PANAMA

1. General trends

In 2022, the economy of Panama grew by 10.8%, which, while less than the previous year's 15.8% expansion, is one of the highest GDP growth rates recorded among Latin American and Caribbean countries. The slowdown is due mainly to the dissipation of the statistical base effect of 2021 as economic activity recovered following the coronavirus disease (COVID-19) pandemic. GDP was boosted by sectors that recorded robust growth, such as trade and transport and communications, as well as by activities that, owing to their nature, did not recover until 2022, such as construction, tourism and entertainment. GDP for 2022 was calculated using a new base year of 2018 (instead of 2007), which affects the historical series and the indicators measured relative to GDP. This results in higher annual GDP growth rates in 2019 and 2021, as well as a less steep drop in 2020, compared to the rates calculated using the 2007 base year.

The non-financial public sector recorded a deficit equivalent to 3.9% of GDP in 2022, compared to 6.4% the previous year. This was consistent with the guidelines of Act No. 185 of 2020, which amends an article of Act No. 34 of 2008 on fiscal social responsibility. The reduction in the fiscal deficit is mainly the result of an increase in tax revenues combined with a substantial cut in current expenditures. The balance-of-payments current account recorded a deficit of 3.9% of GDP, following a deficit of 3.0% the previous year, owing mainly to the growth of imports, in a context of expanding demand and higher international commodity prices. Average annual inflation rose to 2.9%, from 1.6% in 2021, because of the normalization of productive activities and the rise in fuel and food prices on international markets. According to data from the labour market survey conducted in April 2022, the unemployment rate was 9.9% (compared to 11.3% in October 2021).

The Economic Commission for Latin America and the Caribbean (ECLAC) forecasts that Panama's GDP will grow by 5.1% in 2023 and by 4.2% in 2024. The growth projection for 2023 takes into account the convergence towards pre-pandemic activity levels and positive expectations for sectors such as mining and construction. Meanwhile, the moderation in performance with respect to the two previous years is due to the global economic slowdown, slacker international trade flows, the uncertainty generated by the conflict in Eastern Europe, and the effects on shipping traffic through the Panama Canal and the agriculture sector of adverse weather conditions associated with the El Niño phenomenon.

At the end of 2023, the non-financial public sector deficit is expected to represent around 3% of GDP, the legal limit allowed for that year, in the context of ongoing efforts to reduce expenditure and boost income. A current account deficit of close to 5% of GDP is expected given the increased demand for imported goods. Even though the drought and the expiration of subsidies and controls are expected to have an impact on food costs and price levels, annual inflation is expected to be around 2.5%. In view of the normalization of productive activities and the progressive reactivation of labour contracts, the unemployment rate is expected to fall back to below 9%.

2. Economic policy

(a) Fiscal policy

The Fiscal Social Responsibility Act was amended in November 2020, when a ceiling of between 9.0% and 10.5% was imposed on the non-financial public sector deficit for that year, together with a gradual annual reduction to reach 1.5% in 2025. In 2022, the non-financial public sector deficit represented 3.9% of GDP, which was below the legal limit for that year (4.0%), while the central government deficit was equivalent to 4.1% of GDP (down from 6.7% in 2021).

Total central government income grew at a real year-on-year rate of 13.8% in 2022 (16.1% in the previous year), thanks to a 24.2% increase in tax revenue, while non-tax income slipped by 0.2%. Total central government income increased by 0.3 percentage points of GDP from the 11.8% recorded in 2021.

In 2022, total central government expenditure declined in real terms by 3.1%, having grown by 5.3% in 2021. Public expenditure still included outlays to respond to the COVID-19 pandemic —albeit in smaller amounts than in the previous year—, for example the Panamá Solidario Plan and the electricity subsidy, together with other measures to counteract price increases, such as the fuel subsidy. Total expenditure shrank by 2.2 percentage points to represent 16.2% of GDP in 2022. Current and capital expenditures displayed clearly differentiated behaviour in real terms, with the former declining by 7.0%, owing to the reduction in current transfers (15.9%) and in interest and debt expenses (16.8%), while capital expenditure grew by 7.5%. Investments during the year targeted road maintenance and refurbishment works, and the expansion of the Panama metro.

Total public debt receded from 60.1% of GDP in 2021 to 57.9% in 2022, thanks partly to the expansion of economic activity, but also because of the change of base year in the historical GDP series. Total debt grew by US$ 3.786 billion, as a result of net external borrowing of US$ 4.009 billion, while net domestic debt shrank by US$ 222.6 million (amortization was greater than disbursement). The external share of total public debt increased to 83.2% from 81.1% in 2021.

In the first quarter of 2023, the central government deficit represented 3.6% of GDP. Total income declined by 17.3% in real terms year-on-year, with both tax revenue and non-tax income decreasing sharply (by 15.4% and 25.0%, respectively). In the same period, total central government expenditure increased by 19.1% in real terms year-on-year, with current expenditure (up by 42.3%) behaving very differently from capital expenditure (down by 21.8%). At the end of March 2023, total public debt amounted to US$ 45.895 billion, which is 3.7% higher than at end-2022. Private bonds accounted for 74.5% of the external debt (US$ 38.491 billion).

(b) Financial and credit policy

As a result of stronger economic activity and domestic demand, at the end of 2022, the balance of the domestic banking system’s credit portfolio had grown by 11.0%, compared to 3.6% in 2021. The domestic portfolio grew by 6.3%, following the previous year’s 1.5% expansion. The largest increase occurred in lending to financial and insurance companies (77.5%), following the previous year’s steep 27.5% reduction, while the portfolio of loans to fisheries (39.9%) and manufacturing (20.9%) also rose significantly. By contrast, in 2022, lending contracted again in the mining and quarrying sector (8.5%) and in construction (4.3%), as had been the case in 2021.

In December 2022, the quality of the non-performing portfolio (proportion of the total portfolio consisting of loans past due for over 89 days) reflected a deterioration of 0.28 percentage points, while that of the arrears portfolio (proportion of the total portfolio consisting of loans past due for between 31 and 89 days) showed a slight improvement of 0.07 percentage points compared to the same month of the previous year. The national agreement on flexible bank loan relief, which in 2020 and 2021 allowed for a temporary easing of credit payment conditions for borrowers whose income had been affected during the pandemic, expired at the end of 2021.

In terms of interest rates in 2022, the three-month nominal deposit rate averaged 0.63%, compared to the year-earlier level of 1.14%, although inflation meant that the real rate fell to -2.23%, from -0.48% in 2021. Lending rates remained broadly stable in nominal terms, although there were slight variations in the rates applied to wholesale trade, auto loans and livestock (-0.19, -0.19 and -0.17 percentage points, respectively, compared to the previous year's rates). Owing to the price differential between 2021 and 2022, lending rates fell in real terms and were between 2.66% (for housing loans) and 16.65% (in the case of credit cards).

In March 2023, the total balance of the national banking system's assets had increased by 5.4% year-on-year, supported by 10.5% growth in investments, which offset an 18.3% reduction in the balance of net assets. Meanwhile, in April, portfolio quality showed signs of deterioration, with both the past-due portfolio and non-performing rates rising (by 0.35 and 0.04 percentage points, respectively) relative to December 2022.

During the first few months of 2023, nominal interest rates rose in keeping with the international trend. The three-month deposit rate averaged 2.39% between January and June (up from 0.44% in June 2022). In the case of lending rates, all interest rate categories were higher on average in January–June relative to the year-earlier period. The rate applied to wholesale trade displayed the largest increase, rising to 7.07% from 5.95% a year earlier. The commercial reference rate, which is set at the beginning of each year and applies to loans contracted with the State and those the State contracts with third parties, edged down from 6.94% in 2022 to 6.90% in 2023.

3. The main variables

(a) The external sector

In 2022, the current account deficit was US$ 951 million larger than in the previous year, at US$ 3.002 billion. The trade deficit widened by US$ 6.364 billion and the surplus in services trade expanded by US$ 3.768 billion.

In 2022, goods exports, including those from the Colón Free Zone, grew by 15.3% in value terms, following a 39.9% increase in 2021. While this is a significant expansion, the lower growth rate compared to 2021 is explained mainly by the fact that domestic exports expanded by just 0.2% —a figure that includes the 4.8% drop in copper shipments (which account for 76.6% of the total value of domestic goods exported in 2022). Re-exports from the Colón Free Zone again recorded significant growth (21.1%), following the 23.8% expansion in 2021.

Excluding the movements of the Colón Free Zone, in 2022, goods imports increased by 31.8% (43.1% in 2021), on the back of stronger domestic demand and the rise in international commodity prices (growth in volume terms was 13.7%). Imports of capital goods rose most (33.7%), mainly because of an increase in the amount of goods imported for construction (41.6%). Imports of consumer and intermediate goods also increased significantly (32.6% and 28.7%, respectively). Within the consumer goods category, the value of fuel and lubricant imports rose by 81.7%. Imports from the Colón Free Zone continued to grow strongly, by 55.1% in 2022 (compared to 35.6% in the previous year).

Foreign direct investment (FDI) inflows totalled US$ 2.721 billion in 2022, 41.2% more than the total received in 2021. While this represents a significant increase, it is still well below pre-pandemic levels. The largest increases were in banking, financial activities and trade. Most FDI was in the other capital category, which improved from minus US$ 328 million in 2021 to plus US$ 1.461 billion in 2022.

In February 2023, the value of goods exports (excluding the Colón Free Zone) reflected a decrease of 13.7% year-on-year, owing to a 24.5% reduction in volume. In the first two months of the year, domestic goods exports totalled US$ 403.6 million, of which 72.2% corresponded to shipments of copper and its derivatives, which nonetheless recorded a year-on-year contraction of 17.3%. Meanwhile, the value of re-exports from the Colón Free Zone in the first quarter reflected year-on-year growth of 77.9%, easily surpassing pre-pandemic levels.

The value of goods imports in January and February 2023 (excluding those of the Colón Free Zone) declined by 0.6% year-on-year. Only capital goods imports grew (14.5%), driven by a 57.5% increase in goods destined for agriculture. Imports of consumer goods declined by 3.8%, owing to reduced imports of fuels and lubricants (down by 15.5%). Imports of intermediate goods shrank by 7.3%. In volume terms, imports in the first two months of the year (excluding the Colón Free Zone) were 18.1% lower year-on-year. Imports from the Colón Free Zone increased by 6.0% in value terms in the first quarter of 2023.

(b) Economic activity

At the time of writing, quarterly data on economic activity was available only up to the third quarter of 2022 and referenced to the 2007 base year. The year-on-year variations for the first three quarters (increases of 13.6%, 9.8% and 9.5%, respectively) reveal stronger growth at the start of the year and a slacker pace in the subsequent months.

In 2022, aggregate economic performance maintained the momentum of recovery that was evident in 2021. However, sectoral growth rates varied. The economic activities that recorded the strongest growth were arts, entertainment and recreation (46.4%), hotels and restaurants (36.2%) and construction (18.5%), despite the fact that none of these sectors regained their pre-pandemic levels. The positive performance of the construction sector was due mainly to the execution of public investment in infrastructure, as well as the start-up and continuation of various private projects. Mining, which rebounded mainly as a result of copper extraction by the firm Minera Panamá, recorded its fourth consecutive year of robust growth (6.3% in 2022). Private education was the only activity segment to contract (2.3%).

In March 2023, the monthly economic activity index (IMAE), in its original series, registered year-on-year growth of 8.2%. In general, the activities that recorded positive growth in 2022 maintained their momentum at the start of this year, with particularly strong growth in construction; trade; recreational gambling and betting; transport, storage and communications; financial intermediation; and hotels and restaurants. By contrast, the mining sector contracted in the wake of lower rates of copper extraction.

The new contract signed between Minera Panamá and the government on 8 March 2023, authorized by the Cabinet Council in June and presented to the National Assembly in August, is expected to allow the firm to continue copper extraction and export operations and to generate greater fiscal and employment benefits for the country, while significantly reducing social impacts and environmental hazards.

For the remainder of 2023, the global economic slowdown (including the weaker growth expected in the United States and the European Union) is expected to result in a slowdown or a reduction in activity levels in several key production sectors in Panama. These rely heavily on the international logistics environment, such as the container movements through the Canal and port activities. Negative repercussions are also anticipated in the country, especially in the primary sector, as a result of rising air temperatures and decreasing relative humidity associated with the El Niño weather phenomenon, which are likely to result in the reduction of traffic through the Canal. However, the positive momentum of sectors such as construction, trade, and tourism-related activities is expected to continue through 2023.

(c) Prices, wages and employment

In 2022, the national (December–December) urban consumer price index (CPI) rose by 2.1%, following a 2.6% rise in the previous year. Despite the strengthening of demand and the rise in international prices of several commodities and fuels, the implementation of subsidies and controls made it possible to contain price increases, especially in the second half of the year. In the 2022 annual average, and as a consequence of the rise in fuel prices, the highest inflation rates were in the transport sector (7.5%), followed by hotels and restaurants (4.0%) and food and non-alcoholic beverages (3.9%). Three categories experienced slight price falls: recreation and culture (0.6%), clothing and footwear (0.3%) and health (0.1%).

Between the end of 2022 and June 2023, the national urban CPI rose by 1.6%, while average year-on-year inflation in the first six months of the year was 1.1%. The year-on-year variation in June 2023 was -0.6%. The highest price increase was recorded in the housing, water, electricity and gas group (10.7%); in particular, the elimination of the special subsidy raised the cost of electricity by 41%. By contrast, transport prices fell by 13.8% year-on-year, owing mainly to the 35.1% drop in fuel prices.

According to data from the April 2022 Labour Market Survey (latest available information), the labour market participation rate was 62.3%, or 1.9 percentage points higher than in October 2021, but 3.6 percentage points below the August 2019 level. These results show that participation is recovering, but levels are still far from those prevailing before the pandemic. A large gap persists between the male and female participation rates (76.0% versus 49.7%, respectively). The unemployment rate, at 9.9%, was lower than in October 2021 (11.3%), but remains high compared to the pre-pandemic level of 7.1% in 2019. Open unemployment, which, unlike total unemployment, excludes from the numerator unemployed people who are not actively looking for a job, stood at 8.2% in 2022 (9.8% in urban areas and 3.7% in rural areas). The median income of the employed population was 728.2 balboas per month (761.7 balboas in urban zones and 524.5 balboas in rural areas), that is 8.3 balboas more than in 2021.

Table 1
PANAMA: MAIN ECONOMIC INDICATORS

	2014	2015	2016	2017	2018	2019	2020	2021	2022 a/
	Annual growth rates b/								
Gross domestic product	5.1	5.7	5.0	5.6	3.7	3.3	-17.7	15.8	10.8
Per capita gross domestic product	3.3	3.9	3.1	3.8	2.0	1.6	-18.9	14.3	9.4
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	2.4	0.0	0.1	1.1	2.8	5.6	1.9	4.7	5.2
Mining and quarrying	8.9	10.0	8.1	8.1	2.8	22.5	28.6	104.5	6.3
Manufacturing	3.5	3.4	1.1	2.6	1.3	-1.4	-20.7	11.4	5.1
Electricity, gas and water	11.5	10.3	10.2	7.3	2.2	2.0	1.6	6.5	3.0
Construction	13.9	13.8	8.0	8.3	3.2	0.7	-47.8	28.8	18.5
Wholesale and retail commerce, restaurants and hotels	1.1	3.3	3.7	3.4	2.7	1.7	-22.6	19.4	17.7
Transport, storage and communications	1.9	2.7	1.8	11.4	5.8	6.8	-12.6	14.4	11.7
Financial institutions, insurance, real estate and business services	5.5	5.3	4.7	3.2	2.8	4.4	-3.5	5.3	7.2
Community, social and personal services	4.4	5.1	...	...	...	...	...	8.3	3.9
Investment and saving c/	**Percentages of GDP**								
Gross capital formation	...	...	...	...	...	...	...	...	...
National saving	...	...	...	...	...	...	...	...	...
External saving	12.9	8.6	7.5	5.8	7.4	4.8	-1.9	2.1	3.9
Balance of payments	**Millions of dollars**								
Current account balance	-6 679	-4 848	-4 508	-3 745	-4 950	-3 329	1 097	-1 412	-3 004
Goods balance	-10 823	-9 786	-9 012	-9 822	-10 616	-9 047	-4 212	-5 479	-11 787
Exports, f.o.b.	14 972	12 764	11 687	12 470	13 350	13 212	10 223	14 889	18 369
Imports, f.o.b.	25 795	22 550	20 700	22 291	23 966	22 259	14 435	20 368	30 156
Services trade balance	7 847	7 858	8 080	9 297	9 551	9 379	6 407	7 725	11 793
Income balance	-3 826	-2 813	-3 471	-3 096	-3 814	-3 630	-1 229	-3 979	-2 965
Net current transfers	122	-106	-104	-124	-70	-31	132	321	-44
Capital and financial balance d/	7 076	3 864	5 831	2 459	4 489	5 288	4 546	776	1 122
Net foreign direct investment	4 130	3 972	4 557	4 420	4 857	3 726	645	1 635	2 679
Other capital movements	2 947	-108	1 274	-1 962	-368	1 561	3 901	-860	-1 557
Overall balance	397	-985	1 323	-1 287	-461	1 958	5 643	-637	-1 882
Variation in reserve assets e/	-1 222	77	-609	971	632	-1 227	-5 550	1 087	1 920
Other financing	825	907	-715	316	-171	-731	-93	-451	-40
Other external-sector indicators									
Real effective exchange rate (index: 2015=100) c/	110	100	99	100	99	98	98	104	106
Terms of trade for goods (index: 2018=100) f/	110	107	104	101	100	100	111	107	100
Net resource transfer (millions of dollars)	4 075	1 958	1 645	-322	503	926	3 224	-3 654	-1 884
Gross external public debt (millions of dollars)	14 352	15 648	16 902	18 390	20 575	24 223	29 817	32 844	36 853
Employment g/	**Average annual rates**								
Labour force participation rate	63.2	63.4	63.7	63.1	64.7	65.7	63.0	58.7	62.3
Unemployment rate	3.5	3.9	4.4	4.9	4.9	5.8	18.6	8.5	8.2
Visible underemployment rate	2.0	2.5	2.3	2.5	3.7	4.4	...	6.0	...

Table 1 (concluded)

	2014	2015	2016	2017	2018	2019	2020	2021	2022
Prices	**Annual percentages**								
Variation in consumer prices									
(December-December)	1.0	0.3	1.5	0.5	0.2	-0.1	-1.6	2.6	2.1
Variation in average real wage	…	…	…	…	…	2.4	-1.4	6.2	…
Nominal deposit rate h/	1.9		1.7	1.8	1.8	2.2	2.0	1.8	1.6
Nominal lending rate i/	6.9	6.5	6.6	6.8	6.9	7.1	7.0	6.9	6.9
Central government	**Percentages of GDP**								
Total revenue	14.2	13.4	13.4	14.0	13.9	12.7	12.5	12.5	12.9
Tax revenue	10.0	9.4	9.7	9.2	9.1	8.2	7.4	7.2	8.1
Total expenditure	18.1	17.2	17.2	17.1	17.1	16.7	21.6	19.5	17.2
Current expenditure	11.4	11.1	10.7	10.9	11.2	11.0	15.0	14.2	12.0
Interest	1.7	1.7	1.7	1.7	1.8	1.9	2.6	2.4	1.8
Capital expenditure	6.7	6.1	6.5	6.1	5.9	5.5	6.6	5.3	5.2
Primary balance	-2.2	-2.0	-2.1	-1.4	-1.4	-2.2	-6.5	-4.6	-2.5
Overall balance	-3.9	-3.7	-3.8	-3.1	-3.2	-4.1	-9.1	-7.1	-4.3
Central government public debt	36.2	37.1	37.0	37.3	39.3	46.3	68.4	63.5	62.1
Domestic	7.8	8.2	7.9	7.8	7.7	10.1	13.2	12.0	10.4
External	28.7	28.9	29.1	29.5	31.6	36.1	55.2	51.5	51.7
Money and credit	**Percentages of GDP, end-of-year stocks**								
Domestic credit	60.3	61.4	62.7	64.4	65.1	61.1	64.6	59.9	54.9
To the public sector	-6.9	-4.7	-5.8	-4.2	-3.9	-6.4	-10.3	-6.2	-6.1
To the private sector	80.4	82.3	83.7	84.1	83.8	83.2	100.1	87.2	81.0
Others	-15.0	-16.2	-15.3	-15.5	-14.8	-15.6	-25.2	-21.1	-20.0
Monetary base	1.0	1.1	1.0	1.0	1.0	1.0	1.2	1.1	1.1
M2	67.0	64.6	63.5	62.1	61.3	60.6	79.9	56.3	49.7

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/ Six-month deposits rate.
i/ Interest rate on one-year trade credit.

Table 2
PANAMA: MAIN QUARTERLY INDICATORS

	2021				2022				2023	
	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/	-8.4	40.0	25.5	16.3	13.6	9.8	9.5	0.0	...	...
Gross international reserves (millions of dollars)	0	0	8 465	8 633	10 241	9 023	7141.775	6922.704	6641.723	6466.8 c/
Real effective exchange rate (index: 2005=100) d/	106.9	108.3	108.7	107.6	107.2	108.0	107.0	105.5	105.5	...
Consumer prices (12-month percentage variation)	0.3	1.6	2.5	2.6	3.2	5.2	1.9	2.1	1.3	-0.6
Nominal interest rates (average annualized percentages)										
Deposit rate e/	1.9	1.8	1.7	1.6	1.6	1.6	1.4	1.6	2.6	...
Lending rate f/	6.9	6.9	7.0	6.9	6.9	6.9	6.9	6.9	7.3	7.5 c/
Sovereign bond spread, Embi + (basis points to end of period) g/	155	170	186	187	192	246	286	215	243	216
International bond issues (millions of dollars)	2 450	2400	1855	0	2 500	-	-	1 500	2 100	-
Domestic credit (variation from same quarter of preceding year)	-11.0	0.3	7.3	9.4	7.6	5.7	7.2	6.0	7.3	...

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 May.
d/ Quarterly average, weighted by the value of goods exports and imports.
e/ Six-month deposits rate.
f/ Interest rate on one-year trade credit.
g/ Measured by J.P.Morgan.

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