Panama

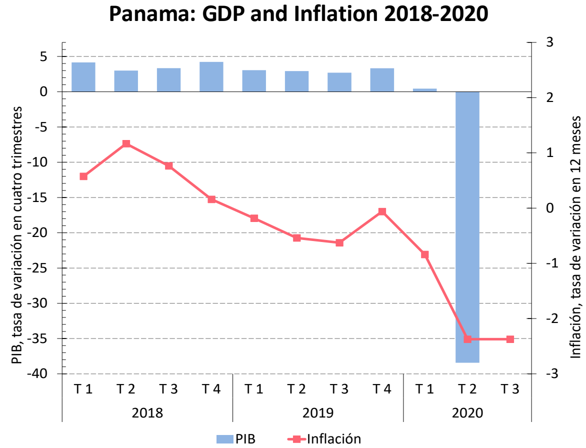
Following a period of steady economic growth (averaging an annual rate of 6.2% between 2010 and 2019), the Panamanian economy is projected to undergo a contraction of 11% in 2020 by the Economic Commission for Latin America and the Caribbean (ECLAC). This downturn is primarily a reflection of the measures taken by Panama and the rest of the world to cope with the coronavirus disease (COVID-19) pandemic. The measures adopted by the government, including a curfew and a mandatory quarantine in the entire country, have been updated and modified at various points in time since March. The cumulative variation in the inflation rate is once again expected to be negative (down by 1.0% in 2020 as compared to a decrease of 0.1% in 2019) owing to the weakness of demand. The open unemployment rate will top 10% as the year comes to a close (compared to 5.8% as of the end of 2019).

Lower revenues and the cost of various measures introduced to address the pandemic will result in a fiscal deficit of nearly 8% of gross domestic product (GDP) (compared to a shortfall of 3.7% in 2019). The contraction in service exports and re-exports from the Colón Free Zone, combined with the reduction in Panama Canal activity (between January and October, shipping traffic was down by 8.6% over the same period in 2019), will be partially offset by a sharp decline in imports. As a result, the current account deficit will be around 6% of GDP as of the end of 2020 (5.2% in 2019).

The government has taken steps to restructure the budget in order to deal with the health emergency and to fund the implementation of an emergency and social assistance plan called *Panamá Solidario*. This has entailed the reallocation of fiscal resources amounting to nearly 3% of GDP. The bulk of this amount was freed up by making adjustments in public investment, but current government expenditures have also been reduced. Central government funding adjustments account for 43.8% of the total amount of reallocations, public enterprises for 35.8%, decentralized bodies for 19.4% and financial intermediaries for 0.9%. In April, with the passage of Act No. 139, authorization was given for the use of the Fondo de Ahorro de Panamá (Panama savings fund), freeing up as much as 1.3 billion balboas to pay for emergency measures. This new law also opened the way for a relaxation of the limit set for the fiscal deficit for 2020.

At the end of the third quarter of 2020, the non-financial public sector deficit amounted to 6.9% of GDP (compared to 4.0% for the corresponding period in 2019). As for the central government balance, a deficit of 6.8% of GDP was recorded in the first nine months of 2020, compared to 5.2% in the same period of 2019. This expansion of the fiscal deficit is mainly a consequence of the 27.7% drop in total income caused by both the paralysis of a sizeable portion of the economy, which depressed revenues, and the various relief measures implemented in the country, such as the tax amnesty. The decline in revenues was only partially offset by a 5.4% cut in total expenditure as the net result of a drastic

Panama: GDP and Inflation 2018-2020



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

reduction (-24.9%) in capital expenditure and a 4.1% increase in current spending.

The total public debt as of September 2020 stood at US$ 36,103,400,000 (59.4% of GDP), which is 13 percentage points of GDP higher than it was at the close of 2019 (US$ 31,014,700,000). The external debt (80.3% of the total public debt) swelled by 19.6% between December 2019 and September 2020, while the domestic debt rose by 4.8% during that period.

As of September, the balance of the national banking system's private-sector loan portfolio was 1.7% lower than the 33% balance registered for that same month in 2019. Increases were seen only in credits to financial and insurance companies (9.3%) and to mining and quarrying enterprises (5.3%) and in mortgages (2.4%), while credit to industry and fisheries was down the most (–14.4% and –12.6%, respectively). The average nominal one-month interest rate on deposits was 1.22% in the first three quarters of 2020, while the six-month rate was 2.09%. These rates are slightly lower than they were during the same period of 2019, when the one-month rate was 1.35% and the six-month rate was 2.15%. Nominal lending rates were also slightly down; for example, the average annual rate for consumer loans in the first three quarters was 6.24%, compared to 6.45% in the corresponding period of 2019, and the annual rate for industrial credits was 7.03%, on average, for the first three quarters of 2020 compared to 7.09% during the same period in 2019.

Panama: main economic indicators, 2018-2020

	2018	2019	2020 [a]
	Annual growth rate		
Gross domestic product	3.7	3.0	-11.0
Per capita gross domestic product	2.0	1.3	-12.5
Consumer prices	0.2	-0.1	-2.4 [b]
Real average wage [c]	4.7	3.2	...
Money (M1)	1.1	-3.2	1.4 [d]
Real effective exchange rate [e]	1.8	0.1	3.5 [f]
Terms of trade [g]	-1.4	0.2	6.3
	Annual average percentage		
Open unemployment rate [g]	4.9	5.8	...
Central government			
Overall balance / GDP	-3.2	-3.7	...
Nominal deposit rate [h]	1.8	2.2	2.1 [f]
Nominal lending rate [i]	6.9	7.1	7.0 [f]
	Millions of dollars		
Exports of goods and services	27 802	27 610	6 009 [j]
Imports of goods and services	28 875	27 374	5 085 [j]
Current account balance	-5 355	-3 500	-26 [j]
Capital and financial balance [k]	4 900	5 459	-705 [j]
Overall balance	-455	1 958	-731 [j]

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
a/ Estimates.
b/ Twelve-month variation to April 2020.
c/ Corresponds to workers in small, medium and large businesses, in manufacturing, commerce and services.
d/ Figures as of August.
e/ A negative rate indicates an appreciation of the currency in real terms. Refers to the extraregional real effective exchange rate.
f/ Figures as of Sepetember.
g/ Open unemployment rate includes an adjustment for workforce figures due to exclusion of hidden unemployment.
h/ 6 months deposit rate.
i/ Interest rate on one-year trade credit.
j/ Cumulative figures to the first quarter of 2020.
h/ Includes hidden unemployment.

For the period from January to August, total exports of goods declined 23.7% relative to the same period of 2019, mainly because of plummeting re-exports from the Colón Free Zone (–24.8%), which accounted for 91.6% of Panama's exports of goods. Service exports were also down as a consequence of national and international measures that have curbed revenues from tourism, airfares, the Panama Canal and financial services. Merchandise imports (excluding those from the Free Zone) fell by 41.2%. The sharpest contraction was in imports of capital goods (–52.7%), but consumer and intermediate goods imports also plunged, falling by 39.1% and 32.4%, respectively. Inflows of foreign direct investment (FDI) dropped below 4.5% of GDP, which was far lower than they had been in earlier years (7.2% and 8.1% of GDP in 2019 and 2018, respectively).

In the second quarter, GDP shrank by 38.5%, bringing the total variation for the first half of the year to –18.9%. The segments of the production sector that were hurt the most were construction (–44.3%), other community, social and personal service activities (a category which includes casinos and the lottery) (–43.8%), hotels and restaurants (–40.0%) and commerce (–26.5%). The monthly index of economic activity (IMAE) for August showed a 29.2% reduction relative to August 2019, while the cumulative variation for January–August 2020 was –17.8%. The largest decreases, in addition to those mentioned above, were in mining and manufacturing.

In June, the national urban consumer price index showed a year-on-year variation of –1.6% and a January–June cumulative variation of –1.2%. Based on these preliminary figures and the feebleness of demand, the country is expected to experience a deflationary episode again this year. A minimum wage increase has been in effect since 15 January. This wage hike averages 3.3% but varies between 1.0% and 8.0% depending on the economic activity, type of company and region.

For 2021, ECLAC projects that the Panamanian economy will grow by around 5.5% as economic activities gradually reopen and strategic sectors of the country recover. The current account deficit is expected to shrink as exports of services and of some goods, such as copper and manufactures from the Colón Free Zone, rebound. The fiscal deficit is also expected to be smaller than in 2020, at around 4% of GDP, as tax revenues pick up and relief measures are discontinued. Open unemployment is likely to gradually fall back to its pre-pandemic levels, coming to about 6%. The economic reactivation is expected to return the price index to positive territory.