

PANAMA

1. General trends

The Economic Commission for Latin America and the Caribbean (ECLAC) forecasts a 6.5% contraction in the Panamanian economy in 2020 as a result of the measures implemented in the country and around the world to address the coronavirus disease (COVID-19) pandemic. The greatest impact is expected to be felt in the second and third quarters of the year, with a slight recovery in the fourth quarter. Although in its original series the monthly index of economic activity for March 2020 still showed year-on-year growth of 0.58% (2.96% in the same month of 2019), by May it was showing a slump of 40.9%.

The current account balance is set to worsen significantly in 2020, with an expected deficit of close to 7.0% of GDP, owing to a contraction in tourism, in re-exports from the Colón Free Zone and in Panama Canal activity. The net flow of foreign direct investment (FDI) is projected to decrease, to around 4.5% of GDP. Implementation of measures to tackle the pandemic, combined with a fall in revenue, will result in a fiscal deficit of around 6.0% of GDP, 3 percentage points of GDP larger than in 2019. In April 2020, the President of the Republic approved Law No. 139, which allows the use of the Panama Savings Fund and up to 1.3 billion balboas to finance emergency measures. This law also made the fiscal deficit ceiling more flexible, to cope with the health crisis. The open unemployment rate could reach double digits by year-end, leaving around 400,000 unemployed. Inflation is forecast to be sluggish in 2020, owing to weak aggregate demand and falls in international fuel prices.

The Panamanian economy grew 3.0% in real terms in 2019, less than the previous year (3.7%). This was a result of weaker domestic demand and, above all, slower external demand, as reflected in a 0.9% drop in exports in 2019, compared with growth of 5.0% in 2018. The non-financial public sector deficit was slightly larger than in the previous year, rising from 2.9% of GDP in 2018 to 3.1% in 2019. This occurred against a backdrop of a downturn in total revenues, which fell 3.3% in real terms. The current account deficit for the year was 5.2% of GDP, 3 percentage points lower than in 2018, on the back of a smaller oil bill (-4.5%) and a fall in imports of intermediate and capital goods (-3.9%). In December 2019, the consumer price index showed a year-on-year drop of 0.1%, compared to the rise of 0.2% recorded in 2018. In August 2019 and in a context of slowing economic activity, the open unemployment rate was 5.8%, up from 4.9% in August 2018.

2. Economic policy

(a) Fiscal policy

In May 2020, the government announced a restructuring of the annual budget to address the health situation caused by COVID-19 and to implement an emergency and social welfare plan called Panamá Solidario. The plan targets households affected by the pandemic and workers in the informal sector, and provides for the distribution of vouchers that can be redeemed for food, medicines, food baskets and gas cylinders. The changes to the budget totalled 2 billion balboas (3.0% of GDP in 2019). A quarter of that figure corresponds to cuts to operating expenses; for example, more than 10,000 vacant posts were frozen and expenditure was reduced for items such as travel allowances, transportation, advertising, fuel, consultants and other services. The rest of the total change came from cuts to the budget for public investment projects that had not been started by 24 March 2020.

Of the total amount restructured in the national budget under the Panama Solidario plan, the largest adjustments relate to central government entities (43.8%) and public enterprises (35.8%), followed by decentralized institutions (19.4%) and financial intermediaries (0.9%).

In response to the health crisis, the central government has announced a number of tax measures intended to ease economic pressure on businesses and households. For example, a tax amnesty was established until the end of June for accrued payables and arrears relating to income tax, dividends, and the transfer of material goods and services, among other areas. In addition, other tax benefits were recently approved, such as a special discount for early payment.

In the first quarter of 2020, central government current revenues declined at a nominal year-on-year rate of 19.1%. Tax revenues fell by 23.7%: direct taxes contracted by 22.5% and indirect taxes by 25.0%. Non-tax revenues, however, rose by 4.0%. Among the non-tax items, the most notable growth was in profits and contributions from companies, which climbed 22.7%. The combined result was total central government current revenues to April that were 23.6% under budget.

In April 2020, the International Monetary Fund approved the disbursement that Panama had requested as financial assistance for the health emergency. This funding, provided under the Rapid Financing Instrument, will total US\$ 515 million and will be used to mobilize resources to provide health care and assist the population groups most affected by the pandemic.

In 2019, the ceiling for the non-financial public sector deficit in the Fiscal Social Responsibility Act was raised from 2.0% to 3.5% of GDP. As a result, although the deficit grew by 0.2 percentage points in the year, it remained within the legally permitted range.

Total central government revenues fell by 6.2% in real terms, and declined as a percentage of GDP from 13.8% in 2018 to 12.6% in 2019. Tax revenues declined more sharply in the last two months of the year, despite the general tax amnesty adopted in September that waived interest, penalties and surcharges between October 2019 and February 2020. Total central government expenditures declined by 1.0% in real terms, and by 0.6 percentage points as a proportion of GDP (from 17.0% in 2018 to 16.4% in 2019). Current expenditure increased by 2.3% in real terms, primarily owing to a 3.3% rise in remuneration and a 10.0% increase in interest payments on public debt.

The balance of total public debt increased significantly over the year, from US\$ 25.687 billion at year-end 2018 to US\$ 31.019 billion at year-end 2019. This represented an increase of 7 percentage points of GDP (from 39.4% in 2018 to 46.4% in 2019). The ratio of external debt to the country's total debt fell to 78.1% (80.1% in the prior year). The faster growth in internal debt was a result of the increase in the balance of treasury notes, which was up 62.0% on year-end 2018.

(b) Credit policy

The balances at the end of April 2020 show that the liquid assets of the national banking system grew by 48.5% in the first four months of the year, compared to the same period in 2019. The loan portfolio was 0.4% larger, and deposits expanded by 4.9%. The credit quality indicator—the ratio of non-performing loans to the total portfolio—continued to worsen, climbing from 3.8% in December 2019 to 4.25% in April 2020. Owing to the economic crisis, this trend will continue in the second and third quarters of the year.

In the first four months of 2020, nominal interest rates fell slightly compared to December 2019: the one-month deposit rate fell from 1.30% to 1.26%, while the commercial lending rate rose from 6.70%

to 6.65%. The commercial reference rate, which is set at the beginning of each year for debts with the State and with third parties, was raised from 7.28% in 2019 to 7.11% in 2020.

By the end of 2019, the total lending portfolio of the national banking system had grown by 1.1% in nominal terms over the prior year. The domestic portfolio grew by 2.0%, considerably less than in 2018 (5.0%). Mortgage loans, personal consumer loans, commercial loans and construction loans accounted for most of the total local private portfolio (87.5%).

The activities that expanded most in the loan portfolio balance were mining and quarrying (66.2% in 2019, compared to -5.6% in 2018), financial and insurance companies (13.0% in 2019, compared to 23.0% in 2018), and mortgages (4.9% in 2019 and 20.6% in 2018). The activities with the largest declines in the loan portfolio were agriculture (-13.9% in 2019, compared to 9.5% in 2018) and construction (-3.3% in 2019, compared to -3.5% in 2018). With respect to the quality of the national banking system's portfolio, in December 2019 the ratio of non-performing loans was 3.75%, higher than the 3.26% recorded at year-end 2018.

The upward trend in interest rates seen in previous years continued across the board in 2019. In nominal terms, the three-month deposit rate averaged 1.63%, compared to 1.31% a year earlier, and the real rate averaged 2.0%, compared to 0.5% in 2018. The same picture of small nominal increases was seen in lending rates, but also with large variations in real terms. For consumer credit, the average nominal lending rate in 2019 was 19.56%, while the real rate for the same category was 10.94%.

(c) Other policies

In February 2018, Costa Rica, El Salvador, Honduras, Nicaragua and Panama signed a free trade agreement with the Republic of Korea, to gradually eliminate duties on about 95% of traded goods and services. This is expected to open up the services and investment markets. On 23 April 2020, the Foreign Affairs Committee of the National Assembly of Panama passed, at the first reading, the bill that ratifies the treaty.

3. The main variables

(a) The external sector

As a result of the global reach of the pandemic, Panama is facing a significant contraction in external demand. However, in the first quarter of 2020, the value of cumulative exports of goods still grew by 11.7% on the prior-year period. The products whose export value had increased the most were fish meal and fish oil (199.9%) and beef (161.9%). In both cases, this was primarily because of a considerable increase in the volume shipped, which, in the case of beef, went mainly to China. Re-exports from the Colón Free Zone, however, were hit hard, falling in value by 11.6%.

Cumulative imports to April 2020, meanwhile, plummeted by 31.0%, excluding Colón Free Zone movements. The decline in international commodity prices contributed significantly to this fall. Imports of capital goods were the most affected during this period, with a fall in cumulative value of 43.5%. Notably, imports of goods for construction fell by 39.5%, and those of transport and communication equipment declined by 50.5%; this maintains the downward trend of the previous year, with an apparent steepening from March onward as a result of the pandemic. Similarly, cumulative imports of intermediate goods fell by 21.8% in the first four months of 2020, and imports of consumer goods fell 27.9%. Among consumer goods, fuel and lubricant imports fell sharply, by 42.1%.

At the beginning of 2020, annual FDI flows of more than US\$ 5 billion were expected. In view of the ongoing pandemic and the resulting uncertainty, investment flows will now be slower than in 2019. The United Nations Conference on Trade and Development (UNCTAD) expects the outbreak and spread of COVID-19 to cause a dramatic drop in international FDI flows, which could be as much as 30.0% this year. If this trend is reflected in Panama's FDI inflows, they will not top an equivalent of 4.5% of GDP in 2020, compared with 7.2% and 8.1% of GDP in 2019 and 2018, respectively.

The balance-of-payments current account deficit came to 5.2% of GDP in 2019 (8.2% in 2018). The smaller deficit in the goods balance was a result of imports contracting more than exports, with drops of 7.1% and 3.1%, respectively. Domestic exports grew by 6.1% excluding the Colón Free Zone, but exports from the Zone fell by 9.2%. Among national exports, notable growth was seen in shipments of bananas (29.9%) and beef (62.3%). Among goods, imports of fuel and lubricants declined by 8.6%, construction materials by 18.7%, and capital goods for agriculture by 26.2%.

The terms of trade improved by 3.9% in 2019, after worsening in 2018 (-7.5%). This led to an 8.3% rise in the purchasing power index for exports. FDI flows totalled US\$ 4.835 billion in 2019, 8.7% less than the previous year. The sharpest drop was in the reinvested earnings line (-23.5%).

(b) Economic activity

In 2020, the least affected activities will be trade in commodities and activities that are primarily performed in rural areas, such as mining and quarrying, and agriculture. The outlook for the fisheries sector is still uncertain, however, after an abrupt fall in 2019. Construction and manufacturing, both with downturns in 2019, are set to decline further in 2020. There will be a major impact on sectors that are highly dependent on international economic conditions, such as tourism, and the transportation, storage and communications sector (which includes activity on the Panama Canal).

In March 2020, the monthly index of economic activity was still indicating year-on-year growth (0.58%), but by May it was showing a year-on-year slump of 40.9%. The activities that have been most affected include construction, hotels and restaurants, passenger air transport, general manufacturing, commerce, mining, and other community, social and personal services.

Total Panama Canal toll revenues for the first quarter of 2020 were 5.6% higher than in the prior-year period. Net tons increased by 6.1% and cargo volume by 9.0%. While global trade will contract significantly in 2020, April did not yet reflect a drop in Canal toll revenues, but did show a 15.0% drop in ship traffic on the same month of 2019.

That same year, mining expanded by 45.4%, compared to 3.1% in 2018. This was mainly because of momentum in copper concentrate extraction in the second half of the year, as the Cobre Panamá mining project started operating and producing. Growth in the electricity, gas and water sector also accelerated, with a rise of 5.1% in 2019, compared to 2.5% in 2018. The transport, storage and communications sector grew by 6.8% (6.6% in 2018), mainly driven by Panama Canal operations and port activities.

Despite the contraction in international trade, 2019 saw growth in the number of Canal journeys (4.3%), toll revenues (6.1%) and net tonnage transported (8.4%).

However, construction slowed for the second consecutive year, as a result of a drawn-out strike in the sector, growing by just 0.1% (3.2% in 2018). The most significant falls were in the fisheries and manufacturing sectors, which shrank by 25.1% and 1.5% in 2019, respectively, compared to a fall of 2.2%

and growth of 1.5% the previous year. The fisheries sector is important because of the magnitude of the decline, and the manufacturing sector because of its large contribution to national value added.

On the expenditure side, growth in domestic demand slowed to 0.6%, compared to 4.4% in 2018. This was because gross fixed investment grew by only 0.6% and consumption by 0.9%.

(c) Prices, wages and employment

In March 2020, year-on-year deflation of -0.8% was recorded, while in March 2019 the decline was -0.2%. The segments where prices increased the most were education (3.1%) and housing, water, electricity and gas (1.1%); in contrast, the largest price falls were in transportation (-3.7%) —with a slump in air ticket prices of 21.8%— communications (-1.6%) and recreation and culture (-1.4%).

Preliminary estimates from the Ministry of Labour and Labour Development put the country's unemployment rate at more than 10.0% in 2020, up from the original projected rate of 7.0%. Economic relief measures have therefore been designed for workers in the most affected sectors, such as tourism, trade and manufacturing. On 15 January 2020, an average increase of 3.3% in minimum wages came into effect in the country, ranging from 1.0% to 8.0% depending on economic activity, company type and region. Until this increase was implemented, the average monthly minimum wage had been US\$ 721 in Region 1 (all provinces except Darién and the indigenous areas), and US\$ 563 in Region 2 (Darién and the indigenous areas) since 2017.

In 2019, average inflation fell by 0.4%, compared to a rise of 0.8% in the previous year. Year-on-year inflation in December was -0.1% (0.2% in December 2018), with the biggest hikes in the prices for alcoholic beverages and tobacco (1.5% in 2019, compared with 0.7% in 2018) and hotels and restaurants (1.3% in 2019, compared with 2.7% in 2018). The largest falls were in prices of furniture and household items (-1.3% in 2019, compared with 0.3% in 2018), and communications (-1.1% in 2019, compared with -1.2% in 2018).

The labour force survey of August 2019, which is the most recent source of information, recorded a labour force participation rate of 66.5% (65.4% in August 2018), with 78.8% for men and 55.0% for women. The open unemployment rate rose by 0.9 percentage points to 5.86% in 2019. The proportion of the working population in informal non-agricultural employment increased to 44.9% (43.6% in 2018). The median monthly wage of the employed population was 721.90 balboas in August 2019, up 20.20 balboas on the same month of 2018. This is a nominal variation of 2.9% and a variation in real terms of 3.5%.

Table 1
PANAMA: MAIN ECONOMIC INDICATORS

	2011	2012	2013	2014	2015	2016	2017	2018	2019 a/
	Annual growth rates b/								
Gross domestic product	11.3	9.8	6.9	5.1	5.7	5.0	5.6	3.7	3.0
Per capita gross domestic product	9.4	7.9	5.1	3.3	3.9	3.2	3.8	2.2	3.2
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	0.0	0.4	4.9	2.4	0.0	0.1	1.1	2.1	2.4
Mining and quarrying	22.1	25.2	22.8	8.9	10.0	8.1	8.1	3.1	45.4
Manufacturing	5.6	8.2	3.9	3.5	3.4	1.1	2.6	1.5	-1.5
Electricity, gas and water	21.3	14.7	5.1	11.5	10.3	10.2	7.3	2.5	5.1
Construction	24.1	30.6	26.5	13.9	13.8	8.0	8.3	3.2	0.1
Wholesale and retail commerce, restaurants and hotels	17.9	11.1	2.6	1.1	3.3	3.7	3.4	2.3	2.0
Transport, storage and communications	10.1	5.1	2.3	1.9	2.7	1.8	11.4	6.6	6.8
Financial institutions, insurance, real estate and business services	6.8	5.6	6.7	5.5	5.3	4.7	3.2	2.7	2.2
Community, social and personal services	4.8	4.0	1.5	4.5	5.2	...	...	...	...
	Percentages of GDP								
Investment and saving c/									
Gross capital formation	...	...	44.0	44.3	42.8	40.5	41.7	...	...
National saving	...	...	34.4	30.8	34.9	32.5	35.8	...	...
External saving	14.4	8.7	9.7	13.5	7.9	8.0	5.9	8.2	5.2
	Millions of dollars								
Balance of payments									
Current account balance	-4 993	-3 528	-4 401	-6 730	-4 274	-4 634	-3 692	-5 355	-3 500.5
Goods balance	-7 217	-6 415	-9 540	-10 823	-9 721	-9 012	-9 822	-10 613	-9 314.3
Exports, f.o.b.	16 926	18 857	17 057	14 972	12 765	11 687	12 470	13 356	12 947.1
Imports, f.o.b.	24 143	25 272	26 597	25 795	22 487	20 699	22 291	23 969	22 261.3
Services trade balance	3 933	4 696	7 783	7 789	9 578	8 057	9 297	9 541	9 550.7
Income balance	-1 911	-1 897	-2 707	-3 818	-4 025	-3 559	-3 043	-4 213	-3 705.6
Net current transfers	202	88	63	122	-106	-119	-124	-70	-31.3
Capital and financial balance d/	4 765	2 570	4 292	7 127	3 290	5 961	2 399	4 900	5 458.8
Net foreign direct investment	2 956	3 254	3 612	4 130	3 966	4 652	4 314	5 134	4 200.8
Other capital movements	1 809	-685	679	2 997	-677	1 309	-1 915	-234	1 257.9
Overall balance	-228	-958	-109	397	-984	1 327	-1 293	-455	1 958.3
Variation in reserve assets e/	228	-36	-402	-1 222	78	-609	971	632	-1 227.1
Other financing	0	994	511	825	907	-718	322	-177	-731.2
Other external-sector indicators									
Real effective exchange rate (index: 2005=100) f/	103.9	94.4	92.2	88.8	85.0	84.0	84.6	86.9	86.9
Terms of trade for goods (index: 2010=100)	106.6	106.7	98.4	102.2	113.8	112.7	112.2	103.0	106.3
Net resource transfer (millions of dollars)	2 854	1 667	2 096	4 134	171	1 684	-322	510	1 022.0
Gross external public debt (millions of dollars)	10 858	10 782	12 231	14 352	15 648	16 902	18 390	20 575	24 223.2
	Average annual rates								
Employment g/									
Labour force participation rate	61.9	63.4	64.1	64.0	64.2	64.4	64.0	65.4	66.5
Unemployment rate h/	3.0	3.1	3.2	3.5	3.9	4.4	4.9	4.9	5.8
Visible underemployment rate	1.5	2.4	2.5	2.0	2.5	2.3	2.5	3.7	4.4

Table 1 (concluded)

	2011	2012	2013	2014	2015	2016	2017	2018	2019
Prices	Annual percentages								
Variation in consumer prices (December-December)	6.3	4.6	3.7	1.0	0.3	1.5	0.5	0.2	-0.1
Variation in average real wage	0.1	3.3	0.3	5.5	3.3	3.9	2.5	4.7	3.2
Nominal deposit rate i/	1.9	1.9	1.8	1.9	1.8	1.7	1.8	1.8	2.2
Nominal lending rate j/	7.5	7.7	7.4	6.9	6.5	6.6	6.8	6.9	7.1
Central government	Percentages of GDP								
Total revenue	16.1	16.1	15.2	14.2	13.4	13.4	13.9	13.8	12.6
Tax revenue	10.2	10.9	10.7	10.0	9.4	9.7	9.2	9.1	8.2
Total expenditure	19.3	18.6	18.9	18.1	17.2	17.2	17.1	17.0	16.4
Current expenditure	12.0	11.3	10.5	11.4	11.1	10.7	10.9	11.2	11.1
Interest	2.1	1.8	1.8	1.7	1.7	1.7	1.7	1.8	1.9
Capital expenditure	7.2	7.3	8.4	6.7	6.1	6.5	6.1	5.9	5.3
Primary balance	-1.1	-0.7	-1.9	-2.2	-2.0	-2.1	-1.4	-1.4	-1.9
Overall balance	-3.2	-2.5	-3.7	-3.9	-3.7	-3.8	-3.1	-3.2	-3.7
Central government public debt	36.4	34.8	34.4	36.2	37.1	37.0	37.3	39.3	46.4
Domestic	5.1	8.2	7.6	7.8	8.2	7.9	7.8	7.7	10.2
External	31.3	26.5	26.8	28.7	28.9	29.1	29.5	31.6	36.2
Money and credit	Percentages of GDP, end-of-year stocks								
Domestic credit	61.9	63.8	52.2	62.5	63.7	65.0	66.7	67.3	63.8
To the public sector	-3.5	-3.4	-5.5	-7.1	-4.9	-6.0	-4.4	-4.0	-6.7
To the private sector	82.6	81.9	67.4	83.3	85.3	86.7	87.2	86.6	86.8
Others	-19.2	-16.6	-11.8	-15.5	-16.8	-15.8	-16.1	-15.3	-16.3
Monetary base	1.0	1.0	0.8	1.0	1.2	1.0	1.1	1.1	1.1
M2	75.8	72.3	56.6	69.4	66.9	65.8	64.3	63.3	63.2

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/ Open unemployment rate includes an adjustment for workforce figures due to exclusion of hidden unemployment.

i/ Six-month deposits rate.

j/ Interest rate on one-year trade credit.

Table 2
PANAMA: MAIN QUARTERLY INDICATORS

	2018				2019				2020	
	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/	4.2	3.0	3.3	4.2	3.1	2.9	2.7	3.3	0.4	...
Gross international reserves (millions of dollars)	2 973	3 203	2 528	2 646	2 685	2 908	3 710.7	4 037.4	3 313.6	5 633 c/
Real effective exchange rate (index: 2005=100) d/	87.9	87.5	86.3	85.8	86.7	86.9	86.7	87.3	87.4	85.8 e/
Consumer prices (12-month percentage variation)	0.6	1.2	0.8	0.2	-0.2	-0.5	-0.6	-0.1	-0.8	...
Nominal interest rates (average annualized percentages)										
Deposit rate f/	1.8	1.8	1.8	2.0	2.1	2.2	2.2	2.2	2.2	2.2 c/
Lending rate g/	6.8	6.9	6.9	7.0	7.1	7.1	7.1	7.1	7.1	7.1 c/
Sovereign bond spread, Embi + (basis points to end of period) h/	135	152	119	171	145	139	139	114	283	212
Risk premia on five-year credit default swap (basis points to end of period)	70	76	58	85	68	57	55	41	144	113
International bond issues (millions of dollars)	0	1 425	0	1 211	-	1 800	2 100	1 900	2 500	350
Domestic credit (variation from same quarter of preceding year)	10.9	9.7	9.1	6.0	4.3	4.0	-2.6	-2.4	-0.9	...

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/ Figures as of April.

d/ Quarterly average, weighted by the value of goods exports and imports.

e/ Figures as of May.

f/ Six-month deposits rate.

g/ Interest rate on one-year trade credit.

h/ Measured by J.P.Morgan.