PANAMA

1. General trends

The Panamanian economy continued on its growth path of recent years, posting an 8.4% expansion in 2013, thanks in large part to numerous ongoing public and private infrastructure projects. ECLAC estimates that growth will stand at 6.7% for 2014.

In line with its strong economic performance, Panama's jobless and open unemployment rates remained low in 2013. The open unemployment rate was 3.7%, only 0.1 percentage points higher than the previous year, while the unemployment rate was similar to the previous year at 4.1%.

Year-on-year inflation to December 2013 was 3.7% (compared with 4.6% in 2012). The consumer price index posted a 3.2% year-on-year increase in May 2014.

The non-financial public-sector deficit was 2.9% of GDP at year-end 2013 (as against 1.5% the previous year), in line with the limits established by the Fiscal Responsibility Act.

Public debt totalled US$ 15.683 billion in December 2013, or 36.8% of GDP, compared with 37.6% of GDP to December of the previous year. Public debt amounted to US$ 17.362 billion in April 2014, an increase of 10.7% compared with the December 2013 figure.

The current account deficit to December 2013 widened to 11.3% of GDP, from 10.1% in December 2012. Foreign direct investment inflows were equivalent to 10.9% of GDP, compared with 7.6% of GDP in 2012.

2. Economic policy

(a) Fiscal policy

In December 2013, the central government deficit amounted to 1.789 billion, or 4.2% of GDP, versus 2.7% of GDP in 2012.

Tax revenue totalled US$ 5.02 billion (equivalent to 11.8% of GDP) in 2013, a nominal increase of 7.0% on 2012. An increase of 8.2% in direct revenues, on the back of higher receipts from income tax and property and wealth tax, was the reason for this. Furthermore, indirect tax revenues increased by a nominal 5.7%, as a result of larger revenues from the tax on the transfer of movable goods and services (ITBMS) and higher receipts from the production and sale of selected goods. Tax revenues also received an extra injection of funds from capital income in 2013, thanks to the sale of HSBC to Bancolombia.

Total non-financial public sector (NFPS) expenditure totalled US$ 11.128 billion in 2013, or 26.1% of GDP (compared with 25.2% of GDP in 2012). Nevertheless, there was a change in its composition. Current NFPS spending, excluding interest payments on public debt, declined and equated to 14.6% of GDP (15.0% in 2012). Meanwhile, capital expenditure increased and totalled 9.6% of GDP (versus 8.3% of GDP in 2012). Capital expenditure expanded mainly as a result of large-scale public infrastructure projects, including Line 1 of the Panama metro system, the clean-up of the Bay of Panama and highway construction. The NFPS deficit stood at 1.2% of GDP at the end of the first quarter of 2014, a similar figure to the first quarter of the previous year. The target for 2014 is to close the year with a deficit of no more than 2.7% of GDP, in line with the Fiscal Responsibility Act.

Public debt totalled US$ 15.683 billion in December 2013 (36.8% of GDP), a nominal increase of 9.9% with regard to the previous year. However, given the high GDP growth rate, this level of debt represented a lower percentage of GDP than the previous year (37.6% of GDP). Of this balance, 78% corresponded to foreign debt and the remaining 22% to domestic debt. The weighted average cost of the debt portfolio at year-end 2013 was 5.27%, equivalent to 31 basis points less than at the end of December 2012, when it stood at 5.58%. This was a response to international market liquidity and the country's positive economic performance.

External debt totalled US$ 17.362 billion at the end of April 2014, up US$ 1.679 billion (10.7% in nominal terms) on the December 2013 figure. A large part of this increase is explained by the government's need to finance the implementation of public infrastructure investment projects.

(b) The international banking centre and credit policy

During 2013 domestic credit continued to expand vigorously and was up 12% in nominal terms, in keeping with the strong economic performance. The domestic credit portfolio stood at US$ 37.061 billion (equivalent to 86.9% of GDP), 95% of which corresponded to private sector lending and the remainder to public sector lending. The best-performing sectors were construction (23.9%), mortgage loans (13.5%) and consumer credit (13.5%). Commercial credit, however, recorded only 3.1% growth, largely owing to a significant drop in activity in the Colón Free Zone.

Credit portfolio quality indicators remained solid in 2013. Delinquent and overdue loans represented 2.4% of the total domestic loan portfolio, versus 2.6% in 2012, while provision for delinquent and overdue balances was 71.6%, similar to the level recorded the previous year. Although arrears rates have trended downward in all sectors, the highest levels were found in the mortgage sector (3.9%) and private consumption (3.5%). Average liquidity in the national banking system (total liquid assets on deposits of up to 186 days) stood at 60.4% in 2013, much higher than the 30% required by law.

Interest rates, both lending and deposit rates, remained stable in 2013, even though some sectors recorded a slight upward trend and others a slight downward trend. Nominal lending rates in the business sector with maturity up to one year stood at 7.42% in December 2013, an increase of 39 basis points compared with the previous year. Moreover, the interest rate for loans to industry was 7.15% in December 2013, down seven basis points on the previous year. Lastly, nominal lending rates for credit cards and consumer loans were 16.6% and 9.78% respectively in December 2013, remaining at similar levels to those seen the previous year.

(c) Trade policy and other policies

The Free Trade Agreement (FTA) between Panama and Canada came into force on 1 April 2013, when Canada became Panama’s thirteenth trading partner under an agreement of this kind. The FTA sets forth the preferences granted to goods originating in the two countries, as well as provisions on the elimination of tariffs, the temporary admission of goods, tariff-free imports, and the re-import of goods after repairs or alterations. It also establishes provisions regarding, for example, the multilateral elimination of agricultural export subsidies, and cooperation in World Trade Organization (WTO) agricultural negotiations. The FTA provides for the removal of import duties on more than 90% of Canada's exports to Panama, while also eliminating 97% of duties on exports to Canada from Panama. Canada is the second largest destination for Panamanian exports, gold being the main product exported to this market.

In April 2014 Panama and Mexico signed a free trade agreement. This comprehensive agreement regulates trade in both countries' markets and deals with issues such as market access, customs rules and procedures related to origin, sanitary and phytosanitary measures, technical barriers to trade, trade protection, investment, e-commerce, cross-border trade in services, temporary admission, financial services, telecommunications, intellectual property, dispute resolution and institutional affairs.

The first round of trade negotiations for a free trade agreement between Israel and Panama was held in May 2014. Negotiation of this agreement is based on the political will of both governments to deepen their economic and trade relations as strategic partners.

3. The main variables

(a) The external sector

The current account deficit stood at US$ 4.806 billion in 2013, equivalent to 11.3% of GDP, up 25.9% on 2012. This performance was attributable to an increase of 3.2% in the goods trade deficit, which amounted to US$ 6.751 billion, the smaller surplus on the services account, which declined by 2.2% to US$ 5.052 billion, and the widening income account deficit, which increased by 21.6% and stood at US$ 3.081 billion.

The deepening deficit in the goods balance is the result of a 7.2% drop in exports, which was partially counterbalanced by a 4.6% reduction in the value of imports. The fall in exports, meanwhile, is explained by the situation of customers in the Colón Free Zone, mainly the Bolivarian Republic of Venezuela, which led to a drop of 8.7% in the total volume of re-exports. The dip in the services surplus is explained by a decrease in net income from travel, both private and business.

Destinations that recorded the greatest reductions in exports were the Bolivarian Republic of Venezuela (43.3%), Puerto Rico (12.6%) and the Dominican Republic (10.7%). In the case of the Bolivarian Republic of Venezuela, re-exports were down owing to unpaid debt on re-exports to that country and the difficulty in obtaining foreign currency through the centralized government system that manages the Foreign Exchange Administration Commission (CADIVI). Additionally, re-exports to Colombia grew by only 1.1%, a lower rate than in previous years. This is due to higher tariffs on textiles and footwear applied in that country from March 2013 to goods originating from a country with no free trade agreements in place, which is true for the majority of these articles from Asia.

The surplus on the capital and financial account was US$ 5.726 billion in 2013, equivalent to 13.4% of GDP. This represents a steep rise of 53.8% on the previous year, when it equated to 9.8% of GDP. Burgeoning inflows of foreign direct investment were the main reason for this, as they swelled by 61% and came to US$ 4.651 billion in 2013 (10.9% of GDP). The rise in foreign direct investment is itself explained by an increase of 90% in shares and other equity holdings, which totalled US$ 1.340 billion in 2013 (3.1% of GDP), and also by an 80% increase in retained earnings, which stood at US$ 2.208 billion (5.2% of GDP).

In the first quarter of 2014, the current account deficit was US$ 1.390 billion, and widened by US$ 180 million compared with the year-earlier period. This result is chiefly attributable to an increase of US$ 149 million in the goods trade deficit, and to a rise of US$ 59 million in the income account deficit, both of which were partially offset by an expansion of US$ 45 million in the services balance surplus.

(b) Economic activity

The robust performance of 2013 was driven by several sectors of the economy, including mining (which expanded by 31.4%), construction (by 29.8%), financial intermediation (by 9.6%), real estate (by 8.1%), and transport, storage and telecommunications (by 6.1%).

Construction projects comprised 11,572 works, an increase of 19.3% compared with 2012. A total of 11,200 of these works were destined for residential use while the remaining 372 related to economic activities. Investment in the construction sector totalled US$ 1.8 billion, up 32.3% on the previous year. Of this amount, 45.8% corresponded to residential projects while 54.2% corresponded to non-residential projects. Numerous infrastructure projects are also under way, such as the conclusion of Line 1 of the Panama metro system in April of 2014, road and highway construction and expansion, including coastal strip 3, airport construction and expansion, and the clean-up of the Bay of Panama. Vigorous growth in construction generated a need for 3.6 million cubic metres of ready-mix concrete, up 16.6% on the previous year in volume terms, which in turn provided an impetus to the mining and quarrying sector.

The transport, storage and telecommunications sector also showed strong growth, even though it was down on the previous year, and progress was uneven. Passenger air transport gained considerable momentum, as reflected by the total of 6.6 million passengers transported by COPA through Tocumen International Airport, an increase of 18.8% compared with the previous year. Port activity edged up 2.2% in terms of freight transportation, the result of an expansion in the transport of cargo in bulk, which was partially counteracted by a decline in container freight. Total income received in tolls from the Panama Canal came to US$ 1.863 billion, a drop of 0.4% compared with the previous year. This development is explained by a decline in the number of container ships, which are responsible for more than half of toll revenues, owing to the fact that one of the main international freight shipping companies has changed routes. Net tons transported totalled US$ 322.9 million in 2013, a decrease of 3% compared with the previous year, while commercial cargo dipped by 0.4%, owing to a decline in the transportation of grain and freight via containers. Telecommunications put in a buoyant performance in 2013. The number of telephone lines increased by 2.9%, with business lines accounting for the highest growth rates (5.4%). The number of mobile phone customers grew by 1.4%, and the number of Internet users by 0.9%.

Trade expanded by 3.5% in 2013, reflecting a slowdown on the previous year (8.4%). This occurred on the back of a fall in Colón Free Zone re-exports, which was partially offset by an increase in retail trade. Commercial movement in the Colón Free Zone totalled US$ 27.421 billion, down 10.9% on the previous year, owing to a decline in the value of imports (13.4%), and re-exports (8.7%).

The monthly index of economic activity rose by 4.29% during the first quarter of 2014 with respect to the previous year (5.06% adjusted for the trend-cycle effect).

(c) Prices, wages and employment

The year-on-year inflation rate, measured in terms of the change in the consumer price index to December 2013, continued to ease down, reaching 3.7%, compared with 4.6% in 2012 and 6.3% in 2011. The steepest rises in 2013 were in education (5.9%), food and beverages (5.6%), health (5.0%), and housing, water, electricity and gas (4.4%).

The increase in the food and beverages sector accounts for 45.8% of the rise in the consumer price index in 2013. Prices rose most sharply for fish (11.4%), meat (8.4%), and milk, cheese and eggs (8.3%). Higher prices for housing, water and electricity were due mainly to rising rents and a 6.6% hike in the price for electricity.

The unemployment rate remained low during 2013 and stood at 4.7%. The labour force expanded by 0.7 percentage points, from 63.4% to 64.1%. This corresponded to an increase of 58,382 people in the economically active population (3.5%), 55,181 of whom were employed and the remaining 3,201 unemployed. Of the additional jobs, 54.6% were absorbed by construction, manufacturing, and the mechanical sector, 17.5% by services and commerce, and 27.9% by the remaining sectors.

The median estimated wage based on the Labour Market Survey conducted in August 2013 was US$ 539.7, up 4.8% on the previous year. The sectors reporting the highest median remuneration were: financial and insurance activities (US$ 799); electricity, gas and water supply (US$ 792); and professional and technical activities (US$ 771). Decree 182 was enacted on 30 December 2013 and established a 13% increase in the minimum wage for certain regions in the country and 27% in other regions. It entered into force on 1 January 2014 for two years and estimates indicate it will benefit around 270,000 workers. The highest minimum wage was set at US$ 624 and the lowest at US$ 488.

Table 1
PANAMA: MAIN ECONOMIC INDICATORS

	2005	2006	2007	2008	2009	2010	2011	2012	2013 a/
	Annual growth rates b/								
Gross domestic product	7.2	8.5	12.1	9.1	4.0	5.9	10.8	10.2	8.4
Per capita gross domestic product	5.2	6.6	10.1	7.2	2.2	4.1	8.9	8.4	6.6
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	2.6	4.2	0.6	2.5	-9.7	-9.0	1.3	4.7	3.5
Mining and quarrying	0.1	17.2	24.0	28.4	4.6	7.3	18.6	28.8	31.4
Manufacturing	4.2	3.9	5.6	3.0	-0.9	2.1	3.4	0.3	2.7
Electricity, gas and water	5.6	3.3	8.2	12.6	36.5	-18.9	19.3	-7.3	3.1
Construction	1.0	18.4	21.8	28.9	4.2	6.7	18.5	28.7	29.8
Wholesale and retail commerce, restaurants and hotels	9.2	11.2	11.3	10.9	1.9	10.1	13.9	8.4	3.9
Transport, storage and communications	11.8	13.7	17.0	6.4	9.0	13.2	12.3	11.3	6.1
Financial institutions, insurance, real estate and business services	10.0	9.1	12.1	7.7	2.5	4.2	6.7	9.1	8.6
Community, social and personal services	0.9	3.3	6.5	4.1	2.9	4.1	5.8	7.0	5.1
Investment and saving c/	**Percentajes of GDP**								
External saving	6.2	2.5	7.4	10.1	0.7	9.6	15.0	10.1	11.3
Balance of payments	**Millions of dollars**								
Current account balance	-1,022	-463	-1,560	-2,513	-179	-2,765	-4,993	-3,816	-4,806
Goods balance	-1,558	-1,715	-3,189	-4,049	-2,181	-4,543	-7,217	-6,541	-6,751
Exports, f.o.b.	7,375	8,475	9,648	12,025	12,038	12,675	16,926	18,872	17,505
Imports, f.o.b.	8,933	10,190	12,837	16,074	14,218	17,218	24,143	25,413	24,256
Services trade balance	1,420	2,273	2,247	2,511	3,324	3,490	3,933	5,164	5,052
Income balance	-1,126	-1,301	-1,254	-1,507	-1,449	-1,849	-1,911	-2,534	-3,081
Net current transfers	242	280	636	532	126	138	202	94	-25
Capital and financial balance d/	1,697	113	2,189	3,074	785	3,072	4,765	3,841	5,428
Net foreign direct investment	918	2,547	1,899	2,147	1,259	2,363	2,956	3,162	4,371
Other capital movements	779	-2,434	290	927	-475	709	1,809	679	1,058
Overall balance	675	-350	629	562	606	307	-228	24	622
Variation in reserve assets e/	-521	360	-619	-556	-606	-307	228	-24	-622
Other financing	-154	-10	-10	-5	0	0	0	0	0
Other external-sector indicators									
Real effective exchange rate (index: 2005=100) f/	100.0	101.7	103.2	101.5	97.1	98.3	98.4	94.4	92.1
Terms of trade for goods (index: 2005=100)	100.0	97.1	96.2	91.8	96.3	94.4	92.4	92.7	92.3
Net resource transfer (millions of dollars)	418	-1,198	925	1,562	-664	1,223	2,854	1,306	2,347
Gross external public debt (millions of dollars)	7,580	7,788	8,276	8,477	10,150	10,439	10,800	10,782	12,231
Employment	**Average annual rates**								
Labour force participation rate g/	63.6	62.6	62.7	63.9	64.1	63.5	61.9	63.4	64.1
Unemployment rate h/	12.1	10.4	7.8	6.5	7.9	7.7	5.4	4.8	4.7
Open unemployment rate i/	9.8	8.4	5.8	5.0	6.3	5.8	3.6	3.6	3.7

Table 1 (concluded)

	2005	2006	2007	2008	2009	2010	2011	2012	2013 a/
Prices	**Annual percentages**								
Variation in consumer prices									
(December-December)	3.4	2.2	6.4	6.8	1.9	4.9	6.3	4.6	3.7
Variation in average real wage	-1.2	2.0	1.3	-4.1	2.7	7.2	0.2	2.6	1.9
Nominal deposit rate j/	2.7	3.8	4.8	3.5	3.5	3.0	2.3	2.1	2.1
Nominal lending rate k/	8.2	8.1	8.3	8.2	8.3	7.9	7.3	7.0	7.4
Central government	**Percentajes of GDP**								
Total revenue l/	14.2	17.4	18.0	18.3	17.2	17.3	16.7	17.1	16.3
Tax revenue	8.1	9.6	9.9	9.8	10.2	10.7	10.7	11.6	11.4
Total expenditure	17.9	17.2	16.9	18.1	18.6	19.7	20.1	19.8	20.5
Current expenditure	15.6	14.9	13.1	12.9	12.7	12.8	12.5	12.0	11.4
Interest	4.1	4.0	3.2	2.9	2.7	2.5	2.2	1.9	1.9
Capital expenditure	2.3	2.4	3.8	5.2	5.9	6.9	7.6	7.8	9.1
Primary balance	0.5	4.2	4.3	3.1	1.3	0.1	-1.1	-0.8	-2.3
Overall balance	-3.7	0.2	1.1	0.3	-1.4	-2.4	-3.3	-2.7	-4.2
Central government public debt	61.0	56.5	49.0	41.4	41.7	39.7	37.9	37.0	37.0
Domestic	15.7	14.1	10.0	7.4	2.7	3.7	5.3	8.8	8.1
External	45.3	42.4	39.1	33.9	39.0	36.0	32.6	28.3	28.8
Money and credit	**Percentages of GDP, end-of-year stocks**								
Domestic credit	59.9	63.6	59.4	57.3	54.0	57.0	59.8	61.9	50.3
To the public sector	-3.4	-3.0	-7.2	-8.3	-8.4	-6.4	-3.7	-3.7	-5.9
To the private sector	81.6	82.8	84.9	83.3	81.7	84.7	84.6	85.6	71.1
Others	-18.2	-16.2	-18.3	-17.6	-19.4	-21.3	-21.1	-20.0	-14.9
Monetary base	1.0	1.0	0.9	0.9	0.9	0.9	1.0	1.0	0.9
M2	74.0	81.7	0.7	79.5	84.1	84.1	79.0	77.0	60.9

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 1996 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

	2012				2013				2014	
	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/	11.7	10.8	10.6	10.1	7.6	6.4	7.9	11.4	5.8	...
Gross international reserves (millions of dollars)	2,234	2,395	2,116	2,169	2,441	2,831	2,702	2,884	2,212	2,292 d/
Real effective exchange rate (index: 2005=100) e/	98.8	99.5	98.8	95.9	95.4	93.8	93.4	93.7	92.9	92.0 d/
Consumer prices (12-month percentage variation)	6.3	5.8	5.4	4.6	4.1	4.1	3.9	3.7	3.3	3.2 d/
Nominal interest rates (annualized percentages)										
Deposit rate f/	2.2	2.1	2.1	2.1	2.1	2.2	2.1	2.1	2.2	2.2 d/
Lending rate g/	7.0	6.9	7.0	7.1	7.3	7.5	7.4	7.5	7.6	7.7
Sovereign bond spread, Embi + (basis points to end of period) h/	153	187	148	129	169	218	208	199	189	177
Risk premiia on five-year credit default swap (basis points to end of period)	112	144	102	98	96	141	133	111	100	81
International bond issues (millions of dollars)	-	750	100	500	...	750	100	500	...	...
Domestic credit (variation from same quarter of preceding year)	19.8	21.0	15.7	16.4	20.5	16.8	15.8	0.2	13.9	13.8 i/
Non-performing loans as a percentage of total credit	1.8	1.8	1.7	1.8	1.5	1.6	1.7	1.7	...	...

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 1996 prices.
c/ Figures as of February.
d/ Figures as of May.
e/ Quarterly average, weighted by the value of goods exports and imports.
f/ Six-month deposits rate.
g/ Interest rate on one-year trade credit.
h/ Measured by J.P.Morgan.
i/ Figures as of April.

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