FOR
AGENDA

EBS/83/102

CONFIDENTIAL

May 24, 1983

To: Members of the Executive Board

From: The Acting Secretary

Subject: Panama - Staff Report for the 1983 Article IV Consultation and Request for Stand-By Arrangement

Attached for consideration by the Executive Directors is the staff report for the 1983 Article IV consultation with Panama and its request for a stand-by arrangement equivalent to SDR 150.0 million. A draft decision appears on page 22.

This subject, together with Panama's request for a purchase under the compensatory financing facility (EBS/83/103, 5/24/83), will be brought to the agenda 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. Linde, ext. 73150.

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

PANAMA

Staff Report for the 1983 Article IV Consultation and Request for 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 Eduardo Wiesner and Manuel Guitian

May 24, 1983

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I. Introduction

The 1983 Article IV consultation discussions with Panama 1/ and negotiations on a financial and economic program for the 1983-84 period, in support of which Panama is requesting a stand-by arrangement from the Fund (see attached letter dated April 29, 1983), were held concurrently in Panama City from January 31 to February 19, 1983. A staff team returned to Panama City in the third week of March 1983 to conclude the negotiations.2/

Representatitves for Panama included the Minister of Planning and Economic Policy; the Minister of Finance and Treasury: the General Manager of the National Bank; the Comptroller General; the Ministers of the Presidency; Commerce and Industry; Labor; Agriculture; and other senior officials of the Government, the National Bank, and various public agencies and enterprises. The President of the Republic met with members of the mission on several occasions. A World Bank mission coincided with that of the Fund staff for a few days. Panama is negotiating a structural adjustment loan with the World Bank.

The stand-by arrangement requested by the authorities extends over the period through the end of calendar year 1984 and is in the amount of SDR 150 million (equivalent to 222.2 per cent of Panama's quota of SDR 67.5 million), including SDR 29,730,998 from ordinary resources and SDR 120,269,002 from borrowed resources. The phasing of purchases under the stand-by arrangement is set out in Table 1. The Panamanian authorities are also requesting a purchase under the CFF in the amount of SDR 58.9 million, equivalent to 87.3 per cent of quota.3/ Panama has no purchases outstanding under this facility. A waiver of the limitations in Article V, Section 3(b)(iii) of the Articles of Agreement is required.

As of April 30, 1983 the Fund's holdings of Panamanian balboas amounted to SDR 142.8 million (211.5 per cent of quota), including SDR 37.8 million in the credit tranches (56 per cent of quota) and SDR 37.5 million under the supplementary financing facility (55.5 per cent of quota). The proposed stand-by arrangement, if fully utilized and taking into account full use of the requested purchases under the CFF and scheduled repurchases, would increase Fund holdings of Panamanian balboas to 510.1 per cent of quota, or to 422.8 per cent of quota exclusive of purchases under the CFF. Further information on Panama's relation with the Fund is presented in Appendix II.

1/ Panama has accepted the obligations of Article VIII, Sections 2, 3, and 4 of the Articles of Agreement.

2/ The first staff mission consisted of Armando Linde (Head-WHD), Edgardo Decarli (WHD), Ian McCarthy (AFR), Alfredo Baumgarten (WHD), Jean-Claude Brou (WHD) and Nansihud Cabrera (Secretary-WHD). The follow-up mission was staffed by Armando Linde, Edgardo Decarli, Alfredo Baumgarten and Rosa Maria Orpin (Secretary), all from WHD.

3/ See "Panama: Use of Fund Resources--Compensatory Financing Facility" (EBS/83/--, May --, 1983, which will be scheduled for Board discussion at the same time as this request.

Table 1. Panama: Projected Purchases and Schedule Repurchases May 1, 1983 - December 31, 1984

	Operations During Period of Arrangement								
	Outstanding April 30, 1983	June-July 1983	Aug.-Oct. 1983	Nov. 1983 Jan. 1984	Feb.-Apr. 1984	May-July 1984	Aug.-Oct. 1984	Nov.-Dec. 1984	Outstanding Dec. 31, 1984
	(In millions of SDRs)								
Purchases									
Under tranche policies		10.0	20.0	20.0	25.0	25.0	25.0	25.0	
Ordinary resources		(6.3)	(9.1)	(9.1)	(5.2)	(--)	(--)	(--)	
Enlarged access		(3.7)	(10.9)	(10.9)	(19.8)	(25.0)	(25.0)	(25.0)	
Compensatory financing		58.9	--	--	--	--			
Repurchases									
Under tranche policies		--	--	--	--	1.1	1.6	4.7	
Ordinary resources		(--)	(--)	(--)	(--)	(1.1)	(1.1)	(4.7)	
Supplementary financing		(--)	(--)	(--)	(--)	(--)	(0.5)	(--)	
Net purchases		68.9	20.0	20.0	25.0	23.9	23.4	20.3	
Memorandum items									
Total holdings (end of period)	142.8								344.3
Quota	67.5								67.5
Under tranche policies	75.3								217.9
Ordinary resources	(37.8)								(60.6)
Enlarged access	(--)								(120.3)
Supplementary financing	(37.5)								(37.0)
Compensatory financing	--								58.9
	(In per cent of quota)								
Total holdings (end of period)	211.5								510.1
Excluding compensatory facility	211.5								422.8

Source: International Monetary Fund.

The last Article IV consultation discussions with Panama took place in November-December 1980 and the staff report was discussed by the Executive Board on February 23, 1981. Panama has had 14 stand-by arrangements with the Fund, the most recent of which was approved on April 28, 1982 (EBS/82/47) for a period of one year in the amount of SDR 29.7 million. Panama's performance under this arrangement was not satisfactory and purchase rights were interrupted. The staff prepared a paper reviewing Panama's performance under this arrangement for the information of the Executive Directors (EBS/82/47, Supplement 2; October 1, 1982).

Section II provides background information and updates the previous review of Panama's performance under the recently expired stand-by arrangement; Section III describes and analyzes the major elements of the stabilization program for 1983-84. The staff appraisal and the proposed decision are contained in Section IV.

II. Background and Performance Under the Last Stand-By Arrangement

1. Background

In Panama's financial setting,1/ excess demand pressures automatically spill over into the current account of the balance of payments, while the behavior of domestic prices tends to reflect changes in import prices and the world price of domestically traded exportables. In turn, the current account deficit is fully determined by the availability of foreign financing, and the overall balance of payments is thus always in equilibrium. Because Panama's very liberal banking legislation enables the banking community to set almost at will the extent of its domestic exposure, economic management rests largely on fiscal policies, and the leading indicator of macroeconomic stability is the public sector deficit rather than the balance of payments.

In the mid-1970s, the authorities pursued expansionary fiscal policies to offset the domestic effect of foreign recession, and a serious weakness in private investment partly related to uncertainties surrounding the negotiations with the United States on the new Panama Canal Treaties. These policies resulted in large fiscal deficits, which averaged almost 16 per cent of GDP over the 1974-78 period, and rapid accumulation of external indebtedness. By the end of 1978 the outstanding external public debt had reached the equivalent of 80 per cent of GDP, compared with little more than 30 per cent five years earlier. From 1979 to 1981 the authorities embarked on an adjustment program that reduced the public sector deficit first to 12 per cent of GDP in 1979, and then to less than 5-1/2 per cent of GDP in 1980 and 1981.

1/ Panama has no central bank and holds only nominal international reserves. The U.S. dollar circulates freely as legal tender and medium of exchange; the Panamanian Treasury issues only fractional balboa coins.

Public sector receipts advanced strongly during the three years ending in 1981, rising in relation to GDP by about 5 percentage points to 30-1/2 per cent. This improvement included the equivalent of about 2 percentage points of GDP attributable to an increase in the revenues that Panama receives from the canal operation. These had amounted to US$2 million a year for many years, before they rose to about US$80 million a year when the new Canal Treaties entered into force in 1980. Total public sector expenditure in relation to GDP declined by 3-1/2 per- percentage points over the same three-year period—to almost 36 per cent of GDP—even though the rise in international interest rates raised interest payment on the foreign debt by the equivalent of about 2 percentage points of GDP. From 1978 to 1981 the effective interest rate on the total external public debt rose from 7-1/2 per cent to 11-1/2 per cent, as the rate on debt contracted at commercial terms jumped from an average 9-1/2 per cent in 1978 to 15 per cent in 1981 (and to 16-1/2 per cent in 1982).

Economic activity, which began to recover strongly in 1978 after agreement was reached on the Canal Treaties, continued to expand over the next three years as the fiscal adjustment was taking place; real GDP growth averaged almost 5 per cent over the 1979-81 period. The recovery was spearheaded by private construction, particularly in commercial real estate, high income housing and expansion of facilities in the Colon Free Zone. The agricultural sector did not participate in the economic rebound, as output stagnated over the 1979-81 period; the performance of the manufacturing sector was mixed.

2. Performance under the last stand-by arrangement

The authorities framed a financial program for 1982, which called for a continuation of a moderate fiscal stance. The overall public sector deficit was to remain below 6 per cent of GDP, and the foreign financing requirements of the public sector were consistent with a further reduction in the ratio of external public debt to GDP, which by the end of 1981 had dropped to 67 per cent, compared with 80 per cent three years earlier. On the assumption that output would continue to expand at a rate of 5 per cent a year, while the inflation rate remained at slightly less than 10 per cent, total public sector receipts were projected to increase by 15-1/2 per cent and total public expenditures by about 16 per cent.

In the event, price performance was much better than expected, with inflation decelerating to under 5 per cent, while output grew by 4 per cent. The fiscal performance, however, was considerably at variance with the financial program for 1982 (Table 2). The overall deficit of the nonfinancial public sector reached B 464 million (11 per cent of GDP), far in excess of the program limit of B 255 million (about 6 per cent of GDP).

The causes of this wide departure from the financial program stemmed from deviations in both revenue and expenditure. Public sector receipts kept pace with the nominal growth in national income, but fell short of

Table 2. Panama: Performance Under the 1982 Stand-by Arrangement

(In millions of balboas)

	1982				1983
	March	June	Sept.	Dec.	March
Cumulative overall nonfinancial public sector deficit					
Cumulative limit	...	120.0	180.0	255.0	255.0 1/
Actual	114.2	238.4	364.7	464.0	397.5
Margin or excess (-)	...	-118.4	-184.7	-209.0	-142.5
National Bank net credit to public sector					
Ceiling 2/	...	325.8	327.7	265.6	339.5
Actual	236.4	124.6	228.0	213.7	324.2
Margin or excess (-)	...	201.6	99.7	51.9	15.3
Cumulative net foreign borrowing by the public sector					
Limit 3/	...	...	...	255.0	...
Actual 4/	94.4	342.8	333.0	508.9	...
Margin or excess (-)	...	...	...	-253.9	...

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

1/ Twelve-month period ending March 1983.
2/ Adjusted upward for use of Fund resources and loan disbursement from Venzuela's Investment Fund and from Mexico and Venzuela under the San Jose Agreement channeled to the public sector through the National Bank; stock outstanding at end of period.
3/ Limit applies only at the end of calendar year 1982.
4/ Includes increases in National Bank liabiliites to Venezuela and Mexico under the San Jose Agreement and changes in Panama's liabilities to the IMF.

the program target by more than B 70 million (Table 3). Meanwhile, public expenditure not only did not adjust to the lower receipts and to the slower rate of inflation, but actually increased by almost 25 per cent, exceeding the program target by close to B 140 million.1/ In relation to GDP, total expenditures jumped from 36 per cent in 1981 to 41 per cent in 1982, the highest such ratio since 1978.

The actual composition of public expenditure also differed substantially from the budget. As general government current spending increased faster than expected, public savings declined to the equivalent of 1-1/2 per cent of GDP, compared with a program target of 4-1/2 per cent. The program had not contemplated any wage increases other than those provided for under multiyear collective agreements and cost of living adjustments. The government wage bill increased by only 7 per cent, compared with a 10 per cent increase allowed for in the budget. These savings, however, were more than offset by stepped up government purchases of goods and services and increased subsidies to government agencies and state enterprises.

The public sector investment target of 10 per cent of GDP was exceeded by 2 percentage points. This departure can be ascribed for the most part to spending in excess of plans by the electricity company (IRHE) and by the Social Security Agency. For several years IRHE has been expanding its hydropower generating capacity with the financial help of the World Bank and the Inter-American Development Bank. At present, IRHE's largest undertaking is the construction of the La Fortuna dam, a 300 megawatt plant expected to come on stream in late 1984. Over the years this particular project has had a history of sizable cost overruns. Around the middle of last year, the project's prime foreign contractor made demands for additional compensation, threatening to withdraw from the project otherwise. The authorities eventually agreed to make an unanticipated cash payment of B 50 million to settle the issue and avoid further and costly delays that would have resulted if commissioning of the plant had to be pushed further into the future.

Another major area where implementation of the program went astray was in a social housing project of the Social Security Agency. The Agency's original plan, formulated around the middle of 1981, called for the construction of some 8,000 housing units over a two-year period at a total cost of B 220 million. The financial authorities found these goals too ambitious and were able to slow down the project at that time, and limit such outlays to a maximum of B 30 million in calendar 1982. The project was brought to a halt temporarily, but spending accelerated in the first quarter of 1982, and by the end of the first half of the year outlays had already amounted to almost B 60 million, before they were finally brought to a halt.

1/ Including a residual item shown in Table 3 as the overall deficit of the nonconsolidated public sector.

Table 3. Panama: Operations of the Nonfinancial Public Sector

	1978	1979	1980	1981	1982 Prog.	1982 Prel.	1983 Prog.
	(In millions of balboas)						
Consolidated public sector revenue	595.0	708.2	1,032.6	1,177.3	1,360.5	1,287.7	1,392.3
General government 1/	594.4	704.7	978.8	1,110.8	1,298.7	1,253.0	1,340.9
Public enterprises current account surplus	0.6	3.6	53.8	66.5	61.8	34.7	51.4
Consolidated public sector total expenditure	960.7	1,054.2	1,229.3	1,391.8	1,615.5	1,735.2	1,662.3
General government current expenditure	620.5	750.6	915.3	1,021.9	1,168.5	1,218.6	1,272.8
Capital expenditure	340.2	303.6	314.0	369.9	447.0	516.6	389.5
Consolidated public sector savings 1/	-25.5	-42.4	117.3	155.4	192.0	69.1	119.5
Overall deficit of consolidated public sector	-365.7	-346.0	196.7	-214.5	-255.0	-447.5	-270.0
Overall surplus or deficit (-) of nonconsolidated public sector	-11.5	15.4	12.6	6.6	--	-16.5	--
Overall public sector deficit	-377.2	-330.6	-184.1	-207.9	-255.0	-464.0	-270.0
External financing	479.5	196.1	227.6	61.6	171.9	435.8	270.0 3/
National Bank	-100.7	139.9	-40.5	131.1	83.1 2/	31.2	--
Other domestic financing	-1.6	-5.4	-3.0	15.2	--	-3.0	--
	(Annual percentage changes)						
Consolidated public sector revenue	10.8	19.0	45.8	14.0	15.6	9.4	8.1
Consolidated public sector expenditure	18.9	9.7	16.6	13.2	16.1	24.7	-4.2
General government current expenditure	(25.2)	(21.0)	(21.9)	(11.6)	(14.3)	(19.2)	(4.4)
Capital expenditure	(9.0)	(-10.8)	(3.4)	(17.8)	(20.8)	(40.0)	(-24.6)
	(As per cent of GDP)						
Consolidated public sector revenue	24.3	25.3	29.4	30.3	30.4	30.4	31.1
Consolidated public sector expenditure	39.2	37.6	35.0	35.8	36.1	41.0	37.1
General government current expenditure	(25.3)	(26.8)	(26.0)	(26.3)	(26.1)	(28.8)	(28.4)
Capital expenditure	(13.9)	(10.8)	(9.0)	(8.5)	(10.0)	(12.2)	(8.7)
Consolidated public sector savings	-1.0	-1.5	3.3	4.0	4.3	1.6	2.7
Overall public sector deficit	-15.4	-11.8	-5.3	-5.4	-5.7	-11.0	-6.0
External financing	19.6	7.0	6.5	1.6	...	10.3	...
Domestic financing	-4.2	4.8	-1.2	3.8	...	0.7	...

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

1/ Includes grants in aid.
2/ Includes net use of Fund resources, and loan disbursement from Mexico and Venezuela under the San Jose Oil Agreement that are channeled by the National Bank to the nonfinancial public sector.
3/ This target is to be adjusted downward to the extent of transactions as described in (i) above.

The ceiling on National Bank net credit to the public sector for 1982 was observed with a margin B 52 million because foreign credits more than covered the deficit of the nonfinancial public sector. Net foreign borrowing by the entire public sector (including official financial institutions) amounted to US$509 million, and the limit on such indebtedness was exceeded by US$254 million. The outstanding external debt of the public sector increased by almost one fifth during 1982, reaching US$3.1 billion at the end of 1982, or the equivalent of 73 per cent of GDP (Table 4).

In 1981 the deficit in the current account of the balance of payments widened to US$429 million (11 per cent of GDP) from US$271 million (7-3/4 per cent of GDP) in the previous year, mainly as a result of an increase in imported machinery and equipment for the construction of an oil pipeline across the Panama Isthmus. The Government of Panama has a minority interest in this undertaking, which was financed mainly with private capital. Accordingly, private capital inflows financed more than three fourths of the current account deficit in 1981. Despite a sharp drop in imports for this project as it neared completion, the current account deficit widened somewhat in 1982, reflecting demand pressures originating in the public sector. In relation to GDP, the current account deficit remained at 11 per cent of GDP, but in contrast with the preceding year, this deficit was financed exclusively with official capital (Statistical Appendix Table 12).

III. The Financial Program for 1983 and 1984

1. Summary

In framing a financial program for the medium term, the Panamanian authorities confronted three basic problems: first, access to foreign financing is likely to be severely restricted for some time to come because of the need to ease the burden of debt service payments, and by lenders' financial concerns about their exposure; second, the weak savings performance of the public sector makes it difficult to finance domestically the level of public investment that is deemed necessary to advance Panama's development objectives; and third, the international economic situation--and particularly that of Panama's trading partners in the Latin American region--is such that, short-term prospects do not augur well for economic growth.

To address these problems, the authorities have formulated an economic and financial program for 1983 and 1984 with a view to attaining three basic objectives: (1) to reduce the overall deficit of the public sector from the equivalent of 11 per cent of GDP in 1982 to 6 per cent in 1983 and 5-1/2 per cent in 1984; and to finance these deficits without net recourse to commercial credits (Table 5); (2) to seek adjustment not only in terms of reducing the public sector borrowing requirements to a more manageable level, but also in terms of providing for an increase in public sector savings of at least 2-1/2 per cent of GDP

Table 4. Panama: External Public Debt Outstanding 1/

(In millions of U.S. dollars)

	1978	1979	1980	1981	1982	Prog. 1983
Total	1,974.0	2,167.7	2,400.7	2,602.5	3,105.6	3,375.6
By maturity						
Medium and long term	1,957.1	2,141.3	2,329.5	2,557.4	3,041.6	3,311.6
Short term	16.9	26.4	71.2	45.1	64.0	64.0
By lender						
Bilateral and multilateral institutions	543.1	585.2	637.6	814.4	990.3	1,260.3
Debt contracted on commercial terms	1,430.9	1,582.5	1,763.1	1,788.1	2,115.3	2,115.3
Bonded debt and suppliers' credit	(3,550.0)	(400.3)	(386.7)	(373.8)	(327.6)	(...)
Commercial banks	(1,075.9)	(1,182.2)	(1,376.4)	(1,414.3)	(1,787.7)	(...)
By borrower						
Nonfinancial public sector	1,868.5	2,064.0	2,300.8	2,360.3	2,790.3	--
National Bank of Panama	105.5	103.7	99.9	242.2	315.3	--

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

1/ Includes debt contracted with local branches of foreign banks, and use of Fund resources.

Table 5. Panama: Macroeconomic Flows

(As per cent of GDP)

	1978	1979	1980	1981	Prog. 1982	Prel. 1982	Prog. 1983
I. Balance of Payments							
Current account surplus or deficit (-)	-8.5	-10.6	-7.8	-11.1	-8.5	-11.3	-6.0
Trade balance	-19.6	-22.3	-23.2	-25.1	-22.6	-24.6	-21.7
Investment income	-2.2	-3.8	-4.6	-6.5	-4.0	-6.6	-5.9
Other services and transfers	13.3	15.5	20.0	20.5	18.1	19.9	21.6
Capital account (net)	15.7	15.1	11.8	12.1	8.5	10.7	6.0
Official capital	19.8	6.9	6.4	5.3	5.7	12.0	6.0
Other official banks transactions	-3.4	2.0	1.1	-1.0	--	--	--
Private capital	-0.7	6.2	4.3	7.8	2.8	-1.3	--
Net errors and omissions	-7.2	-4.5	-4.0	-1.0	--	0.6	--
II. Nonfinancial Public Sector							
Consolidated public sector savings	-1.0	-1.5	3.3	4.0	4.3	1.6	2.7
Central government current account surplus or deficit (-)	-1.8	-2.7	0.7	0.6	1.1	-1.3	-0.6
Revenue 1/	(16.5)	(17.0)	(20.2)	(20.4)	(20.4)	(20.7)	(20.6)
Expenditures	(-18.3)	(-19.7)	(-19.5)	(-19.8)	(-19.3)	(-22.0)	(-21.2)
Rest of public sector current account surplus or deficit (-)	0.8	1.2	2.6	3.4	3.2	2.9	3.3
Consolidated public sector capital expenditure	13.9	10.8	9.0	9.5	10.0	12.3	8.7
Fixed investment	12.9	9.9	7.6	8.5	8.7	10.6	8.2
Other capital expenditure	1.0	0.9	1.4	1.0	1.3	1.7	0.5
Overall deficit of the consolidated public sector	-14.9	-12.3	-5.7	-5.5	-5.7	-10.7	-6.0
Nonconsolidated public sector surplus or deficit (-)	-0.5	0.5	0.5	0.1	--	-0.4	--
Financing	15.4	11.8	5.2	5.4	5.7	11.1	6.0
Foreign	19.6	7.0	6.5	1.6	5.7	10.4	6.0
Domestic	-4.2	4.8	-1.3	3.8	--	0.7	--
III. Savings and Investment							
Investment	26.6	28.1	25.6	28.5	28.2	29.1	24.6
Public sector	13.9	10.8	9.0	9.5	10.0	12.3	8.7
Private sector	12.7	17.3	16.6	19.0	18.2	16.8	15.9
Savings	26.6	28.1	25.6	28.5	28.2	29.1	24.6
Foreign savings	8.5	10.6	7.8	11.1	8.5	11.3	6.0
National savings	18.1	17.5	17.8	17.4	19.7	17.8	18.6
Public sector 1/	(-1.0)	(-1.5)	(3.3)	(4.0)	(4.3)	(1.6)	(2.7)
Private sector	(19.1)	(19.0)	(14.5)	(13.4)	(15.4)	(16.2)	(15.9)
Memorandum item							
Rate of growth of real GDP	9.8	4.5	6.0	4.3	5.0	4.1	1.0
GDP deflator	7.9	9.3	10.1	6.1	9.5	4.6	5.0

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

1/ Includes grants-in-aid.

over the program period, and a reorientation of spending policies to promote a more efficient resource use by the public sector; and (3) to create conditions propitious for private capital formation through a rationalization of government regulatory policies. In this regard, special emphasis is to be placed on the elimination of administrative trade restrictions, the easing of controls over private pricing decisions and the reassessment of industrial incentives and farm price policies.

2. Performance criteria

The following performance criteria have been established: (1) quarterly cumulative limits on the overall deficit of the nonfinancial public sector (Table 1 of the letter of intent); (2) quarterly ceilings on the stock of National Bank net credit to the nonfinancial public sector (Table 2 of the letter of intent); (3) quarterly cumulative limits on net external borrowing by the entire public sector; quarterly cumulative limits on net commercial borrowing by the public sector; and a ceiling on public short-term debt (Table 3 of the letter of intent); (4) the customary understandings relating to exchange and trade practices (paragraph 20 of the letter of intent); and (5) a review of progress made in the implementation of the fiscal program before September 30, 1983, and another review before January 15, 1984 to reach understandings on policies and suitable performance clauses for calendar year 1984 (paragraph 21 of the letter of intent). Table 6 summarizes the program's quantitative performance clauses through December 31, 1983.

3. Financial policies

The program calls for a reduction in the overall deficit of the nonfinancial public sector from B 464 million in 1982 (11 per cent of GDP) to B 270 million in 1983 (or the equivalent of 6 per cent of GDP). As in the previous arrangement, the limit on the public sector deficit has been defined as the sum of its net external borrowing (including net borrowing from local branches of foreign banks), its net credit from the National Bank, and its net proceeds from bond issues placed with the domestic private sector.

The large adjustment that is required in the fiscal deficit in 1983 is to be achieved by raising the public sector current account surplus by 1 percentage point of GDP to 2-1/2 per cent, and reducing public capital outlays from the unsustainably high level of 12-1/2 per cent of GDP reached in 1982 to 8-1/2 per cent.

Because most of the adjustment is to come as a result of investment reductions, the staff requested World Bank assistance in assessing the adequacy of Panama's investment plans. The staff of the World Bank conducted an in depth review of the investment budget for 1983 and the draft budget for 1984.

Table 6. Panama: Stand-By Arrangement Quantitative Performance Criteria

(In millions of balboas; end of period)

	1983		
	June	September	December
Cumulative overall nonfinancial public sector deficit			
Cumulative limit	150	210	270
National Bank net credit to public sector			
Ceiling 1/	334	259	214
Cumulative net foreign borrowing of the public sector			
Total external public debt 2/	30	165	270
Total external commercial debt	--	40	--
Outstanding commercial debt with maturity of less than one year	...	...	64

1/ Ceiling will be adjusted upward to the full extent of the purchases that the National Bank might make from the Fund during the period of the Stand-By Arrangement, 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.
2/ This limit will be adjusted downward to the full extent of any net purchases made from the Fund by Panama.

The World Bank shares the Panamanian authorities' and the staff's view that the planned curtailment of capital outlays would not be detrimental to Panama's medium-term development strategy. As already noted, public investment spending by the public sector in 1982 included certain outlays of a nonrecurrent nature. In addition, most of the projects that have been deferred to a later time are considered of low priority, and some ambitious projects of questionable economic worth, such as the development of the Cerro Colorado copper deposits and the construction of a large bridge across the Panama Canal to replace an existing one, have been dropped. In contrast, those projects that have been retained are judged to be economically sound, and are generally geared to the provision of the necessary infrastructure to complement private sector initiatives. Investment by the electricity company, for instance, is confined almost exclusively to the high priority La Fortuna project, and profitable state enterprises such as the Telecommunications Company and the Airport Authority are to be restricted to investments financed from their own resources. Because of its critical financial situation the National Development Corporation (COFINA) is being restructured, and has been prohibited from expanding its loan portfolio. Expansion plans previously entertained by the authorities in the sugar sector have also been shelved. Public works outlays will be only for necessary maintenance and rehabilitation since the basic infrastructure is largely in place. As in 1983, the preliminary budget for 1984 concentrates expenditure in energy, transportation and agriculture, while further reduction are to be made in education, health, housing and telecommunications.

Medium-term prospects for a significant improvement in public savings appear good. Panama's ongoing development of its hydropower potential seems to be back on track, and the coming-on-stream of the La Fortuna hydroelectric plant in the fall of 1984 should result in savings in fuel consumption of about B 65 million a year, at current petroleum prices. Panama's 40 per cent participation in the new oil pipeline venture will not be a significant source of government revenue until 1985 because the after tax net profits of the pipeline corporation are being almost fully devoted, at present, to the amortization of debt. After 1985, however, the Government's share of net profits, together with corporate taxes, should amount to approximately B 80 million a year, assuming no change in present charges and volumes transshiped (US$0.95 per barrel, 800,000 barrels a day).

While the expected windfall from these assets should eventually provide substantial financial relief for the Government, the authorities have recognized that they can hardly afford to mortgage this potential income stream by failing to take steps to improve the public savings performance at once. Accordingly the authorities have taken a number of revenue and expenditure decisions to make feasible attainment of the program savings target.

The revenue measures that have been adopted involve a tax package that features selective tariff increases on a wide array of imported goods as well as replacement of existing quota restrictions on a large number of consumer goods with equivalent tariff protection. Among the most significant individual items, import tariffs on automobiles were increased by one half to an average tax rate of close to 30 per cent; this measure should yield an estimated B 5 million on an annual basis. Taxes on imported petroleum also have been raised, not only for revenue purposes but also as part of a long standing policy of encouraging energy conservation. The oil tax increase should yield some B 7 million a year, or about one fourth of the estimated total benefit that the Panamanian economy is expected to derive from the recent drop in international petroleum prices. The present regime of specific taxation on imports was last revised more than a decade ago, and effective tax rates have eroded significantly since then. The authorities' eventual goal is to substitute ad valorem import tariffs for specific duties, to modernize the Customs Administration, and to adopt the Brussels Nomenclature. Technical assistance is being provided by the Fund in this regard. In due time, these reforms should substantially improve customs revenue collections. For the time being, however, import duties on items that were being taxed at low rates have been raised, and in addition, quota restrictions have been lifted on higher priced shoes, clothing articles, and various other consumer goods and replaced with equivalent tariff protection. This set of measures should produce some B 22-25 million a year. In addition, ship registration fees have been increased to raise another B 3 million. Altogether the revenue package is projected to yield the equivalent of close to 1 per cent of GDP on an annual basis.

Margin to reduce current expenditure is greatly restricted by the burden of interest payments on the external debt. These payments amount to close to 8-1/2 per cent of GDP and absorb more than one fourth of total public sector receipts. In the Central Government interest payments alone account for more than two thirds of total government revenue. The Central Government is to keep other current expenditures under tight control. Current outlays are budgeted to rise by no more than 3 per cent in 1983, despite the granting for the first time in more than two years of across-the-board wage awards to public employees, averaging some 10 per cent. The budget calls for sharp reductions in government transfers to the rest of the public sector, which have been accompanied by actions to strengthen the financial situation of a number of public enterprises and decentralized agencies. Most noteworthy has been the decision to curtail sharply the operations of the La Victoria Sugar Corporation. La Victoria has required large operating subsidies ever since the decision was made in 1974 to build three new additional sugar mills with the aim of easing unemployment pressures. Operating losses by the corporation amounted to almost B 40 million in 1982. In March 1983, the corporation was ordered to cut short the harvest season and to close permanently the Felipillo plant, the largest and most inefficient of its four sugar mills.

Recently the Government has concluded a comprehensive review of those state enterprises and decentralized agencies that have been dependent on large government subsidies. As a result, some of these entities have been liquidated and the operations of others, which still have the potential of becoming economically viable, have been rationalized. In late 1982 the state-owned banana corporation (COBAPA), which had begun to incur heavy losses following labor problems and marketing difficulties, also was closed. In January 1983 a new luxury hotel that was already sustaining large operating losses was auctioned off for B 34 million, resulting in an overall loss of B 20 million, most of which had to be absorbed by the Government. In March 1983, the Government set a firm timetable to end the contractual arrangement by which the state-owned cement company (Bayano) has subsidized the only private cement company operating in Panama. Also in March, the Agricultural Marketing Institute was directed to dispose of rice stocks in export markets. A new price structure has been established to eliminate subsidization of rice growers through official prices that had been set too high. Negotiations are also underway to sell another large hotel, the Contadora Island resort, and the national airline to private groups. Important institutional reforms have been carried out in the public housing sector as well. The National Mortgage Bank is no longer permitted to raise funds from commercial banks and its lending rates have been increased from 8 to 12 per cent; the Social Security Agency is to cease extending direct mortgage financing. In recent years, the pricing policies in the traditional public enterprises have been set in such a way as to produce adequate rates of economic return on revalued assets, and generally, operating expenditures have been kept under tight control. Close attention will continue to be paid to the operation of these enterprises and their pricing structure will be appraised periodically. The latest such review was completed in January 1983 and resulted in upward adjustments in water rates and port fees.

In a further effort to ensure compliance with budgetary guidelines, the Budget Law for 1983 provides for strict cash expenditure limits for each ministry and government agency; spending outside these limits is allowed only with the specific approval of a financial commission chaired by the Vice-President of the Republic. In addition, a Public Credit Section has been created within the Ministry of Planning to coordinate and regulate commercial debt operations of the state enterprises, and facilitate management of the external debt.

Given Panama's financial setting and reflecting the authorities' concern over the liquidity of the National Bank, the nonfinancial public sector may have recourse to National Bank financing in 1983, only to the extent of net purchases that Panama might make from the Fund under the requested stand-by arrangement and CFF, and of loan disbursement from Venezuela and Mexico under the San Jose Oil Agreement. The credit ceilings set out in Table 6 will be adjusted upward by the amount of those transactions to allow for their intermediation through the National Bank to the nonfinancial public sector. The phasing of these ceilings takes account of the Treasury's seasonal financing needs, which are related for the most part to bridge financing extended by the National Bank while foreign loans are disbursed.

4. External policies

One of the key objectives of the program is to slow down the rate of accumulation of the external debt, while improving its maturity structure and thus reducing the cost of servicing it. To this end, the program calls for a sharp reduction in the rate of growth of public external indebtedness 1/ from about 20 per cent in 1982 to 8-1/2 per cent in 1983. The permissible size of the public sector deficit has been determined on the basis of the financing available from multilateral and bilateral agencies, and thus the program does not contemplate any net use of commercial bank credit, suppliers' credits or foreign bond placements by the public sector in 1983 and 1984. As a result, the outstanding public debt contracted at commercial terms is projected to decline from 50 per cent of GDP at the end of 1982 to 47 per cent of GDP at the end of 1983, and to some 43 per cent of GDP at the end of 1984. The ratio of total outstanding external public debt to GDP is projected to increase slightly in 1983 and stabilize in 1984, reflecting the prospective disbursement of a US$75 million structural adjustment loan from the World Bank, expanded development assistance from the Inter-American Development Bank and the World Bank for the completion of the La Fortuna hydropower plant and other smaller projects, and purchases from the Fund. The phasing of the limits on the external public debt and net commercial financing set forth in Table 6 takes into account the seasonality of principal payments on the foreign debt, and prospective disbursements of foreign loans.

The stipulation that the public sector will have no net recourse to commercial financing during the program period has important implications. Together with the ceilings on National Bank credit, such a limit should ensure that the composition of total public sector expenditure remains broadly in line with program targets. The emphasis placed by the authorities on the efficiency of resource use, and the tight constraints on public investment expenditure makes this provision a critical aspect of the program.

Panama does not maintain restrictions on payments and transfers for current and capital international transactions, but numerous trade restrictions do exist. It should be noted, however, that in many instances, these restrictions are not or cannot be easily enforced because the relatively unimpeded access to the Colon Free Zone and the Canal area tends to facilitate contraband trade. Nonetheless, at the time of the last Article IV consultation discussion the authorities had indicated that in their view these restrictions do constitute an impediment to a more efficient economic system, and give rise to resource misallocations, while depriving the Treasury of a potentially important source of revenue. They also stated at that time that action in this area had to await a comprehensive industrial policy review that would determine whether the substitution of a graduated tariff for import quotas might be undertaken on a large scale.

1/ Including use of Fund resources.

For the last six months, the authorities have been conducting a review of tariff policy and protectionist practices with the participation of interested industrial and commercial groups. In these discussions the authorities have taken the position that quota restrictions have caused distortions in the allocation of resources, making it necessary to maintain a cumbersome system of price controls. The Government's eventual goal is to do away altogether with administrative import restrictions. As a first step, in February and May 1983 quotas on 97 import items were removed, and an additional 17 quotas will be removed by August 1983 at the latest. The remaining quotas, which would account for less than half of the total number in existence at the end of 1982, will be eliminated as soon as the pertinent studies are completed. The quotas that have been lifted have been replaced by approximately equivalent tariff protection. The authorities have yet to determine over what period of time and up to what level this protection is to be reduced. They want to proceed cautiously in this regard to give time to currently inefficient domestic industries to adjust to foreign competition.

5. <u>Production policies</u>

The experience of the 1979-81 period has shown that fiscal policies aimed at strengthening the financial position of the public sector tend to improve confidence abroad in the quality of economic management, and induce the international banking community located in Panama to lend to the private sector. In the present recessionary setting, however, the increased availability of foreign credits alone is not likely to be enough to encourage economic expansion. Since the public sector is not expected to be in a position to influence economic activity significantly while embarked on a course that will narrow the scope of its operations in the economy, the Government's intention is to play a role complementary to private initiatives, supporting them with tariff, price and employment policies designed to foster private capital formation.

Reference already has been made to changes in protectionist policies. The eventual aim in this area is to establish a level of protection low and uniform that will induce local industry to compete more aggressively with foreign producers, benefitting consumers in the process, and shifting the pattern of investment toward the export sector. The elimination of quantitative import restrictions will render obsolete present controls over private pricing decisions. Inasmuch as most of the quotas that are being abolished were administered by the Price Regulation Board, the role of this agency will have to be redefined. In this regard, the Government's intention is to phase out gradually most price controls, and interfere with market forces only in a limited number of cases where oligopolistic practices are believed to lead to abuse.

The revision of the structure of protection has been extended to the Industrial Incentives Law of 1971. Under this law, products sold by Panamanian enterprises, which have entered into contractual agreement with the Government, were given quota protection and subjected to price controls. The end result was a system that implicitly fixed and guaranteed profit margins for the term of the contract, which was normally extended by the simple expedient of forming a new firm. In March 1983 the Government made the announcement that new industrial contracts will be offered for five-year periods only (existing contracts average ten years), and interested parties have been forewarned that extentions will be granted only sparingly. The new contracts will neither provide for any quota protection, nor will profit margins be guaranteed. Tariff protection is to be restricted to 125 per cent of value added in the first year, after which it will be reduced to 100 per cent for the remainder of the contract.

The authorities would like to provide some stimulus to export activities. Export incentives are offered at present in the form of redeemable tax certificats (CATs) for the equivalent of 20 per cent of the value added of exports of manufactures. The authorities are considering simplifying procedures for obtaining the CATs, but at the same time, they are concerned about the fiscal impact of liberalizing the CATs too generously. One idea that is being contemplated is to modify the CAT's system by relating tax concessions to the value of the wage bill of the factory workforce. However, the authorities are concerned about the possibility that such an approach would discriminate against smaller firms with lower-paid workers, and they intend to conduct further studies before deciding on what actions they might take.

In other efforts to provide incentives for the private sector, the Government sponsored the formation of a National Investment Council with the participation of prominent members of the Panamanian business community. The principal function of this council is to identify investment opportunities in the export sector, and to pool domestic private financial resources for these endeavors and encourage foreign participation. For its part, the Government intends to apply the Labor Code of 1972 more flexibly, particularly with regard to work rules during training periods, part-time work, and overtime pay. Under present Labor Code rules, firms are often reluctant to provide training to unskilled workers, or to adapt the length of the work-week to demand conditions, because of the vested rights workers acquire under these circumstances, which result in permanently increased wage costs.

For many years, the Government's farm policy has been geared more toward the achievement of social objectives than to the pursuit of economically sound productive endeavors. These policies led to the establishment of protected domestic markets to encourage import substitution, together with investment programs designed to ease unemployment pressures. Notwithstanding the substantial transfer of resources from the rest of the economy that resulted, agricultural output has been virtually stagnant over the last ten years. The authorities have indicated that the economy can no longer afford continued subsidization on a large scale of the inefficient production patterns that have developed over this period. As already noted, the role of state enterprises in the banana and sugar sectors is being rationalized. Support price policies are also being revised to do away with existing distortions and allow for a freer play of market forces. Rice prices at the producer and consumer levels have been restructured to phase out government subsidies to rice growers and the stocks of excess rice supplies, which have had to be exported at a loss. Support prices for potatoes have been eliminated with the same aim in mind. Export restrictions on coffee and beef have been lifted, and retail price controls on meat products have been eased. Finally, the credit policies of the Agricultural Development Bank will be redefined. In this connection, subsidized credit will be reduced; loan recovery will be vigorously pursued; and new lending will be directed toward activities where Panama enjoys a comparative advantage, such as in forestry, dual purpose cattle raising, tropical export crops, vegetables, and fruits.

IV. Staff Appraisal

After a period of three years from 1979 to 1981 during which Panama made significant strides in strengthening the public finances, fiscal policies became very expansionary in 1982. The financial program for 1982 originally had called for a continuation of moderate fiscal policies; and as in the preceeding two years, a limit was established on the overall public sector deficit at under 6 per cent of GDP. This deficit was to be financed exclusively with foreign borrowing. The fiscal program was based on the assumption that the Panamanian economy would maintain a rate of economic growth of about 5 per cent as in the previous three-year period, with prices rising by less than 10 per cent.

Panama's price performance turned out to be much better than expected in 1982, with prices rising by only 4 per cent, while output grew by 4 per cent. Panama's fiscal performance, however, differed substantially from programed guidelines. The overall public sector deficit widened to B 464 million, or the equivalent of 11 per cent of GDP, exceeding the program limit of B 255 million by 5 percentage points of GDP. The limit on net external financing also was exceeded by a wide margin; net foreign borrowing by the entire public sector amounted to more than US$500 million, raising the external public debt to US$3.1 billion by the end of 1982, or the equivalent of 73 per cent of GDP.

The program for 1983 and 1984 is a new attempt to strengthen the public sector finances. But, the circumstances under which this adjustment is to be carried out are far more unfavorable than those prevailing during the 1978-81 period. At that time ,the economy was entering into a phase of relatively rapid growth as confidence was restored following the settlement of the Panama Canal issue. Also, foreign lenders were showing great willingness to extend credits to Panama. At present, the international economic environment, particularly for Panama, is such that the service oriented Panamanian economy is not expected to register much growth in 1983, if any. At the same time, the magnitude of the public external debt and reluctance by foreign lenders to increase their exposure in Panama leave little scope for policies of gradual fiscal adjustment.

The financial program for 1983 and 1984, therefore, appropriately calls for a sharp contraction in the public sector deficit, and the authorities are not seeking net use of commercial bank credit, suppliers' credits or foreign bond placements to finance these deficits. The authorities, moreover, recognize that limitations on the use of foreign credit is not just transitory. For that reason, the adjustment that is being sought is a concerted effort to reorient economic policies toward a more rational use of the resources available. To this end, the authorities have taken the decision to reduce the scope of the public sector in the economy and to provide incentives to the private sector to enable it to assume a leading role in the generation of employment.

The weak performance of the public sector on current operations reflects to a large extent past investment decisions that have failed to yield an adequate rate of economic return. As a result, Panama's room for maneuver is greatly restricted by the burden of interest payments on the external debt. To correct this situation, the authorities have taken steps to streamline the operations of a number of state enterprises and decentralized agencies, which have required large government subsidies in recent years. Most noteworthy has been the decision to curtail sharply the operations of the La Victoria Sugar Corporation. In addition, the Government has already disposed of, or intends to do so shortly, of a number of entities involved in the tourist trade, in an effort to reduce further the drain of financial resources that these operations entail. Revenue measures also have been adopted aimed an improving the public sector savings performance.

While the bulk of the fiscal adjustment in 1983 is to be achieved through a reduction in public investment, the staff is of the view that this reduction is but a reflection of the unsustainably high level of investment spending in 1982. Nonetheless, the staff requested the assistance of the World Bank staff to assess the adequacy of the investment program for 1983 and 1984. Based on a review of Panama's medium-term investment plans, the World Bank has stated that its management considers the level and sectoral composition of Panama's 1983-84 investment program to be appropriate and in line with economic priorities discussed with the Bank. In the Bank's view the program reflects the need for austerity and a revised development strategy; most of the projects deferred or dropped have a less pressing priority while nearly all those that remain have been selected on the basis of their economic worth.

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 the elimination of control over private pricing decisions. In this regard, the staff is encouraged by the attitude taken by the authorities with respect to the replacement of import quotas by tariffs, and the ongoing redefinition of the regulatory functions of the Price Control Board. Similarly, the rationalization of producer price policies in the agricultural sector should shift investment away from protected markets and toward areas where the Panamanian economy enjoys comparative advantages.

The authorities face constraints in acting to liberalize Panama's labor legislation. It is encouraging to note that despite these constraints, efforts are being made to ease certain provisions of the Labor Code that have been perceived as detrimental to job creation.

In sum, the Panamanian authorities have embarked on a major reorientation of their economic strategy, one that emphasizes strong fiscal adjustment together with a rationalization of the government regulatory role in the economy. While implementation of this ambitious program will require a great deal of perseverance, it is the staff's view that the program is suitably designed to allow the economy to weather the present troubled period and return to a sustainable growth path.

V. Proposed Decision

1. The Government of Panama has requested a stand-by arrangement for the period from   to December 31, 1984 for an amount equivalent to SDR 150.0 million.

2. The Fund approves the stand-by arrangement set forth in EBS/83/102.

3. The Fund waives the limitation in Article V, Section 3b(iii).

Table 7. Panama: Operations of the Central Government

	1978	1979	1980	1981	Prog. 1982	Prel. 1982	Proj. 1983
	(In millions of balboas)						
Current revenue	405.4	477.0	707.8	790.5	912.2	865.3	916.2
Tax revenue	338.8	405.1	537.8	611.1	665.0	645.2	673.1
Income tax	(120.9)	(152.1)	(205.0)	(256.5)	...	(270.9)	(286.3)
Other direct taxes	(24.0)	(31.1)	(35.6)	(43.1)	...	(45.6)	(55.0)
Taxes on foreign trade	(70.1)	(80.2)	(91.0)	(99.1)	...	(106.0)	(123.9)
Taxes on domestic transactions	(123.8)	(141.7)	(206.3)	(212.4)	...	(222.7)	(207.9)
Nontax revenues	66.6	71.9	170.0	179.4	247.5	220.1	243.1
Panama Canal	(2.3)	(2.3)	(83.8) 1/	(75.8)	(79.3)	(79.3)	(60.4)
Transfer from the rest of the public sector	(6.2)	(4.3)	(18.4)	(15.3)	(37.0)	(27.8)	(22.4)
Oil pipeline royalties and taxes	(--)	(--)	(--)	(--)	(17.0)	(17.0)	--
Other	(58.1)	(65.3)	(67.8)	(88.3)	(114.2)	(96.0)	(160.3)
Current expenditure	450.4	553.8	681.7	767.4	862.6	919.8	940.2
Wages and salaries	196.5	235.2	280.8	296.5	324.6	317.8	366.1
Goods and services	30.8	33.0	40.5	54.5	73.7	106.9	105.3
Pensions and transfers	107.7	130.6	142.0	175.5	151.8	171.0	161.9
Of which:							
to the decentralized agencies	(44.3)	(49.6)	(47.3)	(73.9)	(76.5)	(45.8)	(36.0)
to the consolidated public enterprises	(7.7)	(9.3)	(24.3)	(8.3)	(13.6)	(9.6)	(5.9)
Interest	85.0	133.4	196.7	236.5	283.7	308.8	289.1
Internal	(19.6)	(13.5)	(16.7)	(21.9)	(28.2)	(20.0)	(26.8)
External	(65.4)	(119.7)	(180.0)	(214.6)	(255.5)	(288.8)	(262.3)
Other	30.4	21.8	21.7	4.4	28.8	15.3	17.8
Current account surplus or deficit (-)	-45.0	-76.8	26.1	23.1	49.3	-54.5	-24.0
Grants in aid	4.7	5.0	1.8	0.6	--	--	--
Capital expenditures	145.9	229.7	236.1	217.2	242.6	227.8	170.0
Investment	79.1	107.8	124.5	138.2	150.8	160.4	130.5
Transfers to rest of public sector	66.8	121.9	111.6	79.0	91.8	67.4	39.5
Overall surplus or deficit (-)	-186.2	-301.5	-208.2	-193.5	-193.3	-282.3	-194.0
Financing							
External debt	286.6	185.2	236.1	67.3	...	307.1	133.5
Net National Bank	-96.4	120.7	-23.5	132.3	...	-22.2	60.5
Other 2/	-4.0	-4.4	-4.4	-6.1	...	-2.6	--
	(Annual percentage change)						
Current revenue	9.9	17.7	48.4	11.7	15.4	9.5	5.9
Tax revenue	11.7	19.6	32.7	13.6	8.8	5.6	4.3
Nontax revenue	1.4	8.0	136.7	5.5	38.0	22.7	10.4
Current expenditure	27.6	23.0	23.1	12.6	12.4	19.8	2.2
Capital expenditure	27.1	57.4	2.8	-8.0	11.7	4.9	-25.4
Fixed capital formation	14.1	36.3	15.5	11.0	9.1	16.1	-18.6
Transfers to rest of public sector	46.8	82.5	-8.5	-29.0	16.2	-14.7	-41.4
	(As per cent of GDP)						
Current revenue	16.5	17.0	20.2	20.3	20.4	20.5	20.4
Tax revenue	13.8	14.5	15.4	15.7	14.9	15.3	15.0
Nontax revenue	2.7	2.5	4.8	4.6	5.5	5.2	5.4
Current expenditure	18.4	19.8	19.4	19.8	19.3	21.8	21.0
Wages and salaries	8.0	8.4	8.0	7.6	7.3	7.5	3.8
Current account surplus or deficit (-)	-1.9	-2.8	0.8	0.5	1.1	-1.3	-0.5
Overall surplus or deficit (-)	-7.6	-10.8	-5.9	-5.0	-4.3	-6.7	-4.3

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

1/ Includes B 12.5 million that was scheduled for payment in 1979 but received in 1980.
2/ Includes bonds placed locally.

Table 8. Panama: Operations of the Social Security Agency

(In millions of balboas)

	1978	1979	1980	1981	Prog. 1982	Prel. 1982	Prog. 1983
Current revenue	151.7	181.9	219.1	266.7	321.8	318.7	349.7
Contributions	114.0	139.0	165.8	201.3	240.7	236.1	259.4
From workers	(52.4)	(65.4)	(78.5)	(93.7)	(...)	(109.4)	(...)
From employers	(55.4)	(66.9)	(80.3)	(99.5)	(...)	(117.7)	(...)
Other quotas	(6.2)	(6.7)	(7.0)	(8.1)	(...)	(9.0)	(...)
Professional risk premium	8.5	10.4	12.9	15.7	17.2	19.4	19.5
Thirteenth month contribution	13.0	15.8	19.2	22.9	31.9	27.0	30.5
Contributions to public employees' compensation pension fund	5.6	6.6	8.3	10.2	12.0	11.4	12.2
Income from investments	6.4	4.2	6.8	11.3	13.0	14.8	17.9
Other	4.2	5.9	6.1	5.3	7.0	10.0	10.2
Current expenditures	155.6	170.3	197.0	235.7	271.4	266.5	287.7
Administration	10.9	9.8	11.4	12.3	14.6	16.4	19.0
Payments of benefits and other	144.7	160.5	185.6	223.4	256.8	250.1	268.7
Current operating surplus or deficit (-)	-3.9	11.6	22.1	31.0	50.4	52.2	62.0
Current transfers (net)	15.4	20.0	16.6	35.1	40.1	35.6	41.9
Current transfer from Central Government	(17.5)	(22.5)	(16.6)	(41.2)	(42.7)	(35.6)	(42.2)
Transfers to Central Government	(-2.1)	(-2.5)	(--)	(-6.1)	(-2.6)	(--)	(-0.3)
Current account surplus or deficit (-)	11.5	31.6	38.7	66.1	90.5	87.8	103.9
Capital expenditures	18.6	9.0	23.7	63.2	62.2	95.4	51.3
Fixed investment	4.7	6.0	4.5	5.5	8.5	8.9	21.9
Financial investment	1.8	3.0	6.0	4.9	8.2	9.0	1.4
Net lending to National Mortgage Bank	12.1	--	10.9	14.2	16.0	16.7	13.0
Housing program and others	--	--	2.3	38.6	29.5	60.8	15.0
Overall surplus or deficit (-)	-7.1	22.6	15.0	2.9	28.3	-7.6	52.6
External financing (net)	...	-2.5	-1.3	--		--	--
National Bank financing (net)	...	-20.1	-16.0	-24.7	...	7.6	-52.6
Other	...	--	2.3	21.8	...	--	--

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

Table 9. Panama: Operations of the State Enterprises 1/

(In millions of balboas)

	1978	1979	1980	1981	Prog. 1982	Prel. 1982	Prog. 1983
Operating revenue	183.7	234.9	361.9	427.1	473.4	442.0	476.1
Operating expenditure	186.7	238.9	318.4	364.7	399.6	393.4	407.1
Interest payments	50.9	61.2	68.8	67.0	79.1	61.1	82.9
Other current expenditure	135.8	177.7	249.6	297.7	320.5	332.3	324.2
Operating surplus or deficit (-)	-3.0	-4.0	43.5	62.4	73.8	48.6	69.0
Transfers net of taxes	3.6	7.5	10.3	4.1	-12.0	-13.9	-10.1
Current transfers from Central Government	(7.7)	(9.3)	(24.3)	(8.3)	(13.6)	(9.6)	(5.9)
Transfers to Central Government	(-4.1)	(-1.8)	(-14.0)	(-4.2)	(-25.6)	(-23.5)	(-16.0)
Current account surplus or deficit (-)	0.6	3.5	53.8	66.5	61.8	34.7	58.9
Capital transfers	56.8	98.5	84.3	42.7	40.6	20.7	20.7
Capital expenditure	187.6	142.6	116.1	117.1	146.6	186.8	154.6
Fixed investment	187.6	142.6	116.1	117.1	146.6	187.7	154.6
Other	--	--	--	7.0	--	-0.9	--
Overall surplus or deficit (-)	-130.2	-40.6	22.0	-7.9	-44.2	-131.4	-75.0
External financing (net)	...	10.7	-23.1	-9.9	...	90.6	86.2
National Bank financing (net)	...	30.2	1.2	17.9	...	40.9	-11.2
Other	...	-0.3	-0.1	-0.1	...	-0.1	--

Sources: Office of the Controller 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.

Table 11. Panama: Operations of the National Bank of Panama

(In millions of balboas; end of period)

	1978	1979	1980	1981	1982
Net foreign reserves	4.2	-40.2	-62.9	-156.5	-222.0
Assets	150.5	122.5	121.1	120.0	100.0
Reserve position with IMF	(4.9)	(3.3)	(10.3)	(--)	(--)
SDR holdings	(5.2)	(5.2)	(1.4)	(3.3)	(4.2)
Foreign currencies	(23.7)	(68.5)	(42.5)	(44.4)	(26.6)
Deposits abroad	(116.7)	(45.5)	(66.9)	(72.3)	(69.2)
Liabilities	-146.3	-162.7	-184.0	-276.5	-322.0
Use of Fund credit	(-52.5)	(-41.5)	(-23.1)	(-93.6)	(-84.1)
Other liabilities	(-93.8)	(-121.2)	(-160.9)	(-182.9)	(-237.9)
Of which:					
Venezuela's Investment Fund	/-33.3/	/-37.3/	/-43.3/	/-86.5/	/-121.1/
PETROMEX	/--/	/--/	/--/	/-18.2/	/-55.9/
Overseas operations (net)	-1.2	-3.2	-4.0	-2.7	-4.7
Credit to nonresidents	--	--	--	3.7	--
Deposits from nonresidents	-1.2	-3.2	-4.0	-6.4	-4.7
Net domestic reserves	-8.2	-104.5	-73.3	-97.9	-79.1
Domestic currency	2.5	4.5	4.4	3.8	5.2
Interbank deposits (net)	-28.6	-127.0	-96.9	-129.4	-104.5
Checks in clearing	20.6	20.9	21.0	31.2	22.8
Cashier's checks in circulation	-2.7	-2.9	-1.8	-3.5	-2.6
Net domestic credit	107.9	266.8	288.2	437.5	516.2
Public sector (net)	-48.1	91.8	51.3	182.5	213.7
Private sector	176.0	216.9	269.5	284.2	341.0
Official capital and surplus	-29.5	-29.6	-44.2	-51.8	-65.0
Valuation adjustment	5.0	1.7	-1.8	-3.2	6.3
Unclassified assets (net)	4.5	-14.0	13.4	25.8	20.2
Long-term foreign liabilities	12.3	13.8	20.6	31.3	38.2
SDR allocation	16.1	22.5	27.7	30.7	29.0
Liabilities to domestic private sector	74.3	82.6	99.7	118.4	143.2
Demand deposits	28.5	33.3	36.5	34.7	43.5
Time deposits	27.7	29.2	39.6	52.7	61.3
Savings deposits	16.1	18.5	20.7	25.2	29.9
Other deposits	2.0	1.6	2.9	5.8	8.5

Source: National Bank of Panama.

Table 10. Panama: Consolidated Operations of the Decentralized Agencies 1/

(In millions of balboas)

	1978	1979	1980	1981	Prog. 1982	Prel. 1982	Prog. 1983
Operating revenue	34.7	43.2	54.5	64.1	76.3	73.3	73.8
Operating expenditures	58.8	76.1	83.9	92.7	110.9	113.7	123.1
Interest payments	11.0	19.5	14.3	19.2	22.0	26.8	37.3
Other current expenditure	47.8	56.6	69.6	73.5	88.9	86.9	85.8
Operating surplus or deficit (-)	-24.1	-32.9	-29.4	-28.6	-34.6	-40.4	-49.3
Current transfers (net)	26.8	27.1	26.3	27.7	25.0	41.5	30.0
Transfers from Central Government	(26.8)	(27.1)	(30.7)	(32.7)	(33.8)	(45.8)	(36.0)
Transfers to Central Government	(--)	(--)	(-4.4)	(-5.0)	(-8.8)	(-4.3)	(-6.0)
Current account surplus or deficit (-)	2.7	-5.8	-3.1	-0.9	-9.6	1.1	-19.3
Capital transfers from Central Government	10.0	23.4	27.3	36.3	51.2	46.7	18.8
Transfers from Social Security Fund	12.1	--	10.9	14.2	16.0	16.7	13.0
Capital expenditure	67.0	44.2	60.6	65.6	103.4	90.7	66.1
Fixed investment 2/	45.6	19.9	17.4	32.1	51.5	27.4	50.0
Other	21.4	24.3	43.2	33.5	51.9	63.3	16.1
Overall surplus or deficit (-)	-42.2	-26.6	-25.5	-16.0	-45.8	-26.2	-53.6
External financing (net)	...	0.6	28.6	7.0	...	40.1	50.3
National Bank financing (net)	...	26.0	-2.3	9.4	...	-13.7	3.3
Other	...	--	-0.8	-0.4	...	-0.2	--

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

1/ Inlcudes 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 investment expenditures of the Housing Ministry.

Table 11. Panama: Operations of the National Bank of Panama

(In millions of balboas; end of period)

	1978	1979	1980	1981	1982
Net foreign reserves	4.2	-40.2	-62.9	-156.5	-222.0
Assets	150.5	122.5	121.1	120.0	100.0
Reserve position with IMF	(4.9)	(3.3)	(10.3)	(--)	(--)
SDR holdings	(5.2)	(5.2)	(1.4)	(3.3)	(4.2)
Foreign currencies	(23.7)	(68.5)	(42.5)	(44.4)	(26.6)
Deposits abroad	(116.7)	(45.5)	(66.9)	(72.3)	(69.2)
Liabilities	-146.3	-162.7	-184.0	-276.5	-322.0
Use of Fund credit	(-52.5)	(-41.5)	(-23.1)	(-93.6)	(-84.1)
Other liabilities	(-93.8)	(-121.2)	(-160.9)	(-182.9)	(-237.9)
Of which:					
Venezuela's Investment Fund	/-33.3/	/-37.3/	/-43.3/	/-86.5/	/-121.1/
PETROMEX	/--/	/--/	/--/	/-18.2/	/-55.9/
Overseas operations (net)	-1.2	-3.2	-4.0	-2.7	-4.7
Credit to nonresidents	--	--	--	3.7	--
Deposits from nonresidents	-1.2	-3.2	-4.0	-6.4	-4.7
Net domestic reserves	-8.2	-104.5	-73.3	-97.9	-79.1
Domestic currency	2.5	4.5	4.4	3.8	5.2
Interbank deposits (net)	-28.6	-127.0	-96.9	-129.4	-104.5
Checks in clearing	20.6	20.9	21.0	31.2	22.8
Cashier's checks in circulation	-2.7	-2.9	-1.8	-3.5	-2.6
Net domestic credit	107.9	266.8	288.2	437.5	516.2
Public sector (net)	-48.1	91.8	51.3	182.5	213.7
Private sector	176.0	216.9	269.5	284.2	341.0
Official capital and surplus	-29.5	-29.6	-44.2	-51.8	-65.0
Valuation adjustment	5.0	1.7	-1.8	-3.2	6.3
Unclassified assets (net)	4.5	-14.0	13.4	25.8	20.2
Long-term foreign liabilities	12.3	13.8	20.6	31.3	38.2
SDR allocation	16.1	22.5	27.7	30.7	29.0
Liabilities to domestic private sector	74.3	82.6	99.7	118.4	143.2
Demand deposits	28.5	33.3	36.5	34.7	43.5
Time deposits	27.7	29.2	39.6	52.7	61.3
Savings deposits	16.1	18.5	20.7	25.2	29.9
Other deposits	2.0	1.6	2.9	5.8	8.5

Source: National Bank of Panama.

Table 12. Panama: Summary Balance of Payments

	1978	1979	1980	1981	Prel. 1982	Proj. 1983
	(In millions of U.S. dollars)					
Current account	-208.2	-295.9	-271.3	-428.8	-474.4	-270.0
Trade balance, f.o.b.1/	-480.2	-641.1	-817.3	-975.6	-1,040.4	-975.3
Petroleum products	(-81.6)	(-154.6)	(191.2)	(-219.6)	(-219.7)	(-193.6)
Exports	/145.5/	/170.1/	/233.2/	/208.9/	/174.1/	/257.6/
Imports	/-223.1/	/-324.7/	/-424.4/	/-428.5/	/-393.8/	/-451.2/
Other merchandise	(-398.6)	(-486.5)	(-626.1)	(-756.0)	(-820.7)	(-781.7)
Exports	/244.3/	/283.0/	/292.8/	/285.0/	/274.8/	/294.6/
Imports	/-642.9/	/-769.5/	/-918.9/	/-1,041.0/	/-1,095.5/	/-1,076.3/
Investment income (net)	-54.1	-107.8	-160.5	-251.2	-277.4	-262.6
Interest on public debt	(-131.4)	(-203.0)	(-255.3)	(-283.5)	(-350.3)	(-337.0)
Other	(77.3)	(95.2)	(94.8)	(32.3)	(72.9)	(74.4)
Services and transfers (net)	326.1	453.0	706.5	798.0	843.4	967.9
Capital account (net)	385.8	423.4	412.0	470.4	450.5	270.0
Official capital	486.5	194.3	223.8	203.9	508.9	270.0
Nonfinancial	(479.5)	(196.1)	(227.6)	(61.6)	(435.8)	(150.0)
Official banks	(7.0)	(-1.8)	(-3.8)	(142.3)	(73.1)	(120.0)
Other official banks transactions 2/	-82.8	55.9	39.1	-36.9	-0.7	--
Private capital	-17.9	173.2	149.1	303.4	-57.7	--
Direct investment	(-2.5)	(58.0)	(54.8)	(53.0)	(53.4)	(...)
Direct nonbank borrowing	(--)	(30.9)	(9.1)	(124.0)	(90.3)	(...)
Banks	(-15.4)	(84.3)	(85.2)	(126.4)	(-201.4)	(...)
Net errors and omissions	-177.6	-127.5	-140.7	-41.6	23.9	--
	(In per cent of GDP)					
Current account	-8.5	-10.6	-7.8	-11.1	-11.3	-6.0
Trade balance	-19.6	-22.9	-23.3	-25.1	-24.6	-21.7
Investment income	-2.2	-3.8	-4.6	-6.5	-6.6	-5.9
Services and transfers	13.3	16.1	20.1	20.5	19.9	21.6
Capital account	15.7	15.1	11.8	12.1	10.7	6.0
Official capital	19.8	6.9	6.4	5.3	12.0	6.0
Other official banks transactions 2/	-3.4	2.0	1.1	-1.0	--	--
Private capital	-0.7	6.2	4.3	7.8	-1.3	--
Net errors and omissions	-7.2	-4.5	-4.0	-1.0	0.6	--

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

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

2/ Reflect mainly commercial operations of the National Bank of Panama.

Table 13. Panama: External Public Debt Operations,1/ 1978-82

(In millions of U.S. dollars)

	1978	1979	1980	1981	1982
Total external public debt outstanding	1,974.0	2,167.9	2,400.7	2,602.5	3,105.6
Transactions during period					
Nonfinancial public sector	485.9	195.7	236.6	59.5	430.0
Medium- and long-term debt	536.9	186.2	191.8	85.6	411.1
Drawings	(968.2)	(390.8)	(394.6)	(301.5)	(716.8)
Amortization	(-437.7)	(-204.2)	(-211.8)	(-213.8)	(-299.9)
Adjustments	(6.4)	(-0.4)	(9.0)	(-2.1)	(-5.8)
Short-term debt	-51.0	9.5	44.8	-26.1	18.9
National Bank of Panama	7.0	-1.8	-3.8	142.3	73.1
Medium- and long-term debt	5.7	5.3	8.6	10.3	10.5
Drawings	(11.3)	(6.8)	(10.5)	(11.7)	(13.4)
Amortization	(-5.6)	(-1.5)	(-1.9)	(-1.4)	(-2.9)
Changes in liabilities to Venezuela and Mexico 2/	—	4.0	6.0	61.4	72.3
Changes in liabilities to IMF	1.3	-11.1	-18.4	70.6	-9.7
Total interest payments	131.4	203.0	255.3	283.5	350.3
Debt service payments	574.7	428.7	469.0	498.7	653.1
Of which: excluding refinancing operations	324.7	408.7	469.0	448.7	523.1
Net foreign resource transfer; outflow (-)3/	353.8	-1.6	-19.1	-211.6	96.0

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

1/ Includes debt contracted with local branches of foreign banks.
2/ Under the San Jose Oil Agreement.
3/ Defined as gross disbursement minus debt service payment.

Table 14. Panama: External Public Debt Indicators

(In per cent)

	1978	1979	1980	1981	1982	Proj. 1983
Debt service ratios 1/						
To public sector receipts 2/	50.2	53.1	42.6	36.1	38.8	37.4
Interest payments	20.3	26.4	23.2	22.8	26.0	22.8
Amortization	29.9	26.7	19.4	13.3	12.8	14.6
To GDP	13.3	14.5	13.4	11.5	12.4	12.0
Interest payments	5.4	7.2	7.3	7.3	8.3	7.5
Amortization	7.9	7.3	6.1	4.2	4.1	4.5
To exports of goods and nonfactor services	34.1	34.9	30.0	27.4	31.4	28.4
Interest payments	13.8	17.3	16.3	17.3	21.0	17.3
Amortization	20.3	17.6	13.7	10.1	10.4	11.1
External public debt ratio to GDP	80.5	77.4	68.4	67.0	73.5	75.3
Multilateral and bilateral agencies	22.1	20.9	18.2	21.0	23.4	28.1
Of which: IMF	(2.1)	(1.5)	(0.6)	(2.4)	(2.0)	(4.5)
Debt contracted at commercial terms	58.4	56.5	50.2	46.0	50.1	47.2
Effective interest rates 3/						
On total external public debt	7.6	9.8	11.2	11.3	12.3	10.4
On debt contracted at fixed rates	5.1	6.6	7.2	6.6	6.8	7.9
On debt contracted at variable rates	9.6	12.6	14.3	15.1	16.6	12.5
Memorandum item						
Six-month LIBOR 4/	7.5	10.7	13.7	15.0	15.8	11.0

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

1/ Because Panama has no central bank and uses the U.S. dollar as its medium of exchange, the debt service ratio to public sector receipts and to gross domestic product are a more meaningful measure of debt burden than the more traditional ratio to export of goods and nonfactor services. Amortization excludes refinancing operations.

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

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

4/ Average for 12-month period ending June.

Table 15. Panama: Debt Service Payments Projections 1/

(In millions of U.S dollars)

	1983	1984	1985	1986	1987
Total debt service payments	539.2	611.4	734.5	821.1	831.8
Interest payment	337.9	359.5	377.3	372.8	364.1
Of which: IMF	(5.2)	(12.6)	(20.5)	(19.6)	(17.5)
Amortization	201.3	251.9	357.2	448.3	467.7
Multilateral lenders	22.2	28.5	36.6	42.4	46.3
Bilateral lenders	14.1	15.4	21.4	19.8	18.8
Bonded debt	66.6	26.3	26.3	26.4	26.4
Suppliers' credit	9.3	8.4	4.6	3.0	2.6
Financial institutions	88.1	165.0	237.1	329.8	342.2
IMF	1.0	8.3	31.2	26.9	31.4

Sources: IBRD; and Fund staff estimates.

1/ Based on the outstanding public debt as of December 1982, projected disbursements from existing commitments from multilateral and bilateral lenders, and additional new borrowings required to finance prospective fiscal deficits.

Table 16. Panama: Selected Economic and Financial Indicators

	1980	1981	1982 Prog.	1982 Prel.	Prog. 1983
(Annual per cent changes, unless otherwise specified)					
National income and prices					
GDP at constant prices	6.0	4.3	5.0	4.1	1.0
GDP deflator	10.1	6.1	9.5	4.6	5.0
External sector (on the basis of U.S. dollars)					
Exports, f.o.b.	16.1	-6.1	1.2	-9.1	23.1
Imports, f.o.b.	24.5	9.5	8.5	13.5	2.6
Non-oil imports, f.o.b.	21.8	13.4	13.9	5.2	-1.8
Export volume	(-12.7)	(-16.0)	(0.4)	-2.0	17.1
Import volume	(4.8)	(-6.9)	(3.6)	-1.1	1.4
Terms of trade (deterioration, -)	(-1.9)	(-7.4)	(...)	(-1.5)	(--)
Central Government					
Revenue and grants	47.2	11.5	15.4	9.4	5.9
Total expenditure	17.1	7.3	16.6	14.0	-3.3
Money and credit					
National Bank net credit to public sector 1/	-44.1	255.1	...	17.1	...
Interest rates (annual rate)	LIBOR	LIBOR	LIBOR	LIBOR	LIBOR
(In per cent of GDP)					
Public sector saving	3.3	4.0	4.3	1.7	2.7
Overall public sector deficit	-5.2	-5.4	-5.7	-11.1	-6.0
Domestic financing	(-1.3)	(3.8)	(...)	(0.7)	(...)
Foreign financing	(6.5)	(1.6)	(5.7)	(10.4)	(6.0)
Gross domestic investment	25.6	28.5	28.2	29.1	24.6
Gross national savings	17.8	17.4	19.7	17.8	18.6
Current account deficit of balance of payments	7.8	11.1	8.5	11.3	6.0
External debt	67.8	64.6	59.4	71.5	70.8
Inclusive of use of Fund credit	68.4	67.0	...	73.5	75.3
(In per cent of exports of goods and nonfactor services)					
Debt service	30.0	27.4	35.9	31.4	28.4
Interest payments	16.3	17.3	20.4	21.0	17.3
(In per cent of public sector revenue)					
Debt service	42.6	36.1	37.8	38.8	37.4

1/ Includes Fund credit and loan disbursements from Venezuelan Investment Fund and Mexico/Venezuela oil facility intermediated through the National Bank.

Panama: Summary of Financial Program

Targets

1. To reduce the public sector deficit to 6 per cent of GDP in 1983 and 5-1/2 per cent of GDP in 1984.

2. To raise public sector savings to the equivalent of 2-1/2 per cent of GDP in 1983 and 4 per cent of GDP in 1984.

3. To reach a level of public sector investment equivalent to 8-1/2 per cent of GDP in 1983 and to raise it to 9-1/2 per cent of GDP in 1984; also to rationalize investment expenditure, by giving priority to projects financed in part with assistance from international development agencies in the energy sector, transportation and agriculture.

4. To improve the maturity profile on the external debt and to lower interest costs by reducing the ratio of the external debt contracted at commercial terms from the equivalent of 50 per cent of GDP at the end of 1982 to about 43 per cent by the end of the program period.

5. To reduce the deficit in the current account of the balance of payments to 6 per cent of GDP.

6. To improve the efficiency of resource use by both the public and private sectors.

Instruments

Public sector budget

1. The placement of B 270 million limit on the overall deficit of the nonfinancial public sector.

2. The introduction of a tax package to yield approximately the equivalent of 1 per cent of GDP on an annual basis.

3. Major streamlining of the operations of a number of state entities to reduce the need for government subsidies.

4. Cancellation of a number of major investment projects and deferral of others of less urgent priority.

External financing

5. A limit of US$270 million on net external financing by the entire public sector, including official financial institutions.

Domestic credit

6. Limitation of access by the public sector to National Bank credit to meet only that needed for seasonal needs.

Commercial policy

7. A gradual phasing out of import quotas and their replacement by equivalent 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 1 per cent.

2. The rate of inflation, as measured by the GDP deflator, at 5 per cent.

3. Interest rates continue to be determined by international markets, with LIBOR remaining at around 10 per cent.

4. The drop in oil prices does not significantly encourage an increase in consumption, and crude oil prices remain at current levels.

Fund Relations with Panama
(As of April 30, 1983)

Membership:	March 14, 1946.
Status:	Article VIII.
Quota:	SDR 67.5 million.
Stand-by arrangements:	Panama has had 14 stand-by arrangements with the Fund. The most recent of these was approved on April 28, 1982 (EBS/82/47, Supp. 1) for SDR 29.70 million.
Fund holdings of Panamanian balboas:	211.46 per cent of quota, including purchases in the credit tranches (55.95 per cent of quota), and the supplementary financing facility (55.51 per cent).
SDR Department:	Panama has received allocations totaling SDR 26.32 million. Holdings as of April 30, 1983 were SDR 563,975 or 2.1 per cent of net cumulative allocations.
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 O-2, paragraph (b)(i). The currency of the United States (notes and coins) is considered 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.
Last Article IV consultation:	Last consultation discussions were held in November-December 1980 and were completed in February 1981.

Panama: Relations with the World Bank Group

1. The Bank has to date made 26 loans to Panama totalling US$435.8 million (net of cancellations). Of these, 13 loans for US$159.0 million are fully disbursed: two for roads totaling US$13.1 million; one for an airport project for US$20 million; three for agriculture totalling US$5.7 million; two for fisheries totalling US$8.2 million; three for power for US$76 million; one for ports for US$24 million; and one for water supply and sewerage for US$12 million. Ongoing operations include one project for livestock credit; one for development of tropical tree crops; two for development banking; two for highway maintenance and rehabilitation; two in the power sector (for generation, transmission, and distribution); one to support energy planning and petroleum exploration; one to help develop the water supply and sewerage sector; one for the urban development of Colon; and one for port development. The most recent loan to Panama, for supplementary financing for the Fortuna Hydroelectric Project, was approved on March 29, 1983.

2. IFC has made three investments in Panama. The first was a commitment in 1971 to acquire US$0.3 million of equity in the Corporacion de Desarrollo Hotelero, S.A. and to lend to the Corporation US$1.2 million to build a new international hotel. The second was a commitment in December 1977 to lend US$2.4 million and acquire US$1.4 million in equity in Vidrios Panamenos, S.A., the first glass container factory in Panama. These projects have been satisfactorily completed. The third is a commitment in 1979 to acquire US$2.5 million in equity in the Banco Latinoamericano de Exportaciones (BLADEX), a regional export bank promoted by the Government of Panama.

3. Satisfactory overall progress in the implementation of ongoing projects is reflected in the steady increase in Bank disbursements, from US$17 million in FY 1979 and US$16.1 million in FY 1980, to US$31 million in FY 1981 and US$39 million in FY 1982.

4. Bank lending to Panama is designed to support the Government's development strategy, particularly as regards the further development of Panama's infrastructure and service industries, the diversification of production and exports, and the rationalization of economic policies. Specifically, the Bank assists those sectors in which it can make a special contribution in terms of: (i) developing policies and institutions; (ii) removing remaining infrastructure bottlenecks; and (iii) utilizing more effectively the country's natural resources, including its geographic location. In addition, the Bank has appraised a power transmission project and a third livestock project, both of which are expected to be presented to the Bank's Executive Directors in the next few weeks.

Panama--Stand-By Arrangement

Attached hereto is a letter dated April 29, 1983 from the Minister of Finance and Treasury, the Minister of Planning and Economic Policy, and the General Manager of the National Bank requesting a stand-by arrangement and setting forth the objectives and policies which the Government of Panama intends to pursue for the period of this stand-by arrangement. To support these objectives and policies, the International Monetary Fund grants this stand-by arrangement in accordance with the following provisions:

1. For the period from -------, 1983 to December 31, 1984 Panama will have the right to make purchases from the Fund in an amount equivalent to SDR 150 million, subject to paragraphs 2, 3, 4, and 5 below, without further review by the Fund.

2. (a) Purchases under this arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR 10 million until July 31, 1983, SDR 30 million until October 31, 1983, SDR 50 million until January 31, 1984, SDR 75 million until April 30, 1984, SDR 100 million until July 31, 1984, and SDR 125 million until October 31, 1984;

(b) none of the limits in (a) above shall apply to a purchase under this stand-by arrangement that would not increase the Fund's holdings of Panama's currency in the credit tranches beyond 25 per cent of quota or increase the Fund's holdings of that currency resulting from purchases of borrowed resources beyond 12.5 per cent of quota.

3. Purchases under this arrangement shall be made from ordinary resources until purchases under this arrangement reach the equivalent of SDR 3,296,339; then from ordinary resources and with borrowed resources in the ratio of 1 to 1.2 until purchases under this arrangement reach the equivalent of SDR 61,452,589; and then with borrowed resources; provided that any modification by the Fund of the proportions of ordinary and borrowed resources shall apply to amounts that may be purchased after the date of modification.

4. Panama will not make purchases under this arrangement that would increase the Fund's holdings of its currency in the credit tranches beyond 25 per cent of quota, or increase the Fund's holdings of that currency resulting from purchases of borrowed resources beyond 12.5 per cent of quota:

(a) during any period in which the data at the end of the preceding quarter indicate that

(i) the limit on the cumulative deficit of the nonfinancial public sector referred to in paragraph 15 and Table 1 of the attached letter; or

(ii) the ceiling on the net credit of the National Bank of Panama to the nonfinancial public sector referred to in paragraph 16 and Table 2 of the attached letter; or

(iii) the limit on the external borrowing by the public sector referred to in paragraph 17 and Table 3 of the attached letter,

is not observed; or

(b) during any period between October 1, 1983 and December 31, 1983, until the review referred to in paragraph 21 of the attached letter has been completed, and any understandings that might be considered necessary in the light of that review, have been reached; or

(c) during any period after January 15, 1984 until understandings have been reached with the Fund as contemplated in paragraph 21 of the attached letter, or after such understandings have been reached while they are not being observed; or

(d) during the entire period of this stand-by arrangement, if Panama

(i) imposes or intensifies restrictions on payments and transfers for current international transactions, or

(ii) introduces any multiple currency practices, or

(iii) concludes bilateral payments agreements which are inconsistent with Article VIII, or

(iv) imposes or intensifies import restrictions for balance of payments reasons.

When Panama is prevented from purchasing under this stand-by arrangement because of this paragraph 4, purchases will be resumed only after consultation has taken place between the Fund and Panama and understandings have been reached regarding the circumstances in which such purchases can be resumed.

5. Panama's right to engage in the transactions covered by this arrangement can be suspended only with respect to requests received by the Fund after (a) a formal ineligibility, or (b) a decision of the Executive Board to suspend transactions, either generally or in order to consider a proposal, made by an Executive Director or the Managing Director, formally to suppress or to limit the eligibility of Panama. When notice of a decision of formal ineligibility or of a decision to consider a proposal is given pursuant to this paragraph 5, purchases under this arrangement will be resumed only after consultation has taken place between the Fund and Panama and understandings have been reached regarding the circumstances in which such purchases can be resumed.

6. Purchases under this arrangement shall be made in the currencies of other members selected in accordance with the policies and procedures of the Fund, and may be made in SDRs if, on the request of Panama, the Fund agrees to provide them at the time of the purchase.

7. The value date of a purchase under this stand-by arrangement involving borrowed resources would be normally either the 15th day or the last day of the month, or the next business day if the selected day is not a business day. Panama will consult the Fund on the timing of purchases involving borrowed resources.

8. Panama shall pay a charge for this stand-by arrangement in accordance with the decisions of the Fund.

9. (a) Panama shall repurchase the outstanding amount of its currency that results from a purchase under this stand-by arrangement in accordance with the provisions of the Articles of Agreement and decisions of the Fund, including those relating to repurchase as Panama's balance of payments and reserve position improves.

(b) Any reductions in Panama's currency held by the Fund shall reduce the amounts subject to repurchase under (a) above in accordance with the principles applied by the Fund for this purpose at the time of the reduction.

(c) The value date of a repurchase in respect of a purchase financed with borrowed resources under this stand-by arrangement will be normally either the 6th day or the 22nd day of the month, or the next business day if the selected day is not a business day, provided that repurchase will be completed not later than seven years from the date of purchase.

10. During the period of the stand-by arrangement Panama shall remain in close consultation with the Fund. These consultations may include correspondence and visits of officials of the Fund to Panama or of representatives of Panama to the Fund. Panama shall provide the Fund, through reports at intervals or dates requested by the Fund, with such information as the Fund requests in connection with the progress of Panama in achieving the objectives and policies set forth in the attached letter.

11. In accordance with paragragh 21 of the attached letter Panama will consult with the Fund on the adoption of any measures that may be appropriate at the initiative of the Government or whenever the Managing Director requests consultation because of any of the criteria in paragraph 4 above have not been observed or because he considers that consultation on the program is desirable. In addition, after the period of the arrangement and while Panama has outstanding purchases in the upper credit tranches, the Government will consult with the Fund from time to time, at the initiative of the Government or at the request of the Managing Director, concerning Panama's balance of payments policies.

Panama City, Panama
April 29, 1983

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

Dear Mr. de Larosiere:

1. Panama experienced a period of sluggish economic growth during the mid-1970s, as a result of a recessionary international economic environment and uncertainties regarding the negotiations and final ratification of the Panama Canal Treaties. Efforts to mitigate stagnant private investment activity resulted in large fiscal imbalances and the rapid accumulation of foreign indebtedness. Output began to recover in 1978, and during the next three years, with the support of successive Fund stand-by arrangements, Panama successfully implemented an adjustment program that reduced the public sector deficit from the equivalent of almost 16 per cent of GDP over the 1974-78 period to less than 12 per cent of GDP in 1979, and to less than 6 per cent of GDP in 1980 and 1981.

2. The adjustment was all the more successful because the fiscal retrenchment was accompanied by a revival of private investment, particularly in the construction sector, as confidence improved. Gross domestic product at constant prices grew at an annual average rate of 5 per cent over the three-year period ended 1981, and significant gains were made in employment. In the Government's view, an even more robust and lasting recovery would have been possible if Eurocurrency rates had not contemporaneous'y increased sharply; for although the outstanding external public debt fell from more than 80 per cent of GDP in 1978 to 67 per cent in 1981, interest payments on this debt continued to absorb a growing share of national income. This share rose from 5-1/2 per cent of GDP in 1978 to more than 7-1/2 per cent in 1981.

3. With due regard to these considerations, the authorities framed a financial and economic program for 1932, which called for a continuation of cautious fiscal and credit policies. In accordance with this program, the overall public sector deficit was to remain just below 6 per cent of GDP, as in the preceding two years. This deficit was to be financed for the most part with foreign borrowing and the National Bank was not expected to provide any financing to the public sector out of its own resources. The financial program was based on the assumption that output would continue to grow at around 5 per cent per annum, while inflation, paralleling international developments, was projected to be less than 10 per cent.

4. Performance under the 1982 program was not altogether encouraging. When it became evident early last year that the deepening of the recession in the industrial countries was beginning to have a marked effect domestically, the authorities felt compelled to accelerate public sector investment. To this end, outlays in low income housing were greatly expanded and construction of the La Fortuna hydroelectric plant was stepped up. There were also other adverse fiscal developments; revenues were considerably lower than forecast because of lower than expected inflation, and some overruns were recorded on current expenditures. These developments caused the public sector deficit to widen to B 464 million (11 per cent of GDP), far beyond the programed figure. Little recourse to National Bank financing was necessary because of the availability of foreign financing, and net use of foreign credits amounted to some US$500 million, substantially more than the authorities originally had planned. Outstanding external public debt increased by almost one fifth during 1982, reaching US$3.1 billion at the end of last year, or the equivalent of 73 per cent of GDP.

5. In Panama's economic setting, demand pressures automatically spill over into the current account of the balance of payments with little impact upon the price level. The current account deficit widened from US$271 million in 1980 to US$429 million in 1981, or from 8 per cent of GDP to 11 per cent, largely reflecting an increase in imports related to the construction of an oil pipeline across the Isthmus, basically a private initiative. More than half of this deficit was financed by private capital inflows. In 1982, the current account deficit widened by some US$50 million, reaching about US$474 million, thus remaining at about 11 per cent of GDP. However, in contrast with the previous year, this deficit was entirely covered by official capital.

6. In the short run, economic growth was maintained and unemployment did not worsen in 1982, but we believe that these important objectives were achieved at a very high cost. The Government is keenly aware that the magnitude of Panama's external debt and its servicing requirements, together with tightening credit conditions in international money markets, is bound to preclude, probably for some time to come, continued heavy reliance on foreign borrowing. Fortunately, the debt situation has not reached the point where access to foreign commercial credits has been curtailed to the extent that credits cannot be raised to meet scheduled amortization payments. However, unless drastic action aimed at resolving the present financial problems is taken immediately, Panama may find it difficult to preserve its creditworthiness.

7. The authorities recognize that in order to restore confidence at home and abroad in the quality of economic management, Panama's financial situation must undergo a substantial improvement. Panama's financial system is so closely integrated with international capital markets that it is virtually impossible to follow independent credit and interest rate policies. Therefore, fiscal policy, including tariff policy, will have to take a major responsibility for correcting the

present imbalances, and for mobilizing additional domestic resources and encouraging their more efficient allocation. It is realized that, for a country such as ours, which has become accustomed to relatively easy access to foreign savings, any such reorientation toward greater reliance upon domestic savings is bound to entail considerable hardship.

8. The problems associated with a period of economic transition can be expected to be magnified by the grim economic outlook that is likely to prevail in the months immediately ahead. Although foreign demand for Panamanian goods and services, which was very weak during 1982, may recover later in 1983, little growth in economic activity, if any, is expected this year. The authorities are counting heavily on a strong improvement in the international economic environment some time in 1984 to enhance prospects for a domestic economic recovery.

9. The Government is firmly convinced that if the Panamanian economy is to benefit from an eventual recovery in world and regional economic activity, efforts must be concentrated on restoring the public finances on a sound footing. Moreover, it is also essential that fiscal policies address not only the need to reduce the financial requirement of the public sector, but also that these lower requirements be attained at levels of savings and investment that are consistent with the Government's medium-term development objectives. However, interest payments in the external public debt account for such a large share of domestic resources—more than one third of revenue in the case of the Central Government--that a significant improvement in the savings performance of the public sector would be untenable without significant changes in the thrust of the Government's economic policies.

10. To this end, the Government has begun to conduct a careful review of those state-owned enterprises that are not economically viable. The review is focusing first on those enterprises which have required large government subsidies. Among these, La Victoria Sugar Corporation has incurred by far the largest operating deficits. Since 1974, when construction began on three new sugar mills, total public sector outlays in the sugar sector have amounted to B 500 million, accounting at present for more than 15 per cant of the outstanding external public debt. La Victoria's financial difficulties stem, in large measure, from depressed sugar prices in world markets, but prohibitively high production costs also have been a factor. Over the years, several attempts have been made, to no avail, to sell the mills to private interests. Earlier this month the decision was reached to cut short further losses. Harvesting was stopped almost one month before the normal end of the season and, Felipillo, the largest and worst performer of the four mills that comprise the La Victoria complex, has been shut down permanently. The equipment is to be sold, and growers in the area are being advised to find alternative land uses.

11. The operations of the National Development Corporation (COFINA) also have come under close scrutiny. COFINA's function is to promote private undertakings in small- and medium-size new industrial activities

through equity participation, cofinancing arrangements, and commercial loan guarantees. Although the agency has been successful in a number of endeavors, its present portfolio is burdened with a large amount of nonproductive assets. Moreover, increasingly in recent months, COFINA has been called to meet debt service payments on publicly guaranteed commercial loans. The Government has decided to come to terms with this situation. Instructions have been issued to dissolve or auction off those concerns which have become a fiscal burden. Such instructions apply to small and large firms alike. In February a large new luxury hotel was sold by public bidding. The national airline and the Contadora Island resort also have required substantial government financial assistance. Negotiations are underway to liquidate these assets as well. The state-owned Bayano Cement Plant has been only marginally profitable partly because it has been providing clinker material to a private cement plant at subsidized rates. These subsidies are to be reduced substantially. The Agricultural Marketing Institute (IMA) has accumulated large amounts of rice because the intervention price in this market was set too high, encouraging overproduction. The cost of storing this rice is weighing heavily on the finances of IMA and foreign markets are being sought to export it, even at a substantial loss. To correct this problem, official rice prices at the producer and consumer levels have been restructured to eliminate subsidized rice production. Pricing policies in other important public enterprises have been adequate in recent years; in the public utilities, rates of return on revalued assets are generally in keeping, for instance, with World Bank standards. Rate structures will continue to be adjusted as circumstances require. Accordingly, water rates and port fees were raised recently.

12. The 1983 government budget reflects some of the fiscal benefits from the rationalization of the operations of state enterprises. Owing to sharp reductions in transfers to the rest of the public sector, government current expenditure is programed to rise by only about 3 per cent in 1983, even though across-the-board wage increases averaging about 10 per cent have been granted to public employees for the first time in more than two years. Despite restraint on current spending, new revenue measures are believed necessary to obtain a level of public sector savings that will make it possible to achieve the Government's investment objectives, while seeking a substantial reduction in the public sector's overall financing requirements.

13. Revenue actions have been taken involving an increase in ship registration fees, and selective increases in import duties on luxury items and goods now taxed at low rates. This revenue package is expected to yield the equivalent of about 1 per cent of GDP on an annual basis. Over the longer run, a substantial increase in customs revenue is anticipated from an improvement in tax administration. During the next six months the customs administration is to undergo a major overhaul. The customs nomenclature will be updated, specific taxes will be converted to ad valorem, and inspection and valuation procedures will be strengthened to curtail underinvoicing.

14. Guided by the principle that resource use in the public sector should be no less efficient than in the private sector, the authorities have recently concluded a thorough review of investment plans for the next two years. In the process, a number of projects have been cancelled. As a result, public capital outlays in 1983 will be substantially lower than in the previous two years, but the programs that remain are of unquestionable economic worth. The development of the country's hydroelectric capacity continues to be accorded priority status, and almost one third of the 1983 investment budget consists of outlays in the energy sector. Work is well advanced in the La Fortuna hydroelectric plant and commissioning is expected before the end of 1984. At that time Panama will be able to rely fully on hydropower sources to meet its electricity needs. The Government aims to work closely with the World Bank in establishing economic appraisal criteria and in assessing key elements on the overall size of public sector investment budgets. Also, negotiations with the World Bank are in progress in connection with a structural adjustment loan.

15. The financial program described above should result in an improvement in public sector savings from 1-1/2 per cent of GDP in 1982 to 2-1/2 per cent in 1983, which together with a contraction in public investment from an unsustainably high level of 12-1/2 per cent of GDP in 1982 to 8-1/2 per cent this year, would reduce the overall deficit of the nonfinancial public sector to no more than B 270 million, or 6 per cent of GDP. The overall deficit is to decline further to no more than 5-1/2 per cent in 1984, with public sector savings and investment rising by the equivalent of 1-1/2 per cent and 1 per cent, respectively. The criterion for establishing the magnitude of the overall public sector deficit has been availability of financial assistance from multilateral and bilateral development agencies. The Government expects that net recourse to commercial credits will not be necessary. Cumulative quarterly limits have been placed on the overall deficit of the nonfinancial public sector as described in attached Table 1.

16. To maintain confidence in Panama's financial management, the National Bank will continue to pursue policies that will keep its liquidity position at an appropriate level. Therefore, we do not believe it advisable that the nonfinancial public sector have recourse to National Bank credit on any significant scale during the program period. Accordingly, after allowing for customary bridge financing to the Central Government while foreign loans are negotiated, the net National Bank credit to the nonfinancial public sector, which was B 214 million on December 31, 1982, will at no time exceed the quarterly ceilings specified in the attached Table 2. Furthermore, the National Bank intends to pursue a cautious credit policy with respect to the rest of the economy.

17. The amount of domestic resources that are being transferred abroad to cover interest payments on the external public debt is one of the authorities' main preoccupations. Naturally, this problem will persist for some years. Over the longer run, it is the Government's

intention to ease this burden by reducing the ratio of public external debt to GDP, and by reducing even faster the relation between outstanding foreign commercial indebtedness and national income. In line with this intention, net external borrowing of the public sector will not exceed US$270 million at the end of calendar year 1983, and there will be no net recourse to commercial credits or to foreign bond placements. The stock of outstanding debt with maturity of one year or less amounted to only B 64 million at the end of 1982; this level will not be exceeded at the end of calendar year 1983. To facilitate external debt management, cumulative quarterly limits have been established on net disbursements as set forth in attached Table 3.

18. The financial constraints that the public sector is likely to face in the years immediately ahead makes it all the more important to create a more propitious climate for private capital formation. The Government has decided to move expeditiously to rationalize the protection presently afforded to local industrial activities, and liberalize pricing decisions in the private sector. Steps are being taken to replace most existing import quotas for equivalent import tariffs before the end of this year. These tariffs will be adjusted downward over a period of several years to reduce gradually effective protection. Also in an effort to shift resources to the external sector, export quotas on beef products have been lifted and domestic price controls on meat have been eased.

19. In support of the economic policy described in the preceding paragraphs, the Government of Panama hereby requests access to the financial resources of the International Monetary Fund in the form of a stand-by arrangement for a period of approximately 18 months through the end of 1984 in the amount of SDR 150 million.

20. Panama has no restrictions on payments and transfers for either current international or capital transactions, and all transactions take place on the basis of B 1 per U.S. dollar, and the U.S. dollar circulates as legal tender. During the period of the stand-by arrangement, the Panamanian authorities do not intend to introduce any multiple currency practices or impose any restrictions on payments and transfers for current international transactions. Furthermore, during the period of the stand-by arrangement, the authorities do not intend to impose new or intensify existing restrictions on imports for balance of payments reasons, or to conclude any bilateral payments agreement with any Fund member.

21. The Government believes that the measures described above are sufficient to achieve the objectives of the program. During the period of the requested arrangement, the Panamanian authorities will periodically consult with the Fund, in accordance with the Fund's policies on such consultations about the progress being made in the implementation of the program described above and any policy adaptations

judged to be appropriate for the achievement of its objectives. With respect to the program for 1983, the Government will review with the Fund before September 30, 1983, the progress made in implementing the program. Also, before January 15, 1984, the Panamanian authorities will consult with the Fund in order to reach understandings on the policies and measures for the remaining period of the stand-by arrangement.

Sincerely,

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

Orville K. Goodin
Minister of Finance
and Treasury

Rafael Arosemena
General Manager
National Bank

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

(In millions of balboas)

Period	Cumulative Limits
January 1, 1983-June 30, 1983	150
January 1, 1983-September 30, 1983	210
January 1, 1983-December 31, 1983	270

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 to the exclusion of 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 and the Savings Bank (*Caja de Ahorros*).

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

(In millions of balboas)

Period	Ceilings 1/
January 1, 1983-June 30, 1983	334
January 1, 1983-September 30, 1983	259
January 1, 1983-December 31, 1983	214

1/ These ceilings will be adjusted upward to the full extent of the purchases that the National Bank might make from the Fund under the current stand-by arrangement, 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
Total External Public Debt 1/	
January 1, 1983-June 30, 1983	30
January 1, 1983-September 30, 1983	165
January 1, 1983-December 31, 1983	270
Total External Commercial Debt 2/	
January 1, 1983-June 30, 1983	--
January 1, 1983-September 30, 1983	40
January 1, 1983-December 31, 1983	--
Outstanding Commercial Debt with Maturity of Less than One Year	
December 31, 1983	64

1/ Net external public sector debt 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 to foreign lenders and to the domestic banking system exclusive of the National Bank of Panama (including debts with maturities of less than one year); and (2) 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/ Exclusive of net disbursement from bilateral and multilateral international development agencies; otherwise defined as in (1) above.