

## PANAMA

### 1. General trends

The Panamanian economy grew by 5.4% in real terms in 2017, an increase on the 5.0% rate recorded in 2016. This improved performance was mainly due to the remarkable dynamism of transport and logistics activities —such as those linked to the Panama Canal, the national port system and air transport services— and to strong growth in the construction sector, thanks to ongoing public and private infrastructure projects.

The national unemployment rate rose to 6.1% year on year in August 2017 (compared with 5.5% in August 2016). Year-on-year inflation was 0.5% in December 2017, down on the 1.5% recorded the previous year. The deficit of the non-financial public sector (NFPS) came in at 1.6% of GDP at the end of 2017 (compared with 1.8% at the end of 2016), while the deficit adjusted in accordance with the Fiscal Responsibility Act represented 1.0% of GDP (1.4% in 2016). This improved fiscal performance was attributable to a significant rise in non-tax revenues, due to an increased contribution from the Panama Canal, combined with stable tax receipts. The current account deficit came in at 4.9% of GDP in December 2017, as compared with 5.5% of GDP the previous year, mainly because of a larger services surplus.

ECLAC projections are for growth of 5.2% in 2018. The construction sector and the transport and communications sector are expected to be the main drivers of Panama's expansion, despite the expectation of slower growth in the construction sector because of the month-long industry-wide strike held by its workers.

The balance-of-payments current account deficit will likely remain stable or even decline further. The adjusted deficit of the NFPS is expected to narrow slightly owing to higher revenues from the Panama Canal thanks to improved global trade.

### 2. Economic policy

#### (a) Fiscal policy

The NFPS deficit totalled US\$ 1.0 billion in December 2017 (1.6% of GDP), down 4.6% in real terms on the year before (or 0.2 percentage points of GDP).

Under Article 3 of Law No. 38 of 2012, which created the Panama Savings Fund (FAP), a new formula for calculating the adjusted NFPS fiscal deficit came into effect in 2015 for the purposes of assessing compliance with the Fiscal Responsibility Act. In accordance with Executive Decree No. 71 of 2013, which establishes the mechanisms for calculating the adjusted fiscal balance, a cutback of US\$ 402 million (0.7 percentage points of GDP) was made in the accounts to leave the adjusted NFPS deficit at 1.0% of GDP, as stipulated by law for 2017.

Central government revenues totalled US\$ 8.6 billion (13.9% of GDP), an increase of 10.5% in real terms, or 0.5 percentage points of GDP. This resulted from a substantial rise in non-tax revenues (37.3% in real terms) and a moderate increase in tax revenues (0.7% in real terms). The remarkable

growth in non-tax revenues was largely attributable to an additional US\$ 524 million from the expansion of the Panama Canal and increased export activities involving it. As regards tax revenues, direct taxes grew by 2.7% in real terms, mainly thanks to growth in personal income tax receipts (22.0%), which was partly offset by the fall in corporate income tax (8.0%). Indirect tax revenues fell by 1.2%, in particular because of lower receipts from the movable goods and services transfer tax (ITBMS) on sales.

Total central government expenditures grew by 4.2% in real terms to 16.9% of GDP, a decline of 0.3 percentage points of GDP compared with the year before. Current expenditure rose by 7.5%, owing mainly to an increase in personal services (11.7%) due to wage growth and special laws. Spending on goods and services (7.2%) and interest payments (6.5%) also increased. Capital expenditure was down a modest 0.3% in December 2017, after growing by 13.2% the year before. 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—continued at levels similar to the previous year's.

The outstanding public debt balance totalled US\$ 23.3 billion (37.6% of GDP) at 31 December 2017, a rise of 0.5 percentage points on 2016. External public debt represented 79.1% of the total, while the average maturity of total public debt was 7.7 years. Of the total, 78.7% is long-term, with an average maturity of 9 years, 20% medium-term, with an average maturity of 3.4 years, and 1.3% short-term, with an average maturity of 0.3 years. The average weighted cost of the debt portfolio stood at 4.8% in December 2017, a slight decrease of 3 basis points from its level at the end of 2016. Some 83% of total public debt is fixed-rate, while the remaining 17% is variable-rate.

Central government tax revenues rose by 0.8% in the year to March 2018 thanks to a 3.8% rise in direct tax revenues, partially offset by a 2.3% decline in indirect tax revenues. Total outlays grew by 36.7%, owing to a 15% rise in current expenditure and a sharp increase in capital expenditure of 113%. The public debt balance for the first quarter of 2018 was up 1.3% from the end of 2017.

## **(b) Credit policy**

The local loan portfolio of the country's banking system grew 6.0% in nominal terms in 2017, keeping pace with growth in the Panamanian economy. The mortgage (9.0%), personal consumption (8.4%), construction (8.2%) and agriculture (6.6%) sectors recorded the fastest credit growth. Conversely, lending to the Colón Free Zone contracted by a very substantial 27.1%. The consumer lending categories that grew the most were auto loans (5.6%) and credit card borrowing (12.5%).

Loan portfolio quality indicators deteriorated once again, but were still sound. The proportion of past-due plus non-performing loans in the banking system loan portfolio was 3.61% in December 2017 (2.66% a year earlier). The capital adequacy ratio, defined as regulatory capital over risk-weighted assets, stood at 16.1% in 2017, higher than the 15.2% recorded the previous year and well above the legally required minimum of 8%.

Nominal one-year interest rates on loans in the commerce, industry and consumer sectors stood at 6.45%, 6.47% and 8.66%, respectively, in December 2017 (5.95%, 5.97% and 8.16% in real terms). This reflected a slight annual decline of 3 and 38 basis points in nominal terms for the first two sectors, respectively, and an increase of 111 basis points in nominal terms for consumer credit. Nominal 3- and 6-month deposit rates were 0.33% (-0.17% in real terms) and 1.12% (0.62% in real terms), respectively, in December 2017, which in both cases represented a 25 nominal basis point drop compared with year-end 2016.

The Ministry of Economy and Finance brought a bill before the National Assembly in April 2018 aimed at modernizing the Panamanian banking and financial system, enhancing the supply of financial services and improving the country's financial competitiveness.

The local banking system's private sector loan portfolio was up by 6.2% in the first quarter of 2018 on the same period the year before. Lending to industry (23.0%), consumers (10.4%) and mortgage borrowers (7.3%) grew the most strongly.

### **(c) Other policies**

In the aftermath of the so-called "Panama papers" affair of 2016, the government introduced a series of legal reforms to shore up the financial system in 2017. These included a ban on bearer shares, the creation of a public agency for the prevention of money laundering and an agreement with OECD on the multilateral exchange of tax and financial information to combat tax evasion through the pooling of data by financial entities in the approximately 100 participating countries via a confidential channel, which will come into effect in September 2018.

The Financial Action Task Force on Money Laundering (FATF), which had taken Panama off the grey list in early 2016 after the strong progress made there in establishing a more transparent legal framework, submitted its evaluation report on the country in December 2017. This reviewed the country's system for combating money laundering and the financing of terrorism and found that the competent authorities were cooperative and in charge of coordinating the proper development of policies and activities to prevent money laundering and the financing of terrorism and of the proliferation of weapons of mass destruction. Nevertheless, there were found to be certain limitations in the scope of the national strategy adopted by the country, and the report recommended that measures be taken to control the use of cash in free zones, real estate and construction sectors.

In mid-2017, Panama broke off diplomatic relations with Taiwan Province of China and recognized the People's Republic of China as a single integrated nation. The justification for this measure lies in the importance of China for the Panamanian economy and in the role it is expected to play in financing the country's infrastructure. Negotiation of a free trade agreement with China is expected to begin in the second half of 2018.

## **3. The main variables**

### **(a) The external sector**

The current account deficit came in at US\$ 3.0 billion in 2017 (4.9% of GDP), a 0.6 percentage point drop compared with the deficit in 2016. This was largely due to a rise of US\$ 768 million (7.5%) in the services surplus, which was offset in part by an increase of US\$ 629 million (7.1%) in the goods deficit. The larger surplus in the services balance was due to the substantial increase in revenues from the Panama Canal, the port system and air transport services. The increased goods deficit was attributable to a greater expansion in imports (6.8%) than in exports (6.6%). The import items that increased most were fuel (up by US\$ 402 million or 25.4%) and mechanical and electrical machinery (up by US\$ 347 million or 15.7%). Regarding goods exports, re-exports through the Colón Free Zone increased for the first time in five years in 2017 to reach US\$ 10.433 billion, a slight increase of 0.1% on 2016, when they had

contracted by 8.2% compared with 2015. This was mainly explained by a large increase in re-exports to the United States (68%).

The income account deficit totalled US\$ 4.4 billion, up by US\$ 46 million (1%) on the year before. Income payments totalled US\$ 6.915 billion (4.0%), mainly on account of an increase in returns to foreign direct investment (FDI) (up by US\$ 111 million or 2.4%) and payments on portfolio investments (up by US\$ 95 million or 13.9%). In turn, income receipts totalled US\$ 2.5 billion, up by 9.8% on the previous year, which was explained by an increase in dividends and profits earned by resident investors and by a rise in income from portfolio investments.

FDI totalled US\$ 5.3 billion in 2017 (8.6% of GDP), up by US\$ 94 million on the previous year (1.8%), but down by 0.4 percentage points in GDP terms. Of that total, 67.5% represented reinvested earnings, 12.2% investments in shares and other equity holdings and 20.3% other forms of investment. Non-financial firms attracted the bulk of inward FDI (US\$ 4.5 billion), registering a rise of 9.3% from the previous year.

#### **(b) Economic activity**

Growth of 5.4% in 2017 was led by the following sectors: transport, storage and communications (10.1%), construction (8.3%), mining and quarrying (8.3%) and financial intermediation (5.0%).

Growth in transport, storage and communications resulted from a substantial increase in the activities of the Panama Canal, the port system and air transport services. A total of 13,666 vessels passed through the Panama Canal, 5.0% more than in the previous year. Of these ships, 88.6% were deep draught vessels. Toll income totalled US\$ 2.3 billion (up 17.6%), while metric tons shipped increased by 21.9%. These developments were due to the increased capacity of the new set of locks and growth in international trade. Similarly, commercial cargo shipped through the Panama Canal grew by 17.8% thanks to greater volumes of oil derivatives (41.0%) and container cargo (24.0%). The port system moved 86.9 million metric tons of cargo (up 11.8% on 2016), on the back of increased bulk (14.1%) and container (10.0%) cargo. Lastly, air transport was very dynamic, with 9.2 million travellers passing through Tocumen International Airport (10.1% more than the year before). Continuing dynamism in the construction sector was due mainly to a variety of private sector infrastructure works, especially the natural gas plant, the Minera de Cobre Panamá mining project and the construction of department buildings designed for middle-income groups. Public infrastructure works, including Line 2 of the Metro, the urban renovation of Colón, social housing projects and highway widening and rehabilitation, reported similar spending levels to the previous year. The dynamism of mining and quarrying was attributable to increased demand for materials to produce premixed concrete and cement, and this was matched by the construction sector. Financial intermediation was also dynamic (5.0%), albeit less so than the year before (6.5%).

The electricity, gas and water utilities sector grew significantly more slowly in 2017 (3.6%) than in 2016 (9.3%), mainly because of slower growth in electricity consumption, both in the commerce (1.5%) and household (3.2%) sectors. Conversely, agricultural, livestock, hunting and fishing activities expanded by 2.5% in 2017, after having contracted by 1.5% in 2016. This development was due to improved harvests of maize (11.2%) and rice (9.5%) and stronger exports of bananas, coffee, cocoa and timber. Livestock activity also recorded positive results (2.5%), largely thanks to increased production of pork, chicken and eggs.

Construction workers held an industry-wide strike from 18 April to 18 May 2018 because of a disagreement between the union and private employers over the formula for wage increases for workers in the sector over the next four years. All projects, public and private, came to a standstill during that month.

The cumulative average of the monthly index of economic activity (IMAE), measured according to the original series, was up 3.85% as of February 2018, having grown by 5.31% in the same period the previous year. When the trend-cycle effect is accounted for, IMAE growth was 3.84%, down from the 5.23% recorded in February 2017.

### **(c) Prices, wages and employment**

The year-on-year inflation rate in December 2017, measured by the change in the consumer price index (CPI), stood at 0.5%, down from 1.5% at year-end 2016. Two of the most important components of the CPI moved in opposite directions during the year. On the one hand, food prices declined by 0.5%, mainly owing to a drop in prices for pork (6.2%) and chicken (4.6%). On the other hand, transport service prices, which had fallen by 2.0% in 2016, grew by 2.9% in 2017 as a direct consequence of higher fuel prices.

The labour force participation rate declined from 64.4% in August 2016 to 64.0% in August 2017. However, the employment rate declined yet more, from 60.8% to 59.8%, leaving the overall unemployment rate at 6.1% in August 2017, a year-on-year increase of 0.6 percentage points compared with August 2016. Similarly, the open unemployment rate increased by 0.4 percentage points, reaching 4.8% in August 2017.

Executive Decree No. 75, published in December 2017, laid down the new minimum wage rates for the period from January 2018 to December 2019. Thus, in the next biennium average wages will rise by 6.5% for large corporations and 4.5% for small companies, bringing the minimum monthly wage to US\$ 721 for a large firm based in Panama City and US\$ 707 for a small business.

Table 1  
**PANAMA: MAIN ECONOMIC INDICATORS**

	2009	2010	2011	2012	2013	2014	2015	2016	2017 a/
	<b>Annual growth rates b/</b>								
Gross domestic product	1.6	5.8	11.8	9.2	9.6	5.1	5.6	5.0	5.4
Per capita gross domestic product	-0.1	4.0	9.9	7.4	7.8	3.4	3.9	3.4	3.7
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	-12.0	-6.1	0.3	1.0	-0.8	1.9	-0.4	-1.6	1.6
Mining and quarrying	7.1	35.3	22.1	25.3	22.2	8.9	10.0	6.9	8.3
Manufacturing	-0.2	4.4	6.0	7.9	0.5	3.5	4.9	-1.5	2.2
Electricity, gas and water	11.1	3.6	17.6	11.3	9.1	11.5	9.7	9.3	3.6
Construction	4.2	8.5	22.1	28.2	24.1	13.9	13.6	8.0	8.3
Wholesale and retail commerce, restaurants and hotels	3.8	7.0	18.1	10.0	7.5	1.1	3.4	3.0	2.9
Transport, storage and communications	-3.6	4.6	13.6	4.2	-0.8	1.9	2.9	2.5	10.1
Financial institutions, insurance, real estate and business services	4.7	5.4	7.0	6.6	7.2	5.5	5.4	5.5	4.0
Community, social and personal services	2.6	2.8	4.8	3.9	1.7	4.6	2.4	6.6	7.8
Investment and saving c/	<b>Percentajes of GDP</b>								
Gross capital formation	30.4	37.2	43.5	44.4	4.7	3.7	3.3	3.2	...
National saving	29.8	27.6	29.0	35.6	-4.9	-9.8	-4.5	-2.3	...
External saving	0.7	9.6	14.5	8.8	9.7	13.5	7.9	5.5	4.9
Balance of payments	<b>Millions of dollars</b>								
Current account balance	-179	-2 765	-4 993	-3 528	-4 401	-6 730	-4 274	-3 160	-3 035.9
Goods balance	-2 181	-4 543	-7 217	-6 415	-9 540	-10 823	-9 721	-8 808	-9 437.2
Exports, f.o.b.	12 038	12 675	16 926	18 857	17 057	14 972	12 765	11 705	12 474.4
Imports, f.o.b.	14 218	17 218	24 143	25 272	26 597	25 795	22 487	20 513	21 911.6
Services trade balance	3 324	3 490	3 933	4 696	7 783	7 789	9 578	10 190	10 957.7
Income balance	-1 449	-1 849	-1 911	-1 897	-2 707	-3 818	-4 025	-4 385	-4 430.6
Net current transfers	126	138	202	88	63	122	-106	-157	-125.8
Capital and financial balance d/	785	3 072	4 765	2 570	4 292	7 127	3 290	4 487	1 739.5
Net foreign direct investment	1 259	2 363	2 956	3 254	3 612	4 130	3 966	5 041	5 432.8
Other capital movements	-475	709	1 809	-685	679	2 997	-677	-554	-3 693.3
Overall balance	606	307	-228	-958	-109	397	-984	1 327	-1 296.4
Variation in reserve assets e/	-606	-307	228	-36	-402	-1 222	78	-609	971.2
Other financing	0	0	0	994	511	825	907	-718	325.2
Other external-sector indicators									
Real effective exchange rate (index: 2005=100) f/	103.5	103.0	103.9	94.4	92.2	89.0	85.5	84.6	85.4
Terms of trade for goods (index: 2010=100)	101.9	100.0	97.8	98.2	97.7	99.7	97.1	94.1	92.1
Net resource transfer (millions of dollars)	-664	1 223	2 854	673	1 585	4 134	171	-616	-2 365.9
Gross external public debt (millions of dollars)	10 150	10 439	10 858	10 782	12 231	14 352	15 648	16 689	18 390.0
Employment	<b>Average annual rates</b>								
Labour force participation rate g/	64.1	63.5	61.9	63.4	64.1	64.0	64.2	64.4	63.6
Unemployment rate h/	7.9	7.7	5.4	4.8	4.7	5.4	5.8	6.4	6.9
Open unemployment rate i/	6.3	5.8	3.6	3.6	3.7	4.1	4.5	5.2	5.5

Table 1 (concluded)

	2009	2010	2011	2012	2013	2014	2015	2016	2017
	<b>Annual percentages</b>								
Prices									
Variation in consumer prices (December-December)	1.9	4.9	6.3	4.6	3.7	1.0	0.3	1.5	0.5
Variation in average real wage	2.6	7.2	0.1	3.3	0.3	5.5	3.3	3.9	2.5
Nominal deposit rate j/	3.5	3.0	2.3	2.1	2.1	2.2	2.1	2.1	2.2
Nominal lending rate k/	8.3	7.9	7.3	7.0	7.4	7.6	7.6	7.6	7.5
	<b>Percentajes of GDP</b>								
Central government									
Total revenue l/	16.8	17.3	16.2	16.2	15.2	14.2	13.4	13.4	13.9
Tax revenue	9.9	10.7	10.3	11.1	10.7	10.0	9.3	9.7	9.2
Total expenditure	18.1	19.6	19.4	18.8	18.9	18.1	17.1	17.2	16.9
Current expenditure	12.4	12.8	12.1	11.4	10.5	11.4	11.0	10.7	10.9
Interest	2.6	2.4	2.1	1.9	1.8	1.7	1.7	1.7	1.7
Capital expenditure	5.8	6.8	7.3	7.4	8.4	6.7	6.0	6.5	6.0
Primary balance	1.3	0.1	-1.1	-0.7	-1.9	-2.2	-2.0	-2.1	-1.2
Overall balance	-1.3	-2.4	-3.2	-2.6	-3.7	-3.9	-3.7	-3.8	-2.9
Central government public debt									
Domestic	40.7	39.6	36.7	35.2	34.4	36.2	36.9	37.1	37.6
External	2.7	3.7	5.1	8.3	7.6	7.8	8.2	7.9	7.9
	38.0	35.9	31.6	26.9	26.8	28.7	28.7	29.2	29.7
	<b>Percentages of GDP, end-of-year stocks</b>								
Money and credit									
Domestic credit	52.6	61.9	62.5	64.6	52.2	62.5	63.4	65.1	67.1
To the public sector	-8.2	-6.3	-3.6	-3.5	-5.5	-7.1	-4.8	-6.0	-4.4
To the private sector	79.7	85.8	83.4	82.9	67.4	83.3	85.0	86.9	87.7
Others	-18.9	-19.9	-19.3	-16.8	-11.8	-15.5	-16.7	-15.8	-16.2
Monetary base	0.9	0.9	1.7	1.0	0.8	1.0	1.2	1.0	1.1
M2	82.0	83.8	76.4	73.1	56.6	69.4	66.6	65.9	64.7

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/ Urban total. Includes hidden unemployment.

i/ Urban total. Includes an adjustment to the figures for the economically active population for exclusion of hidden unemployment.

j/ Six-month deposits rate.

k/ Interest rate on one-year trade credit.

l/ Includes grants.

Table 2  
**PANAMA: MAIN QUARTERLY INDICATORS**

	2016				2017				2018	
	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/	8.6	6.4	6.4	5.7	6.1	5.2	5.3	4.9	4.2	...
Gross international reserves (millions of dollars)	4 041	4 774	4 226	4 206	4 107	4 246	3 713	3 434	2 973	3 347 c/
Real effective exchange rate (index: 2005=100) d/	84.1	85.1	85.1	84.3	84.3	85.7	87.3	87.9	88.6	87.8
Consumer prices (12-month percentage variation)	0.6	0.1	1.2	1.5	1.5	0.7	0.8	0.5	0.6	1.2
Nominal interest rates (average annualized percentages)										
Deposit rate e/	2.1	2.1	2.1	2.2	2.1	2.1	2.2	2.2	2.1	2.0 c/
Lending rate f/	7.5	7.6	7.6	7.6	7.6	7.5	7.5	7.5	7.7	7.9 c/
Sovereign bond spread, Embi + (basis points to end of period) g/	212	213	168	186	153	150	120	112	132	148 c/
Risk premiia on five-year credit default swap (basis points to end of period)	160	161	142	127	120	95	84	67	70	76
International bond issues (millions of dollars)	1 000	575	75	550	150	1 302	1 569	300	0	1 425 c/
Domestic credit (variation from same quarter of preceding year)	11.9	12.8	10.4	10.2	8.9	11.6	10.6	9.9	10.9	...
Non-performing loans as a percentage of total credit	2.3	2.3	2.6	2.5	2.9	3.1	3.1	3.0	3.3	3.3

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

a/ Preliminary figures.

b/ Average of minimum and maximum rates on time deposits.

c/ Figures as of May.

d/ Average of minimum and maximum lending rates.