## Panama

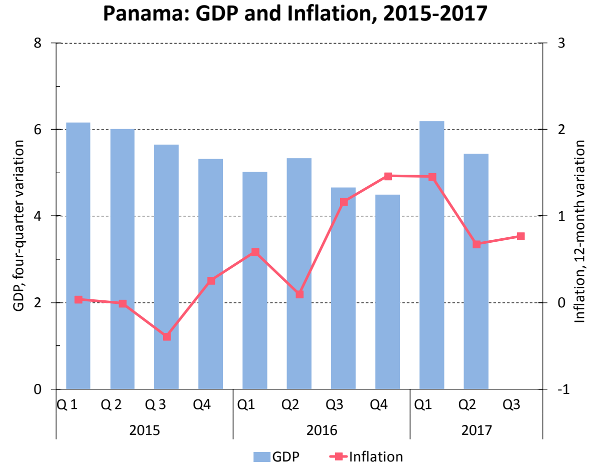
Forecasts indicate that the Panamanian economy will grow by 5.3% in 2017 (compared to 4.9% in 2015), making it still one of the region's fastest-growing, driven by buoyant performances in various sectors, including transport, storage and communications, construction, and mining and quarrying. The non-financial public sector (NFPS) is expected to record an adjusted deficit of 1.0% of GDP at the end of the year, which is in keeping with the Fiscal Responsibility Act. The balance-of-payments current account deficit will be around 2% of GDP, much smaller than the 5.7% deficit posted in 2016. Year-on-year change in the consumer price index (CPI) will be around 1%, similar to the 0.7% recorded in 2016, while unemployment will stand at around 5.7%, slightly up from the previous year's 5.5%.

As of September 2017, the overall NFPS deficit was a cumulative US$ 1.43 billion (2.4% of GDP), compared to US$ 845 million in the year-earlier period (1.5% of GDP). The larger deficit is due to a 5.3% real-term rise in total spending, coupled with stable levels of total revenue. Tax revenues increased by US$ 104 million (1.5% in real terms), but the impact of this was offset by a significant fall of US$ 207 million (47.6% in real terms) in revenues collected by non-consolidated agencies. Direct tax revenue grew by 4.4% in real terms, thanks to increased collections of personal income tax, but that gain was partially cancelled out by a 1.6% drop in indirect tax revenue. The rise in total SPNF spending was the result of increased current expenditure (7.5% in real terms), mainly earmarked for the Social Security Fund, although this was partially offset by a 2.6% real-term drop in capital expenditure.

Public debt as of September 2017 stood at US$ 23.418 billion (39.9% of GDP), a 7.3% real-term year-on-year increase. Of this total, 78% was foreign debt and the remaining 22% was domestic debt. In May 2017, Panama undertook two major operations on the international capital markets: a US$ 1.0 billion issue of the new 2047 Global Bond, with a 30-year maturity, and liability management transactions that reduced the balance of the 2020 Global Bond by US$ 335 million. In September 2017, Moody's rating agency improved Panama's sovereign debt outlook from stable to positive and maintained its Baa2 rating.

Commercial bank lending to the private sector remained dynamic in 2017, although less so than during the previous year. The local loan portfolio of the country's banking system totalled US$ 51.853 billion as of August 2017, a nominal year-on-year increase of 8.0% over the same period the previous year. Large increases occurred in the loan portfolios for the construction sector (up 16%), personal consumption (up 10.5%), mortgages (up 8.6%) and industry (up 9.4%).

**Panama: GDP and Inflation, 2015-2017**




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

In October 2017, nominal interest rates on one-year loans in the business, industry and consumer sectors were 7.55%, 7.55% and 9.77%, respectively. This reflected an annual decrease of 1 and 15 basis points for the first two sectors, respectively, and a significant hike of 82 basis points for consumer credit. Nominal interest rates paid on three- and six-month deposits remained stable, at 1.36% and 2.13%, respectively.

The current account deficit amounted to US$ 933 million (1.6% of GDP) in the first half of 2017, a reduction of 20.9% compared to the year-earlier period. The goods trade deficit rose because the increase in exports (US$ 820 million) was smaller than the rise in imports (US$ 1.053 billion). In the export sector, the largest increase was posted under goods procured in ports (91.8%). In turn, the increased imports were mainly attributable to an increase in fuel purchases (29.8%), a side effect of higher global prices. The narrower current account deficit reflected stronger exports of services (7.2%), with increases in air transport (21.1%), maritime transport (17.3%), Panama Canal activity (19%) and ports (5.7%). Foreign direct investment in the first half of 2017 amounted to US$ 2.844 billion, an increase of 5.8% over the prior-year period.

**Panama: main economic indicators, 2015-2017**

| | 2015 | 2016 | 2017 [a] |
|---|---|---|---|
| | Annual growth rate | | |
| Gross domestic product | 5.8 | 4.9 | 5.3 |
| Per capita gross domestic product | 4.1 | 3.2 | 3.7 |
| Consumer prices | 0.3 | 1.5 | 0.5 [b] |
| Real average wage | 3.3 | 4.4 | ... |
| Money (M1) | -0.4 | 0.2 | 0.8 [c] |
| Real effective exchange rate [d] | -3.9 | -1.0 | 1.0 [c] |
| Terms of trade | -2.6 | -3.1 | -1.1 |
| | Annual average percentage | | |
| Urban unemployment rate [e] | 5.8 | 6.4 | 6.4 [f] |
| Central government | | | |
| Overall balance / GDP | -3.9 | -4.3 | -4.5 |
| Nominal deposit rate [g] | 2.1 | 2.1 | 2.1 [c] |
| Nominal lending rate [h] | 7.6 | 7.6 | 7.5 [c] |
| | Millions of dollars | | |
| Exports of goods and services | 27 102 | 26 318 | 28 706 |
| Imports of goods and services | 27 245 | 24 936 | 27 302 |
| Current account balance | -4 274 | -3 160 | -2 958 |
| Capital and financial balance [i] | 3 290 | 4 487 | 2 057 |
| Overall balance | -984 | 1 327 | -901 |

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
a/ Estimates.
b/ Figures as of Octubre.
c/ Figures as of September.
d/ A negative rate indicates an appreciation of the currency in real terms. Refers to the extraregional real effective exchange rate.
e/ Includes hidden unemployment.
f/ Figures as of March.
g/ 6 months deposit rate.
h/ Interest rate on one-year trade credit.
i/ Includes errors and omissions.

Growth picked up in the Panamanian economy in the first half-year, with a year-on-year rate of 5.8%, up from the 5.2% posted for the same period last year. A good performance was recorded by the transport, storage and communications sector (12.6%), mainly on account of an upturn in the operations of the Panama Canal brought by the passage of larger draught vessels, the increased activity of the port sector and an increase in the number of passengers travelling through Tocumen Airport. Construction also maintained a good growth rate (8.1%), thanks to both residential developments and public infrastructure works, such as Line 2 of the Panama City Metro, urban renewal programmes and sanitation projects. Accordingly, the mining and quarrying sector also expanded significantly and posted a growth rate of 8.1%.

Cumulative change in the consumer price index (CPI) as of October 2017 remained small, at 1.0% (with a year-on-year variation of 0.5%), reflecting a fall of 1.3% for food and beverages and rises of 2.5% for transport and 3.6% for education. The higher transport prices were caused by a 6.6% increase in vehicle fuels and lubricants. Meanwhile, the national jobless rate as of March 2017 stood at 5.6%, compared to 5.5% at the same date the previous year, while the open unemployment rate climbed to 4.6%, up from 4.2% a year earlier.

The Panamanian economy is projected to grow by 5.4% in 2018. The construction sector will continue to be one of the most dynamic, driven by —mainly public— infrastructure investment projects, including the construction of the fourth bridge over the Panama Canal, the widening of the Panama City–Arraiján highway and the extension of Line 2 of the Metro to Tocumen. In addition, the agreements recently signed with China will play a major role in catalysing various projects in the Panamanian economy.

A small current account deficit is expected in 2017, owing to the projected stability of oil prices and a slight rebound in re-exports from the Colón Free Trade Zone. The inflation rate is also expected to remain low, at around 1%. Lastly, the adjusted NFPS deficit should be below 0.5% of GDP, within the limits set by the Fiscal Responsibility Act.