Panama

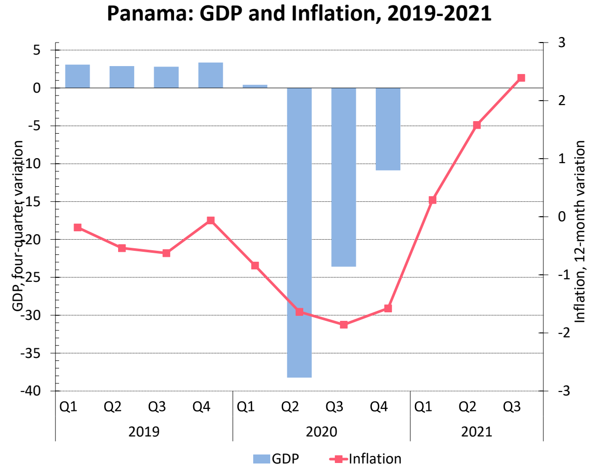
The Economic Commission for Latin America and the Caribbean (ECLAC) forecasts 12.4% growth for the Panamanian economy in 2021, following the sharp decline of 17.9% observed in 2020. This significant upturn, while clearly insufficient to return to pre-pandemic levels, is supported by both the gradual recovery of economic activities and a favourable global economic climate. Both phenomena contributed to stronger household consumption throughout 2021 and, at the same time, encouraged a partial recovery of investment in the second half of the year, with the reactivation of large infrastructure projects and new private investment flows.

At the close of 2021, the non-financial public sector deficit is expected to stand between 7.0% and 7.5% of GDP (against -10.1% in 2020), which is within the limits permitted under the Fiscal Social Responsibility Act and reflects the special spending to address the pandemic and mitigate its impact. Among other measures, the implementation of the new Panamá Solidario plan was announced, to remain in force until 31 December 2021. After a surplus in the current account balance was recorded in 2020 (2.3% of GDP), a return to a deficit position is anticipated for 2021, mainly as a result of the accelerated increase in imports. Inflation is expected to be around 2.5%, following the deflationary trends seen in 2019 and 2020 (-0.1% and -1.6%, respectively). An unemployment rate of 11.3% was posted in October (7.2 percentage points below the September 2020 labour market survey figure).

The central government deficit in the first half of 2021 stood at 4.7% of GDP (compared to 5.2% in the first half of 2020). Total revenue grew at a real-term year-on-year rate of 35.7%. Tax revenues increased by 25.3%, but the highest growth was in non-tax revenues, which rose by 72.4%. Total spending increased by 15.3%, largely as a result of resources allocated for dealing with the pandemic, including relief measures and programmes. Capital expenditure, including spending for the Panamá Solidario plan, rose by 24.7%, while current expenditure posted a less dynamic increase of 11.7%.

Total public debt in September 2021 was equal to 68.6% of GDP (US$ 40.00 billion), for a change of -1.2 percentage points of GDP compared to the close of 2020 (US$ 36.96 billion). External debt, which accounts for 81.0% of total public debt, rose by 8.6% between December 2020 and September 2021, while domestic debt increased by 6.7% over the same period.

Panama: GDP and Inflation, 2019-2021



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

As of August, the accumulated balance of private sector credit extended by the national banking system registered a slight increase since the close of the previous year (0.2%). The portfolio most negatively affected was the financial and insurance companies sector (-9.2%), followed by the industrial sector (-6.6%), while the largest increases were recorded in agriculture (13.1%) and fisheries (4.4%). The credit quality indicator, which is the proportion of past-due and non-performing loans within the total portfolio, deteriorated over the course of the year to stand at 5.23% in August (compared to 3.55% in December 2020), mainly because the non-performing portfolio almost doubled during that period.

Real-term deposit rates fell significantly with respect to the previous year. The three-month rate, averaged from January to August, was 0.63% (against an average of 3.10% in 2020). The January to August real-term average borrowing rate also posted a negative year-on-year variation, although in this case it was mainly due to the uptick in inflation, since nominal rates registered only minimal change. The real-term rate for credit cards stood at 19.20% in the first eight months of 2021, compared to 21.86% in the same period of 2020, while the rate for home loans went from 7.43% in August 2021 to 5.15%. The commercial reference rate —which is set at the beginning of each year and applies to debts entered into with the State and those the State enters into with third parties— fell from 7.11% in 2020 to 6.97% in 2021.

Panama: main economic indicators, 2019-2021

	2019	2020	2021 [a]
	Annual growth rate		
Gross domestic product	3.0	-17.9	12.4
Per capita gross domestic product	1.4	-19.2	10.7
Consumer prices	-0.1	-1.6	2.4 [b]
Real average wage [c]	2.4	-2.9	-3.4
Money (M1)	-3.2	4.6	14.1 [b]
Real effective exchange rate [d]	0.1	1.8	3.8 [e]
Terms of trade	-2.1	10.8	-3.6
	Annual average percentage		
Open unemployment rate [f]	5.8	18.6	...
Central government			
Overall balance / GDP	-4.1	-9.2	...
Nominal deposit rate [g]	2.2	2.0	1.8 [b]
Nominal lending rate [h]	7.1	7.0	6.9 [b]
	Millions of dollars		
Exports of goods and services	27 877	19 617	23 695
Imports of goods and services	27 374	17 327	24 156
Current account balance	-3 333	1 233	-3 285
Capital and financial balance [i]	5 291	4 410	...
Overall balance	1 958	5 643	...

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
a/ Estimates.
b/ Figures as of August.
c/ Corresponds to workers in small, medium and large businesses, in manufacturing, commerce and services.
d/ A negative rate indicates an appreciation of the currency in real terms. Refers to the extraregional real effective exchange rate.
e/ Figures as of Sepetember.
f/ Open unemployment rate includes an adjustment for workforce figures due to exclusion of hidden unemployment.
g/ 6 months deposit rate.
h/ Interest rate on one-year trade credit.
i/ Includes hidden unemployment.

In the first half of 2021, the balance-of-payments current account recorded a deficit of US$ 413.9 million, which contrasts with the surplus of US$ 472.7 million posted over the same period the previous year. Between January and August, the value of total goods exports rose by 40.8% over the same period in 2020, driven by the remarkable 110.5% growth in the value of domestic exports (despite a volume increase of only 28.4%), while re-exports from the Colón Free Zone (ZLC) grew by 25.1%. Notably, copper ore and its derivatives rose by 178.3% in value terms and by 65.7% in volume during the period, while bananas —the second most important product— fell in volume (-30.3%) but rose in value (5.4%).

Goods imports, excluding the ZLC, rose by 39.0% over the first eight months of the year. The largest increase was in capital goods (41.5%), although imports of consumer and intermediate goods also recorded significant growth (40.9% and 33.8%, respectively). The 89.3% increase in the value of fuel and lubricant imports, the result of rising international prices, was also noteworthy. In the first quarter, foreign direct investment (FDI) flows shrank significantly, for a total of US$ 1.355 billion (down 12.6% from the prior-year period).

The gradual economic recovery, together with the statistical effects arising from the previous year's sharp downturn, resulted in year-on-year GDP growth of 14.9% in the third quarter of 2021. The fastest growing categories were mining and quarrying (148.3%, thanks to copper exports), other community, social and personal services (47.7%, because of the liberalization of gambling activities), construction (28.6%), commerce (17.6%) and the manufacturing industry (11.4%). By contrast, the hotel and restaurant sector continued to decline over the period under review (-8.8%). The Monthly Economic Activity Index (IMAE) recorded a year-on-year increase of 15.2% from January to October.

The consumer price index in the country's urban areas rose by a cumulative 3.0% from January to November. In year-on-year terms, the variation was 3.4% in November, as year-on-year increases in the price index accelerated after July. After meetings between representatives of the national government, employers and workers, an increase in the minimum wage (which varies by region, company size and economic activity) was agreed to on 31 December 2021. The labour market survey, conducted in October, reported an unemployment rate of 11.3%, significantly higher than before the pandemic (7.1% in August 2019). In turn, the labour participation rate fell by 6.1 percentage points to 60.4%, indicating an even greater increase in real unemployment over this period.

ECLAC forecasts that the Panamanian economy will consolidate its recovery and grow by around 7.3% in 2022. As international flows of goods and services approach their pre-pandemic levels, and given the increase in international commodity prices, a current account deficit of around double the 2021 estimate is anticipated in GDP terms. The fiscal deficit is expected to narrow as a result of the upturn in tax revenues and the conclusion of the relief measures adopted by the government. The unemployment rate will fall again and could return to single digits. Given the continued recovery of demand and the still-rising costs of primary goods and maritime freight, inflation is expected to remain similar to its 2021 level.