and 10.0%, respectively).

In September 2012, nominal lending rates for credit to the commerce, industry and consumer sectors stood at 7.0%, 7.2% and 9.9%, respectively, equivalent to 1.0%, 1.2% and 3.9% in real terms. Nominal interest rates for three- and six-month deposits were 1.5% and 2.1% (in real terms, -4.5% and -3.9%, respectively).

Aggregate demand expanded by an estimated 12.6% in 2012, led by gross fixed capital formation, services exports and, to a lesser extent, private consumption. The best-performing sectors during the first half-year were mining (up 28.1% over first-semester 2011) and construction (27.7%), followed by electricity, gas and water (12.4%), transport and communications (12.2%), hotels and restaurants (11.6%) and financial services (11.0%). Several large-scale public and private infrastructure projects — including the widening of the Panama Canal, the construction of the metro, and various projects related to electric power, hotels, and logistics development— accounted for the boom in mining and construction. Buoyancy in the electricity, gas and water sector reflected a rise in hydroelectric power generation (44.3%), which more than offset the contraction in thermal generation (-13.5%). The transport and telecommunications sector continued to expand rapidly, driven by mobile phone subscriptions (37.1%) and air transport, reflecting an increase in passenger traffic at the international airport.

Year-on-year inflation to October 2012 was 5.3%, 0.8 percentage points below the rate recorded to October 2011. The steepest rises were in food and beverages (7.2%), transport (6.3%), household appliances (4.7%), education and health (4.3%) and housing, electricity and water (3.3%).

PANAMA: MAIN ECONOMIC INDICATORS

	2010	2011	2012 [a]
		Annual growth rates	
Gross domestic product	7.5	10.8	10.5
Per capita gross domestic product	5.8	9.2	8.8
Consumer prices	4.9	6.3	5.3 [b]
Real average wage	1.9	5.3	3.9
Money (M1)	19.2	21.5	17.5 [c]
Real effective exchange rate [d]	1.1	0.1	-4.6 [e]
Terms of trade	-1.9	-2.2	-0.2
		Annual average percentages	
Open urban unemployment rate [f]	7.7	5.4	4.8 [g]
Non-financial public sector overall balance / GDP	-1.9	-2.2	-2.8
Nominal deposit rate	3.0	2.3	2.1 [h]
Nominal lending rate [i]	7.9	7.3	7.0 [h]
		Millions of dollars	
Exports of goods and services	18 750	24 080	25 696
Imports of goods and services	19 882	26 282	28 144
Current account balance	-2 862	-3 874	-4 260
Capital and financial balance [j]	3 313	3 527	3 908
Overall balance	452	-347	-352

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Estimates.
[b] Twelve-month variation to October 2012.
[c] Year-on-year average variation, January to September.
[d] A negative rate indicates an appreciation of the currency in real terms.
[e] Year-on-year average variation, January to October.
[f] Includes hidden unemployment.
[g] Figure for August.
[h] January-October average.
[i] Interest rate on 1-year trade credit.
[j] Includes errors and omissions.

The unemployment rate and open unemployment rate eased down to 4.0% and 3.0%, respectively, in August 2012, from 4.5% and 2.9% a year earlier, thanks to the strong economic performance, in particular in the construction and public services sectors. The average monthly wage to June stood at US$ 888.10, a nominal increase of 10.8% over June 2011. The wholesale commerce sector recorded the highest average monthly wage, at US$ 1079.80, which was 5.0% higher than in 2011.

The current account closed the first half of 2011 with a deficit of US$ 1.113 billion (3% of GDP), almost half that of 12 months earlier. This reflects a shrinking merchandise trade deficit and a growing balance of services surplus, in equal measure. Lastly, as of June 2012, foreign direct investment inflows totalled US$ 1.421 billion, a similar figure to the first half of 2011.

On 1 November 2012 the free trade agreement with the United States came into force, which consolidates unilateral preferential access for Panamanian products in the United States market and establishes the more favourable conditions necessary to promote goods and services exports from Panama to the United States, the country's main trading partner.