PANAMA

1. General trends

The Panamanian economy grew by 5.8% in 2015, and continues to record one of the highest growth rates in the region. However, this rate falls short of the country's performance in recent years (6.1% in 2014 and an average of 7.9% over the last five years). This slower growth reflects the completion of major public infrastructure works, including the project to expand the Panama Canal, along with weaker momentum in construction projects, both residential and commercial. The lower growth rate recorded in the Colón Free Zone (ZLC) also had an impact.

Nationwide, there was a slight increase in the unemployment rate, which stood at 5.1% in August 2015, compared to 4.8% for the same period of the previous year. The year-on-year inflation rate to December 2015 was 0.3%, compared to 2.1% in the previous year. The deficit of the non-financial public sector (NFPS) totalled 2.8% of GDP at the end of 2015 (versus 3.2% in 2014), while the deficit adjusted pursuant to legislation, which sets the limits of fiscal responsibility, represented 2.0% of GDP, within the stipulated legal range. The current account deficit on the balance of payments at December 2015 was 6.5% of GDP, down from 10.4% of GDP in December of the previous year.

In 2015 the National Assembly of Panama approved a number of laws intended to establish a legal framework that would promote a more transparent financial system and help to combat tax evasion, money laundering and the financing of terrorism. As a result of these initiatives, on 18 February 2016 the Financial Action Task Force on Money Laundering (FATF) approved the removal of Panama from the "grey list" on which it had figured since June 2014.[1]

According to ECLAC projections, growth will be 6.2% in 2016. In sectoral terms, this growth is expected to be driven by construction, manufacturing, transport and communications, as well as by financial and mediation services. The inauguration on 26 June 2016 of the new set of locks on the Panama Canal will also contribute to this better performance, even though its main effects will become evident only as of 2017. The current account deficit is expected to decline with the continuing drop in international oil prices. The NFPS deficit is forecast to decline as tax revenues rise. Inflation will remain low, although slightly above the level observed in 2015.

2. Economic policy

(a) Fiscal policy

With entry into force of Article 3 of Law 38 of 2012, creating the Panama Savings Fund (FAP), a new formula for calculating the adjusted fiscal deficit of the NFPS came into effect for purposes of determining compliance with the Fiscal Responsibility Law. That law requires the central government to

[1] FATF maintains four lists of countries, according to the degree of compliance with protection of their financial systems from the risks of money laundering and terrorism financing. The red list comprises those countries that show severe violations in these areas. In ascending order of compliance, the red list is followed by the blacklist, the dark grey list, and the grey list. This last list covers countries identified as having strategic deficiencies but that have worked out, together with FATF, an action plan for overcoming them. These countries have submitted high-level political commitments in writing to address those shortcomings.

transfer to FAP that portion of the contribution from the Panama Canal Authority (ACP) that exceeds 3.5% of nominal GDP for the year, starting in 2015. The adjusted fiscal balance is defined as the fiscal balance of the NFPS less government contributions to FAP pursuant to the accumulation rule described above. The ACP contribution to the central government amounted to 1.9% of GDP in 2015, and consequently the maximum adjustment allowed was -1.6% (calculated as the difference between 1.9% and 3.5%). As the 2015 fiscal deficit stood at 2.8% of GDP, an adjustment of -0.8% of GDP was sufficient to keep the adjusted NFPS deficit from exceeding the 2.0%-of-GDP benchmark established for 2015, and consequently it fell within the limits stipulated by law. It should be noted that this adjustment to the fiscal balance is intended to protect central government expenditure from cyclical variations in the amount of contributions from ACP, so that spending will not drop in the case of a temporary fall in those contributions, and windfalls over the course of the economic cycle will generate savings.

Tax revenues of the central government totalled US$ 4.875 billion (9.4% of GDP): this represented a real increase of 0.8%, but in GDP terms it amounted to a decline of 0.2 percentage points. This performance reflects a slight real increase both in direct tax receipts (1.0%) and in indirect tax revenues (0.6%), but in GDP terms both figures were down by 0.2 percentage points.

With respect to direct tax revenues, the income tax yielded an increase of US$ 72.447 billion (3.3%), due primarily to a 10.1% increase, in real terms, in individual taxes and a 10.3% boost from dividends and complementary payments. This trend was partially offset by a decline of 5.1% in corporate tax revenues. Other direct taxes that showed a decline were those on property (14.1%) and education tax (17.2%). The slight increase in indirect taxes was due to a rise in the take from the excise tax (9.6%) and the fuel consumption tax (17.6%), effects that were partially offset by a 4.2% decline in the tax on real estate transfers and services (ITBMS).

Total expenditures by the central government rose by 3.8% in real terms, amounting to 18.2% of GDP. In GDP terms, they were 1.4% down on the previous year, reflecting the country's high growth rate. There were, however, some important shifts in the composition of those outlays. Current spending by the central government rose by 7.4% over the previous year, in real terms, while capital spending fell by 2.4% in real terms, reflecting the completion of major public infrastructure works and delayed start-up on other projects. The sharp increase in current spending was due mainly to higher outlays on personnel services (11.7%) and transfers (8.8%). Of particular note among transfers are those made to the Social Insurance Fund (a programme that pays US$ 120 per month to persons over 65 years who have no pension plan), as well as the electricity consumption subsidy.

Total public debt at 31 December 2015 stood at US$ 20.222 billion (or 38.8% of GDP), for an increase of 1.7 percentage points. Of this amount, 77.4% represented external public debt. Around 3% of the total public debt is short-term, with a mean maturity of 0.6 years, 12.4% is medium-term, with a maturity of 4 years, and 84.6% is long-term, with a maturity of 12.8 years. The average weighted cost of the debt portfolio at December 2015 was 4.81%, down by 32 basis points from that recorded in December 2014.

The NFPS deficit at the close of the first quarter of 2016 was 0.4% of GDP, a reduction of 0.7 percentage points from the same period of the previous year. This performance reflected a sharp jump of 16.3% in central government tax revenues —mainly from direct taxes (27.8%)— together with a moderate rise in total spending (1.0%).

(b) Credit policy

The loan portfolio of the national banking system rose by 11.1% from the previous year, reflecting the vigour of the economy. Mortgage lending was up by 15.7% in nominal terms during 2015. Loans for construction and personal consumption recorded increases of 8.8% and 14.1% respectively.

Indicators of loan portfolio quality deteriorated slightly during 2015, but they remained sound. The ratio of past-due plus non-performing loans to the total domestic loan portfolio was 2.9%, representing a modest increase from the 2.6% recorded in the previous year. The deterioration was most evident in the trade and construction sectors. The capital adequacy ratio, defined as regulatory capital over risk-weighted assets, stood at 15.2% in 2015, similar to its level in the previous year, and well above the legally required minimum of 8%.

In December 2015, nominal interest rates on one-year loans in the business, industry and consumer sectors were 7.61%, 7.62% and 8.48% respectively. This reflected increases of 2 and 45 basis points for the first two sectors, and a decline of 86 basis points for the third sector. Nominal interest rates paid on three- and six-month deposits were 2.07% and 3.20%, for increases of 0.63 and 102 basis points respectively.

(c) Other policies

In 2015 the National Assembly of Panama approved a series of laws, whose main purpose was to adjust the legal framework so as to achieve a more transparent financial system and promote global cooperation to combat tax evasion, money laundering and the financing of terrorism. These new provisions include the obligation to record and deposit bearer shares with an authorized custodian named by the owner, thus making it possible to identify the final beneficiary of a company’s shares. Measures were also adopted to identify, evaluate, understand and prevent the risks and consequences of money laundering, terrorist financing, and financing for the proliferation of weapons of mass destruction. In addition, the National Commission against Money Laundering, Terrorist Financing and Financing of the Proliferation of Weapons of Mass Destruction was created, for the principal objective of improving national strategies and preventive policies in these areas, as well as to monitor the national risk evaluation plan.

As a result of all these legislative and institutional initiatives, on 18 February 2016 FATF approved the removal of Panama from the grey list on which it had been included since June 2014. Lastly, on 26 April 2016, the United States and Panama signed an intergovernmental agreement for the application of the Foreign Account Tax Compliance Act.

3. The main variables

(a) The external sector

The decline of 6.5% of GDP in the current account deficit was the result of a drop of 2.5 percentage points of GDP in the goods deficit (18.6% of GDP in 2015, compared to 21.1% of GDP the previous year) combined with an increase of 2.7 percentage points in the services surplus (19.2% of GDP in 2015, versus 16.5% of GDP the previous year), effects that were partially offset by an increase of 1.5 percentage points in the income account deficit, which reached 6.9% of GDP in 2015.

The shrinking of the goods deficit is explained primarily by the sharp reduction of US$ 1.571 billion in national imports (excluding Colón Free Zone activity), due to the decline in prices for fuels, metals and some foodstuffs, as well as lower demand for imported materials for the Panama Canal expansion project, which was at an advanced stage. In addition, the Colón Free Zone recorded a surplus of US$ 182 million on its goods balance, far below the previous year's figure (US$ 843 million). This performance reflected a drop of US$ 1.597 billion in re-exports, as a result of the problems afflicting the country's main trading partners (Puerto Rico and the Bolivarian Republic of Venezuela), and protectionist policies in Colombia.

The increase of US$ 1.897 billion in the services surplus is attributable primarily to greater volumes of business services (US$ 1.184 billion), travel (US$ 471 million), sea transport (US$ 211 million) and financial services (US$ 142 million). The positive balance on services reflected a drop of US$ 217 million in services imports, as falling oil prices cut the cost of maritime transport.

The deficit in the income balance widened by US$ 962 million with respect to the prior period, an increase attributable primarily to reinvested and retained earnings

Inflows of foreign direct investment (FDI) totalled US$ 5.039 billion in 2015 (9.7% of GDP), up by 0.9 percentage points from the previous year. Of that total, 57.4% represented reinvested earnings, 23.7% investments in shares and other equity holdings, and 18.9% in other forms of investment. The bulk of FDI (US$ 4.001 billion) went to non-financial firms.

In the first quarter of 2016, the current account of the balance of payments recorded a deficit of US$ 530 million, compared to a shortfall of US$ 792 million in the year-earlier period. This outcome reflects a drop of US$ 272 million in the goods deficit, together with an increase of US$ 40 million in the surplus on the services account, effects that were partially offset by a US$ 30 million jump in the income deficit. Incoming FDI flows totalled US$ 1.339 billion in the first quarter of 2016, up by US$ 51 million over the same period the previous year.

(b) Economic activity

The 5.8% growth rate recorded in 2015 was driven by a number of economic sectors, in particular electricity, gas and water (13.6%), social services and private health (11.6%), financial intermediation (10.4%), real estate, business and rental activities (6.1%), mining and quarrying (7.0%), construction (6.8%) and, to a lesser extent, transport, storage and telecommunications (4.7%).

The growth in electricity, gas and water supply services was due to greater generation of hydropower (1,224.8 Gwh) and wind power (299 Gwh), as well as falling prices for coal and oil derivatives. In 2015, the electric power supply was 18.3% higher than the average for the last four years, with a 25% increase in power from hydroelectric stations, particularly those of Fortuna and Changuinola. The jump in social services and private health activities is explained by the boom in clinic and hospital services covered by insurance programmes. Growth in the financial intermediation sector reflected higher deposits and increased lending activity, especially in mortgages, consumer finance, wholesale commerce and construction. The level of activity in the construction sector could be traced above all to housing projects, although it was well down from the previous year (14%), as various megaprojects reached completion. Mining and quarrying remained vigorous this year, thanks to strong demand for construction materials. The solid performance of real estate, business and rental activities reflected the greater number of buildings for sale and rental, as well as growth in related services (primarily legal, advertising and consultancy).

The vigorous performance of the transport, storage and telecommunications sector, while falling short of the level recorded the previous year (5.5%), reflected increases in passenger air transportation, port revenues, and services provided along the Panama Canal. A total of 13,874 vessels passed through the Panama Canal (up 2.9% from the previous year), reflecting the diversion of traffic from the West Coast of the United States and vessels that require additional security measures during transit. Toll revenues from the Panama Canal were up 4.4%, as a result of a 4.3% increase in volume sparked by the boom in exports of diesel, gasoline and propane from the Gulf of Mexico and the United States destined for South America and Asia. The ports system moved 90.7 million metric tons, an increase of 10%, driven mainly by bulk cargo (26.3%).

The change in the cumulative average of the monthly index of economic activity (IMAE) to April 2016, measured according to the original series, was up by 4.01% after having grown by 4.74% in the first quarter of the previous year. When the trend-cycle effect is accounted for, IMAE growth was 3.85%, down from the 4.72% recorded in April 2016.

(c) Prices, wages and employment

After reaching 2.6% in 2014, the average annual inflation rate for 2015 stood at 0.1%, thus continuing the downward trend of recent years. Three groups of goods and services showed price reductions during the year: transport (-0.6%), footwear and clothing (-0.21%) and household articles (-0.10%). On the other hand, health services, recreation and food recorded increases of 0.39%, 0.1% and 0.1%, respectively. The year-on-year consumer price index (CPI) was up by 0.3% in May 2016, compared to the same month of the previous year.

Nationwide, the employment rate remained stable at 60.9%: however, due to a slight increase in the participation rate (64.0% to 64.2%), the unemployment rate edged up to 5.1%. Unemployment was to a large extent concentrated in commerce, construction, hotels and restaurants, and transport, storage and postal services. Notably, the unemployment rate was greatest among the 15-24 age group. There was also a significant disparity in the participation rate by gender (78.4% for men and only 50.8% for women). Lastly, on 22 December 2015 Executive Decree No.293 was promulgated, raising the minimum wage by 8.5%, a level that will prevail during 2016 and 2017.

Table 1
PANAMA: MAIN ECONOMIC INDICATORS

	2007	2008	2009	2010	2011	2012	2013	2014	2015 a/
	Annual growth rates b/								
Gross domestic product	12.1	8.6	1.6	5.8	11.8	9.2	6.6	6.1	5.8
Per capita gross domestic product	10.2	6.7	-0.1	4.0	9.9	7.4	4.9	4.4	4.1
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	0.6	2.6	-12.0	-6.1	0.3	1.0	3.5	8.0	-0.7
Mining and quarrying	24.0	28.1	7.1	35.3	22.1	25.3	22.6	17.0	7.0
Manufacturing	5.6	4.0	-0.2	4.4	6.0	7.9	1.3	0.9	-1.3
Electricity, gas and water	8.2	14.7	11.1	3.6	17.6	11.3	9.3	4.7	13.6
Construction	21.8	29.4	4.2	8.5	22.1	28.2	31.1	14.0	6.8
Wholesale and retail commerce, restaurants and hotels	11.3	7.6	3.8	7.0	18.1	10.0	0.4	1.0	4.7
Transport, storage and communications	17.0	7.5	-3.6	4.6	13.6	4.2	1.6	5.5	4.7
Financial institutions, insurance, real estate and business services	12.1	8.0	4.7	5.4	7.0	6.6	7.8	7.6	7.6
Community, social and personal services	6.5	3.8	2.6	2.8	4.8	3.9	2.5	4.0	6.8
Investment and saving c/	**Percentajes of GDP**								
Gross capital formation	36.5	41.6	30.4	37.2	43.5	44.4	45.8	47.0	…
National saving	29.8	30.5	29.8	27.6	29.0	35.6	36.0	37.3	…
External saving	6.7	11.1	0.7	9.6	14.5	8.8	9.8	9.8	6.5
Balance of payments	**Millions of dollars**								
Current account balance	-1,407	-2,722	-179	-2,765	-4,993	-3,528	-4,401	-4,794	-3,377
Goods balance	-3,190	-4,546	-2,181	-4,543	-7,217	-6,415	-9,540	-10,377	-9,709
Exports, f.o.b.	9,334	10,323	12,038	12,675	16,926	18,857	17,057	15,333	12,784
Imports, f.o.b.	12,524	14,869	14,218	17,218	24,143	25,272	26,597	25,710	22,492
Services trade balance	2,836	3,155	3,324	3,490	3,933	4,696	7,783	8,100	9,999
Income balance	-1,306	-1,570	-1,449	-1,849	-1,911	-1,897	-2,707	-2,638	-3,599
Net current transfers	253	238	126	138	202	88	63	120	-68
Capital and financial balance d/	2,029	3,302	785	3,072	4,765	2,570	4,292	5,175	2,260
Net foreign direct investment	1,777	2,196	1,259	2,363	2,956	3,254	3,612	3,980	4,511
Other capital movements	252	1,105	-475	709	1,809	-685	679	1,194	-2,251
Overall balance	622	579	606	307	-228	-958	-109	380	-1,117
Variation in reserve assets e/	-611	-579	-606	-307	228	-36	-402	-1,205	210
Other financing	-10	0	0	0	0	0	0	0	0
Other external-sector indicators									
Real effective exchange rate (index: 2005=100) f/	105.8	106.5	103.5	103.0	103.9	94.4	92.3	90.6	86.2
Terms of trade for goods (index: 2010=100)	101.9	97.3	101.9	100.0	97.8	98.2	97.7	98.4	102.5
Net resource transfer (millions of dollars)	712	1,732	-664	1,223	2,854	673	1,585	2,537	-1,339
Gross external public debt (millions of dollars)	8,276	8,477	10,150	10,439	10,858	10,782	12,231	14,352	15,648
Employment	**Average annual rates**								
Labour force participation rate g/	62.7	63.9	64.1	63.5	61.9	63.4	64.1	64.0	64.2
Unemployment rate h/	7.8	6.5	7.9	7.7	5.4	4.8	4.7	5.4	5.8
Open unemployment rate i/	5.8	5.0	6.3	5.8	3.6	3.6	3.7	4.1	4.5

Table 1 (concluded)

	2007	2008	2009	2010	2011	2012	2013	2014	2015 a/
Prices	**Annual percentages**								
Variation in consumer prices									
(December-December)	6.4	6.8	1.9	4.9	6.3	4.6	3.7	1.0	0.3
Variation in average real wage	1.2	-4.1	2.6	7.2	0.1	3.3	0.3	5.5	3.3
Nominal deposit rate j/	4.8	3.5	3.5	3.0	2.3	2.1	2.1	2.2	2.1
Nominal lending rate k/	8.3	8.2	8.3	7.9	7.3	7.0	7.4	7.6	7.6
Central government	**Percentajes of GDP**								
Total revenue l/	18.2	18.6	16.8	17.3	16.2	16.2	15.4	14.4	13.8
Tax revenue	10.0	9.9	9.9	10.7	10.3	11.1	10.8	10.2	9.7
Total expenditure	17.0	18.3	18.1	19.6	19.4	18.8	19.2	18.4	18.0
Current expenditure	13.2	13.1	12.4	12.8	12.1	11.4	10.7	11.6	11.7
Interest	3.2	2.9	2.6	2.4	2.1	1.9	1.8	1.7	1.8
Capital expenditure	3.8	5.3	5.8	6.8	7.3	7.4	8.5	6.8	6.3
Primary balance	4.4	3.2	1.3	0.1	-1.1	-0.7	-1.9	-2.3	-2.4
Overall balance	1.1	0.3	-1.3	-2.4	-3.2	-2.6	-3.8	-4.0	-4.2
Central government public debt	49.4	42.0	40.7	39.6	36.7	35.2	35.0	36.8	38.4
Domestic	10.1	7.5	2.7	3.7	5.1	8.3	7.7	7.9	8.5
External	39.4	34.4	38.0	35.9	31.6	26.9	27.3	29.1	29.9
Money and credit	**Percentages of GDP, end-of-year stocks**								
Domestic credit	59.9	58.2	52.6	56.8	57.9	58.8	47.6	58.1	60.7
To the public sector	-7.3	-8.5	-8.2	-6.3	-3.6	-3.5	-5.6	-7.2	-7.0
To the private sector	85.5	84.5	79.7	84.4	81.9	81.3	67.2	83.0	86.7
Others	-18.4	-17.9	-18.9	-21.2	-20.5	-19.0	-14.1	-17.7	-19.0
Monetary base	0.9	0.9	0.9	0.9	1.7	1.0	0.8	1.0	1.2
M2	644.7	80.7	82.0	83.8	76.4	73.1	57.5	70.5	69.4

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/ Urban total. Includes hidden unemployment.
i/ Urban total. Includes an adjustment to the figures for the economically active population for exclusion of hidden unemployment.
j/ Six-month deposits rate.
k/ Interest rate on one-year trade credit.
l/ Includes grants.

Table 2
PANAMA: MAIN QUARTERLY INDICATORS

	2014				2015				2016	
	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/	4.3	5.6	4.6	9.6	6.2	6.0	5.7	5.3	4.6	...
Gross international reserves (millions of dollars)	2,212	2,315	2,728	3,800	4,273	4,259	4,195	3,818	4,041	4,502 c/
Real effective exchange rate (index: 2005=100) d/	91.0	91.0	91.2	89.3	87.1	86.5	85.5	85.5	84.6	85.7 e/
Consumer prices (12-month percentage variation)	3.3	3.4	2.3	1.0	0.0	0.0	-0.4	0.3	0.6	0.3 e/
Nominal interest rates (average annualized percentages)										
Deposit rate f/	2.2	2.1	2.2	2.2	2.2	2.2	2.2	2.1	2.1	2.1 c/
Lending rate g/	7.6	7.7	7.6	7.4	7.7	7.5	7.7	7.6	7.5	7.6 c/
Sovereign bond spread, Embi + (basis points to end of period) h/	189	178	186	189	199	195	249	218	212	213
Risk premiia on five-year credit default swap (basis points to end of period)	100	81	99	109	141	141	186	182	160	161
International bond issues (millions of dollars)	-	285	1250	400	1,250	450	-	-	1,000	575
Domestic credit (variation from same quarter of preceding year)	13.9	14.1	11.5	22.7	5.7	5.2	4.9	9.9	12.1	10.7 c/
Non-performing loans as a percentage of total credit	1.7	1.7	1.7	1.8	2.0	1.9	1.9	2.1	2.3	2.3 e/

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.
g/ Six-month deposits rate.
h/ Interest rate on one-year trade credit.
i/ Measured by J.P.Morgan.

.