

**FOR
AGENDA**

EBS/84/8

CONFIDENTIAL

January 11, 1984

To: Members of the Executive Board
From: The Secretary
Subject: Panama - Staff Report for Consultation Under Stand-By Arrangement

There is attached for consideration by the Executive Directors the staff report for the consultation under the stand-by arrangement for Panama. A draft decision appears on page 17.

This subject will be brought to the agenda of the Executive Board for discussion on a date to be announced.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Lindgren, ext. (5)7151.

Att: (1)

INTERNATIONAL MONETARY FUND

PANAMA

Staff Report for Consultation Under
Stand-By Arrangement

Prepared by the Western Hemisphere Department

(In consultation with the Exchange and Trade Relations,
Fiscal Affairs, Legal, and Treasurer's Departments)

Approved by E. Wiesner and Manuel Guitian

January 10, 1984

I. Introduction

On June 24, 1983 the Executive Board approved a stand-by arrangement with Panama (EBS/83/102; 5/24/83) for the 18-month period through the end of 1984 in an amount equivalent to SDR 150 million from ordinary and borrowed resources. So far Panama has purchased SDR 50 million under the stand-by arrangement and, in accordance with its provisions, purchases in 1984 could amount to SDR 100 million (Table 1). Further information on Fund relations with Panama is provided in Appendix I.

In their letter to the Managing Director dated April 29, 1983 requesting the stand-by arrangement, the Panamanian authorities stated that they would consult with the Fund before January 15, 1984 in order to reach understandings on the policies and measures for the remaining period of the stand-by arrangement. In the attached letter dated December 31, 1983, the Government of Panama describes the policies and measures that it intends to implement in 1984.

The discussions for the review were held in Panama City on November 7-23, 1983.^{1/} Representatives for Panama included the Minister of Planning and Economic Policy, the Minister of Finance and Treasury, the Comptroller General, the Deputy General Manager of the National Bank, the Director of the Budget, and other senior government officials.

On November 15, 1983 the World Bank approved a US\$60.2 million structural adjustment loan (SAL) for Panama, two thirds of which were disbursed at the end of 1983 and the remainder is to be disbursed in mid-1984. Under the SAL, the Government of Panama has agreed to specific undertakings, which include a liberalization of trade and commercial policies, improvements in the public finances, and a rationalization of tax incentives. Appendix II provides a summary of the objectives and main features of Panama's structural adjustment program.

^{1/} The staff team consisted of Mr. Lindgren (Head), Mr. Baumgarten, Ms. Suss, Mr. Di Tata (all WHD), and Ms. Ureta (Secretary-ADM).

Table 1. Panama: Projected Purchases and Scheduled Repurchases
January 1-December 31, 1984

	Operations During Period of Arrangement					
	Out- standing Dec. 31, 1983	Feb.- Apr. 1984	May- July 1984	Aug.- Oct. 1984	Nov.- Dec. 1984	Out- standing Dec. 31, 1984
(In millions of SDRs)						
<u>Purchases</u>						
Under tranche policies	50.0	25.0	25.0	25.0	25.0	150.0
Ordinary resources	(24.5)	(5.2)	(--)	(--)	(--)	(29.7)
Enlarged access	(25.5)	(19.8)	(25.0)	(25.0)	(25.0)	(120.3)
<u>Repurchases</u>						
Under tranche policies		--	1.1	1.6	4.7	
Ordinary resources		(--)	(1.1)	(1.1)	(4.7)	
Supplementary financing		(--)	(--)	(0.5)	(--)	
<u>Net purchases</u>		<u>25.0</u>	<u>23.9</u>	<u>23.4</u>	<u>20.3</u>	
<u>Memorandum items</u>						
<u>Total holdings</u>	<u>251.6</u>					<u>379.0</u>
Quota	67.5					102.2
Under tranche policies	125.2					217.9
Ordinary resources	(62.3)					(60.6)
Enlarged access	(25.5)					(120.3)
Supplementary financing	(37.5)					(37.0)
Compensatory financing	58.9					58.9
(In percent of new quota)						
<u>Use of Fund credit</u>	<u>180.1</u>					<u>270.8</u>
Excluding compensatory facility	122.5					213.2

Source: International Monetary Fund.

Section II provides a brief background and updates the September 1983 review (EBS/83/192) of Panama's performance under the current stand-by arrangement; Section III describes the major elements of the program for 1984; and Section IV and Section V contain the staff appraisal and the proposed decision, respectively.

II. Background and Performance Under the Stand-By Arrangement

1. Background

In Panama's financial setting ^{1/} demand pressures are directly reflected in the current account of the balance of payments, while the behavior of domestic prices tends to reflect changes in import prices and world prices for domestically traded exportables. In turn, the current account deficit is determined by the availability of foreign financing and the overall balance of payments is always in equilibrium. Panama holds no official international reserves. Panama's liberal banking legislation enables the international banks operating in Panama to freely determine their domestic exposure.^{2/} Economic management therefore rests predominantly on fiscal policy.

In the 1980-82 period real GDP growth averaged more than 5 percent per year, unemployment is believed to have been on the decline, and the inflation rate decelerated from 10 percent in 1980 to below 5 percent in 1982. The overall deficit of the nonfinancial public sector had been kept at 5.5 percent of GDP in 1980-81 but widened to the equivalent of 11 percent of GDP in 1982 as the authorities sharply increased spending to compensate for an incipient slowdown in economic activity. The sharply increased public sector deficit in 1982 put pressures on the current account of the balance of payments, and the external public debt increased by almost 20 percent to US\$3.2 billion at year-end, the equivalent of 76 percent of GDP.

At the end of 1982, a sharp reduction in public sector borrowing requirements became necessary, as Panama's access to international capital markets had become severely limited. Accordingly, the program supported by the stand-by arrangement for 1983-84 called for a reduction in the public sector deficit from B 464 million (11 percent of GDP) in 1982 to B 270 million (6 percent) in 1983, to be followed by a further reduction to 5.5 percent of GDP in 1984. Under the program, financing of the fiscal deficit was to come from bilateral and multilateral agencies and there was to be no net recourse to National Bank credit by the nonfinancial public sector, except to cover normal seasonal financing requirements, and no net recourse to commercial credit by the public sector. Commercial credit was defined to include any credit other than from bilateral and multilateral agencies and from the National Bank.

In order to reduce the overall fiscal deficit and increase public savings, the authorities took a number of measures in 1983 to increase revenue and limit expenditure. The revenue measures included tariff

^{1/} Panama has no central bank. The U.S. dollar circulates freely as legal tender and as the medium of exchange. The Panamanian Treasury issues only fractional balboa coins.

^{2/} All credit from the banking system to the public sector, except credit from the government-owned National Bank, is considered external credit for program purposes.

increases on a number of imported goods, the substitution of tariffs for existing quota restrictions on certain imports, increased sales taxes on petroleum products, higher ship registration fees, and a program to improve customs administration. Furthermore, periodic reviews of pricing policies in public enterprises combined with the effects of measures to streamline their operations were expected to result in substantial increases in their operating surpluses.^{1/}

On the expenditure side, the authorities adopted an austere budget and instituted new control procedures in all public sector entities to ensure that spending would remain within budgeted levels. The 1983 budget incorporated the results of a thorough review of the operations of decentralized agencies and public enterprises, particularly those that had required substantial government subsidies in the recent past. As a result, a number of entities were liquidated and the operations of others were sharply curtailed. Capital expenditure in the 1983 budget was drastically reduced from the previous year as the public investment program was cut back by eliminating or postponing a number of projects.

2. Performance under the stand-by arrangement

Panama's financial performance in the first three quarters of 1983 was satisfactory. The overall public sector deficit amounted to B 133 million in the first three quarters of 1983 compared with a program limit of B 210 million for that period (Table 2). The ceiling on National Bank net credit to the public sector was observed with a margin of B 73 million on September 30, 1983 and the limits on total net external borrowing and net commercial borrowing by the public sector were met.

The substantial margin under the limit on the overall deficit of the nonfinancial public sector for the first nine months of 1983 was enhanced by certain developments not contemplated in the original program, such as the sale of a hotel by a decentralized agency (B 34 million) and an increase in floating debt (about B 30 million) related to delays in the disbursement of a large credit from commercial banks. If these transactions are excluded, the margin under the limit would be reduced to about B 13 million through the end of September 1983. This remaining margin entirely reflected improved expenditure control as government revenue, particularly receipts of corporate income tax and import duties, rose less than had been expected because of a slowdown in economic activity. Despite higher tariffs and a somewhat faster rate of conversion from quotas to tariffs than originally planned, the increase in customs receipts was smaller than projected because of a sharp decline in imports and delays in the implementation of administrative reforms. By contrast, substantial increases in the operating surpluses of the public enterprises and in the overall surplus of the Social Security Agency were achieved.

^{1/} For a more complete description of these measures see EBS/83/102, May 24, 1983.

Table 2. Panama: Performance Under the Stand-By Arrangement

(In millions of balboas)

	1983				
	Mar.	June	Sept.	Nov.	Dec.
<u>Nonfinancial public sector deficit</u>					
Cumulative limit	...	150.0	210.0	270.0	270.0
Actual	48.0	93.8	133.3	220.6	
Margin or excess (-)	...	58.2	76.7	49.4	
<u>Net National Bank credit to nonfinancial public sector</u>					
Ceiling <u>1/</u>	...	334.0	259.0	214.0	214.0
Adjusted ceiling	...	420.1	395.4	369.3	
Actual	324.2	345.4	322.5	386.1	
Margin or excess (-)	...	74.7	72.9	-16.8	
<u>Net foreign borrowing of public sector</u>					
Cumulative limit <u>2/</u>	...	30.0	165.0	270.0	270.0
Adjusted limit	...	-43.5	69.9	153.9	
Actual	-58.3	-45.0	68.4	90.1	
Margin or excess (-)	...	1.5	1.5	63.8	
<u>Net commercial borrowing of public sector</u>					
Cumulative limit	...	--	40.0	...	--
Actual	-73.3	-78.8	-18.9	...	
Margin or excess (-)	...	78.8	58.9	...	
<u>Outstanding commercial debt with maturity of less than one year</u>					
Ceiling	...	...	...	...	64.0
Actual	...	...	37.8	...	

Sources: Office of the Comptroller General; and National Bank of Panama.

1/ Ceiling will be adjusted upward to the full extent of the net purchases from the Fund and of net disbursements from the Mexican and Venezuelan oil facilities intermediated through the National Bank.

2/ Limit will be adjusted downward to the full extent of any net purchases made from the Fund.

Net external borrowing by the public sector through September was just below the limit as Panama relied heavily on available credits from multilateral and bilateral sources, which were used to finance a net amortization of commercial credit. Outstanding commercial debt was brought down by US\$19 million in the first nine months of 1983 because of net amortization of bonds with the domestic private sector and of suppliers' credits. Meanwhile, Panama's debt to foreign and local commercial banks and to external bond holders showed little change following the first disbursement of US\$90 million under a new US\$278 million loan from commercial banks in late September. This loan was a market placement in an amount calculated to cover all amortization of bonded external public debt and debt to commercial banks (including short-term debt) falling due in 1983-84. Following the initial disbursement, the credit will be disbursed quarterly to match amortization payments, subject to the condition that Panama is able to make purchases from the Fund under the stand-by arrangement. The full utilization of net external credit in accordance with the program and the reduced financing requirements of the nonfinancial public sector resulted in the wide margin under the ceiling on National Bank credit to the nonfinancial public sector as of September 30, 1983.

Panama does not maintain restrictions on payments and transfers for current and capital international transactions. In the first nine months of 1983 quantitative import restrictions were eliminated on nearly one half of all the product categories subject to such restrictions at the beginning of the year. The Government's liberalization efforts also have extended to other areas. Thus, in the first three quarters of 1983 export controls over beef and coffee were eliminated; price rigidities affecting beef, milk, and certain other domestic foodstuffs were reduced; and price controls on a number of food staples were abolished.

Fiscal performance for the full year 1983 can be expected to remain within the targets of the program. Consolidated public sector revenue is projected to reach its programmed level in absolute terms, albeit based on revenue sources not originally envisaged. Consolidated public sector expenditure is expected to be slightly below its originally programmed level in absolute terms, and an overall deficit of about B 260 million is estimated for the nonfinancial public sector in 1983 compared with a limit of B 270 million under the program (Table 3). In the eleven months through November 1983 the overall deficit of the nonfinancial public sector amounted to B 220 million; still, at the end of November, National Bank net credit to the nonfinancial public sector exceeded the ceiling applicable at the end of the year as disbursements of external credits lagged. The disbursements of the first tranche of the SAL from the World Bank and the last-quarter tranche from commercial banks in December should bring Panama in compliance with the ceiling on National Bank net credit to the nonfinancial public sector at the end of December 1983 while remaining in compliance with the limits and ceiling related to net external borrowing applicable at that time.

Table 3. Panama: Operations of the Nonfinancial Public Sector

	1981	1982	1983		1984
			Prog.	Proj.	Prog.
(In millions of balboas)					
<u>Consolidated public sector revenue</u>	1,177.3	1,274.1	1,392.3	1,395.2	1,476.3
General government 1/	1,110.8	1,246.8	1,333.4	1,334.0	1,368.3
Public enterprises current account surplus	66.5	27.3	58.9	61.2	108.0
<u>Consolidated public sector total expenditure</u>	1,391.8	1,736.1	1,662.3	1,655.2	1,726.3
General government current expenditure	1,021.9	1,217.7	1,272.8	1,224.8	1,292.9
Capital expenditure	369.9	518.4	389.5	430.4	433.4
<u>Consolidated public sector savings 1/</u>	155.4	56.4	119.5	170.4	183.4
<u>Overall deficit of consolidated public sector</u>	-214.5	-462.0	-270.0	-260.0	-250.0
Overall surplus or deficit (-) of nonconsolidated public sector	6.6	-2.0	--	--	--
<u>Overall public sector deficit</u>	-207.9	-464.0	-270.0	-260.0	-250.0
External financing (net) 2/	208.7	495.6	270.0	260.0	250.0
National Bank financing (net)	-0.8	-31.6	--	--	--
(Annual percentage changes)					
Consolidated public sector revenue	14.0	8.2	9.3	9.5	5.8
Consolidated public sector expenditure	13.2	24.7	-4.3	-4.7	4.3
General government current expenditure	(11.6)	(19.2)	(4.5)	(0.5)	(5.6)
Capital expenditure	(17.8)	(40.1)	(-24.9)	(-17.0)	(0.7)
(As percent of GDP)					
Consolidated public sector revenue	30.3	30.1	31.1	32.3	32.3
Consolidated public sector expenditure	35.8	41.1	37.1	38.4	37.8
General government current expenditure	(26.3)	(28.8)	(28.4)	(28.4)	(28.3)
Capital expenditure	(9.5)	(12.3)	(8.7)	(10.0)	(9.5)
Consolidated public sector savings	4.0	1.3	2.7	4.0	4.0
<u>Overall public sector deficit</u>	-5.4	-11.0	-6.0	-6.0	-5.5
External financing	5.4	11.7	6.0	6.0	5.5
Domestic financing	--	-0.7	--	--	--

Sources: Office of the Comptroller General; and Fund staff estimates.

1/ Includes foreign grants-in-aid.

2/ Includes net disbursements from the Fund, FIVEN and PEMEX intermediated through the National Bank.

The above-mentioned sale of a hotel by a decentralized agency and the authorities' decision to discount income tax promissory notes of a recently established oil pipeline company--both revenue sources that were not contemplated in the original program--have made it possible for revenue to reach the level originally programmed in absolute terms (because of a shortfall in GDP, this was 1.3 percentage points higher than programmed in relation to GDP). In late December 1983 the Government of Panama began to discount the income tax promissory notes just mentioned with foreign private financial institutions.^{1/} Net receipts of US\$40 million related to the first such discount (of notes accruing in the twelve months through September 1983) have been included as income tax receipts in 1983.

General government current expenditure is projected to be held 4 percent below its programmed level for 1983 even after allowing for the elimination of all floating debt by year-end. On the basis of this expenditure estimate, public sector savings are projected to increase to about 4 percent of GDP, 1.3 percent of GDP higher than had been targeted. These higher savings have enabled the Government to achieve a level of capital expenditure higher than that originally envisaged, without exceeding the program limit on the overall deficit.

In 1983 economic activity in Panama was stagnant for the first time in seven years, in reflection of a much reduced demand for shipping and other commercial services that account for over one half of GDP. In particular, the services provided by the Colon Free Zone have been severely affected by the economic problems experienced in Latin America, and activity and employment in that sector fell sharply in 1983. Also, activity in the construction sector has slowed down and agricultural output was adversely affected by a severe drought earlier in the year. Real GDP growth would have been negative except for the effect of a first full year's value added (US\$235 million) of the operation of a new oil pipeline. Inflation slowed to an estimated 2 percent in 1983, in line with the slowdown of inflation in Panama's trading partners. The current account deficit of the balance of payments narrowed as imports of goods and services fell more than current account receipts.

III. The Program for 1984

1. Summary

The program for 1984, which is described in the attached letter, calls for the continuation of the adjustment initiated in 1983, with the main objectives being (1) a further reduction of the public sector deficit; (2) an improvement of the external debt profile by reducing the share of commercial debt in the total public external debt; and (3) a strengthening of the liquidity position of the National Bank of

^{1/} These promissory notes are issued quarterly by the oil pipeline company to the Government of Panama to cover the accrual of income tax obligations. The oil pipeline company is majority-owned by multinational oil companies, with minority participation by the Government of Panama.

Panama. To improve the allocation of resources in the economy, the Government intends to continue converting import quotas into tariffs, reducing government control over pricing decisions, and modernizing Panama's system of investment incentives.

2. Performance criteria

The following performance criteria are applicable: (1) quarterly cumulative limits on the overall deficit of the nonfinancial public sector; (2) quarterly ceilings on the stock of National Bank net credit to the nonfinancial public sector; and (3) quarterly cumulative limits on net external borrowing by the entire public sector with sublimits on net foreign commercial borrowing. Table 4 summarizes the program's quantitative performance criteria through December 31, 1984. The limits on the overall deficit of the nonfinancial public sector and on public sector external borrowing, and the adjustments to the ceilings on net credit from the National Bank to the nonfinancial public sector, have been set on the basis of cumulative flows since January 1, 1983, which was the starting point for the quantitative performance criteria of the current stand-by arrangement.

3. Financial policies

The program calls for a reduction in the overall deficit of the nonfinancial public sector from about B 260 million in 1983 to B 250 million in 1984; this would be equivalent to 5.5 percent of GDP, the target originally specified for 1984 under the stand-by arrangement (Table 5). The deficit is expected to be financed in its entirety from bilateral and multilateral foreign credits. The programmed reduction of the overall deficit is to be achieved mainly through the reduction of capital expenditure in real terms. Current expenditure also will be curtailed. No new major revenue measures are contemplated. Public savings in 1984 are to be maintained at the level of 4 percent of GDP reached in 1983. The authorities consider this level of savings adequate in view of Panama's medium-term financial outlook. A further increase in savings in the years beyond 1984 based on a continuing recovery of economic activity combined with a reduction in public sector investment to about 7 percent of GDP in the mid-1980s (as provided under the structural adjustment program), should enable Panama to reduce the overall deficit of the nonfinancial public sector to levels compatible with projected external financing available and the heavy debt service obligations in those years (Statistical Appendix Table 20).

Under the 1984 program consolidated public sector revenue, including the surpluses of state enterprises, is expected to rise by about 6 percent, or in line with the projected growth of nominal GDP; in 1984 real GDP is expected to increase by 2 percent and prices by 4 percent. The Central Government's revenue effort in 1984 is mainly consisting of improved customs and related sales tax collections. Long awaited administrative changes in the area of customs, such as improved inspection and valuation procedures, the updating of the customs nomenclature, and a strengthening of the professional staff were initiated in December

Table 4. Panama: Stand-By Arrangement Quantitative Performance Criteria

(In millions of balboas; end of period)

	1983	1984			
	Dec.	Mar.	June	Sept.	Dec.
<u>Overall deficit of the non-financial public sector</u>					
Cumulative limit	270	350	410	465	520
<u>National Bank net credit to nonfinancial public sector</u>					
Ceiling <u>1/</u>	214	234	234	214	214
<u>Net foreign borrowing of the public sector</u>					
Cumulative limit on total borrowing <u>2/</u>	270	330 <u>3/</u>	390 <u>3/</u>	465 <u>3/</u>	520 <u>3/</u>
Cumulative limit on commercial borrowing	--	--	--	--	--

Source: International Monetary Fund.

1/ Ceiling will be adjusted upward to the full extent of the net purchases that the National Bank might make from the Fund, and of net disbursements on loans to Panama from the Mexico/Venezuela oil facility intermediated through the National Bank between January 1, 1983 and the testing date.

2/ This limit will be adjusted downward to the full extent of any net purchases made from the Fund by Panama between January 1, 1983 and the testing date.

3/ This limit will be increased to the extent that actual net credit from the National Bank to the nonfinancial public sector falls below its ceiling.

1983 and are expected to start yielding results in 1984. In addition, a broader coverage and higher levels of tariffs, and a projected 7 percent increase in nonoil imports are expected to raise customs revenue by 25 percent in 1984. The 1984 revenue projection includes the discounted value (US\$47 million) of additional income tax promissory notes to be received from the oil pipeline company. Other income tax revenue is expected to decline somewhat in 1984 as a result of reduced corporate profits in 1983. A tax exemption recently conceded to a foreign banana company to compensate for a salary increase granted to settle a labor dispute has reduced projected export tax receipts in 1984. Most other revenue categories are expected to show moderate growth in 1984.

Table 5. Panama: Macroeconomic Flows
(As percent of GDP)

	1981	1982	1983		Prog. 1984
			Prog.	Est.	
I. Balance of Payments					
<u>Current account surplus</u> or deficit (-)	-10.5	-10.6	-6.0	-6.0	-5.5
Trade balance	-24.6	-23.4	-21.7	-17.0	-16.8
Investment income	-6.5	-7.4	-5.9	-10.0	-9.0
Other services and transfers	20.6	20.2	21.6	21.0	20.3
<u>Capital account (net)</u>	12.1	10.6	6.0	6.0	5.5
Official capital	5.3	12.0	6.0	6.2	5.5
Other official banks transactions	-1.0	—	—	-0.1	—
Private capital	7.8	-1.4	—	-0.1	—
<u>Net errors and omissions</u>	-1.6	—	—	—	—
II. Nonfinancial Public Sector					
<u>Consolidated public sector savings</u>	4.0	1.3	2.7	4.0 2/	4.0
Central government cur- rent account surplus or deficit (-)	0.6	-1.3	-0.6	0.2	0.2
Revenue 1/	(20.4)	(20.5)	(20.4)	(20.6)	(20.4)
Expenditures	(-19.8)	(-21.8)	(-21.0)	(-20.4)	(-20.2)
Rest of public sector current account sur- plus or deficit (-)	3.4	2.6	3.3	3.8 2/	3.8
<u>Consolidated public sec- tor capital expenditure</u>	9.5	12.3	8.7	10.0	9.5
Fixed investment	8.5	10.6	8.2	8.8	8.1
Other capital expenditure	1.0	1.7	0.5	1.2	1.4
<u>Overall deficit of the con- solidated public sector</u>	-5.5	-11.0	-6.0	-6.0	-5.5
Nonconsolidated public sector surplus or deficit (-)	0.1	—	—	—	—
<u>Financing</u>	5.4	11.0	6.0	6.0	5.5
Foreign 3/	5.4	11.7	6.0	6.0	5.5
Domestic	—	-0.7	—	—	—
III. Savings and Investment					
<u>Investment</u>	28.5	29.1	24.6	25.0	24.0
Public sector	9.5	12.3	8.7	10.0	9.5
Private sector	19.0	16.8	15.9	15.0	14.5
<u>Savings</u>	28.5	29.1	24.6	25.0	24.0
Foreign savings	10.5	10.6	6.0	6.0	5.5
National savings	18.0	18.5	18.6	19.0	18.5
Public sector 1/	(4.0)	(1.3)	(2.7)	(4.0)	(4.0)
Private sector	(14.0)	(17.2)	(15.9)	(15.0)	(14.5)
<u>Memorandum item</u>					
Rate of growth of real GDP	4.2	5.5	1.0	—	2.0
GDP deflator	6.1	4.8	5.0	2.0	4.0

Sources: Office of the Comptroller General; and Fund staff estimates.

1/ Includes foreign grants-in-aid.

2/ Includes proceeds from the sale of a hotel.

3/ Includes net disbursements from the Fund, FIVEN, and PEMEX inter-
mediated through the National Bank and bonds placed locally.

In the rest of the general government, revenues are projected to increase by 4 percent in 1984 ^{1/}. The increase would have been much stronger were it not for the elimination, decided by the Congress, of a mandatory contribution (one third of a thirteenth-month salary) by all workers to the Social Security Agency, which had represented B 30 million in 1983. The relatively slow revenue growth in the Social Security Agency and other decentralized agencies ^{1/} should, however, be more than offset by a substantial increase in the operating surpluses of the public enterprises. These surpluses are expected to grow by the equivalent of 1 percent of GDP in 1984 as a result of measures taken last year to improve the efficiency of these enterprises, further adjustments of rates and prices, and the substantial savings in fuel costs to come from the opening of a hydroelectric plant in the second half of 1984.

General government current expenditures are projected to increase by 5.5 percent in 1984, a rate of growth slightly below that projected for nominal GDP. No across-the-board wage awards to public employees are envisaged during 1984, but because of the full-year effect of a general pay increase in mid-1983 together with other pay adjustments originating in commitments made in 1982, the wage bill of the general government is projected to increase by about 12 percent in 1984. The rise of current expenditure by the Social Security Agency will be limited to 13 percent in 1984, the same rate of increase as in 1983. Interest payments are expected to show a small decline and other current expenditures are to remain below their 1983 level in real terms.

Consolidated public sector capital expenditure in 1984 is programmed to remain roughly at its 1983 level of B 430 million in absolute terms but to decline from 10 percent of GDP in 1983 to 9.5 percent of GDP in 1984. This level of capital expenditure is consistent with the public investment program agreed by the Government with the World Bank under Panama's structural adjustment program. In accordance with this program, priority would continue to be given to the energy sector and to the large La Fortuna hydroelectric plant that is scheduled for completion in the third quarter of 1984. In addition, emphasis will be placed on investment in the productive sectors, particularly in agriculture, and on the rehabilitation and maintenance of Panama's physical and social infrastructure. The Government would periodically review its investment program with the World Bank.

The 1984 program does not contemplate any recourse by the nonfinancial public sector to financing from the National Bank for the year as a whole. In order to accommodate the nonfinancial public sector's seasonal borrowing requirements, however, the National Bank may increase net credit to the public sector in an amount not to exceed B 20 million in the period January 1-June 30, 1984. As was the case under the program for 1983, the ceilings on National Bank net credit to the public sector for 1984 will be adjusted upward by net disbursements from the Venezuelan and Mexican oil facilities and from the Fund that the National Bank intermediates to the nonfinancial public sector.

^{1/} Excluding the effect of the hotel sale in 1983.

4. External policies

One of the main objectives of the 1984 program is to slow down the rate of growth of external debt and improve its maturity structure. Accordingly, the limit on total new net external borrowing by the public sector has been set at US\$250 million, which is the same amount as the public sector deficit. However, disbursements from bilateral and multilateral sources may exceed the US\$250 million financing requirements of the nonfinancial public sector. In order to allow Panama to utilize the maximum amount of such resources, the limits on total net external borrowing by the public sector will be adjusted upward, provided that a margin of at least the same amount is maintained under the ceiling on net credit from the National Bank to the nonfinancial public sector.

There will be no net recourse by the public sector to commercial financing during the program period, in order to provide debt servicing relief in the medium term. Commercial financing is again defined to include credit from any source other than bilateral and multilateral agencies and the National Bank. Consistent with this restrictive borrowing policy, the outstanding public debt at commercial terms is projected to decline from 69 percent of the total external debt at the end of 1982 to 57 percent at the end of 1984, and from 52 percent of GDP at the end of 1982 to 46 percent of GDP at the end of 1984 (Table 6).

No sublimit on short-term external borrowing was considered necessary in the 1984 program (a ceiling on such credit was a performance criterion on December 31, 1983). Short-term debt was reduced to less than 1 percent of outstanding external debt at the end of 1983 and is not expected to show any substantial change in the course of 1984, given that the financing needs through the end of this year have been covered with the medium-term loan of US\$278 million from commercial banks and bilateral and multilateral credits.

The authorities of Panama have indicated their intent to complete the conversion of almost all import quotas into tariffs during 1984. A limited number of basic consumer goods that are produced locally will remain subject to quotas for strategic reasons, at least until the completion of a comprehensive review of agricultural and industrial policies that the authorities intend to conduct with the assistance of the World Bank. The Government also intends to continue the process of gradual elimination of price controls and to modernize Panama's agricultural and industrial incentive legislation in the context of the above-mentioned review.

IV. Staff Appraisal

Following a substantial weakening of the public finances in 1982, the Government of Panama adopted in mid-1983 an eighteen-month adjustment program designed to increase public sector savings and to reduce the overall financing requirements of the nonfinancial public sector to

Table 6. Panama: External Public Debt Outstanding ^{1/}

	1981	1982	Est. 1983	Prog. 1984
<u>(In millions of U.S. dollars)</u>				
<u>Total</u>	<u>2,698.0</u>	<u>3,197.6</u>	<u>3,457.0</u>	<u>3,707.0</u>
<u>By maturity</u>				
Medium and long term	2,652.9	3,133.6	3,442.4	3,692.4
Short term	45.1	64.0	14.6	14.6
<u>By lender</u>				
Bilateral and multilateral institutions	813.1	989.0	1,318.4	1,602.6
Debt contracted on commercial terms	1,884.9	2,208.6	2,138.6	2,104.4
Bonds and suppliers	(371.3)	(328.1)	(275.1)	(241.9)
Commercial banks	(1,513.6)	(1,880.5)	(1,863.5)	(1,862.5)
<u>By borrower</u>				
Nonfinancial public sector	2,455.8	2,882.3	2,963.5	3,079.7
National Bank	242.2	315.3	493.5	627.3
Excluding IMF, PEMEX, and FIVEN	(110.2)	(120.7)	(120.7)	(120.7)
<u>(In percent of total debt)</u>				
Bilateral and multilateral institutions	30.0	30.9	38.1	43.2
Commercial sources	70.0	69.1	61.9	56.8
<u>(In percent of GDP)</u>				
<u>Total</u>	<u>69.4</u>	<u>75.6</u>	<u>80.2</u>	<u>81.0</u>
Bilateral and multilateral institutions	20.9	23.4	30.6	35.0
Commercial sources	48.5	52.2	49.6	46.0

Sources: Office of the Comptroller General; National Bank of Panama; and Fund staff estimates.

^{1/} Includes debt contracted with local branches of foreign banks, bonds placed with domestic private sector, and use of Fund resources.

levels consistent with the external financing available from bilateral and multilateral sources. The financial program for 1983-84 called for a reduction of the overall deficit of the nonfinancial public sector from 11 percent of GDP in 1982 to 6 percent of GDP in 1983 and to 5.5 percent of GDP in 1984. There was to be no net recourse by the public sector to external commercial credit and by the nonfinancial public sector to National Bank credit during the program period. Although the program's main objective was a reduction of the public sector deficit, it also included measures to improve resource allocation.

The program has been implemented successfully so far, even though economic circumstances have been less favorable than originally envisaged as external demand for the services provided by Panama's commercial, transport and financial sectors declined sharply. The quantitative performance criteria under the program were met through September 1983; the staff estimates that the overall deficit of the nonfinancial public sector amounted to about B 260 million in 1983 as a whole, B 10 million less than programmed and equivalent to the ratio of 6 percent of GDP that had been targeted. Public sector savings in 1983 are estimated to have exceeded substantially the program projection because of nonrecurrent revenue that was not included in the original plan. The improved savings performance permitted the authorities to sustain a higher than programmed level of capital expenditure.

The adjustment process that has been started will be continued in 1984, with the specific targets for this year's program identical to those set in the stand-by arrangement. The authorities are confident that a reduction in the public sector deficit to 5.5 percent of GDP in 1984 can be achieved despite the elimination of certain revenue sources. If more financing than required to cover the public sector deficit were to become available from bilateral and multilateral resources, the program would permit the Government to use such financing to reduce commercial debt or to strengthen the reserve position of the National Bank.

To achieve the fiscal target, the program emphasizes the strengthening of revenue collection procedures. In this context, the staff welcomes the reforms initiated in customs administration, which can be expected to raise revenues substantially. However, additional action will be required to increase public sector savings and put Panama in a better position to cover increasingly heavy debt servicing commitments in the years beyond 1984. Therefore, the staff believes that action should be taken to bolster public sector revenues; this may be accomplished by reinstating the contribution to the Social Security Agency and the banana export tax, although these measures may not be sufficient.

Tight control will be exercised over public sector spending in 1984, so that total expenditure would increase somewhat less than nominal GDP. To this effect, the 1984 budget will include specific spending limits for all public sector entities in order to assure compliance with the overall spending plan. Government current expenditure is expected to rise in line with nominal GDP notwithstanding a substantial increase in

the wage bill originating in commitments made in 1982. The staff endorses the authorities' decision not to grant any general salary increases in 1984 and would caution against further wage commitments. The projected reduction of capital outlays in relation to GDP would be consistent with the investment program that Panama has agreed upon with the World Bank under its structural adjustment program.

The increasing reliance on bilateral and multilateral credits can be expected to help relieve Panama's heavy debt service burden in the medium term. The success that the Government has had in securing a commercial bank credit to cover most commercial amortizations during the period of the stand-by arrangement has brought an element of stability to financial management. The staff would encourage the authorities to initiate discussions with commercial banks for a similar kind of refinancing for the years beyond 1984.

The staff is of the view that the key to a more efficient resource use by the economy as a whole lies in the dismantling of administrative trade restrictions and price controls. In this regard, the staff welcomes the speed with which the authorities have replaced import quotas by tariffs and their commitment to bring this program to an early completion. Similarly, the rationalization of pricing policies and the modernization of Panama's industrial and agricultural incentive legislation should help shift investment away from protected markets toward areas where the Panamanian economy enjoys comparative advantage.

The staff believes that the program for 1984 constitutes a further effort to reduce Panama's external and internal imbalances to manageable levels and to create the necessary conditions for sustained economic growth.

V. Proposed Decision

The following draft decision is proposed for adoption by the Executive Board:

1. Panama has consulted with the Fund in accordance with paragraph 4(c) of the stand-by arrangement for Panama (EBS/83/102, 5/24/83) and paragraph 21 of the letter of April 29, 1983 attached thereto in order to reach understandings with the Fund regarding the policies and measures that Panama will pursue during the period from January 1, 1984 to December 31, 1984.
2. The letter dated December 31, 1983 from the Minister of Planning and Economic Policy, the Minister of Finance and Treasury, and the General Manager of the National Bank shall be attached to the stand-by arrangement for Panama (EBS/83/102, 5/24/83), and the letter of April 29, 1983 shall be read as supplemented and modified by the letter dated December 31, 1983.
3. Accordingly, the limits and ceilings referred to in paragraphs 15, 16, and 17 of the letter of April 29, 1983 on the cumulative deficit of the nonfinancial public sector, the net credit by the National Bank to the nonfinancial public sector, and the cumulative net external and net commercial borrowing for the public sector, shall be those referred to in paragraphs 3, 7, and 8, respectively, of the letter of December 31, 1983.

Panama City, Panama
December 31, 1983

Mr. Jacques de Larosiere
Managing Director
International Monetary Fund
700 19th Street
Washington, D.C. 20431

Dear Mr. de Larosiere:

1. In April 1983 the Government of Panama requested an 18-month stand-by arrangement from the International Monetary Fund in support of a financial program covering the period through the end of 1984. The program aimed at strengthening Panama's financial situation through an improvement of the finances of the public sector and a reduced reliance on external financing. Accordingly, both the overall deficit of the nonfinancial public sector and the current account deficit of the balance of payments were programmed to decline from over 11 percent of GDP in 1982 to 6 percent in 1983. The Government of Panama is satisfied with the progress that has been made so far in the implementation of the financial program. We now estimate that the overall deficit of the nonfinancial public sector this year will be slightly below the programmed level in absolute terms but right on target in terms of GDP and we expect that Panama will meet all other targets of the program for 1983. Economic activity, however, has not shown the moderate growth that we had expected for this year, largely due to a decline in regional demand that has adversely affected Panama's service sectors; meanwhile, inflation has slowed down to an annual rate of about 2 percent.

2. As regards 1984, the Government of Panama intends to continue to pursue the objectives described in our letter of April 29, 1983, namely to improve the country's financial situation, improve the quality of economic management, and to reduce inefficiencies in the allocation of resources. We plan to continue the adjustment effort described in our letter of April 29, 1983 and will supplement this effort with the policies and measures described below.

3. The principal target of the 1984 program is a further reduction in the overall deficit of the nonfinancial public sector, which is programmed to decline from an estimated B 260 to B 270 million this year to B 250 million, the equivalent of 5.5 percent of projected GDP, in 1984. We expect to achieve this adjustment by reducing capital expenditure by the equivalent of 1/2 percent of GDP while maintaining public sector savings at their 1983 level in real terms. We consider this level of savings adequate in view of the public sector's financing requirements and debt servicing obligations in the years beyond 1984. Consistent with the above fiscal targets for 1984, the Government has set cumulative quarterly limits on the overall deficit of the nonfinancial public sector as described in attached Table 1.

4. The 1983 program was designed to maintain the level of general government revenue in real terms and to increase substantially the operating surpluses of public enterprises. The Central Government revenue effort consisted of new and increased tariffs and measures to improve customs administration. The slowdown of economic activity and the sharp fall in imports this year caused central government revenue to fall substantially short of expectations. The Government therefore decided to compensate for this shortfall by discounting income tax promissory notes of an oil pipeline company operating in Panama, a revenue source not foreseen in the original program. Meanwhile, the programmed increase in the operating surplus of the public enterprises for 1983 has been achieved, and the sale of a large hotel by a decentralized agency has provided an additional source of revenue. In 1984, except for the ongoing conversion of quotas into tariffs, no new revenue measures are contemplated but the Government plans to continue the practice initiated this year of discounting the income tax notes, which accrue quarterly. Administrative improvements in the area of customs, such as improved inspection and valuation procedures, the updating of the customs nomenclature, and a strengthening of the professional staff, were started late this year and are therefore expected to yield results only in 1984. With an improved customs administration in place, the broader coverage and higher levels of tariffs combined with a projected upturn in imports are expected to yield the additional revenue needed to maintain central government revenue at its 1983 level in real terms. We project the operating surpluses of the public sector enterprises to increase substantially in 1984 as a result of measures taken this year and further normal adjustments of rates and prices. This increased surplus will more than compensate for reductions of certain categories of revenue in the Social Security Agency and total general government revenue, including the surpluses of the enterprises, is projected to grow by 6 percent in 1984, or in line with nominal GDP.

5. The approved budget for the nonfinancial public sector in 1984 limits the increase in overall expenditure to 4 1/2 percent and current expenditure of the general government to 5 1/2 percent or below the projected increase in nominal GDP. No general wage adjustment is envisaged during 1984, but due to the effects of this year's pay increases in a full fiscal year and of other pay adjustments originating in commitments made in 1982, the wage bill of the general government is projected to increase by about 12 percent in 1984. Interest expenditures are expected to show a small decline in absolute terms and other current expenditure will show an increase slower than nominal GDP.

6. In 1984 public sector capital expenditure is programmed to amount to B 433 million, which is roughly its estimated level in 1983. We are satisfied that this level of expenditure will be consistent with the public investment program agreed upon by the Government and the World Bank staff earlier this year, in which strict priorities and economic efficiency criteria were applied. Priority continues to be given to the development of Panama's hydroelectric capacity; the

US\$500 million La Fortuna hydroelectric plant is expected to be completed and come on stream in late 1984. The public investment effort will be subject to further joint reviews with the World Bank within the framework of the recently approved structural adjustment program with that institution. All capital spending will remain subject to the rigorous control procedures introduced earlier this year, thus assuring the Government of no undesirable deviations from the planned investment program.

7. The National Bank will continue to pursue policies that will improve its liquidity position. The nonfinancial public sector will have no access to National Bank credit in 1984, except to meet seasonal financing requirements within the year. Accordingly, National Bank net credit to the nonfinancial public sector will at no time exceed the quarterly ceilings specified in the attached Table 2. In its other operations the National Bank intends to continue to pursue a cautious credit policy.

8. Despite unfavorable conditions in world financial markets, Panama successfully concluded a market placement of a US\$278 million loan with foreign commercial banks last September. This loan, which was designed to cover the full amount of amortization due on the public sector's debt to commercial banks and external bonded debt through the end of 1984, will be disbursed in quarterly installments to match the amortization payments of such debt. Accordingly, there will be no net recourse to external commercial credit by Panama's public sector at any time in 1984. Total net external borrowing by the public sector will not exceed US\$250 million in 1984 and will originate exclusively in multilateral and bilateral lending agencies. As a result, the public debt profile will further improve; commercial debt as a ratio to total external debt is projected to decline from 69 percent at the end of 1982 to 57 percent at the end of 1984. We intend to apply, without exception, the strict controls introduced earlier this year over the contracting of new debt by all public sector entities. To facilitate external debt management, cumulative quarterly limits have been established on net disbursements of external debt as set forth in attached Table 3.

9. The program objective of reducing inefficiencies in the allocation of resources will be further pursued in 1984. In 1983 import restrictions were eliminated for nearly one half of the product categories subject to such restrictions and were replaced by tariffs. It is the Government's intention to complete the conversion of all quantitative import restrictions into tariffs in the course of 1984, with the exception of those applied to a few products that are considered strategic.

10. In 1983 price controls on a number of products were relaxed, producer support prices on some key agricultural commodities were rationalized and certain quantitative export controls were removed. The Government intends to continue this process of liberalization according to a timetable agreed upon with the World Bank. This institution will also support studies that are expected to result in the modernization of Panama's incentive legislation for the agricultural and industrial sectors.

11. The Government of Panama believes that the policies described above are adequate to achieve the objectives of its program but will take any further measures that may become necessary for this purpose. Panama will consult with the Fund on the adoption of any measures that may be appropriate in accordance with the policies of the Fund on such consultations.

Sincerely yours,

J. Menalco Solis R.
Minister of Planning and
Economic Policy

Gabriel Castro
Minister of Finance and
Treasury

Rafael Arosemena
General Manager
National Bank of Panama

Attachments

Table 1. Panama: Cumulative Limits on the Deficit of
the Nonfinancial Public Sector 1/

(In millions of balboas)

<u>Period</u>	<u>Cumulative Limits</u>
January 1, 1983-March 31, 1984	350
January 1, 1983-June 30, 1984	410
January 1, 1983-September 30, 1984	465
January 1, 1983-December 31, 1984	520

1/ The deficit of the nonfinancial public sector will be defined as the sum of the net increase above their respective stocks at the beginning of the respective period, in (a) the external debt of the nonfinancial public sector to foreign lenders and to the domestic banking system (including the Caja de Ahorro) excluding the National Bank of Panama (including debt with maturities of less than one year); (b) the net credit extended by the National Bank of Panama to the nonfinancial public sector; and (c) the net placement of public bonds and Treasury bills with the private sector.

Table 2. Panama: Ceilings on Net Credit of the National Bank to the Nonfinancial Public Sector 1/

(In millions of balboas)

Period	Ceiling <u>2/</u>
January 1, 1983-March 31, 1984	234
January 1, 1983-June 30, 1984	234
January 1, 1983-September 30, 1984	214
January 1, 1983-December 31, 1984	214

1/ Net credit to the nonfinancial public sector includes holdings of income tax promissory notes (pagares de PTP).

2/ This ceiling will be adjusted upward to the full extent of the purchase that the National Bank might make from the Fund and net of repurchases to the Fund, and of net disbursements on loans to Panama from Venezuela's Investment Fund and/or on loans from the Mexico/Venezuela oil facility intermediated through the National Bank.

Table 3. Panama: Cumulative Limits on External and Commercial Net Borrowing by the Public Sector

(In millions of U.S. dollars)

Period	Limits on Net Disbursements
<u>Total External Public Debt 1/2/</u>	
January 1, 1983-March 31, 1984	330
January 1, 1983-June 30, 1984	390
January 1, 1983-September 30, 1984	465
January 1, 1983-December 31, 1984	520
<u>Total External Commercial Debt 3/</u>	
January 1, 1983-March 31, 1984	zero
January 1, 1983-June 30, 1984	zero
January 1, 1983-September 30, 1984	zero
January 1, 1983-December 31, 1984	zero

1/ Net external public sector borrowing will be defined as the net increase over its stock on December 31, 1982 of the sum of: (1) the debts of the nonfinancial public sector (including debts with maturities of less than one year) to foreign lenders and to the domestic banking system exclusive of the National Bank of Panama; (2) public bonds and Treasury bills held by the private sector; and (3) the medium- and long-term foreign liabilities of the National Bank of Panama (including liabilities to Venezuela's Investment Fund and Mexico's oil facility). This limit will be adjusted downward to the full extent of any net purchases made from the Fund by the National Bank of Panama.

2/ This ceiling will be increased by the difference between the ceiling on net credit to the nonfinancial public sector from the National Bank and the actual balances of such net credit, both according to the definitions in Table 2, when the latter is below its ceiling.

3/ Exclusive of net disbursement from bilateral and multilateral international development agencies; otherwise defined as in (1) above.

Fund Relations with Panama
(As of December 29, 1983)

Membership: March 14, 1946.

Status: Article VIII.

Quota: Present: SDR 67.5 million.
Proposed and consented: SDR 102.2 million.

Stand-by arrangements: Panama has had 15 stand-by arrangements with the Fund. The most recent of these was approved on June 24, 1983 (EBS/83/102) for SDR 150.0 million.

Fund holdings of Panamanian balboas: 372.88 percent of quota, including purchases in the credit tranches (92.29 percent of quota), in the supplementary financing facility (55.51 percent), under the enlarged access (37.82 percent), and in the compensatory financing facility (87.26 percent).

Fund credit as percent of quota: 272.79 percent.

SDR Department: Panama has received allocations totaling SDR 26.32 million. Holdings as of December 29, 1983 were SDR 9.1 million or 24.4 percent of net cumulative allocation.

Direct distribution of profits from gold sales: US\$5.71 million.

Gold distribution (four distributions): 30,807.853 fine ounces.

Exchange system: The exchange value of the Panamanian balboa is fixed to the U.S. dollar at a rate of B 1 per US\$1. The Fund's holdings of balboas are valued on the basis of a representative exchange rate under Rule 0-2, paragraph (b)(1). The currency of the United States (notes and coins) is legal tender in Panama.

Technical assistance: Fiscal Affairs Department panel expert has been assigned beginning in October 1982 to provide assistance in the area of Customs Administration. A Central Bank panel expert has been assigned in November 1983 to provide technical assistance to the National Banking Commission.

Last Article IV consultation: The 1983 consultation discussions were held in February 1983 and were completed in June 1983 (SM/83/121).

Panama: The Structural Adjustment Program

1. Objectives

The objective of the Government's structural adjustment program, which is supported by a US\$60.2 million structural adjustment loan from the World Bank, is to enable the economy to meet the challenges of the economic environment in the mid-1980s. The Government recognizes that growth and employment opportunities can no longer be sought through further public sector expansion. Indeed, the scope of the public sector is to be reduced and made more efficient. This is consistent with the overall thrust of the Government's strategy, the need to slow down the growth of public sector indebtedness, and the expectation that the Government of Panama's access to commercial credit would be limited in the future.

Given the small size of the domestic market, opportunities for the private sector must be sought mainly in Panama's external markets. This would be fully consistent with Panama's entrepot tradition, comparative advantage, and economic characteristics. Principal among these are its geographic location, well developed international transport and communications facilities, a sophisticated commercial sector, an open financial system, and a relatively skilled labor force.

2. Main features of the program

The policy measures designed to give shape to the above-mentioned medium-term development strategy may be divided into three main areas: (1) to reduce the scope and increase the efficiency of the public sector; (2) to reorient the incentive structure in the urban industrial sector toward exports and employment generation; and (3) to increase productivity and output in the agricultural sector.

In the public sector, the major components of the program provides for a review of the economic efficiency of public sector enterprises, a coherent investment program for the period 1983-85 consistent with the priorities of the new development strategy, reforms of public sector housing policy and the public health and social security systems, a more effective management of state-owned assets, especially those located in the former Canal Zone, a strengthening of the Customs Administration, and improved public debt management.

In the industrial sector, the Government has embarked upon a liberalization process aimed at improving competitiveness while at the same time increasing private sector confidence and stimulating employment. This is to be achieved through a gradual restructuring of the system of incentives, which currently encourages relatively capital intensive and import substituting activities. Specific measures include the removal of quantitative restrictions, the gradual reduction in tariff protection toward a more uniform minimum tariff level, modifications in incentives legislation, the removal of price controls, and revisions to the labor code.

In agriculture, the program concentrates on reducing subsidies to inefficient producers, reviewing the role of public sector institutions, removing restrictions on agricultural exports, and lifting price controls.

Panama: Summary Financial Program

Targets

1. Reduction of the public sector deficit to 5.5 percent of GDP in 1984.
2. Maintenance of public sector savings at the equivalent of 4 percent of GDP in 1984.
3. A level of public sector investment equivalent to 9.5 percent of GDP in 1984; also to rationalize investment expenditure according to priorities agreed upon with the World Bank under its structural adjustment loan.
4. Improvement of the maturity structure of the external debt and lowering interest costs by reducing the external debt contracted at commercial terms.
5. Reduction of the deficit in the current account of the balance of payments to 5.5 percent of GDP.
6. Improvement of the efficiency of resource use by both the public and private sectors.

Instruments

Public sector budget

1. A limit of B 250 million on the overall deficit of the nonfinancial public sector.
2. Increase revenue through improvements in customs administration and ongoing measures to raise operational surpluses of public enterprises.
3. Continue the enforcement of strict spending limits and the streamlining of the operations of a number of state entities.
4. Limit capital outlays to a level consistent with the planned public investment under Panama's structural adjustment program.

External financing

5. A limit of US\$250 million on net external borrowing by the entire public sector, including official financial institutions.
6. No new net external commercial borrowing by the entire public sector, including official financial institutions.

Domestic credit

7. Limitation of access by the nonfinancial public sector to National Bank credit to seasonal needs only.

Commercial policy

8. Continuation of the gradual phasing out of all import quotas and their replacement by moderate tariff protection. The redefinition of regulatory practices of the Price Control Board with the aim of easing restrictions over private pricing decisions.

Main Assumptions

1. Real GDP growth of 2 percent in 1984.
2. A rate of inflation, as measured by the GDP deflator, of 4 percent in 1984.
3. Interest rates continue to follow developments in international markets, with LIBOR assumed to average 10 percent in 1984.

Table 7. Panama: Selected Economic and Financial Indicators

	1981	1982	1983		1984
			Prog.	Est.	Prog.
<u>(Annual percent changes, unless otherwise specified)</u>					
National income and prices					
GDP at constant prices	4.2	5.5	1.0	--	2.0
GDP deflator	6.1	4.8	5.0	2.0	4.0
External sector (on the basis of U.S. dollars)					
Exports, f.o.b.	-6.3	-1.7	23.1	1.9	7.9
Imports, f.o.b.	7.9	1.7	2.6	-16.7	5.9
Non-oil imports, f.o.b.	20.0	0.6	-1.8	-20.0	7.1
Export volume	(-16.0)	(-2.0)	(17.1)	(...)	(...)
Import volume	(-6.9)	(-1.1)	(1.4)	(...)	(...)
Terms of trade (deterioration -)	(-7.4)	(-1.5)	(--)	(...)	(...)
Central Government					
Revenue and grants	11.5	9.4	5.9	2.5	5.3
Total expenditure	7.3	16.6	-3.3	-6.7	4.2
Money and credit					
National Bank net credit to public sector <u>1/</u>	255.1	17.1	...	...	...
Interest rates <u>2/</u>	...	...	...	...	...
<u>(In percent of GDP)</u>					
Public sector saving	4.0	1.3	2.7	4.0	4.0
Overall public sector deficit	-5.4	-11.0	-6.0	-6.0	-5.5
Domestic financing	(--)	(-0.7)	(--)	(--)	(--)
Foreign financing	(5.4)	(11.7)	(6.0)	(6.0)	(5.5)
Gross domestic investment	28.5	29.1	24.6	25.0	24.0
Gross national savings	18.0	18.5	18.6	19.0	18.5
Current account deficit of balance of payments	10.5	10.6	6.0	6.0	5.5
External debt	67.6	75.8	74.7	77.3	78.7
Inclusive of use of Fund credit	69.5	75.6	77.3	80.2	81.0
<u>(In percent of exports of goods and nonfactor services)</u>					
Debt service	30.3	39.5	28.4	32.6	34.3
Interest payments	17.3	21.2	17.3	20.1	18.6
<u>(In percent of public sector revenue)</u>					
Debt service	36.1	38.8	37.4	39.0	39.8

Sources: Office of the Comptroller General; and Fund staff estimates.

1/ Includes net disbursements from the Fund and the Mexico/Venezuela oil facility intermediated through the National Bank.

2/ Freely fluctuating in line with international rates.

Table 8. Panama: Sectorial Origin of Gross Domestic Product

	1980	1981	Prel. 1982	Est. 1983
(In millions of balboas at 1970 prices)				
<u>Gross domestic product at market prices</u>	<u>1,745.8</u>	<u>1,818.8</u>	<u>1,919.0</u>	<u>1,918.2</u>
<u>Primary activities</u>	<u>176.8</u>	<u>191.9</u>	<u>192.8</u>	<u>196.1</u>
Agriculture	173.7	188.1	188.7	191.5
Mines and quarries	3.1	3.8	4.1	4.6
<u>Secondary activities</u>	<u>306.4</u>	<u>304.4</u>	<u>339.4</u>	<u>328.1</u>
Manufacturing	182.1	176.1	180.3	178.5
Construction	124.3	128.3	159.1	149.6
<u>Services</u>	<u>1,281.7</u>	<u>1,349.0</u>	<u>1,426.6</u>	<u>1,437.4</u>
Public utilities	53.5	56.2	59.2	62.9
Commerce, restaurants, and hotels	256.4	252.9	251.1	246.8
Transport and communications	124.5	132.4	176.5	210.5
Colon Free Zone	83.1	84.1	70.5	52.9
Financial intermediation	96.3	106.4	110.1	110.1
Housing rent	130.9	137.1	141.3	141.3
Public administration	201.2	222.9	232.1	232.1
Other services	160.3	168.6	181.1	186.3
Panama Canal Commission	175.5	188.4	204.7	194.5
<u>Adjustment</u>	<u>-19.1</u>	<u>-26.5</u>	<u>-39.8</u>	<u>-43.4</u>
(Annual percentage change from previous year)				
<u>Gross domestic product at market prices</u>	<u>6.0 1/</u>	<u>4.2</u>	<u>5.5</u>	<u>--</u>
<u>Primary activities</u>	<u>-1.5</u>	<u>8.5</u>	<u>0.5</u>	<u>1.7</u>
Agriculture	-1.9	8.3	0.3	1.5
Mines and quarries	29.2	22.6	7.9	12.2
<u>Secondary activities</u>	<u>11.3</u>	<u>-0.7</u>	<u>11.5</u>	<u>-3.3</u>
Manufacturing	4.1	-3.3	2.4	-1.0
Construction	23.5	3.2	24.0	-6.0
<u>Services</u>	<u>4.7</u>	<u>5.3</u>	<u>5.8</u>	<u>0.8</u>
Public utilities	2.1	5.0	5.3	6.3
Commerce, restaurants, and hotels	5.9	-1.4	-0.7	-1.7
Transport and communications	20.6	6.3	33.3	19.3
Colon Free Zone	18.5	1.2	-16.2	-25.0
Financial intermediation	-3.5	10.5	3.5	--
Housing rent	3.5	4.7	3.1	--
Public administration	2.4	10.8	4.1	--
Other services	10.9	5.2	7.4	2.9
Services to the Canal area	-24.7	...	...	...
Panama Canal Commission	...	7.4	8.7	-5.0

Sources: Office of the Comptroller General; and Fund staff estimates.

1/ Annual percentage changes from previous year exclude the effect of incorporation of the Canal area to Panama in 1980.

Table 9. Panama: Selected Price Indices

	1979	1980	1981	1982	Sept. 1983
<u>(1975 = 100)</u>					
<u>Period averages</u>					
Wholesale prices	138.8	160.2	176.2	190.8	195.0 <u>1/</u>
Cost of living	120.6	137.3	147.3	153.5	156.3 <u>1/</u>
GDP deflator	129.0	142.3	148.9	156.0	...
<u>(Percentage change over previous year)</u>					
Wholesale prices	14.0	15.4	10.0	8.3	2.7 <u>1/</u>
Cost of living	8.0	13.8	7.3	4.2	2.1 <u>1/</u>
GDP deflator	9.3	10.3	6.1	4.8	...
<u>(1975 = 100)</u>					
<u>End of period</u>					
Wholesale prices	145.6	165.7	180.2	198.2	196.1
Cost of living	125.0	143.1	150.0	155.5	158.0
<u>(Percentage change over previous 12 months)</u>					
Wholesale prices	15.7	13.8	8.8	7.4	2.1
Cost of living	9.9	14.5	4.8	3.7	1.9

Source: Office of the Comptroller General.

1/ Average of nine months through September.

Table 10. Panama: Operations of the Central Government

(In millions of balboas)

	1981	1982	1983		1984
			Prog.	Proj.	Prog.
<u>Total receipts</u>	<u>791.1</u>	<u>865.3</u>	<u>916.2</u>	<u>887.0</u>	<u>934.4</u>
<u>Current revenue</u>	<u>790.5</u>	<u>848.3</u>	<u>916.2</u>	<u>887.0</u>	<u>925.4</u>
Tax revenue	581.7	614.7	673.1	647.0	672.0
Income tax	(256.5)	(270.9)	(286.3)	(292.0) ^{1/}	(289.0) ^{1/}
Other direct taxes	(48.3)	(51.5)	(55.0)	(55.0)	(54.5)
Taxes on foreign trade	(99.1)	(106.0)	(123.9)	(110.0)	(127.8)
Taxes on domestic transactions	(177.8)	(186.3)	(207.9)	(190.0)	(200.7)
Nontax revenues	208.8	233.6	243.1	240.0	253.4
Panama Canal	(75.8)	(79.3)	(60.4)	(60.5)	(...)
Oil pipeline tax	(--)	(--)	(11.0)	(12.1)	(...)
Other	(117.7)	(126.5)	(149.3)	(145.0)	(...)
Transfer from the rest of the public sector	(15.3)	(27.8)	(22.4)	(22.4)	(...)
<u>Grants and contributions</u>	<u>0.6</u>	<u>17.0</u>	<u>--</u>	<u>--</u>	<u>9.0</u>
<u>Current expenditure</u>	<u>767.4</u>	<u>919.8</u>	<u>940.2</u>	<u>880.5</u>	<u>923.1</u>
Wages and salaries	296.5	317.8	366.1	360.0	407.0
Goods and services	54.5	106.9	105.3	98.0	98.2
Pensions and transfers	175.5	171.0	161.9	150.0	144.7
Of which:					
to the decentralized agencies	(73.9)	(45.8)	(36.0)	(36.0)	(44.7)
to the consolidated public enterprises	(8.3)	(9.6)	(5.9)	(5.9)	(3.8)
Interest	236.5	308.8	289.1	263.5	267.0
Internal	(21.9)	(20.0)	(26.8)	(...)	(...)
External	(214.6)	(288.8)	(262.3)	(...)	(...)
Other	4.4	15.3	17.8	9.0	6.2
<u>Current account surplus or deficit (-)</u>	<u>23.1</u>	<u>-54.5</u>	<u>-24.0</u>	<u>6.5</u>	<u>11.3</u>
<u>Capital expenditures</u>	<u>217.2</u>	<u>227.8</u>	<u>170.0</u>	<u>190.0</u>	<u>191.9</u>
Investment	138.2	160.4	130.5	153.2	162.8
Transfers to rest of public sector	79.0	67.4	39.5	36.8	29.1
<u>Overall surplus or deficit (-)</u>	<u>-193.5</u>	<u>-282.3</u>	<u>-194.0</u>	<u>-183.5</u>	<u>-180.6</u>
External financing (net) ^{2/}	61.2	304.5	133.5	56.8	...
National Bank financing (net) ^{3/}	132.3	-22.2	60.5	126.7	...

Table 10. Panama: Operations of the Central Government (Concluded)

(In millions of balboas)

	1981	1982	1983		1984
			Prog.	Proj.	Prog.
<u>(Annual percentage change)</u>					
<u>Current revenue</u>	<u>11.7</u>	<u>7.3</u>	<u>8.0</u>	<u>4.6</u>	<u>4.3</u>
Tax revenue	13.6	5.7	9.5	5.3	3.9
Nontax revenue	5.5	11.9	4.1	2.7	5.6
<u>Current expenditure</u>	<u>12.6</u>	<u>19.9</u>	<u>2.2</u>	<u>-4.3</u>	<u>4.8</u>
<u>Capital expenditure</u>	<u>-8.0</u>	<u>4.9</u>	<u>-25.4</u>	<u>-16.6</u>	<u>1.0</u>
Fixed capital formation	11.0	18.4	-18.6	-4.5	6.3
Transfers to rest of public sector	-29.0	-14.6	-26.7	-45.4	-21.0
<u>(As percent of GDP)</u>					
<u>Current revenue</u>	<u>20.4</u>	<u>20.5</u>	<u>20.4</u>	<u>20.6</u>	<u>20.4</u>
Tax revenue	15.7	14.5	15.0	15.0	14.7
Nontax revenue ^{4/}	4.7	6.0	5.4	5.6	5.7
<u>Current expenditure</u>	<u>19.8</u>	<u>21.8</u>	<u>21.0</u>	<u>20.4</u>	<u>20.2</u>
Wages and salaries	7.6	7.5	8.2	8.3	8.9
<u>Current account surplus or deficit (-)</u>	<u>0.6</u>	<u>-1.3</u>	<u>-0.6</u>	<u>0.2</u>	<u>0.2</u>
<u>Overall surplus or deficit (-)</u>	<u>-5.0</u>	<u>-6.7</u>	<u>-4.3</u>	<u>-4.3</u>	<u>-3.9</u>

Sources: Office of the Comptroller General; Ministry of Planning and Economic Policy; and Fund staff estimates.

^{1/} Includes discounting of income tax promissory notes issued by oil pipeline company.

^{2/} Includes bonds placed locally.

^{3/} Includes credit from FIVEN, PEMEX and IMF intermediated through the National Bank.

^{4/} Includes foreign grants-in-aid.

Table 11. Panama: Operations of the Social Security Agency

(In millions of balboas)

	1981	1982	1983		1984
			Prog.	Proj.	Prog.
<u>Current revenue</u>	<u>266.7</u>	<u>318.7</u>	<u>349.7</u>	<u>344.0</u>	<u>358.0</u>
Contributions	201.3	236.1	259.4	258.0	292.5
From workers	(93.7)	(109.4)	(...)	(...)	(...)
From employers	(99.5)	(117.7)	(...)	(...)	(...)
Other quotas	(8.1)	(9.0)	(...)	(...)	(...)
Professional risk premium	15.7	19.4	19.5	19.0	23.8
Thirteenth month contribution	22.9	27.0	30.5	31.1	--
Contributions to public employees' compensation pension fund	10.2	11.4	12.2	13.1	17.4
Income from investments	11.3	14.8	17.9	12.5	12.3
Other	5.3	10.0	10.2	9.9	12.0
<u>Current expenditures</u>	<u>235.7</u>	<u>266.5</u>	<u>287.7</u>	<u>300.3</u>	<u>339.3</u>
Administration	12.3	16.4	19.0	20.2	17.3
Payments of benefits and other	223.4	250.1	268.7	280.1	312.0
<u>Current operating surplus or deficit (-)</u>	<u>31.0</u>	<u>52.2</u>	<u>62.0</u>	<u>43.7</u>	<u>18.7</u>
Current transfers (net)	35.1	35.6	41.9	42.2	47.0
Current transfer from Central Government	(41.2)	(35.6)	(42.2)	(42.2)	(47.0)
Transfers to Central Government	(-6.1)	(--)	(-0.3)	(--)	(--)
<u>Current account surplus or deficit (-)</u>	<u>66.1</u>	<u>87.8</u>	<u>103.9</u>	<u>85.9</u>	<u>65.7</u>
<u>Capital expenditures</u>	<u>63.2</u>	<u>95.4</u>	<u>51.3</u>	<u>32.3</u>	<u>36.4</u>
Fixed investment	5.5	8.9	21.9	8.0	6.0
Financial investment	4.9	9.0	1.4	2.5	3.5
Net lending to National Mortgage Bank	14.2	16.7	13.0	4.8	16.9
Housing program and others	38.6	60.8	15.0	17.0	10.0
<u>Overall surplus or deficit (-)</u>	<u>2.9</u>	<u>-7.6</u>	<u>52.6</u>	<u>53.6</u>	<u>29.3</u>
External financing (net)	21.8 ^{1/}	--	--	--	...
National Bank financing (net)	-24.7	7.6	-52.6	-53.6	...

Sources: Social Security Agency; Office of the Comptroller General; Ministry of Planning and Economic Policy; National Bank; and Fund staff estimates.

^{1/} Bonds placed domestically.

Table 12. Panama: Consolidated Operations of the
Decentralized Agencies 1/

(In millions of balboas)

	1981	1982	1983		1984
			Prog.	Proj.	Prog.
<u>Total receipts</u>	<u>64.1</u>	<u>67.1</u>	<u>73.8</u>	<u>105.2</u> <u>2/</u>	<u>75.9</u>
<u>Operating expenditures</u>	<u>92.7</u>	<u>112.8</u>	<u>123.1</u>	<u>121.4</u>	<u>123.9</u>
Interest payments	19.2	25.7	37.3	34.7	25.2
Other current expenditure	73.5	87.1	85.8	86.7	97.8
<u>Operating surplus or deficit (-)</u>	<u>-28.6</u>	<u>-45.7</u>	<u>-49.3</u>	<u>-16.3</u>	<u>-47.1</u>
Current transfers (net)	27.7	41.5	30.0	33.8	44.7
Transfers from Central Government	(32.7)	(45.8)	(36.0)	(36.0)	(44.7)
Transfers to Central Government	(-5.0)	(-4.3)	(-6.0)	(-2.2)	(--)
<u>Current account surplus or deficit (-)</u>	<u>-0.9</u>	<u>-4.2</u>	<u>19.3</u>	<u>17.6</u>	<u>-2.4</u>
Capital transfers from Central Government	36.3	46.7	18.8	16.0	12.4
Transfers from Social Security Fund	14.2	16.7	13.0	4.8	16.9
<u>Capital expenditure</u>	<u>65.6</u>	<u>99.9</u>	<u>66.1</u>	<u>68.0</u>	<u>62.9</u>
Fixed investment <u>3/</u>	32.1	57.5	50.0	36.1	4.3
Other	33.5	42.4	16.1	31.9	58.6
<u>Overall surplus or deficit (-)</u>	<u>-16.0</u>	<u>-40.7</u>	<u>-53.6</u>	<u>-29.6</u>	<u>-36.0</u>
External financing (net)	6.6	39.9	50.3	-18.9	...
National Bank financing (net) <u>4/</u>	9.4	0.8	3.3	48.5	...

Sources: Office of the Comptroller General; Ministry of Planning and Economic Policy; National Bank of Panama; and Fund staff estimates.

1/ Includes the operations of University of Panama, Human Development Institute (IFARHU), Agricultural Marketing Institute (IMA), National Financial Company (COFINA), National Mortgage Bank (BHN), and Agricultural Development Bank (BDA).

2/ Includes B 34 million in proceeds of sale of hotel by COFINA.

3/ Includes investment expenditures of the Housing Ministry.

4/ Includes credit from FIVEN, PEMEX and IMF intermediated through the National Bank.

Table 13. Panama: Operations of the State Enterprises ^{1/}

(In millions of balboas)

	1981	1982	1983		1984
			Prog.	Proj.	Prog.
<u>Operating revenue</u>	<u>427.1</u>	<u>436.0</u>	<u>476.1</u>	<u>491.7</u>	<u>519.7</u>
<u>Operating expenditure</u>	<u>364.7</u>	<u>394.8</u>	<u>407.1</u>	<u>426.1</u>	<u>406.2</u>
Interest payments	67.0	60.5	82.9	72.4	71.6
Other current expenditure	297.7	334.3	324.2	353.7	334.6
<u>Operating surplus or deficit (-)</u>	<u>62.4</u>	<u>41.2</u>	<u>69.0</u>	<u>65.6</u>	<u>113.5</u>
Transfers net of taxes	4.1	-13.9	-10.1	-4.4	-5.5
Current transfers from					
Central Government	(8.3)	(9.6)	(5.9)	(5.9)	(3.8)
Transfers to Central Government	(-4.2)	(-23.5)	(-16.0)	(-10.3)	(-9.3)
<u>Current account surplus or deficit (-)</u>	<u>66.5</u>	<u>27.3</u>	<u>58.9</u>	<u>61.2</u>	<u>108.0</u>
Capital transfers	42.7	20.7	20.7	20.8	16.7
<u>Capital expenditure</u>	<u>117.1</u>	<u>179.4</u>	<u>154.6</u>	<u>181.7</u>	<u>188.2</u>
Fixed investment	117.1	180.3	154.6	181.7	188.2
Other	7.0	-0.9	--	--	--
<u>Overall surplus or deficit (-)</u>	<u>-7.9</u>	<u>-131.4</u>	<u>-75.0</u>	<u>-99.7</u>	<u>-63.5</u>
External financing (net)	-10.0	90.5	86.2	80.6	...
National Bank financing (net) ^{2/}	17.9	40.9	-11.2	19.8	...

Sources: Office of the Comptroller General; Ministry of Planning and Economic Policy; National Bank; and Fund staff estimates.

^{1/} Includes the operations of Hydraulic Resources and Electricity Institute (IRHE), National Telecommunications Institute (INTEL), National Water and Sewerage Institute (IDAAU), La Victoria Sugar Corporation, Colon Free Zone, Civil Aviation Authority, Tourism Institute, Bayano Cement Plant, and Port Authority.

^{2/} Includes credit from FIVEN, PEMEX and IMF intermediated through the National Bank.

Table 14. Panama: Summary Accounts of the Banking System

(In millions of balboas)

	December 31			June 30
	1980	1981	1982	1983
(Outstanding stocks)				
<u>Overseas operations (net)</u> ^{1/}	-1,022.5	-1,233.7	-1,306.3	-1,545.4
Of which: net position with IMF, FIVEN, and PEMEX	-56.1	-198.3	-261.1	-345.7
<u>Net domestic assets</u>	2,525.7	3,016.0	3,321.5	3,529.4
Public sector (net)	265.1	389.5	517.5	632.0
Private sector	2,215.8	2,624.8	2,696.4	2,763.8
Official capital and surplus	-51.9	-59.7	-73.2	-72.6
<u>Unclassified assets (net)</u> ^{2/}	96.7	61.4	180.8	206.2
<u>Long-term foreign liabilities</u> ^{3/}	48.8	62.4	67.5	66.8
<u>Liabilities to domestic private sector</u>	1,454.4	1,719.9	1,947.7	1,917.2
(Change from January 1 of same year)				
<u>Overseas operations (net)</u> ^{4/}	-168.4	-224.8	-77.7	-238.4
Of which: net position with IMF, FIVEN, and PEMEX	19.4	-142.2	-62.8	-84.6
<u>Net domestic assets</u>	460.4	490.3	305.5	207.9
Public sector (net)	7.4	124.4	128.0	114.5
Private sector	376.4	409.0	71.6	67.4
<u>Unclassified assets (net)</u> ^{5/}	76.6	-43.1	105.9	26.0
<u>Liabilities to domestic private sector</u>	292.0	265.5	227.8	-30.5
(Change during period/GDP)				
<u>Overseas operations (net)</u> ^{4/}	-4.7	-5.8	-1.8	-5.5
Of which: net position with IMF, FIVEN, and PEMEX	0.5	-3.7	-1.5	-2.0
<u>Net domestic assets</u>	12.9	12.6	7.1	4.8
Public sector (net)	0.2	3.2	3.0	2.6
Private sector	10.6	10.5	1.7	1.6
<u>Unclassified assets (net)</u> ^{5/}	2.1	-1.1	2.4	0.6
<u>Liabilities to domestic private sector</u>	8.2	6.8	5.3	-0.7

Sources: Banking Commission; National Bank of Panama; and Fund staff estimates.

- 1/ Includes private capital and surplus.
2/ Includes interbank float.
3/ Includes SDR allocation.
4/ Includes long-term foreign liabilities.
5/ Includes official capital and surplus.

Table 15. Panama: Operations of the National Bank of Panama

(In millions of balboas)

	December 31			September 30	
	1980	1981	1982	1982	1983
<u>Net foreign reserves</u>	-62.9	-156.5	-222.0	-214.0	-277.7
<u>Assets</u>	121.1	120.0	100.0	99.1	211.9
Reserve position with IMF	(10.3)	(--)	(--)	(--)	(--)
SDR holdings	(1.4)	(3.3)	(4.2)	(2.7)	(8.7)
Foreign currencies	(42.5)	(44.4)	(26.6)	(21.2)	(21.0)
Deposits abroad	(66.9)	(72.3)	(69.2)	(75.2)	(182.2)
<u>Liabilities</u>	-184.0	-276.5	-322.0	-313.1	-489.6
Use of Fund credit	(-23.1)	(-93.6)	(-84.1)	(-82.8)	(-173.4)
Other liabilities	(-160.9)	(-182.9)	(-237.9)	(-230.3)	(-316.2)
Of which:					
FIVEN	/-43.3/	/-86.5/	/-121.1/	/-121.8/	/-146.6/
PEMEX	/--/	/-18.2/	/-55.9/	/-47.4/	/-71.7/
<u>Overseas operations (net)</u>	-4.0	-2.7	-4.7	-4.6	-7.9
Credit to nonresidents	--	3.7	--	--	--
Deposits from nonresidents	-4.0	-6.4	-4.7	-4.6	-7.9
<u>Net domestic reserves</u>	-73.3	-97.9	-79.1	-96.3	-132.1
Domestic currency	4.4	3.8	5.2	3.6	4.8
Interbank deposits (net)	-96.9	-129.4	-104.5	-128.7	-147.8
Checks in clearing	21.0	31.2	22.8	35.2	17.4
Cashier's checks in circulation	-1.8	-3.5	-2.6	-6.4	-6.5
<u>Net domestic credit</u>	288.2	437.5	516.2	531.3	646.5
Public sector (net)	51.3	182.5	213.7	228.0	322.5
Private sector	269.5	284.2	341.0	330.3	349.1
Official capital and surplus	-44.2	-51.8	-65.0	-51.2	-64.2
Valuation adjustment	-1.8	-3.2	4.3	1.0	4.8
Unclassified assets (net)	13.4	25.8	22.0	23.2	34.3
<u>Long-term foreign liabilities</u>	20.6	31.3	38.2	36.3	40.7
<u>SDR allocation</u>	27.7	30.7	29.0	28.2	27.8
<u>Liabilities to domestic private sector</u>	99.7	118.4	143.2	151.9	160.3
Demand deposits	36.5	34.7	43.5	43.7	39.5
Time deposits	39.6	52.7	61.3	66.0	74.9
Savings deposits	20.7	25.2	29.9	29.6	29.9
Other deposits	2.9	5.8	8.5	12.6	16.0

Sources: National Bank of Panama; and Fund staff estimates.

Table 16. Panama: Summary Balance of Payments

	1981	Prel. 1982	Est. 1983	Proj. 1984
(In millions of U.S. dollars)				
<u>Current account</u>	-408.8	-450.5	-260.0	-250.0
Trade balance, f.o.b. ^{1/}	-955.6	-989.1	-733.6	-767.5
Petroleum products	(-138.1)	(-198.3)	(-144.6)	(-139.5)
Exports	/208.8/	/166.5/	/195.5/	/210.5/
Imports	/-346.9/	/-364.8/	/-340.1/	/-350.0/
Other merchandise	(-817.5)	(-790.8)	(-589.0)	(-628.0)
Exports	/284.3/	/318.0/	/298.0/	/322.0/
Imports	/-1,101.8/	/-1,108.8/	/-887.0/	/-950.0/
Investment income (net)	-251.2	-314.0	-433.1	-413.7
Interest on public debt	(-283.5)	(-350.3)	(-335.3)	(-325.6)
Other ^{2/}	(32.3)	(36.3)	(-97.8)	(-88.1)
Services and transfers (net)	798.0	852.6	906.7	931.2
<u>Capital account (net)</u>	470.4	450.5	260.0	250.0
Official capital	203.9	508.9	268.4	250.0
Nonfinancial	(61.6)	(435.8)	(90.2)	(116.2)
Official banks	(142.3)	(73.1)	(178.2)	(133.8)
Other official banks transactions ^{3/}	-36.9	-0.7	-2.5	--
Private capital	303.4	-57.7	-5.9	--
Direct investment	(53.0)	(53.4)	(...)	(...)
Direct nonbank borrowing	(124.0)	(90.3)	(...)	(...)
Banks	(126.4)	(-201.4)	(...)	(...)
<u>Net errors and omissions</u>	-61.6	--	--	--
(In percent of GDP)				
<u>Current account</u>	-10.5	-10.6	-6.0	-5.5
Trade balance	-24.6	-23.4	-17.0	-16.8
Investment income	-6.5	-7.4	-10.0	-9.0
Services and transfers	20.6	20.2	21.0	20.3
<u>Capital account</u>	12.1	10.6	6.0	5.5
Official capital	5.3	12.0	6.2	5.5
Other official banks transactions ^{3/}	-1.0	--	-0.1	--
Private capital	7.8	-1.4	-0.1	--
<u>Net errors and omissions</u>	-1.6	--	--	--

Sources: Office of the Comptroller General; and Fund staff estimates.

^{1/} Includes exports and imports of bunker and aviation fuel and of nonmonetary gold under merchandise trade.

^{2/} Includes remittances of oil pipeline company.

^{3/} Reflect mainly commercial operations of the National Bank of Panama.

Table 17. Panama: External Public Debt Operations 1/

(In millions of U.S. dollars)

	1981	1982	Est. 1983	Prog. 1984
<u>Total external public debt outstanding</u>	<u>2,698.0</u>	<u>3,197.6</u>	<u>3,457.0</u>	<u>3,707.0</u>
<u>Transactions during period</u>				
<u>Nonfinancial public sector</u>	<u>53.0</u>	<u>426.5</u>	<u>81.2</u>	<u>116.2</u>
<u>Medium- and long-term debt</u>	<u>85.6</u>	<u>411.1</u>	<u>139.6</u>	<u>116.2</u>
Drawings	(301.5)	(716.8)	(333.2)	(366.5)
Amortization	(-213.8)	(-299.9)	(-193.6)	(-250.3)
Adjustments	(-2.1)	(-5.8)	(--)	(--)
Short-term debt	-26.1	18.9	-49.4	--
Net domestic bond placement	-6.5	-3.5	-9.0	--
<u>National Bank of Panama</u>	<u>142.3</u>	<u>73.1</u>	<u>178.2</u>	<u>133.8</u>
<u>Medium- and long-term debt</u>	<u>10.3</u>	<u>10.5</u>	<u>--</u>	<u>--</u>
Drawings	(11.7)	(13.4)	(--)	(--)
Amortization	(-1.4)	(-2.9)	(--)	(--)
Changes in liabilities to Venezuela and Mexico <u>2/</u>	61.4	72.3	60.0	32.0
Changes in liabilities to IMF	70.6	-9.7	118.2	101.8
<u>Total interest payments</u>	<u>283.5</u>	<u>350.3</u>	<u>335.3</u>	<u>325.6</u>
<u>Debt service payments</u>	<u>498.7</u>	<u>653.1</u>	<u>528.9</u>	<u>565.9</u>
<u>Net foreign resource transfer; outflow (-)<u>3/</u></u>	<u>-88.2</u>	<u>149.3</u>	<u>-75.9</u>	<u>-75.6</u>

Sources: Office of the Comptroller General; National Bank of Panama; and Fund staff estimates.

1/ Includes debt contracted with local branches of foreign banks, and domestic bond placements.

2/ Under the San Jose Oil Agreement.

3/ Defined as net disbursement minus interest payments.

Table 18. Panama: External Public Debt Indicators

(In percent)

	1980	1981	1982	Est. 1983	Prog. 1984
<u>Debt service ratios</u>					
<u>To public sector receipts 1/</u>	42.6	36.1	38.8	39.0	39.8
Interest payments	23.2	22.8	26.0	24.0	21.5
Amortization	19.4	13.3	12.8	15.0	18.3
<u>To GDP</u>	13.4	11.5	12.4	12.6	13.2
Interest payments	7.3	7.3	8.3	7.8	7.1
Amortization	6.1	4.2	4.1	4.8	6.1
<u>To export of goods and nonfactor services</u>	30.0	30.3	39.5	32.6	34.3
Interest payments	16.3	17.3	21.2	20.1	18.6
Amortization	13.7	13.1	18.3	12.5	15.7
<u>External public debt ratio to GDP</u>	76.6	69.5	75.6	80.2	81.0
Multilateral and bilateral agencies	19.5	20.9	23.4	30.6	35.0
Of which: IMF	(0.6)	(2.4)	(2.0)	(7.2)	(9.0)
Debt contracted at commercial terms	57.1	48.5	52.2	49.6	46.0
<u>Effective interest rates 2/</u>					
On total external public debt	11.2	11.3	12.3	10.1	9.1
On debt contracted at fixed rates	7.2	6.6	6.8	6.6	6.6
On debt contracted at variable rates	14.3	15.1	16.6	11.8	10.5
<u>Memorandum item</u>					
Six-month LIBOR	13.7	15.0	15.8	10.5	10.1

Sources: Office of the Comptroller General; National Bank of Panama; and Fund staff estimates.

1/ Public sector receipts are defined as the sum of general government revenue and the operating surplus of the state enterprises before interest payments.

2/ Interest rate on average debt outstanding during the period.

Table 19. Panama: Projection of External Debt Service ^{1/}

(In millions of U.S. dollars)

	1983	1984	1985	1986	1987
Total debt service	543.9	601.7	749.9	893.5	979.9
Interest payments	335.3	325.2	357.2	387.3	423.5
Of which: to IMF	(5.5)	(23.1)	(30.2)	(26.0)	(23.0)
Amortization	208.6	276.5	392.7	506.2	556.4
Multilateral loans	23.0	28.5	36.6	41.9	47.3
Bilateral loans	23.8	38.0	38.2	37.7	47.0
Bonded debt	56.7	22.1	22.1	22.2	23.0
Supplier credits	16.9	14.7	17.7	16.4	25.0
Financial institutions	88.2	165.0	247.1	344.8	370.9
IMF	--	8.2	31.0	43.2	43.2

Sources: IBRD; and Fund staff estimates.

^{1/} The figures are based on the public debt contracted as of December 1982, with disbursement projections reflecting existing commitments of multilateral and bilateral agencies and the additional new financing required to cover future moderate budget deficits.

Table 20. Panama: Outstanding External Debt

	1981	1982	Est. 1983	1984	1985	Proj. 1986	1987
(In millions of U.S. dollars)							
<u>Public sector debt outstanding</u> (at end of period) ^{1/}	2,698.0	3,197.6	3,457.0	3,707.0	3,932.0	4,157.0	4,382.0
<u>Public sector debt service</u>	498.7	653.1	543.9	601.7	749.9	893.5	979.9
Principal paid ^{2/}	215.2	302.8	208.6	276.5	392.7	506.2	556.4
Interest paid ^{3/}	283.5	350.3	335.3	325.2	357.2	387.3	423.5
(In percent)							
Ratio of public sector debt to GDP	69.5	75.6	80.2	81.0	79.6	76.3	72.9
Ratio of debt service payment to exports of goods and nonfactor services	30.3	39.5	32.6	34.3	38.6	41.6	41.4

Sources: Office of the Comptroller General; National Bank of Panama; and Fund staff estimates.

^{1/} The figures are based on the public debt contracted as of December 1982; assumes annual net increase of US\$225 million after 1984.

^{2/} Amortization of medium- and long-term debt outstanding.

^{3/} Interest on total debt outstanding.