

FOR  
AGENDA

EBS/85/152  
Correction 1

CONFIDENTIAL

July 3, 1985

To: Members of the Executive Board

From: The Acting Secretary

Subject: Panama - Staff Report for the 1985 Article IV Consultation  
and Request for a Stand-By Arrangement

The following corrections have been made in EBS/85/152  
(6/17/85):

Page 13, Table 7, column 6, line 13: for "-126.0" read "126.0"  
line 14: for "-153.0" read "153.0"  
line 15: for "(-177.0)" read "(177.0)"  
line 20: for "-28.0" read "-27.0"

A corrected page is attached.

Att: (1)

Table 7. Panama: Balance of Payments, 1980-85

(In millions of U.S. dollars)

	1980	1981	1982	1983	Prel. 1984	Proj. 1985
<u>Goods and services</u>	<u>-336.0</u>	<u>-391.4</u>	<u>-418.1</u>	<u>-204.1</u>	<u>-333.4</u>	<u>-274.0</u>
Trade Balance, f.o.b.	-815.9	-973.8	-1,007.3	-924.8	-922.4	-869.0
Nonpetroleum exports	(292.8)	(287.0)	(322.1)	(306.9)	(286.2)	(298.0)
Petroleum (net)	(-191.1)	(-217.0)	(-242.0)	(-263.4)	(-217.2)	(-188.0)
Nonpetroleum imports	(-917.6)	(-1,043.8)	(-1,087.4)	(-968.3)	(-991.4)	(-979.0)
Investment income	-283.0	-271.2	-355.5	-305.4	-391.3	-452.0
Of which: interest on public debt	(-248.2)	(-276.8)	(-343.9)	(-281.5)	(-309.6)	(-385.0)
Other services	762.9	853.5	944.7	1,026.1	980.3	1,047.0
Of which: transportation	(330.5)	(354.5)	(397.0)	(350.0)	(343.9)	(355.0)
Colon Free Zone	(214.7)	(253.5)	(219.9)	(142.4)	(148.0)	(165.0)
Unrequited transfers	14.4	31.2	36.0	41.0	48.2	48.0
<u>Current account</u>	<u>-321.6</u>	<u>-360.3</u>	<u>-382.1</u>	<u>-163.1</u>	<u>-285.2</u>	<u>-126.0</u>
<u>Capital account</u>	<u>39.9</u>	<u>386.3</u>	<u>568.7</u>	<u>242.3</u>	<u>136.7</u>	<u>126.0</u>
Official capital	223.0	204.7	510.2	302.1	214.4	153.0
Nonfinancial	(227.6)	(61.6)	(435.8)	(143.2)	(98.3)	(177.0)
Official banks	(-4.6)	(143.1)	(74.4)	(158.9)	(115.9)	(-24.0)
Use of Fund resources	/-17.4/	/71.0/	/-4.8/	/116.8/	/97.7/	/7.0/
Other liabilities	/12.8/	/72.1/	/79.2/	/42.1/	/18.2/	/-30.0/
Other official bank transactions	-1.3	-39.6	0.4	-86.7	-12.5	--
Private capital	-181.8	221.2	58.1	26.9	-65.0	-27.0
Direct investment	(-46.6)	(171.2)	(138.5)	(49.2)	(41.7)	(12.0)
Direct private borrowing	(-64.0)	(-50.7)	(-12.9)	(-111.1)	(-136.2)	(-69.0)
Private banks	(-71.2)	(100.7)	(-67.5)	(88.8)	(29.5)	(30.0)
<u>Errors and omissions</u>	<u>276.5</u>	<u>-29.1</u>	<u>-184.9</u>	<u>-77.8</u>	<u>150.2</u>	<u>93.0</u>
<u>Financing gap</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>7.0 2/</u>
<u>Valuation adjustment 1/</u>	<u>5.2</u>	<u>3.0</u>	<u>-1.7</u>	<u>-1.4</u>	<u>-1.7</u>	<u>--</u>
<u>Memorandum item</u>						
Current account as a percentage of GDP						
Before transfer payments	-9.4	-10.1	-9.8	-4.7	-7.5	-6.1
After transfer payments	-9.0	-9.3	-8.9	-3.7	-6.4	-5.0

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

1/ Effect of exchange rate changes on reserve assets of the National Bank of Panama.

2/ Reflects working assumption on possible amounts to be rescheduled through the Paris Club.

### III. Summary of Policy Discussions

The consultation discussions with Panama were held in the context of the negotiations for a program for the period 1985-86 to be supported by a 21-month stand-by arrangement with the Fund. The program, which is described in the attached letter, is a continuation of the adjustment effort that was initiated in 1983. While the adjustment achieved under the previous program was considerable, further efforts are needed in 1985-86, particularly in the public sector, in light of the continued heavy debt service burden and the limited availability of foreign financing. For these reasons, the new program is aimed at strengthening the public finances, reducing the debt service burden, and improving further the allocation of resources in the Panamanian economy.

The financial program formulated by the authorities for 1985-86 envisages a major reduction in the public sector deficit to a level that will be financed by bilateral and multilateral sources, with only limited recourse to commercial debt and with no net access to financing from the National Bank over the period.

As indicated above, Panama has embarked on a major effort to improve resource allocation, including the replacement of import quotas by tariffs and the eventual reduction in effective protection. Moreover, modifications are envisaged in industrial, agricultural, and labor legislation. In support of these measures, the Panamanian Government expects to obtain a second SAL from the IBRD, which will soon be appraised by the Bank staff. It is the expectation of the Government that these and other policies embodied in the economic program will foster savings and investment in the private sector, thereby helping to achieve sustained growth and external balance over the medium term.

#### 1. Fiscal policies

Fiscal restraint remains the cornerstone of the adjustment effort. On the basis of the corrective measures incorporated in the program, the public sector deficit is expected to decline from B 266 million (6 percent of GDP) in 1984, to B 160 million (3.5 percent of GDP) in 1985, and to 2.6 percent of GDP in 1986. As was the case in previous arrangements, the deficit of the nonfinancial public sector is defined as the sum of the external borrowing (including the domestic banking system) and net credit from the National Bank.

The reduction in the public sector deficit will reflect to a significant extent a strengthening of the public sector revenues and a reduction in the rate of growth in current expenditure; on this basis, public sector savings are expected to increase from 1.6 percent of GDP