Panama

The Economic Commission for Latin America and the Caribbean (ECLAC) forecasts 8.4% growth for the Panamanian economy in 2022, following growth of 15.3% in 2021. This significant slowdown is mainly the result of the end of the statistical impact of a low baseline and of a complex international scenario characterized by sluggish growth. However, the inertia of both strong performance in a range of the country's key economic activities and in goods and services demand, both domestic and global, suggests that its GDP growth rate will be among the highest in Latin America in 2022. The non-financial public sector deficit is expected to hover near the ceiling set for the year by the Fiscal Social Responsibility Act (4.0% of GDP). The current account balance deficit is expected to widen to 4.5% of GDP by end-2022 (2.2% in 2021), driven by both higher import volumes and higher international prices for a range of commodities and energy products. Following a marked increase at the beginning of the year, inflation has cooled and is expected to close out 2022 slightly above the prior-year rate (2.6%). The open unemployment rate in April was 8.2% (8.5% in October 2021).

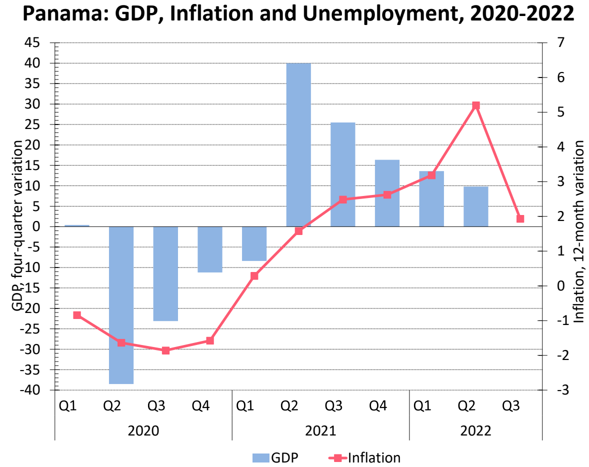
The central government deficit in the first half of 2022 stood at 3.8% of GDP (compared with 4.1% in the year-earlier period). Total revenues grew at a real-term year-on-year rate of 6.2%. Notably, growth in tax revenues was strong at 21.6%, driven mainly by higher receipts from corporate income tax and movable goods and services transfer tax (ITBMS), owing to payments of amounts owing from 2021 and 2022, amidst a significant economic recovery, and to receipts related to surging imports. Total expenditure rose by 1.8%, including a notable increase of 4.0% in capital expenditure, while current expenditure grew by 0.9%, even though wages fell by 0.7%.

Total public debt in the third quarter of 2022 was equivalent to 63.8% of GDP (US$ 43.516 billion), an increase of 0.2 percentage points relative to end-2021. External debt, which accounts for 81.8% of total public debt, grew by 8.4% between December 2021 and September 2022, while domestic debt grew by 3.5%.

In September 2022, the national banking system's private sector loan portfolio was up by 4.9% relative to December 2021. The largest expansions were in the financial and insurance sectors (42.4%), reflecting a recovery from two years of declines. In contrast, the sharpest contraction was in loans to the construction sector (-6.3%).

The average three-month real deposit rate for January to September was -2.70% (compared with the 2021 average of -0.48%), the result of both lower nominal rates and significant inflation pass-through. The January-to-September real-term average lending rate was also lower year-on-year, despite a minimal change in nominal rates. The real-term credit card rate thus stood at 16.28% in 2022 (18.01% in 2021), while the mortgage lending

Panama: GDP, Inflation and Unemployment, 2020-2022



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

rate was down from the 2021 average of 4.04% to 2.36% in September 2022. In the absence of a central regulatory entity, banks have either lowered or more or less maintained their nominal rates, mainly owing to excess liquidity, in contrast with the international rate hikes. The commercial benchmark rate —which is set at the beginning of each year and applies to loans from the State and also to lending to the State by third parties— fell slightly from 6.97% in 2021 to 6.94% in 2022.

In the first half of 2022, the balance of payments current account deficit reached US$ 292.6 million, compared with US$ 153.8 million in the year-earlier period. Between January and August, total goods exports grew 17.2%, year-on-year, mainly driven by the 20.4% increase in re-exports from the Colón Free Zone, which account for 74.4% of total exports. Domestic exports grew by 8.8%, underpinned once again by copper shipments (representing 41.1% of the volume and 76.5% of the value of exports, excluding Colón Free Zone exports), up 6.2%. Exports of bananas, the country's second-largest export product, dropped by 15.0% in value and 41.6% in volume, reflecting issues with production in the Caribbean region.

Panama: main economic indicators, 2020-2022

	2020	2021	2022 [a]
	Annual growth rate		
Gross domestic product	-9.9	10.4	4.9
Per capita gross domestic product	-10.8	9.4	4.0
Consumer prices [b]	34.1	51.4	87.8 [c]
Money (M1)	82.0	48.5	56.6 [d]
Terms of trade	0.6	9.7	-0.8
	Annual average percentage		
Open unemployment rate	11.5	8.8	6.9 [e]
Central government			
Overall balance / GDP	-3.7	-4.5	...
Nominal deposit rate [f]	29.4	33.6	47.8 [c]
Nominal lending rate [g]	36.8	40.2	53.5 [c]
	Millions of dollars		
Exports of goods and services	119 377	165 402	195 268
Imports of goods and services	92 654	131 653	179 693
Current account balance	2 004	-73 302	-109 539
Capital and financial balance [h]	10 531	122 138	...
Overall balance	12 534	48 835	...

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
A/ Estimates.
b/ As from 2017, the data are matched with those corresponding to Gran Buenos Aires; in order to make an interannual comparison.
c/ Figures as of October.
d/ Figures as of September.
e/ Figures as of June.
f/ Fix term deposit rates.
g/ Local-currency loans to the non-financial private sector, at fixed or renegotiable rates, signature loans of up to 89 days.
h/ Includes errors and omissions.

Goods imports over the first eight months of 2022, excluding the Colón Free Zone, rose by 42.1% year-on-year. The largest increase was in consumer goods (45.9%), although imports of intermediate and capital goods also grew significantly (37.8% and 38.9%, respectively). The rise of 118.0% in the value of fuel and lubricant imports, largely the result of higher international prices, was particularly noteworthy. Foreign direct investment (FDI) flows, despite a sharp year-on-year increase in the first quarter from US$ 236.1 million in 2021 to US$ 716.1 million in 2022 (with reinvested earnings accounting for 67.8%), have yet to regain pre-pandemic levels.

GDP grew by 11.8% in the first half of the year. Except for private education services (down 2.7%), which continued to feel the effects of lower enrolment, all other sectors grew during the first six months of the year. The fastest-growing categories were betting services (49.2%) and hotels and restaurants (48.2%). Also performing well were trade (19.6%), transport and communications (14.1%), and construction (18.9%), the sectors that account for the largest proportions of aggregate output. The monthly index of economic activity (IMAE), in its original series, showed a year-on-year increase of 10.9% on average for January to August.

In October 2022, the consumer price index (CPI) showed a year-on-year increase of 1.7% in urban areas, with the largest rises in the hotel and restaurant and the food and non-alcoholic beverages categories, at 4.6% in both cases. The largest year-on-year increase of 5.2% was seen in June. However, measures aimed at freezing fuel prices and controlling prices for some medicines and food led to negative rates in July and August (-1.2% and -1.4%, respectively), while in September and October rates were close to zero. Beginning on 16 January 2022, the minimum wage was increased for activities which had shown signs of recovery in 2021, ranging from 1.0% (construction) to 13.0% (banana production).

In April, the labour market participation rate was 62.3% (up 1.9 percentage points from the October 2021), although 48.2% of workers —outside of the agriculture sector— were employed in the informal market.

ECLAC estimates that Panama's GDP will grow by around 4.2% in 2023. The slowdown in the country's economy at the end of 2022 will continue into early 2023, in line with a complex global economic situation, including forecasts of slower growth in the United States and China, which are important trading partners. However, some sectors are expected to display resilience, maintaining the growth seen in 2022. This includes trade, mining, construction, tourism and betting, and transport and communications. The current account deficit is expected to widen, driven by import growth that outpaces that of exports and by lower copper prices. Despite an annual increase of 9% in the General State Budget for 2023, the public sector will have to adhere to the fiscal deficit ceiling (3.0% of GDP). As subsidies are discontinued —including direct support from the State, such as the Vale Digital voucher— and price controls for fuel, food and medicines are lifted, the consumer price index could be driven up.