

PANAMA

1. General trends

In 2023, the Panamanian economy recorded growth of 7.3% in real terms, driven in particular by gross fixed investment, which increased by 28.8%. This growth rate, while less than the 10.8% recorded in 2022, is the highest among Latin American countries for that year.

The non-financial public sector reported a deficit of 2.95% of GDP in 2023 (3.98% in 2022). This fulfils the guidelines of Act No. 185 of 2020, which amended an article of the Fiscal Social Responsibility Act and set a deficit ceiling of 3.0% in 2023. This reduction in the fiscal deficit is due mainly to a significant increase in non-tax income, which offset the increase in total expenditure. The balance-of-payments current account recorded a deficit of 4.5% of GDP, compared to one of 0.6% in 2022,¹ owing mainly to growth in the value of imports from the Colon Free Zone. Average annual inflation came to 1.5%, down from the previous year's 2.9%, thanks partly to the continuation of central government measures aimed at controlling the prices of certain food products, together with fuel and transportation subsidies. The August 2023 labour market survey reported an unemployment rate of 7.4% (compared to 9.9% in April 2022).

The presidential elections held on 5 May 2024 were won by José Raúl Mulino, the candidate of the Realizando Metas and Alianza parties.

The Economic Commission for Latin America and the Caribbean (ECLAC) expects Panama's GDP to grow by 2.7% in 2024. The sharp slowdown compared to the two previous years is due mainly to domestic factors, such as the lack of copper mining and exports, and adverse climate effects on agriculture and other activities, such as shipping traffic through the canal. The expected growth in the volume of world trade and the global and United States economies should have a positive impact on Panama's economy, despite continuing uncertainty resulting from armed conflicts in Eastern Europe and the Middle East. ECLAC projects growth of 3.3% for 2025.

At end-2024, the non-financial public sector deficit should be within 2% of GDP, the legal limit allowed for this year. However, this will imply major adjustments in public finances given the absence of revenues from copper mining. A current account deficit in excess of 5% of GDP, is expected owing to increased demand for imported goods and the drying up of copper exports. Even with the expiration of subsidies and price controls, annual inflation is expected to be around 1.5%. The loss of mining jobs is likely to trigger an increase in both unemployment and informality.

2. Economic policy

(a) Fiscal policy

In the context of the coronavirus disease (COVID-19) pandemic, in 2020 the Fiscal Social Responsibility Act imposed a ceiling on the non-financial public sector deficit of between 9.0% and 10.5% for that year, followed by gradual annual reductions to 1.5% in 2025. In 2023, the non-financial public

¹ The National Institute of Statistics and Census published an explanatory note on its website, giving details of adjustments made to the 2022–2023 balance-of-payments figures. This country note makes use of these updated figures.

sector deficit came to 2.95% of GDP, which was within the 3.0% legal limit for that year, while the central government deficit amounted to 3.7% of GDP (4.1% in 2022).

Total central government income grew at a real year-on-year rate of 13.2% in 2023 (13.9% in 2022), driven by a 22.7% increase in non-tax income, while tax revenues grew by 7.5%. Total income increased by 0.7 percentage points year-on-year to 12.8% of GDP in 2022.

In 2023, total central government expenditure increased by 9.2%, following a 2.7% decrease the previous year. Although less than in 2022, public spending still included outlays for measures to offset price rises. Total expenditure represented 16.5% of GDP (up by 0.2 percentage points). Current and capital expenditures behaved differently in real terms, with the former growing by 15.7%, driven by higher interest payments and debt expenses (60.6%) and current transfers (11.9%), while capital expenditure declined by 5.7%.

The total public debt edged down from 57.9% of GDP in 2022 to 56.4% in 2023, thanks to the expansion of economic activity and a reduction in the stock of domestic debt. However, the total nominal debt increased by US\$ 2.751 billion, as a result of net external borrowing of US\$ 3.135 billion (mainly in the form of global bond issues and loans contracted with multilateral agencies), while domestic debt decreased by US\$ 384 million. The external share of the total public debt rose to 85.0% from 83.2% in 2022.

In the first half of 2024, the central government deficit stood at 4.3% of GDP, compared to 4.1% in the year earlier period. Total income grew at a nominal year-on-year rate of 0.8%. While tax revenues were 4.6% higher than a year earlier, non-tax income was 11.9% lower. In the same period, total central government expenditure increased by 5.1% year-on-year, with current expenditure decreasing by 1.5% and capital spending growing by 25.4%. At the end of April 2024, the total public debt amounted to US\$ 50.542 billion, representing an increase of 7.5% over the balance at the end of 2023. Of the total public debt as of April, 82.7% was contracted at a fixed interest rate and the remaining 17.3% at a variable rate.

(b) Monetary policy and exchange-rate policy

Given the slowdown in economic activities and slackening domestic demand, at end-2023 the domestic banking system's credit portfolio had grown by 5.3% compared to the previous year's 11.0% expansion. The portfolio targeting the domestic segment had grown by 3.4% (6.3% in 2022). The largest percentage increase occurred in the portfolio of credit to mining and quarrying (23.1%), although in absolute terms this represented growth of just US\$ 10.8 million. The manufacturing and fishery loan portfolios also reflected significant percentage increases of 10.8% and 8.5%, respectively. Mortgage loans, the largest portfolio in the country, grew by 3.9%. Lending to financial and insurance companies decreased by 7.7%, following atypical growth of 77.5% in the previous year (due partly to a statistical rebound effect following a sharp fall in 2021 and a delayed post-pandemic growth spurt that only emerged in this sector around 2022).

Up to December 2023 the quality of the loan portfolio deteriorated slightly relative to the year-earlier period, since the proportion of loans in the total banking system portfolio that were over 89 days past due (non-performing portfolio) increased by 0.04 percentage points, while the share of loans between 31 and 89 days past due (arrears portfolio) increased by 0.11 percentage points.

The three-month nominal deposit rate averaged 2.75%, compared to 0.63% a year earlier, while the real rate reached 1.25% (-2.16% in 2022). Nominal lending rates also rose relative to the previous year's levels, especially the rates applicable to wholesale trade, which in 2023 averaged 7.23% (1.27 percentage points higher than in 2022). Given an easing of inflation, the difference between real lending rates in 2022

and 2023 averaged 2 percentage points (6.95% in 2023 and 4.95% in 2022). Real rates ranged from 4.28% for housing (2.73% in 2022) to 18.86% for credit cards (16.73% in 2022).

As of June 2024, the total balance of the national banking system's assets was up by 5.6% year-on-year, supported by investment growth of 7.4%, which offset the 2.3% reduction in the balance of liquid assets. Portfolio quality improved; while the proportion of nonperforming loans retreated by 0.22 percentage points, the share of past due loans increased by just 0.01 percentage points.

Nominal interest rates rose in the first few months of 2024. The three-month deposit rate averaged 3.48% between January and June (compared to 2.39% for the same period of 2023). In the case of lending rates, the January–June average increased relative to the year-earlier period in all categories. The rate applied to credit cards increased by most, at 21.21%, compared to 20.42% in the previous year. The commercial benchmark rate, which is set at the beginning of each year and is applied to debts contracted with the State and those contracted by the State with third parties, increased from 6.90% in 2023 to 7.72% in 2024.

3. The main variables

(a) The external sector

The current account deficit in 2023 came to US\$ 3.739 billion, significantly higher than the previous year's deficit of US\$ 475.1 million. The goods trade deficit increased by US\$ 5.022 billion (54.6%) over 2022, while the surplus in the services component increased by US\$ 2.153 billion (18.3%).

Goods exports (f.o.b.), including re-exports from the Colon Free Zone, increased by 9.9% in value terms, compared to growth of 14.9% in 2022. While this represents a significant expansion, the slowdown relative to 2022 is due mainly to a 6.6% drop in domestic exports, including an 11.7% reduction in copper shipments (which accounted for 73.3% of the total value of domestic goods exported in 2023). Re-exports from the Colon Free Zone again recorded significant growth of 15.0%, following a 21.4% expansion in 2022. Services exports increased by 14.1%, owing mainly to growth in travel (15.5%), other business services (23.9%), canal revenues (12.8%), air transportation (15.9%) and insurance (36.9%).

Excluding movements of the Colon Free Zone, in 2023 the value of goods imports (c.i.f.) decreased by 4.4% (following growth of 31.9% in 2022), owing mainly to reduced purchases of fuels and lubricants (down by 15.8%) and of materials and products for industry (down by 11.8%). Imports of consumer and intermediate goods declined by 9.0% and 9.4%, respectively. Conversely, capital goods imports grew by 12.0%, driven by communication and transportation equipment (20.4%) and goods for construction (18.9%). The total volume of goods imported into the country decreased by 5.5% in 2023. Imports from the Colon Free Zone continued to grow vigorously, by 41.1% in value terms (compared to 55.1% in 2022), while services imports increased by 4.8%.

Foreign direct investment flows totalled some US\$ 2.015 billion in 2023 (30.7% less than in the previous year). This reverses the recovery trend shown in 2021 and 2022, as the amount is significantly below pre-pandemic levels. The largest share of foreign direct investment was in the other capital category (which includes financing flows between firms with a foreign parent and their local affiliates or subsidiaries that are not classified as equity investments or reinvested earnings), with US\$ 1.065 billion raised in 2023. Reinvested earnings were down by 40.2% or US\$ 658.6 million less than in the previous year. The balance of equity investments was negative (minus US\$ 28.6 million)

In the first half of 2024, goods exports (excluding the Colon Free Zone) were 73.6% lower in value terms year-on-year (50.5% lower in terms of tonnage shipped). A total of US\$ 464 million in domestic goods was exported during this six-month period, compared to US\$ 1.76 billion a year earlier. In the first half of 2023, some US\$ 1.311 billion of copper ore and concentrates had been exported, but in 2024 exports of these products were non-existent. In the first half of 2024, the value of re-exports from the Colon Free Zone was down by 12.5%, despite volume growth of 8.8%.

Goods imports in the first of half 2024 (excluding the Colon Free Zone) were 6.2% lower year-on-year in value terms. Only imports of consumer goods increased (by 1.5%), while imports of fuels and lubricants fell by 1.6%. Imports of intermediate goods and capital goods both declined (by 15.2% and 10.7%, respectively). In both cases, imports related to construction fell sharply (by 26.1% in the case of materials and by 35.7% in capital goods for that activity). In volume terms, imports in the first half of the year (excluding the Colon Free Zone) were 10.9% lower. In the case of the Colon Free Zone, imports fell by 11.9% in value terms in the first half of 2024, despite a 6.7% increase in volume.

(b) Economic activity

Quarterly economic activity was robust in the first three quarters of 2023 but slackened sharply in the last quarter (growth rates of 9.3%, 8.2%, 9.0% and 3.3%, respectively). The fourth quarter result is explained largely by the fact that in November 2023 the Supreme Court declared Act No. 406 unconstitutional, thereby forcing Minera Panamá to cease copper mining and export operations. In addition, various claims were added that affected several sectors, related to the stoppage of activities and road closures owing to previous protests.

The economic activities contributing the most to Panama's GDP in 2023, namely, commerce (20.0%), construction (15.7%) and transport and storage (11.4%), recorded strong growth rates of 8.8%, 19.1% and 7.6%, respectively. Nonetheless, the strongest growth (24.3%) was achieved by professional, scientific and technical activities. The mining sector, as a whole, grew by 4.8%, despite exports of this mineral and its concentrates slowing sharply in the fourth quarter of 2023, owing to the cessation of copper mining.

In the first three months of 2024, GDP grew by 1.8% year-on-year. The sectors with the largest increases were hotels and restaurants (13.3%), real estate activities (8.5%), financial activities (7.6%) and construction (6.5%). In the first half of the year, the monthly economic activity index, in its original series, registered an average year-on-year increase of 2.12% (compared to 6.66% in the same period of the previous year). In June, activities that recorded positive growth included transport, storage and communications, financial services, entertainment and recreation services, and fishing. In contrast, activities with a negative performance included commerce, construction, manufacturing, agriculture, and mining.

(c) Prices, wages and employment

In 2023, the national urban consumer price index (December–December) rose by 1.9%, compared to the previous year's 2.1% increase. The largest increase was recorded in the housing, water, electricity and gas sector (9.9% year-on-year), which is explained by the significant monthly increase that occurred in January of that year following the end of the special subsidy to the electricity tariff. This was followed by private educational services, with an annual increase of 3.7%. The fall in the international prices of various commodity and energy products, and the continued application of the fuel subsidy and certain price controls, were decisive in containing price increases during the year

The August 2023 Labour Market Survey (latest information available at the time of writing) reports a labour participation rate of 62.4%, just 0.1 percentage point higher than in April 2022. It is worth noting that

this indicator has not yet regained its pre-pandemic level (65.9% in 2019). Moreover, significant differences persist in participation rates for men (74.9%) and women (50.8%). The unemployment rate, at 7.4%, was lower than in 2022 (9.9%), but still higher than before the pandemic (7.1% in 2019). The open unemployment rate (which excludes from the numerator unemployed people who are not actively looking for a job) was 5.8% in 2023 (6.7% in urban areas and 3.4% in rural areas). The median monthly income of the employed population was 735.4 balboas (769.1 balboas in urban areas and 521.5 balboas in rural areas; 746.8 balboas for women and 727.2 balboas for men), or 7.2 balboas more than in 2022.

Year-on-year inflation in June 2024 stood at 0.9%. The largest price hikes were recorded in housing, water, electricity and gas (2.6%), hotels and restaurants (2.5%) and miscellaneous goods and services (2.2%). In contrast, the prices of clothing and footwear, as well as those of the communications group, were 2.3% lower year-on-year. Meanwhile, information from the Ministry of Work and Labour Development shows that the number of formal employment contracts increased by 3.7% in the first quarter of 2024, relative to the year-earlier period