

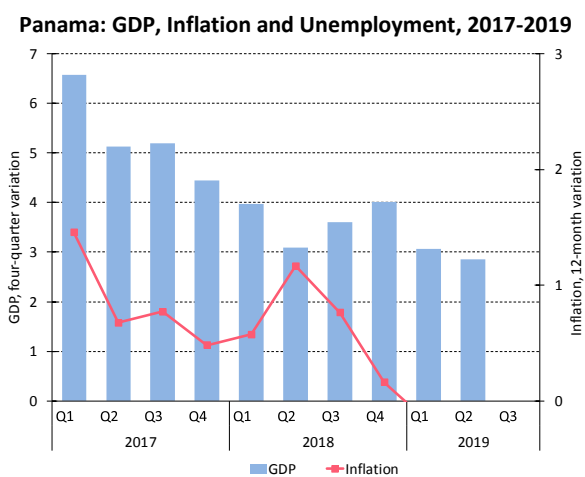
Panama

Growth in the Panamanian economy is expected to slow to 3.5% in 2019 — a moderate expansion relative to those recorded in the last decade, reflecting a general loss of momentum in the leading sectors of the national economy. The non-financial public sector (NFPS) is expected to post a deficit of just under 3.5% of GDP at the year-end, consistently with the recently amended Fiscal Responsibility Law. The balance-of-payments current account deficit will continue to narrow to around 1% of GDP. The consumer price index (CPI) is projected to fall by 0.7% on average for the year, in keeping with the slacker pace of activity, while the March 2019 unemployment rate came in at roughly 6.4%, compared to 5.8% a year earlier.

On 1 July 2019, Laurentino Cortizo took office as President of Panama for a constitutional term of five years, marking the return of the Democratic Revolutionary Party (PRD) to government after a decade-long absence. The current Government has placed special emphasis on strengthening local governments through the provincial council, the body responsible for formulating and the implementing the strategic plan for provincial development.

The new Government adopted a number of measures in response to the deteriorating fiscal situation. Firstly, it introduced a package of public expenditure cuts worth around US\$ 1.5 billion, of which about one third aimed to reduce operating costs and two thirds to pare back investments. The cuts will be made in projects with zero or very low execution levels. In addition, a tax amnesty was declared lasting from 15 October 2019 to February 2020. During this period, taxpayers in arrears will have 95% —or even 100%— of the corresponding interest, surcharges and fines waived, depending on the month in which they regularize their situation. On 28 October 2019, the National Assembly approved an amendment to article 10 of Law 34 of 5 June 2008, the Fiscal Responsibility Act, to raise the ceiling on the NFPS deficit to 3.5% of GDP, effective from 2019, and then lower it to 2% of GDP as from 2022.

In September 2019, the NFPS deficit stood at US\$ 2.454 billion, equivalent to 3.6% of GDP compared to 3.4% a year earlier. The widening of the fiscal deficit is the result of a 3.3% real reduction in total income, accompanied by a slight 0.1% real decrease in total expenditure. Central Government tax revenues slipped by 3.3% and non-tax income shrank by 13.4%, both in real terms. In the case of direct revenue, there was a significant reduction in legal income and dividends, while indirect revenue obtained from the goods and services transfer tax (ITBMS) levied on imports fell along with tariff receipts. The lower level of tax receipts reflects the slower pace of growth of the Panamanian economy. The stability of total NFPS spending conceals 6.9% real increase in current expenditure (US\$ 468 million), which was offset by a 16.8% real reduction in capital spending (US\$ 541 million).



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

In September 2019 the public debt represented 41.5% of GDP, up by 2.7 percentage points relative to the year-earlier level.

Commercial bank lending to the private sector continued to expand in 2019, although the pace slackened further relative to the previous year. The national banking system's portfolio of local loans to the private sector totalled US\$ 54.307 billion in August 2019, representing annualized nominal growth of 2.7%. Mortgage loans (+5.0%) and personal consumer credit (+5.8%) posted significant expansions, while credit to manufacturing industry and to financial and insurance activities contracted (-3.3% and -1.8%, respectively).

Interest rates on loans were slightly higher in August 2019, with nominal rates on personal (8.68%), vehicle (7.52%) and mortgage loans (5.82%), up by 8, 13 and 26 basis points, respectively from their December 2018 levels. Nominal deposit rates also moved higher, with the one-year deposit rate rising to 3.17%, up by 22 basis points since the end of the previous year.

The balance-of-payments current account deficit for the first half of 2019 totalled US\$ 3.495 billion, just 0.7% less than in the year-earlier period. Exports were down by 15.5% as of August, owing to a sharp 16.5% contraction in re-exports from the Colón Free Zone, mainly of chemicals for use in medicines and pharmaceuticals. Imports were also 5.7% lower as of August, owing to a 13.6% contraction in purchases made through the Colón Free Zone, although this effect was partially offset by domestic imports. There was also a slight reduction in income from services owing to lower business, travel and air transport revenues, which was partially offset by higher receipts from the Panama Canal and financial income. Imports of services also grew by 4.7% as a result of higher tourism spending by Panamanian residents in other countries and on business services. Foreign direct investment (FDI) was up by 15.6% relative to the first half of 2018, at US\$ 3.928 billion, which helped to finance the current account deficit.

The pace of activity in the Panamanian economy slackened in the first half of 2019, with year-on-year growth of 3.0% (compared to 3.5% in the year earlier period). The most buoyant sectors were private households with employed persons (+9.1%), agriculture, livestock, hunting and forestry (+5.5%), and mining and quarrying (+4.6%). These are small sectors, jointly accounting for less than 8% of GDP. In the first half of 2019, the transport, storage and communications sector continued to grow (+4.8%), although at a significantly slower rate than a year earlier (+6.9%). As of September 2019, the cumulative average of the monthly economic activity index (MEAI) was up by 3.25% relative to its year earlier level in the original series and by 3.37% when corrected for trend and cyclical effects.

The consumer price index (CPI) was 0.7% lower year-on-year as of October, with the steepest price reductions recorded in transport (-4.7%), communications (-1.2%) and household articles (-1.2%). In contrast, the largest sectoral price increases were recorded in restaurants and hotels (+1.2%), health

Panama: main economic indicators, 2017-2019

	2017	2018	2019 ^a
	Annual growth rate		
Gross domestic product	5.3	3.7	3.5
Per capita gross domestic product	3.7	2.1	2.0
Consumer prices	0.5	0.2	-0.7 ^b
Real average wage	2.5	5.1	3.0 ^c
Money (M1)	0.5	1.1	-2.1 ^d
Real effective exchange rate ^e	1.6	1.8	-0.5 ^f
Terms of trade ^g	-2.2	-1.4	0.2
	Annual average percentage		
Urban unemployment rate ^h	6.1	6.0	7.1
Central government			
Overall balance / GDP	-3.1	-2.9	-2.3
Nominal deposit rate ⁱ	1.8	1.8	2.1 ^d
Nominal lending rate ⁱ	6.8	6.9	7.1 ^d
	Millions of dollars		
Exports of goods and services	26 367	26 279	25 085
Imports of goods and services	26 957	28 788	28 341
Current account balance	-3 757	-6 792	-7 165
Capital and financial balance ^k	2 465	6 337	8 170
Overall balance	-1 293	-455	1 005

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

a/ Estimates.

b/ Figures as of Octubre.

c/ Estimate based on interannual growth of average for January–June.

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 September.

g/ Economic Development Division, calculations for Preliminary Overview 2019.

h/ Includes hidden unemployment.

i/ 6 months deposit rate.

j/ Interest rate on one-year trade credit.

k/ Includes errors and omissions.

(+1.0%) and food and non-alcoholic beverages (+0.5%). In keeping with the slower pace of economic growth, in March 2019 unemployment, at 6.4%, was 0.6 percentage points higher than a year earlier, with an open unemployment rate of 5.8%, also up by 0.6 percentage points.

By 2020, the Panamanian economy is expected to expand by 3.8% thanks to an upturn in the construction sector based on the various public projects that are currently under way. With oil prices expected to remain stable and the copper mine in Colón coming on stream, the balance-of-payments current account deficit is likely to be small. In addition, inflation is expected to remain subdued, possibly even turning negative. Lastly, the fiscal deficit is forecast at 3.5%, which is below the ceiling set by the Fiscal Responsibility Law.